SCOTTISH WIDOWS

The Budget

Read our summary

Summary Impact

The 26th November Budget delivered several key announcements that will affect Financial Advisers. Most notably:

- The inheritance tax nil-rate band and residence nil-rate band being frozen for a further year until 2030/31
- Personal tax thresholds, and equivalent national insurance (NIC) thresholds, being frozen for a further three years until 2030/31
- An additional 2% tax charge added to the basic and higher rates of tax on dividends from 6 April 2026
- An additional 2% added to *all* rates of tax on savings income from 6 April 2027
- Separate tax rates for property income profits: 22% for basic rate, 42% for higher rate, 47% for additional rate taxpayers from 6 April 2027
- A £2,000 cap on the amount that can be sacrificed into a pension without paying NICs from 6 April 2029
- A new £12,000 annual limit on cash ISAs (for under-65s) from 6 April 2027
- Venture Capital Trust income tax relief decreasing to 20% from 6 April 2026
- A High Value Council Tax Surcharge applying to properties valued at £2 million or more from 2028.

The tax changes announced once again reinforce the importance and value of informed and up to date financial advice.

Pensions

Changes announced to salary sacrifice/exchange

As widely expected, changes were announced to employer and employee NICs relief for contributions made to pension schemes by salary sacrifice.

The Government is capping the National Insurance (NI) benefits of pension contributions made by salary sacrifice to £2,000 from April 2029. Contributions above this level will still benefit from tax relief in the normal way but will be subject to both employer and employee NI.

The NI charges should be implemented automatically via payroll and there will be no need for employees to declare anything to HMRC.

All employee contributions made via salary sacrifice will continue to reduce the client's adjusted net income and so can help restore benefits and allowances such as child benefit and the personal allowance.

The change will cover both existing arrangements and any new arrangements.

Annual Allowance

No changes were announced to the various Annual Allowances for 2026/27.

- Annual Allowance remains £60,000.
- Money Purchase Annual Allowance remains £10,000 with no carry forward.
- For the Tapered Annual Allowance, the Threshold Income limit remains £200,000, the Adjusted Income limit remains £260,000 and the minimum allowance remains £10,000.

Lump Sum Allowance and Lump Sum and Death Benefit Allowance

- Lump Sum Allowance (LSA) remains at £268,275 – this covers tax-free cash payments during the client's lifetime.
- Lump Sum and Death Benefit Allowance (LSDBA) remains at £1,073,100 – this covers the totality of lifetime tax-free cash, severe ill-health lump sums and tax-free death benefit lump sums on death under age 75.

Impact

The good news is that the salary sacrifice rules do not change until April 2029. Clients therefore can still benefit from salary and bonus sacrifice for the current tax year and the next three tax years.

Clients who are already benefitting from salary sacrifice schemes will need to wait to see how their employers react to the changes. Again, there is unlikely to be any immediate changes given the timescales. However, where the employer is offering an enhancement to their contributions, they are likely to see this removed by April 2029. The Office of Budget Responsibility (OBR) estimate that employers will pass 76% of the additional costs to employees. Advisers will need to take account of any reduction in contributions into their planning.

Employers will need to review any schemes they have set up. Where they have passed on some or all of their NI savings to their employees they may want to make changes to their offering. This is likely to require legal advice as it will involve a change to the contracts.

The Office of Budget Responsibility note that employers could replicate the benefits of salary sacrifice by simply reducing future pay increases and instead increasing pension contributions. They could also formally reduce pay and increase pension contributions. However, they believe that the risk of this is mitigated by the interaction with employment laws.

Unused Pension Funds and Inheritance Tax

As announced in last year's Budget, from 6 April 2027 most unused pension funds will form part of the member's estate. Today's Budget announced a change to the administration of this to ease the burden and liability on personal representatives.

Personal representatives will be able to direct pension schemes to pay the IHT due to HMRC before releasing the rest of those benefits to pension beneficiaries. They can request the scheme withhold 50% of taxable benefits for up to 15 months. This will not apply to exempt benefits, funds under £1,000, or continuing annuities. Personal representatives will also be discharged from a liability for payment of Inheritance Tax on pensions discovered after they have received clearance from HMRC.

National Insurance

With effect from 6th April 2026:

- National Insurance (NI) and income tax thresholds frozen for extra three years until 2031. This means the Primary Threshold and Lower Profits Limit will be maintained at £12,570 and the Upper Earnings Limit and Upper Profits Limit will be maintained at £50,270.
- The Government is also maintaining the per employee threshold at which employers become liable to NI (the Secondary Threshold) at £5,000 from April 2028 to April 2031.
- There will also be an increase the Lower Earnings Limit (LEL) and the Small Profits Threshold (SPT) by the September 2025 CPI rate of 3.8%. For those paying voluntarily, the Government will also increase Class 2 and Class 3 NICs rates by September CPI of 3.8%. The LEL will be £6,708 per annum (£129 per week) and the SPT will be £7,105 per annum. The main Class 2 rate will be £3.65 per week, and the Class 3 rate will be £18.40 per week. The Government will legislate for this measure in affirmative secondary legislation in early 2026 as part of the annual setting of National Insurance contributions limits and thresholds, as is standard practice.

Impact

- Against a backdrop of this rise, managing ongoing costs becomes even more crucial. Salary exchange schemes can offer a practical solution for employers to help reduce these costs, not only supporting them but employees too, either by increasing their take home pay or boosting their retirement savings, although advisers need to mindful of the changes announced from April 2029.

Income tax

No changes in respect of income tax for 2026/27.

- The Government will maintain income tax thresholds and the equivalent NICs thresholds for employees and self-employed individuals at their current levels for a further three years from 5 April 2028 to 5 April 2031.
- For the 2026/27 tax year, the income tax personal allowance will remain at £12,570. Remember the personal allowance is reduced by £1 for every £2 where total income exceeds £100,000.
- The higher rate threshold will remain at £50,270 (comprised of the £37,700 basic rate band plus the £12,570 personal allowance) and the additional rate threshold will remain at £125,140.
- For non-savings and non-dividend income, i.e. income from employment, property, or pensions, the income tax rates will remain at 20% within the basic rate band, 40% within the higher rate band and 45% within the additional rate band.
- The 0% starting rate band for savings income will remain at £5,000.
- The personal savings allowance remains unchanged at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers. Additional rate taxpayers are not eligible for a personal savings allowance.
- Tax on savings income will continue to be at 20% within the basic rate band, 40% within the higher rate band and 45% at the additional rate in the 2025/26 and 2026/27 tax years.
- The dividend allowance will remain at £500.
- The basic, higher and additional rate tax thresholds apply to taxpayers in England, Wales, and Northern Ireland for non-savings and non-dividend income, and apply UK-wide for savings and dividend income.
- The adjusted net income threshold at which the High Income Child Benefit Tax Charge (HICBC) is triggered remains at £60,000 with the charge being 1% per £200 of income above that level.

Dividends

There was no change to the current dividend allowance for individuals of £500, however, the rate of income tax payable on dividends was increased by 2% for basic and higher rate, see savings and investment or income tax section for more details. Essentially the new rate for a basic rate taxpayer will be 10.75% and 35.75% for higher rate taxpayers. The rate for additional rate taxpayers will remain at 39.35%.

Capital Gains Tax

The basic rate of capital gains tax (CGT) will remain the same at 18% and the higher/additional rate will remain at 24%.

Residential property CGT rates will remain at 18% and 24% respectively.

The main rate of CGT for trustees and personal representatives will remain at 24%.

Impact

With a CGT annual exemption of only £3,000, consideration should be given to maximising ISA subscriptions to benefit from tax-free growth and making pension contributions where possible. In addition, for higher and additional rate taxpayers who have additional funds, to invest, investment bonds (UK or international – as appropriate) could be considered for their tax deferment and tax management qualities – especially where the investment has a strong income component.

It should, however, be noted that the revaluation of otherwise chargeable assets that continues to take place on death will be a continued benefit for collective investments that is not available to investment bonds.

Don't forget that capital losses can still be offset against capital gains, and some individuals may have substantial brought-forward losses that could also be used against capital gains to reduce their overall liability going forward. The "value" of these losses will increase with the increase in the rate of CGT otherwise born.

Transferring shares/UTs to a spouse/civil partner could also be considered to use both individuals' CGT annual exemption and possible lower rate of tax – remember though that such a transfer must be on an outright and unconditional basis.

Increase in income tax rates applicable to dividend, property and savings income

The Chancellor has announced a 2% increase in:

- The basic and higher rates of income tax on dividend income, raising the dividend tax rates to 10.75% and 35.75% per cent respectively:
- The basic, higher and additional rates of income tax on property and savings income, raising the tax rates on income from property and/or savings to 22%, 42% and 47% respectively.

There will be no change in the dividend additional rate which will remain at 39.35%.

Impact

The increase in income tax rates will be a blow for investors and savers especially in the context of frozen personal allowances which will now remain at current levels until at least April 2031.

The increase in the dividend rates of tax for basic and higher rate taxpayers takes effect in April 2026, so directors/shareholders of personal or family companies with sufficient retained profits may want to review remuneration strategies to take advantage of the lower rates of dividend tax that currently apply. Where possible, dividend payments can be tailored to take advantage of any unused dividend allowances, personal allowances and basic rate bands of other family shareholders as well.

Higher-rate taxpaying investors in employment or self-employment may be able to make pension contributions to extend their basic rate band so that investment income is taxed at lower rates; while married investors may want to consider equalisation of assets so that a greater proportion of investment income can be allocated to a nil or basic rate taxpaying spouse or civil partner. For more information, see the Income Tax section of this Budget Bulletin.

Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) changes

The Chancellor announced today that the rate of VCT income tax relief for investors will be reduced from 30% to 20%.

In addition, the existing annual, lifetime and gross assets limits for companies receiving investment under the EIS or VCT scheme will be increased as follows:

- The gross assets limits that a company receiving investment under the EIS or VCT scheme must not exceed will be increased to £30 million (from £15 million) immediately before the issue of the shares or securities, and £35 million (from £16 million) immediately after the issue;
- The annual investment limit that companies can raise through EIS/VCT investment will be increased to £10 million (from £5 million) and for knowledge-intensive companies to £20 million (from £10 million); and
- The company's lifetime investment limit would be increased to £24 million (from £12 million) and for knowledge-intensive companies to £40 million (from £20 million).

Impact

Ensure that clients looking to invest in VCTs to benefit from tax-free dividends are aware of the impending changes and have the opportunity to make planned investments prior to 6 April 2026 to benefit from higher rates of up-front relief.

Inheritance Tax

Nil rate band and residence nil rate band frozen until April 2031

The inheritance tax (IHT) nil rate band and residence nil rate band, which are at present set at £325,000 and £175,000 will stay fixed at these levels until 5 April 2031 – which is in line with the income tax thresholds and the equivalent NICs thresholds. There is no change to the residence nil-rate band taper threshold which will remain at £2 million.

National living/minimum wage

The Government is increasing the National Living Wage by 4.1% to £12.71 per hour. In addition, it is increasing the National Minimum Wage for 18-20 year olds by 8.5% to £10.85 per hour and for 16 and 17 year olds and apprentices it will increase by 6% to £8.00 per hour.

NICs

The rate of employer NICs remains at 15% from 6 April 2026.

The Secondary Threshold (the point at which employers become liable to pay NICs on employees' earnings) remains at £5,000 a year. It was expected to remain at this level until 5 April 2028. However, this has been extended to 5 April 2031.

High Value Council Tax Surcharge

In her Budget speech, the Chancellor announced the introduction of a High Value Council Tax Surcharge (HVCTS) – an annual charge which will be payable in addition to Council Tax by owners of residential property in England worth £2 million or more in 2026. Properties above the £2 million threshold will be placed into bands based on their property value. The surcharge is expected to start at £2,500 for properties valued between £2m and £2.5m rising to £7,500 for properties valued in excess of £5m. Charges will increase in line with CPI inflation each year from 2029/30 onwards. The Government will consult on implementation of HVCTS in the new year.

Universal Credit -Two-Child Benefit Cap

The Government is scrapping the two-child cap from April 2026, which was introduced by the Conservatives and came into place in April 2017. It only applies to children who were born after 6 April 2017 and prevented parents from claiming the child element of universal credit for additional children.

State pensions

It has been confirmed that the Government will retain the State Pension Triple Lock for the duration of this parliament. The basic and new State Pension will increase by 4.8%, in line with average weekly earnings giving an extra £575 per year on the full new state pension from April 2026.

In addition, Government will put measures in place to remove the right to pay class 2 voluntary national insurance contributions for periods when living abroad. You can still pay class 3 voluntary, but the eligibility requirements are changing.

New applications to pay voluntary Class 3 National Insurance contributions will need applicants to have either:

- lived in the UK for 10 years in a row
- paid at least 10 years of National Insurance contributions while in the UK.

Individual Savings accounts

Cash ISA Allowance reduced for under 65s

- As widely anticipated, it was today announced that there will be a reduction in the annual subscription limit for Cash ISAs with effect from 6 April 2027. The maximum amount that will be capable of being invested in a Cash ISA per individual from that date will be reduced to £12,000 (within the overall annual ISA limit of £20,000) unless the individual is aged over 65 in the tax year of subscription. For over 65s, the annual subscription limit for Cash ISAs will remain at £20,000. The annual subscription limits will remain at £20,000 for Stocks and Shares ISAs, £4,000 for Lifetime ISAs and £9,000 for Junior ISAs and Child Trust Funds. These allowances are frozen until 5th April 2031.

Lifetime ISA Reform

- The Government is set to publish a consultation in early 2026 on the implementation of a new, simpler ISA product to support first time buyers to buy a home. Once available, this new product will be offered in place of the Lifetime ISA.

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given. This information is based on announcements made in the Budget which may change before becoming law.

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This information is for UK financial advisers only.