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Spring NEWSLETTER 2025

Welcome to our Spring 2025 Newsletter.

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.

Whilst no new tax rises were announced (on top of ongoing stealth taxes and rise in National Insurance), there is much speculation that these will be unveiled in the next Autumn Budget, making the Spring Statement little more than a holding exercise.

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.

Ownership: Where the joint owners are husband and wife, or civil partners, profits and losses are treated as arising to them in equal shares. If the ownership is not equal then HMRC must be notified, this can be declared by using Form 17, which must be submitted to HMRC within 60 days of 6 April, for a full tax year claim of the unequal holding to be successful.

If you wish to change the ownership to something other than 50/50 then one way of achieving this is via a declaration/deed of trust, once this has been completed the Form 17 can be sent to HMRC with the evidence of the new holdings.

Pensions: individuals will no longer be able to include this income within relevant UK earnings when calculating maximum pension relief. *[Continued on page 2]*

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:

- *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

The 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.

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.

Losses: broadly, any unused losses can be carried forward to set against future years' profits of either the UK or overseas property business as appropriate.

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.

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

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.

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:

Age	NLW	18-20	16-17	Apprentice
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.

INHERITANCE TAX AND FARMING ISSUES

Whilst the Spring Statement did not announce any further tax changes, it is worth a reminder of the upcoming changes (announced in the Autumn 2024 Budget) to the levels of inheritance tax (IHT), Agricultural Property Relief (APR) and Business Property Relief (BPR), particularly since HMRC produced a consultation document relating to this on 27 February 2025.

Whilst the consultation document is primarily focussed on trusts, and stops short of providing draft legislation, it does give us an indication of how HMRC believes the changes should be enacted.

The consultation period ends on **23 April 2025**. It is hoped that draft legislation will then be published in early summer to allow taxpayers to plan prior to the key changes coming into effect from 6 April 2026.

The current position of IHT, APR, and BPR taxes

The existing rules are broadly, that where the qualifying conditions are met, APR and/or BPR apply at the appropriate rate on the full value of the asset. Where both reliefs apply, APR is given first, with any residual value being covered by any available BPR.

Depending on the type of agricultural asset, APR may be available at either 100% or in certain circumstances restricted to 50% on the agricultural value – this may be lower than a non-agricultural value. BPR is currently available at a rate of 100% on business interests and unquoted shares in a company and restricted to 50% primarily on assets used by a business controlled by the owner of those assets.

What is changing with IHT, APR, and BPR taxes?

From 6 April 2026, a new allowance of £1 million will apply per taxpayer for the combined value of property qualifying for 100% BPR and 100% APR.

Where the qualifying conditions are met, the current rate of 100% will continue to be available on the value covered by this allowance, but any excess value will be limited to relief at 50%.

- This allowance will not be transferable between spouses on first death
- It will be allocated against property qualifying for 100% relief first so that it is not allocated to assets that only qualify for 50% relief under the normal rules
- Where multiple assets qualify for 100% relief, the allowance will be allocated proportionately based on value.

It was also announced from 6 April 2026, that the rate of BPR available, in respect of AIM shares and other shares not listed on a recognised stock exchange, will reduce from 100% to 50%.

As far as we are aware, there are no planned changes to the headline rates of APR and/or BPR applying to other classes of asset.

In a positive move, the government has announced that with effect from 6 April 2025, APR can apply to land managed under an environmental agreement.

What transfers will the new allowance apply to?

The allowance will be available to cover the following transfers:

- Property in the estate at death
- Lifetime transfer to individuals in the seven years prior to death that become chargeable
- Chargeable lifetime transfers where there is an immediate lifetime charge e.g. transfer of property into a relevant property trust.

What about lifetime transfers prior to 6 April 2026?

The new rules will apply to IHT lifetime transfers made on or after 30 October 2024 if the donor dies on or after 6 April 2026.

Trustees of certain trusts are liable to an IHT charge (at a rate of up to 6%) every 10 years or when assets are distributed from the trust.

APR and/or BPR can apply to minimise the impact of these charges. However, with effect from 6 April 2026, such trusts will have a lifetime allowance of £1 million which it is intended will be applied in the same way as it will be to individuals (see above).

Where the settlor has set up more than one trust qualifying for the relief before 30 October 2024, each trust will receive a £1 million allowance. However, where multiple trusts are established after 29 October 2024, the government intends to introduce legislation that will limit the total allowance amongst these trusts to £1 million in total.

What insight does the consultation document give us to how HMRC sees the changes applying?

Whilst far from being law, the consultation document gives us an idea of how HMRC intends the changes to apply.

Key points of note from the document include:

- The £1 million allowance will refresh every seven years for individuals. This should provide scope for long term lifetime gifting strategies.
- From 6 April 2026, the option to pay IHT by up to 10 equal annual instalments, interest free, will be extended for all assets that are eligible for APR and/or BPR, regardless of the rate of relief that applies. This is a welcome change.
- Lifetime gifts into trust prior to 6 April 2026 will not be subject to the £1 million allowance when considering if any lifetime inheritance tax is payable on the gift.
- On the first 10-year anniversary IHT charge for a trust after 5 April 2026, the impact of the £1 million allowance on the IHT charge at this time will be time apportioned so that it only applies to the period post 5 April 2026.
- For trusts created by the same settlor after 29 October 2024, there will be a single £1 million allowance shared between these trusts. The intention is this will be allocated on a chronological basis and will not be subject to any future reallocation, even if a trust can no longer benefit from the allowance initially allocated to it (e.g. it no longer holds property qualifying for APR and/or BPR).
- There are proposed changes to the way the 10-year charges for trusts will be calculated after the first 10-year charge and how certain assets (mainly shares) will be valued for these purposes when the same settlor has settled shares in the same company on different trusts.
- Where IHT exit charges apply to trusts after 6 April 2026 (i.e. when capital distributions are made), the £1 million allowance (or relevant proportion) will apply to these exits and the value of the allowance available at the next exit or 10-year charge will be reduced accordingly.

What are these changes likely to mean for those affected?

Other than those estates where the value of qualifying assets is less than £1 million, the changes are likely to have a significant impact on the IHT payable.

This is not helped by the fact that the main nil rate band and residence nil rate band are being frozen until 2030, rather than 2028 as previously announced.

They will also impact on relevant property trusts (such as discretionary trusts) which hold qualifying assets.

CAPITAL TAXES

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.

BUSINESS

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.

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.

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