Baker McKenzie.

Legal Update

29 October 2026



United Kingdom: Autumn Budget 2026

In brief

On 28 October 2026, the Chancellor of the Exchequer delivered the first Budget since Andy Burnham replaced Keir Starmer as Prime Minister.

Against a backdrop of higher energy prices, increased borrowing costs, and pressure on the public finances, the Budget was intended to signal a new economic direction focused on growth, investment and easing cost-of-living pressures. Despite considerable political fanfare, the measures announced were modest in scope. The rhetoric of radical change that Andy Burnham championed earlier in the year was not borne out in the Budget itself.

Although the Budget did not introduce any notable new taxes, such as a wealth tax or exit tax, it contains several targeted measures relevant to ultra-high-net-worth (UHNW) individuals, as well as announcements of plans for longer-term reforms. These include higher tax rates on savings and property income, changes affecting entrepreneurs and business owners, increased scrutiny of wealthy taxpayers, and reforms concerning internationally mobile individuals.

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While some commentators consider that this Budget keeps open the possibility of an election in 2027, the expected timetable still points towards 2029. For clients considering the UK as a base, the outlook may be brighter than it first appears.

Summary of key announcements

The Government has announced the following changes, which we consider to be of key relevance to the private wealth industry:

- From 6 April 2027, a new Founders' Relief will give a 10% Capital Gains Tax (CGT) rate on up to GBP 10 million of lifetime gains for qualifying individuals in high-growth UK companies and the Business Asset Disposal Relief (BADR) lifetime limit will fall to GBP 500,000;
- Future introduction of a new mechanism providing double taxation relief for individuals receiving income through certain foreign entities, including US LLCs, where relief is currently unavailable;
- A limited exemption from the CGT exit charge has been introduced for trusts that become UK resident because an individual trustee temporarily moves to the UK and ceases to be UK resident in the same or following tax year;
- The four-year Foreign Income and Gains (FIG) regime remains unchanged, and no replacement for the former investor visa was announced (although changes to certain existing skilled migration routes are proposed). Despite making no changes to the FIG regime, the government has said it will continue to review whether the regime appropriately balances the UK's international competitiveness with fairness and revenue considerations;
- The rules attributing gains of non-UK resident close companies to UK-resident participators have been extended to interests in individual cells of protected cell companies with effect from 28 October 2026;

- Income tax on property and savings has increased by 4%;
- The Government is consulting on a new statutory tax status for sovereign investors, which would make them taxable on UK land and trading income from 1 January 2029; and
- The distributions framework will be modernised from April 2028, including changes to the rules on reductions of capital, demergers and purchases of own shares.

Key reforms announced in the 2026 Budget CGT

Founders' Relief

The Government has announced Founders' Relief, a new CGT relief for founders and significant early investors in high-growth, innovative UK companies. It will give a reduced 10% rate of CGT on qualifying disposals of shares or securities made on or after 6 April 2027, up to a lifetime limit of GBP 10 million. The limit applies separately to each qualifying individual, meaning that more than one person can claim relief in relation to the same company. The limit will be reduced by amounts claimed under the BADR and Investors' Relief limits from 6 April 2027. Alongside the Budget, the Government published a technical consultation on the detailed design.

To qualify, an individual must have:

- Held 25% of the company's ordinary share capital, with the matching voting and economic rights, when the company's trade (or preparation for that trade) began.
- Held the shares or securities for at least five years before the disposal.
- Been UK resident under the Statutory Residence Test for at least five continuous tax years before the disposal.

The relief will not be limited to the individual's original shareholding, and the 25% condition can be met through the holding company of a trading group. Only individuals can claim.

The company must be within the scope of UK Corporation Tax and have had a substantial UK presence for the five accounting periods before the disposal. It must be a trading company, or the holding company of a trading group. It must still carry on the trade it was set up for, with no major change in the nature of that trade. In the accounting period before the disposal, it must have had turnover of at least GBP 10 million and at least 15 qualifying full-time employees. It must also meet at least two of three growth and innovation tests:

- Turnover test: average annual compound growth in turnover of 25% over three consecutive accounting periods within the 10 years before the disposal, starting from turnover of at least GBP 10 million;
- Headcount test: average annual compound growth of at least 25% in qualifying full-time equivalent employees over three consecutive accounting periods within the 10 years before the disposal, starting from at least 15 full-time employees;
- Innovation test: at least GBP 1.5 million of qualifying R&D expenditure, with R&D tax relief claimed on it for an accounting period or periods ending within the three years before the disposal.

The consultation closes on 30 November 2026, following which the Government intends to introduce the relevant legislation by amendment to Finance Bill 2026-27. In our view, the relief is valuable but tightly targeted. Eligibility depends on historic company data, which individual founders may not control, and on the company's R&D claims not being successfully challenged.

BADR

For qualifying disposals made on or after 6 April 2027, the Government will reduce the BADR lifetime limit from GBP 1 million to GBP 500,000. BADR applies a reduced 18% rate of CGT to qualifying disposals of all or part of a business, certain business assets and shares in a trading company. Special rules will apply to contracts entered into before 6 April 2027 that have not been completed by then and certain share reorganisations and exchanges of securities that are not completed before that date.

The reduction in BADR will take effect alongside the introduction of the new Founders' Relief, as discussed above, reflecting a shift towards more targeted support for entrepreneurs who establish and grow innovative UK businesses. Amounts claimed under the BADR limit will also count against the new Founders' Relief lifetime limit. While Founders' Relief offers a more generous relief, its qualifying conditions are considerably narrower than those for BADR. Entrepreneurs contemplating a sale should therefore consider at an early stage which relief may apply and how the timing of the disposal could affect their after-tax proceeds.

Trust exit charges for temporary migration to the UK

The Government will introduce a limited exemption from the CGT exit charges that can arise when a trust ceases to be UK resident. The exit charge broadly taxes unrealised gains in the trust's assets by treating those assets as sold and immediately reacquired at market value. With effect from 28 October 2026, the exit charge will not apply where a trust becomes UK resident because an individual trustee moves to the UK and the trust ceases to be UK resident later in the same tax year or the following tax year. The measure is a welcome administrative change and should reduce the risk of a significant tax charge arising from a short-term change in the trust's residence.

Non-UK resident close companies

The Government has amended the rules attributing gains of non-UK resident close companies to their UK-resident participators. These rules attribute a company's gains to UK-resident individuals, trustees or companies where they hold an interest of more than 25% in the company. This Budget has brought protected cell companies (PCCs) directly within the scope of these rules. For PCCs, the 25% threshold is currently tested by reference to the company as a whole, even though the assets and liabilities of each cell are legally segregated. For gains arising on or after 28 October 2026, the threshold will also be applied by reference to an individual cell. A UK-resident investor may therefore fall within the attribution rules if they hold an interest of more than 25% of a particular cell, even if their interest in the PCC as a whole does not exceed that threshold. UK-resident investors and trustees should review existing arrangements to determine whether gains arising within an individual cell may now be attributed to them.

Income tax

Increase to tax rates for savings and property income

From 6 April 2027, savings and property income will be taxed at higher rates than other forms of income. The basic, higher and additional rates will increase by 4% to 24%, 44% and 49%, respectively. Savings income broadly includes interest earned on bank accounts and investments, while property income generally includes rent and other income received from letting property.

Increase in the Trading Allowance

The Trading Allowance will increase from GBP 1,000 to GBP 3,000 from 6 April 2027. The allowance enables individuals to receive a limited amount of income from self-employment, casual work or other small-scale trading activities before Income Tax becomes payable. Where an individual's gross trading income is no more than GBP 3,000, they will also no longer need to report it through Self-Assessment.

Income Tax Self-Assessment

From April 2029, individuals within Income Tax Self-Assessment who make payments on account will be required to make more regular payments during the tax year towards their final liability, rather than principally paying through the existing twice-yearly payments-on-account system. Although the change should not increase the overall amount of tax due, it will accelerate payments and may therefore affect cash flow planning for individuals with significant income who self-assess.

Other notable announcements

US LLCs and other reverse hybrids

In response to the June 2026 consultation, the government intends to create a mechanism to provide double taxation relief for income received by individuals from certain foreign entities where relief is currently unavailable. The response document says the government is considering a new form of elective domestic credit relief for individual investors in reverse hybrids, and intends for claims to be possible from early 2028. Under the approach now envisaged, specified entities (including US LLCs, US S-Corps, Jersey LLCs and French SCIs) will be treated as opaque, with distributions taxed at dividend rates and individual members able to elect for credit for foreign taxes (including US federal, state and local taxes) they have paid personally on the entity's profits, calculated by reference to an average foreign tax rate rather than by tracing.

Currently, US LLCs are treated as transparent for US tax purposes, so that their members are taxed in the US on their share of its underlying profits as they arise. By contrast, the UK treats most US LLCs as opaque, with the UK-resident member taxed when profits are distributed by the LLC. Because the US and UK charges can arise on legally different sources of income and at different times, ordinary double tax relief may not be available, often resulting in the same economic profits being taxed twice. This will be a welcome reform for UK-resident individuals with interests in US LLCs or other specified foreign entities who may currently suffer double taxation without full credit relief.

Modernising the taxation of foreign sovereign investments

The government has published a consultation on modernising the taxation of sovereign investment, which proposes a new statutory sovereign tax status for sovereigns (including foreign sovereign states, heads of state acting in their sovereign capacity, sovereign wealth funds and others), intended to take effect from 1 January 2029. Key features include:

- Sovereigns will become taxable on income from UK land, on gains from direct and certain indirect disposals of UK land and on UK trading income. UK source interest will remain exempt and most UK dividends will remain exempt;
- Investment management activities undertaken by sovereign investment offices and gains arising to State-operated Overseas Pension Funds will be exempt;
- Sovereigns will keep qualifying institutional investor status for the Real Estate Investment Trust (REIT), Qualifying Asset Holding Company, Long-Term Asset Fund and most collective investment vehicle regimes;
- Sovereigns will get bespoke access to a REIT structure, allowing them to hold a controlling interest in a REIT through a UK company while benefiting from a 15% tax rate on property income distributions; and
- Transitional measures include rebasing of assets to market value on 1 January 2029 and a time-limited Stamp Duty Land Tax (SDLT) relief for restructuring, expected to apply from 2028 until at least 31 December 2030.

The Government is currently consulting on the proposals (the consultation closes on 20 January 2027) and draft legislation will be published for technical consultation in due course, with final legislation in Finance Bill 2027-28 and the regime taking effect from 1 January 2029. Until then, the current immunity from direct tax will continue to apply. Sovereign investors with UK real estate holdings should review their structures and consider responding to the consultation.

Modernising the distributions framework

The government has published a summary of responses to its consultation on modernising the distributions framework. It is proceeding with the proposals, with some changes to the policy design informed by stakeholder feedback. The reforms are intended to make the tax treatment of distributions and related rules consistent regardless of legal form, company residence or transaction structure. They are designed to protect capital treatment for genuine commercial activity, including family succession.

The main changes are:

- Reductions of capital: following a share reorganisation, the amount treated as a repayment of capital will be limited to the capital originally subscribed by shareholders. Listed companies will be out of scope, and the change will only apply to reorganisations after the legislation comes into force, so companies will not need to analyse historic share capital;
- Demergers: statutory demerger relief will be broadened to apply in a much wider set of circumstances, including some demergers made ahead of onward sales to third parties;
- Distributions from non-UK companies: these will be brought into the charge to Income Tax in line with distributions from UK companies. Returns on asset managers' co-investment and genuine investment returns in fund structures will continue to receive capital treatment where this is available under the current rules, and the government will explore allowing smaller shareholders to use nominal capital when calculating taxable distributions;
- Loans from non-UK companies: a new temporary charge will apply to individuals receiving loans from non-UK companies that would be close companies if UK resident, which will be repayable when the loan is repaid, released or written off. The charge may be limited to participators with material interests and to loans not made for the commercial purposes of the company's business; and

- Purchase of own shares: the subjective trade benefit test will be replaced with more mechanical conditions. The government will relax the requirement for the seller to have been an employee for the two years before the sale, and will consider allowing former shareholders to support the business as consultants for a period.

Draft legislation will be published in 2027 for technical consultation, with the changes taking effect from April 2028.

Wealthy taxpayer compliance Plan

His Majesty's Revenue and Customs (HMRC) has published a multi-year plan to modernise its approach to wealthy taxpayer compliance. HMRC defines this population as individuals who have had income exceeding GBP 200,000 or assets exceeding GBP 2 million in any of the previous three years.

HMRC intends to connect information relating to taxpayers, companies, partnerships, trusts and overseas entities and make greater use of third-party and internationally exchanged data, advanced analytics and artificial intelligence to identify potential risks earlier. Compliance activity will be tailored according to the taxpayer's circumstances and perceived level of risk, with specialist and coordinated intervention reserved for more complex or higher-risk cases. HMRC has also allocated a dedicated Customer Compliance Manager to each of the more than 200 billionaires it has identified as having a UK tax footprint.

Although the plan does not introduce new taxes or reporting obligations, it indicates that HMRC will have a significantly more joined-up view of wealthy individuals' UK and overseas affairs.

Additional compliance measures

A new requirement for taxpayers to correct inaccurate tax returns and documents will be introduced with effect from 1 April 2028. This includes a general obligation for taxpayers to correct inaccuracies when they are identified (either by correcting it or notifying HMRC where a correction cannot be made directly). The legislation will also introduce a new power for HMRC to issue a Customer Correction Notice where it has reason to suspect an inaccuracy. A Customer Correction Notice will require the taxpayer to check their tax affairs and either correct the inaccuracy or explain why no correction is needed.

The consequence, where a taxpayer becomes aware of an inaccuracy and does not take steps to correct or notify HMRC, is that the inaccuracy will be treated as deliberate for the purposes of penalties and assessment time limits, giving the measure potentially significant practical consequences.

What was not announced

- After some speculation in the media, the Budget did not introduce a wealth tax or exit tax, although future reform in these areas has not been expressly ruled out.
- There were no increases to the main rates of income tax, NIC, VAT, inheritance tax or CGT, and the main CGT rates remain unchanged.
- Business Property Relief was not mentioned, so the inheritance tax exposure on family businesses as set out in previous budgets remains, despite Andy Burnham's comments that this area could be revisited.
- The FIG regime remains unchanged. This four-year regime replaced the former non-domicile rules from 6 April 2025. It allows qualifying new UK residents to claim relief from UK tax on certain foreign income and gains arising during their first four years of UK tax residence. However, the Government will continue to review whether the regime appropriately balances the UK's international competitiveness with fairness and revenue considerations.
- The Budget did not announce plans to introduce a dedicated investor visa. This previously allowed high-net-worth individuals with at least GBP 2 million of available funds to obtain UK residence by investing in qualifying active and trading UK companies. However, the Government proposes widening access to existing routes for highly skilled individuals, including the High Potential Individual route, and provide greater flexibility to Skilled Worker visa holders changing employment.
- The Government had previously committed to simplifying the UK's personal tax rules for offshore structures, including the legislation applying to non-UK trusts and companies. Although further detail had been expected, the Budget did not provide a substantive update on these reforms and announced only a forthcoming consultation on

the offshore penalties regime. Given the absence of draft legislation or a clear implementation timetable, it now appears unlikely that the wider reforms will take effect from 6 April 2027 as previously anticipated.

In addition, there were no announced alterations to the following reforms that are due to be implemented imminently:

- The High Value Council Tax Surcharge ("**Mansion Tax**"), as announced in the 2025 Budget, is expected to be introduced in April 2028. It is an annual charge on high value residential properties; it will start at GBP 2,500 per year for properties over GBP 2 million and range to GBP 7,500 for properties over GBP 5 million. There was speculation this threshold would be lowered in the 2026 Budget but this has remained the same.
- The proposed reforms to the inheritance tax treatment of pension funds will begin on 6 April 2027. These will bring most unused pension funds and pension death benefits within the value of an individual's estate for inheritance tax (IHT) purposes, whereas they currently generally fall outside the estate. Clients should therefore consider reviewing their pension beneficiary nominations as part of their wider estate planning, particularly given the IHT exemption for transfers to a spouse or civil partner. As pensions will generally continue to pass under the pension scheme arrangements rather than under the will, individuals should ensure that their expressions of wishes and beneficiary nominations are up to date and remain appropriate in light of the new rules.

Conclusion

This was a keenly anticipated Budget, with a new Prime Minister who used his recent party conference speech to signal an ambition to bring significant change to the country. However, this proved something of an anti-climax. It was quipped in Parliament by one politician that "the prime minister came to power promising to end 40 years of neoliberalism, and instead we got 4p off gherkins".

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