Spring Statement 2025

What Does It Mean For You?

Contents

Chancellor of the Exchequer Rachel Reeves delivered the Spring Statement on Wednesday, 26 March 2025. Here is a breakdown of everything you need to know.

Government Spending

Growth Pledge

The government has pledged growth as their central mission and aims to achieve this through:

- An additional £2 billion has been allocated to social and affordable housing for 2026/27.
- Building 1.5 million homes in England to align with the Planning and Infrastructure Bill reforms.
- A £625 million package allocated to construction skills, expected to provide up to 60,000 more skilled workers.

Additional Budget For Defence

The Official Development Assistance budget will be reduced to allow the NATO-qualifying defence spending to increase to 2.5% of GDP by April 2027, with the intention to further rise to 3%. To help achieve this, an additional £2.2 billion of funding has been allocated to the Ministry of Defence next year.

Reformed Welfare System

The government aims to reshape the welfare system to better support those who are unable to work while encouraging employment for those who can. According to the Secretary of State for Work and Pensions, these changes are expected to reduce welfare costs by £4.8 billion in 2029/30, leading to a decline in welfare spending as a proportion of GDP over time. The changes include:

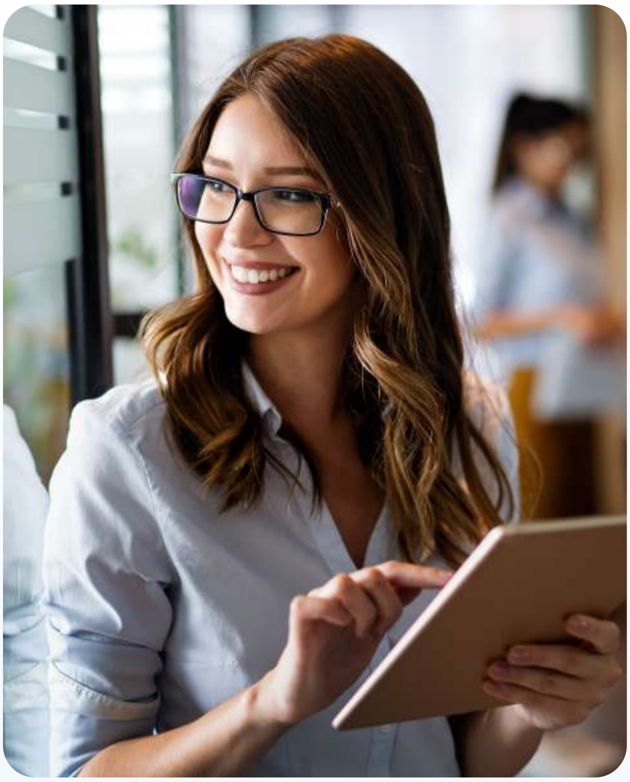
- **Health element to be frozen:** Frozen for existing claimants until 2029/30. Reduced to £50 a week in 2026/27 for new claimants, then eventually frozen until 2029/30.
- **Standard allowance to rise:** Increased above inflation from April 2026 for both new and existing claims before reaching CPI + 5% from April 2029.
- **Claimants checks to intensify:** Checks on potential claimants will be increased, including new ways to verify their savings amounts, earnings, and expenses.
- **New efficiencies from the state:** Includes bringing NHS England into the Department of Health and Social Care and introducing a £3.25 billion Transformation Fund.

Personal

Tax Bands & Rates

For 2025/26, the tax rates will be as follows:

- The 20% basic tax rate will apply to income up to £37,700 and is frozen until April 2028.
- Individuals eligible for the full personal allowance will start paying the 40% tax rate on earnings above £50,270.
- Individuals will fall into the 45% bracket at £125,140.
- NICs' Upper Earnings Limit and Upper Profits Limit will remain at the higher rate threshold of £50,270 until April 2028.
- The additional non-savings and non-dividend income rate will apply to taxpayers in England, Wales and Northern Ireland.
- The additional savings and dividend income rate will apply to the whole of the UK.
- There are no changes to the savings and dividend income taxation for 2025/26.



Rates For Scottish & Welsh Residents

Scotland

Income tax rates for earnings, self-employed profits, and property income differ for Scottish residents compared to the rest of the UK. Scotland has its own tax bands and rates, which do not apply to savings or dividend income.

In 2024/25, a new 45% rate was introduced, making six Income Tax rates which range between 19% and 48%. The rates and bands for 2025/26 for taxable income are as follows:

Income £	Rate %
0 - 2,827	19
2,828 - 14,921	20
14,922 - 31,092	21
31,093 - 62,430	42
62,431 - 125,140	45
Over 125,140	48

Wales

Since April 2019, the Welsh Government has had the authority to adjust income tax rates for Welsh taxpayers, excluding savings and dividend income. However, for the 2025/26 tax year, Welsh taxpayers will pay the same rates as those in England and Northern Ireland.

Personal Allowance Tax

Income Tax Personal Allowance

Will be fixed at the current level of £12,570 until April 2028. Following this, the government has hinted at an increase in line with inflation.

Adjusted Net Income

For those with an 'adjusted net income' over £100,000, the personal allowance will reduce to £1 for every £2 of income above the £100,000 threshold. Should the adjusted net income exceed £125,140, there will be no personal allowance.

Married Couple/Blind Person Allowance

Both allowances will be uprated for 2025/26.

Pension Tax

For 2025/26, the pension tax rates will be as follows:

- **Annual Allowance (AA):** £60,000
- **Tapered AA:** If your threshold income exceeds £200,000, your AA is reduced by £1 for every £2 of adjusted income over £260,000, down to a minimum of £10,000.
- **Lump sum allowance:** The maximum tax-free lump sum you can take is £268,275.
- **Lump sum & death benefit allowance:** The maximum tax-free lump sum available in certain cases is £1,073,100.

Non-UK Domiciled Individuals

Married Couple/Blind Person Allowance

- The remittance basis of taxation (based on domicile) will be replaced.
- New arrivals to the UK will get 100% relief on foreign income and gains for their first four years of UK tax residence.
- To qualify, they must not have been a UK tax resident in any of the previous ten years.

Trust Taxation Changes

Non-domiciled and deemed domiciled individuals who don't qualify for the four-year regime will lose tax protection on foreign income and gains from settlor-interested trusts.

Capital Gains Tax (CGT) Transition

Those who previously claimed the remittance basis can rebase foreign assets held on 5 April 2017 to their value at that date, if disposed of after 6 April 2025.

Taxation Of Pre-2025 Foreign Income & Gains

Foreign income and gains before 5 April 2025 will still be taxed when remitted to the UK, even for those eligible for the new four-year regime.

Temporary Repatriation Facility (2025-2028)

Foreign income and gains before 5 April 2025 will still be taxed when remitted to the UK, even for those eligible for the new four-year regime.

- Available to individuals who previously used the remittance basis.
- Allows remittance of pre-2025 foreign income and gains at reduced rates:
  - 12% in the first two years
  - 15% in the final year

Inheritance Tax (IHT) Reform

The current domicile-based IHT system will switch to a residence-based system, expanding the scope of UK IHT on non-UK property.

Overseas Workday Relief (OWR) Extension

- Extended to four years to match the new tax regime.
- Capped at the lower of £300,000 or 30% of total employment income.

Inheritance Tax

The inheritance tax nil rate band and residence nil rate band have been frozen as follows:

- The nil rate band remains frozen at £325,000, the same level as since 2009, and will stay frozen until 5 April 2030.
- The residence nil rate band is also frozen at £175,000, and the taper for this band, starting at £2 million, will remain at the current levels until 5 April 2030.

From 6 April 2027, the government will also bring unused pension funds and death benefits payable from a pension into a person's estate for Inheritance Tax purposes.

VAT On Private School Fees

Private school fees for education and vocational training will no longer be VAT-exempt and will be subject to 20% VAT. The change applies to terms beginning on or after 1 January 2025. Prepayments made after 29 July 2024 may also be subject to VAT.

National Insurance Contributions

The following will come into effect from 6 April 2025.

For Employees & Employers

For 2025/26, the tax rates will be as follows:

- **Employer NICs increase:** Employer National Insurance Contributions (NICs) will rise from 13.8% to 15%.
- **Employee NICs rate:** The main Class 1 employee NICs rate remains at 8%.
- **Lower secondary threshold for employers:** The Secondary Threshold (the earnings level at which employers start paying NICs) will drop from £9,100 to £5,000 per year. This reduction applies until 6 April 2028, after which it will increase in line with inflation (CPI).
- **Higher employment allowance:** The Employment Allowance (which reduces employer NICs bills) will increase from £5,000 to £10,500. The £100,000 eligibility cap will be removed, making all eligible employers benefit from the allowance.

For Self-Employed & NICs

Class 4 NICs Rates

- 6% on profits above the lower threshold.
- 2% on higher profits.

Class 2 NICs Changes

- If profits are £6,845 or more, you get National Insurance credits for contributory benefits (including the State Pension) without paying Class 2 NICs.
- If profits are below £6,845, you can still voluntarily pay Class 2 NICs to qualify for benefits.

Voluntary NICs Increases (2025/26)

- Class 2 NICs: £3.50 per week.
- Class 3 NICs: £17.75 per week.

Employment & Business

National Living Wage & National Minimum Wage

From 1 April 2025, both the National Living Wage (NLW) and National Minimum Wage (NMW) will increase as follows:

- **21 and over:** £12.21 (NLW)
- **18-20 years old:** £10.00 (NMW)
- **16-17 years old:** £7.55
- **Apprentices:** £7.55

Company Vehicle Tax

Cars

For the tax year 2025/26, the rates for company cars will be 3% for zero-emission cars (was 2%), and there will be a 1% increase for all other cars. The maximum benefit will remain at 37%, and from 6 April 2025, the car fuel benefit charge will be £28,200.

Vans

From 6 April 2025, the van benefit charge is £4,020, and the van fuel benefit charge is £769.

Double Cab Pick-Ups

From April 2025, double cab pick-up vehicles (DCPUs) with a payload of one tonne or more will be treated as cars for certain tax purposes. This applies from 1 April 2025 for Corporation Tax and 6 April 2025 for Income Tax, affecting capital allowances, benefits in kind, and some business profit deductions.

Existing capital allowances will remain for DCPUs purchased before April 2025 and transitional benefit in kind rules will allow employers who bought, leased, or ordered a DCPU before 6 April 2025 to use the previous treatment until disposal, lease expiry, or 5 April 2029, whichever comes first.

MTD For Income Tax

Rollout Dates

- **April 2026:** For sole traders and landlords with qualifying incomes over £50,000.
- **April 2027:** Extends to those with qualifying incomes over £30,000.
- **April 2028:** Extends further to those with qualifying incomes over £20,000.

Exempt Groups

- Customers with Power of Attorney.

- Non-UK resident foreign entertainers and sportspeople with no other qualifying income.
- Customers for whom HMRC cannot provide a digital service.

Exempt Groups During This Parliament

- Ministers of religion
- Lloyd's Underwriters
- Recipients of the Married Couples' Allowance and Blind Persons' Allowance

Late Payment Penalties (From April 2025)

- 3% of the tax outstanding if overdue by 15 days.
- 3% additional penalty if overdue by 30 days.
- 10% per annum if overdue by 31 days or more.

Corporation Tax

- **Main rate:** The 25% rate will apply to companies with profits over £250,000.
- **Small profits rate:** Companies with profits of £50,000 or less will pay a reduced rate of 19%.
- **Marginal relief:** Companies with profits between £50,001 and £250,000 will pay tax at the main rate of 25% but with a reduced rate through marginal relief, ensuring a gradual increase in the effective Corporation Tax rate.

Capital Allowance

Full Expensing Rules

Includes a 100% write-off on qualifying expenditure for new and unused plant and machinery (excluding cars), along with a 50% write-off for integral features and long-life assets. The government is also exploring extending Full Expensing to assets bought for leasing or hiring when fiscal conditions allow.

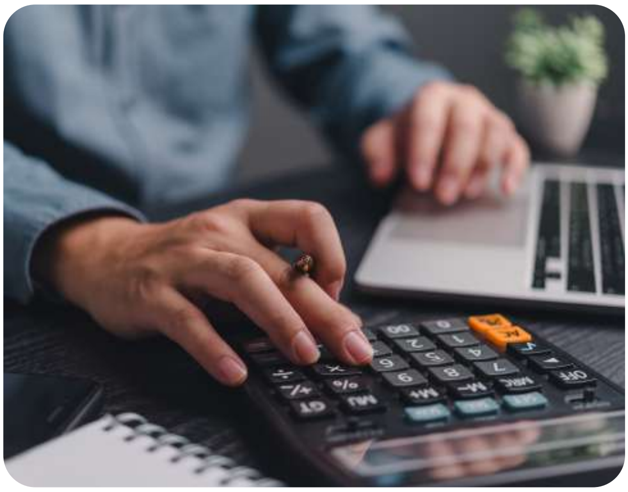
Annual Investment Allowance (AIA)

Available to both incorporated and unincorporated businesses. Provides a 100% write-off on qualifying plant and machinery up to a limit of £1 million per 12-month period.

First Year Allowances (FYA) Extension

100% FYA for zero-emission cars and electric vehicle charging points has been extended:

- **Corporation tax:** Until 31 March 2026.
- **Income tax:** Until 5 April 2026.



Furnished Holiday Lettings

From April 2025, the Furnished Holiday Lettings (FHL) tax regime will be abolished. FHL properties will be treated as part of the individual's UK or overseas property business, subject to the same rules as non-furnished holiday let properties. This change applies to individuals, corporates, and trusts operating or selling FHL accommodation.

Key Implications From 2025/26

- **Pensions:** Income from FHL properties will no longer count as relevant UK earnings for calculating maximum pension relief.
- **Dwelling-related loans:** Income Tax relief on residential property finance costs will be restricted to the basic rate of 20%.
- **Replacement of domestic items:** Capital allowances will no longer be available for new plant and machinery purchases, but businesses may claim relief on certain replacements.

- **Capital gains:** The FHL trade rules that allowed various Capital Gains Tax reliefs will no longer apply to disposals after 6 April 2025 (or 1 April 2025 for Corporation Tax). Roll-over relief for business asset replacements will also be withdrawn. However, specific transitional rules will preserve certain reliefs like Business Asset Disposal Relief in some cases.
- **Losses:** Unused losses can be carried forward to offset future profits from either the UK or overseas property business.

Agricultural Property Relief & Business Property Relief

From 6 April 2026, agricultural and business property will benefit from the following:

- **100% inheritance tax relief:** Continued 100% Inheritance Tax relief up to a combined limit of £1 million.
- **Excess property:** Property exceeding the £1 million limit will benefit from a 50% relief.
- **Quoted shares:** Quoted shares designated as 'not listed' on recognised stock exchanges (e.g., AIM) will also receive 50% relief in all circumstances.

Capital Gains Tax

The Capital Gains Tax rates have increased for disposals other than residential property and carried interest made on or after 30 October 2024. The changes are as follows:

- The basic rate of 10% increases to 18%.
- The higher rate of 20% increases to 24%.
- The rates of 18% and 24% remain unchanged for disposals of residential property and carried interest.
- The rate for trustees and personal representatives increases from 20% to 24%.
- The annual exempt amount will remain at £3,000 for 2025/26.

There have also been updates to the Business Asset Disposal Relief and Investors' Relief:

- The rate for both reliefs will increase from 10% to 14% for disposals made on or after 6 April 2025.
- The rate will increase again to 18% for disposals made on or after 6 April 2026.
- The lifetime limit for Investors' Relief will reduce from £10 million to £1 million for qualifying disposals made on or after 30 October 2024.
- The new limit will also include any prior qualifying gains where the relief was claimed.

Tax-Related Consultations

The government announced several tax-related consultations, including:

- **R&D tax relief clearances:** Aiming to reduce fraud and errors, increase certainty for businesses, and improve the customer experience.
- **HMRC and third-party data:** Plans to modernise data collection to help taxpayers get their taxes right the first time.
- **Financial penalties review:** Exploring improvements to penalties for inaccurate tax returns and failure to notify HMRC of relevant changes.
- **Tougher action on tax advisers:** Considering stronger powers and sanctions against advisers who facilitate non-compliance.

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