The Spring **Statement** 2025

www.bkplus.co.uk | hello@bkplus.co.uk

The Spring Statement 2025

Chancellor of the Exchequer, Rachel Reeves, held the Spring Statement on Wednesday 26 March 2025. In the run up to the event, the Chancellor stated that she 'remains committed to one major fiscal event a year to give families and businesses stability and certainty on upcoming tax and spending changes and, in turn, to support the government's growth mission'.

The Chancellor did meet her commitment that there would be no major tax announcements but tax is only one side of the equation. The other is spending and the Spring Statement confirmed a number of the measures recently announced, namely:

- cuts to the welfare state
- cuts to the civil service
- an increase in defence spending.

There were also announcements about the rollout of the Making Tax Digital (MTD) for Income Tax project.

Government Spending

National security

Reductions in the Official Development Assistance budget (overseas aid) will support an increase in NATO-qualifying defence spending to 2.5% of GDP by April 2027, with an ambition to increase to 3% in the next Parliament as economic and fiscal conditions allow. The Spring Statement accelerates towards this by providing an additional £2.2 billion of funding for the Ministry of Defence next year.

Reform

As announced by the Secretary of State for Work and Pensions, the government wants to create a more pro-work welfare system for those who can work and to protect those who cannot. These reforms are projected to save £4.8 billion from the welfare budget in 2029/30 and welfare spending will fall as a share of GDP in the medium term.

This will include:

- The Universal Credit health element will be frozen for existing claimants until 2029/30. For new claims, the Universal Credit health element will be reduced to £50 a week in 2026/27 and then frozen until 2029/30.
- The government will increase the Universal Credit standard allowance for new and existing claims above inflation from April 2026, reaching CPI + 5% from April 2029.
- The government will increase checks on potential Universal Credit claimants by introducing more ways to verify the amount of savings they hold, as well as their earnings and expenses.

The government is also looking for efficiencies from the state, including by bringing NHS England back into the Department of Health and Social Care. The Spring Statement announces a £3.25 billion Transformation Fund to drive efficiencies across government.

Growth

According to the government, growth is their central mission.

The government will set out capital spending plans for the Parliament at the Spending Review in June. Ahead of that, the government has announced an additional £2 billion for social and affordable housing for 2026/27, as part of the government's ambition to build 1.5 million homes in England in this Parliament, supported by reforms in the Planning and Infrastructure Bill.

To ensure the construction industry has the capacity to deliver this government's plan to get Britain building, the government has committed to a £625 million package for skills in construction, expected to provide up to 60,000 more skilled workers this Parliament.

Personal Tax

Tax bands and rates

The basic rate of tax is 20%. For 2025/26 the band of income taxable at this rate is £37,700 so that the threshold at which the 40% rate applies is £50,270 for those who are entitled to the full personal allowance.

The basic rate band is frozen at £37,700 until April 2028. The NICs Upper Earnings Limit and Upper Profits Limit will remain aligned to the higher rate threshold at £50,270 for these tax years as well. The government has suggested that, from April 2028, these limits will then be uprated in line with inflation.

For 2025/26 the point at which individuals pay the additional rate of 45% is £125,140. The additional rate for non-savings and non-dividend income will apply to taxpayers in England, Wales and Northern Ireland. The additional rate for savings and dividend income will apply to the whole of the UK.

There are no changes to the taxation of savings and dividend income for 2025/26.

Scottish residents

The tax on income (other than savings and dividend income) is different for taxpayers who are resident in Scotland from that paid by taxpayers resident elsewhere in the UK. The Scottish Income Tax rates and bands apply to income such as employment income, self-employed trade profits and property 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:

£	%
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

Scottish taxpayers are entitled to the same personal allowance as individuals in the rest of the UK.

Welsh residents

Since April 2019 the Welsh Government has had the right to vary the rates of Income Tax payable by Welsh taxpayers (other than tax on savings and dividend income). For 2025/26 the tax payable by Welsh taxpayers is the same as that payable by English and Northern Irish taxpayers.

The personal allowance

The Income Tax personal allowance is fixed at the current level of £12,570 until April 2028. The government has suggested that, from April 2028, it will then be uprated in line with inflation.

There is a reduction in the personal allowance for those with 'adjusted net income' over £100,000. The reduction is £1 for every £2 of income above £100,000. This means that there is no personal allowance where adjusted net income exceeds £125,140.

The government will uprate the married couple's allowance and blind person's allowance for 2025/26.

Pension tax limits

For 2025/26:

- The Annual Allowance (AA) is £60,000.
- Individuals who have 'threshold income' for a tax year of greater than £200,000 have their AA for that tax year restricted. It is reduced by £1 for every £2 of 'adjusted income' over £260,000, to a minimum AA of £10,000.
- The Lump Sum Allowance, which relates to the general maximum that may be able to be taken as a tax-free lump sum, is £268,275.
- The Lump Sum and Death Benefit Allowance, which relates to the general maximum that may be able to be taken as a tax-free lump sum in certain circumstances, is £1,073,100.

Non-UK domiciled individuals

Significant changes are made to the tax regime relating to non-UK domiciled individuals. Broadly, from 6 April 2025, changes will be made to replace the remittance basis of taxation, which is based on domicile status, with a new tax regime based on residence. The new regime will provide 100% relief on foreign income and gains for new arrivals to the UK in their first four years of tax residence, provided they have not been UK tax resident in any of the ten consecutive years prior to their arrival.

The protection from tax on foreign income and gains arising within settlor-interested trust structures will no longer be available for non-domiciled and deemed domiciled individuals who do not qualify for the four-year foreign income and gains regime.

A Temporary Repatriation Facility (the Facility) will be available for individuals who have previously claimed the remittance basis. They will be able to designate and remit, at a reduced rate, foreign income and gains that arose prior to the changes. The Facility will be available for a limited period of three tax years, beginning in 2025/26. The Facility rate will be 12% for the first two years and 15% in the final tax year of operation.

The current domicile-based system of Inheritance Tax will be replaced with a new residence-based system, which will affect the scope of non-UK property brought into UK Inheritance Tax for individuals and trusts.

Overseas Workday Relief will be extended to four years to align with the new four-year foreign income and gains regime and will be subject to a financial limit on the amount of relief that can be claimed, namely the lower of £300,000 or 30% of an individual's total employment income.

Comment
This is a significant change in the taxation system. Even if individuals have not considered or used the remittance basis in the past, it may well be that some are still affected. Making the regime residence based may mean that long term resident, non-domiciled individuals will now find that Inheritance Tax is due on their worldwide, rather than UK, assets.

National Insurance contributions

Employees and employers

The government announced that it will increase the employer rate from 13.8% to 15% from 6 April 2025. The main rate of Class 1 employee National Insurance contributions (NICs) is 8%.

The Secondary Threshold is the point at which employers become liable to pay NICs on an individual employee's earnings and is currently set at £9,100 a year. The government will reduce the Secondary Threshold to £5,000 a year from 6 April 2025 until 6 April 2028 and then increase it by Consumer Price Index (CPI) thereafter.

The Employment Allowance currently allows businesses with employer NICs bills of £100,000 or less in the previous tax year to deduct £5,000 from their employer NICs bill. From 6 April 2025 the government will increase the Employment Allowance from £5,000 to £10,500 and remove the £100,000 threshold for eligibility, expanding this to all eligible employers with employer NIC bills.

Comment
For some businesses, this will create a large additional NICs cost from April 2025. It remains to be seen what the implications are for both the economy and the job market.

The self-employed and NICs

From 6 April 2025 the rates of Class 4 self-employed NICs are 6% and 2%. For Class 2 NICs from 6 April 2025:

- Self-employed people with profits of £6,845 and above get access to contributory benefits, including the State Pension, through a National Insurance credit, without paying Class 2 NICs.
- Those with profits under £6,845 and others who pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension will continue to be able to do so.

For those paying voluntarily, the government will also increase Class 2 and Class 3 NICs to £3.50 and £17.75 respectively for 2025/26.

Employment

National Living Wage and National Minimum Wage

The government has announced increased rates of the National Living Wage (NLW) and National Minimum Wage (NMW) which will come into force from 1 April 2025. The rates which will apply are as follows:

	NLW	18-20	16-17	Apprentices
From 1 April 2025	£12.21	£10.00	£7.55	£7.55

The apprenticeship rate applies to apprentices under 19 or 19 and over in the first year of apprenticeship. The NLW applies to those aged 21 and over.

Comment
'Over time, the government intends to create a single adult wage rate… from April 2025, the National Minimum Wage for 18-20 year olds will be £10.00 per hour, an increase of 16.3%, the largest ever increase in both cash and percentage terms. This means a boost to annual earnings of over £2,500 for nearly 200,000 young people across the UK.'

Taxable benefits for company cars

The rates of tax for company cars are amended for 2025/26:

- The charge for zero emission cars rises from 2% to 3%.
- The charge for other cars increases by 1%.
- The maximum benefit of 37% remains.

The government has confirmed increases to the benefit in kind rates for company cars for tax years up to and including 2029/30.

Car fuel benefit charge

The car fuel benefit charge is £28,200 from 6 April 2025.

Company vans

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

Treatment of double cab pick-up vehicles

The government will treat double cab pick-up vehicles (DCPUs) with a payload of one tonne or more as cars for certain tax purposes.

From 1 April 2025 for Corporation Tax, and 6 April 2025 for Income Tax, DCPUs will be treated as cars for the purposes of capital allowances, benefits in kind and some deductions from business profits.

The existing capital allowances treatment will apply to those who purchase DCPUs before April 2025. Transitional benefit in kind arrangements will apply for employers that have purchased, leased, or ordered a DCPU before 6 April 2025. They will be able to use the previous treatment, until the earlier of disposal, lease expiry, or 5 April 2029.

Capital Gains Tax

Capital Gains Tax rates

The Capital Gains Tax rates increased for disposals, other than of residential property and carried interest, made on or after 30 October 2024. The basic rate of 10% increased to 18% and the 20% rate increased to 24%. No changes were made to the rates applying to the disposal of residential properties of 18% and 24%.

The rate applying to trustees and personal representatives increased from 20% to 24% from the same date.

Comment
The changes in the main rates of Capital Gains Tax brings them in line with those paid on disposal of residential property. This means that there will be no need going forward to differentiate between the types of property being disposed of.

Capital Gains Tax annual exemption

The annual exempt amount will remain at £3,000 for 2025/26.

Business Asset Disposal Relief and Investors' Relief

The rate applying for individuals claiming Business Asset Disposal Relief and Investors' Relief 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.

In addition, the lifetime limit for Investors' Relief reduced from £10 million to £1 million for qualifying disposals made on or after 30 October 2024. This limit takes into account any prior qualifying gains where the relief was claimed.

Inheritance Tax

Inheritance Tax nil rate bands

The nil rate band has been frozen at £325,000 since 2009 and this will continue to be frozen up to 5 April 2030. An additional nil rate band, called the 'residence nil rate band' is also frozen at the current £175,000 level, as is the residence nil rate band taper starting at £2 million. These are also frozen until 5 April 2030.

Unused pension funds and death benefits

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

Agricultural Property Relief and Business Property Relief

From 6 April 2026, agricultural and business property will continue to benefit from the 100% Inheritance Tax relief up to a limit of £1 million. The limit is a combined limit for both agricultural and business property. Property in excess of the limit will benefit from a 50% relief, as will, in all circumstances, quoted shares designated as 'not listed' on the markets of recognised stock exchanges, such as AIM.

Business

Making Tax Digital (MTD) for Income Tax

The rollout of MTD for Income Tax will be expanded to include a wider range of small businesses and will operate as follows:

- It will start from April 2026 for sole traders and landlords with qualifying incomes over £50,000.
- It will extend to those with qualifying incomes over £30,000 in April 2027.
- It will extend again to those with qualifying incomes over £20,000 from April 2028.

Comment
Today's decision to reduce the threshold to £20,000 will ensure that 900,000 sole traders and landlords, who will now join MTD for Income Tax from April 2028, have the time they need to prepare for the changes.

As part of the ongoing rollout, the government will continue to explore how it can best bring the benefits of digitalisation to a greater proportion of the four million sole traders and landlords who have income below the £20,000 threshold.

In addition, the following groups will not be required to use MTD for Income Tax: customers who have a Power of Attorney, non-UK resident foreign entertainers and sportspeople who have no other income sources that count as qualifying income for MTD for Income Tax and customers for whom HMRC cannot provide a digital service.

Also, the following groups will not be required to join MTD for Income Tax over the course of this Parliament: ministers of religion, Lloyd's Underwriters and recipients of the Married Couples' Allowance and Blind Persons' Allowance.

Finally, the government will increase late payment penalties for VAT taxpayers and Income Tax Self Assessment taxpayers as they join MTD for Income Tax from April 2025. The new rates will be 3% of the tax outstanding where tax is overdue by 15 days, plus 3% where tax is overdue by 30 days, plus 10% per annum where tax is overdue by 31 days or more.

Corporation Tax rates

The government has confirmed that the rates of Corporation Tax will remain unchanged which means that, from April 2025, the rate will stay at 25% for companies with profits over £250,000. The 19% small profits rate will be payable by companies with profits of £50,000 or less. Companies with profits between £50,001 and £250,000 will pay tax at the main rate reduced by a marginal relief, providing a gradual increase in the effective Corporation Tax rate.

Comment
The government has committed to capping the main rate of Corporation Tax at 25% for the duration of the Parliament. This is currently the lowest in the G7.

Capital allowances

The Full Expensing rules for companies allow a 100% write-off on qualifying expenditure on most plant and machinery (excluding cars) as long as it is new and unused. Similar rules apply to integral features and long life assets at a rate of 50%. The government will explore extending Full Expensing to assets bought for leasing or hiring, when fiscal conditions allow.

The Annual Investment Allowance is available to both incorporated and unincorporated businesses. It gives a 100% write-off on certain types of plant and machinery up to certain financial limits per 12-month period. The limit remains at £1 million.

The 100% First Year Allowances (FYA) for qualifying expenditure on zero-emission cars and the 100% FYA for qualifying expenditure on plant or machinery for electric vehicle charging points have been extended to 31 March 2026 for Corporation Tax purposes and 5 April 2026 for Income Tax purposes.

Furnished Holiday Lettings

The Furnished Holiday Lettings (FHL) tax regime will be abolished from April 2025. The effect of abolishing the rules will be that FHL properties will form part of the person's UK or overseas property business and be subject to the same rules as non-furnished holiday let property businesses. This will apply to individuals, corporates and trusts who operate or sell FHL accommodation.

There are a number of implications from 2025/26 which are detailed below.

Pensions - individuals will no longer be able to include this income within relevant UK earnings when calculating maximum pension relief.

Dwelling-related loans - the amount of Income Tax relief landlords can receive on residential property finance costs is restricted to the basic rate of Income Tax of 20%.

Replacement of domestic items - capital allowances will no longer be available for expenditure on new plant and machinery (subject to transitional rules) but instead businesses may claim relief on the replacement of certain items.

Capital gains - the rules which allowed FHL to be treated as a trade for various Capital Gains Tax reliefs are withdrawn in relation to disposals made on or after 6 April 2025 (1 April 2025 for Corporation Tax). Roll-over relief on the replacement of business assets will no longer apply to acquisitions which take place on or after those dates. However, there are a number of detailed transitional rules to preserve certain reliefs such as Business Asset Disposal Relief in specific situations.

Other matters

Consultations

There were a number of tax-related consultations announced in the Spring Statement, including:

- Clearances for the Research and Development tax reliefs, with the aims of reducing error and fraud, increasing certainty for customers and improving customer experience.
- Modernising how HMRC acquires and uses third-party data to make it easier for taxpayers to get tax right first time.
- Options to improve the financial penalties that apply when inaccuracies are found in returns and documents submitted to HMRC and where taxpayers do not meet their obligations to notify HMRC of circumstances that affect their tax liability.
- Options to enhance HMRC's powers and sanctions to take swifter and stronger action against tax advisers who facilitate non-compliance.

The VAT registration threshold

From 1 April 2025 the VAT registration threshold remains at £90,000 and the deregistration threshold at £88,000.

Removal of VAT exemption for school fees

Private school fees for education and vocational training will no longer benefit from VAT exemption and are subject to VAT at the standard rate (20%). The change applies to terms beginning on or after 1 January 2025 although certain prepayments made after 29 July 2024 are also included.



Follow us on social media



www.bkplus.co.uk | hello@bkplus.co.uk

This guide has been produced for information only and does not form any part of financial advice. If you would like to discuss any of these topics with one of our team and see how we can assist with your tax planning, please do get in touch.