



November 2025

Gravita's Autumn Budget Report 2025

A considered opinion on the UK government's Autumn 2025 Budget and how it could affect you.



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Foreword

It feels like we waited a long time for this one – a very long time. When it arrived, a little bit earlier than scheduled following someone pressing the wrong button at the OBR – what did it include?

At first glance the measures were not nearly as bad as first feared, and some of the more egregious measures that were flown as kites ahead of the official announcements did not make the grade. However, there are still many changes which will hurt workers, savers and investors and even a rise in alcohol duty. So no, there was nothing much to cheer about in this Budget.

Is there good news in the Budget?

Let's start with the good news – which, as it turns out, is what the Chancellor did not include this time:

- It did not include a tax rise on companies – rates and reliefs stayed the same with a little extra for businesses that invest into certain qualifying assets
- It did not include an exit tax – expats and anyone thinking of moving to sunnier shores can rest easier
- It did not include a tax on members of partnerships akin to employers' National Insurance – partners of professional service firms can likewise relax
- It did not include a tax based on the value of your home when selling it – great news for homeowners who were fearful that they would not be able to move as their capital would be eroded by the tax
- It did not include an increase to income tax, National Insurance or VAT – except that it did; just not the rates
- Finally, it didn't include a wealth tax – except, of course, it did

Now, what are the nasties?

Freezing tax thresholds

The freezing of Income Tax and National Insurance thresholds will get the headlines. These measures will reportedly raise £67 billion by the end of the decade.

Threshold freezes work by dragging more workers into higher rates of tax as time goes on and wages grow. The Chancellor stated repeatedly that this was a budget to help tackle the cost of living; it is hard to see how this measure helps.

Other thresholds were frozen as well. The nil rate band for Inheritance Tax (IHT), below which an estate does not attract IHT, has been frozen. This is not surprising given that it last changed almost 20 years ago.

Finally, the VAT threshold above which a business must register was also frozen having been widely expected to drop. This threshold acts as a cliff edge and may discourage businesses from growing their turnover above it for fear of losing their hard-earned customers.

Pension and income taxes

Private sector employees will face further taxes on pension contributions that they make via salary sacrifice. Contributions that are currently exempt from National Insurance will now attract it above an annual £2,000 threshold. Curiously, these measures do not come into effect until April 2029, which is around about when the next general election is tabled.



Foreword

The real nasty for savers and investors is income tax increases. Rates are going up by 2% on income from savings, rental properties and dividends (except for additional rate taxpayers in receipt of dividends for reasons passing understanding). Perhaps not an unreasonable ask as none of these so called 'passive' incomes attract National Insurance – but without cuts to costs elsewhere to help balance the books, it has gone down very badly.

For landlords, already struggling under increased regulation, it is another unwelcome cost. It seems likely that these changes will encourage more savers and investors to consider Family Investment Companies where tax rules may be more attractive.

The “Mansion Tax”

In the middle of it all, the Chancellor confirmed that from April 2028 those that live in a house worth more than £2 million will be liable for an additional annual in tax. This starts at £2,500 and rises to £7,500 for homes worth more than £5million. It is estimated more than 140,000 homes will be affected by this by the time it comes in. Apparently, someone in a £5million home can easily afford the extra tax. We are not sure if that is the answer to the right question.

Electric vehicles

If you drive an electric or hybrid car, you will need to pay an extra 3p or 1.5p per mile from April 2028. This is to fill the hole left by motorists paying less fuel duty. Conceptually, it makes sense for all road users to contribute evenly. A simpler solution might be to slightly increase annual road tax for such vehicles. Yes, this would produce winners and losers, as there is now. But the cost and complication of enforcing a mileage-based scheme is sure to be high.

Employee Ownership Trusts

And let's end with an unwelcome surprise; effective immediately, those selling their businesses to an Employee Ownership Trust now receive only half the relief they did previously, taking the tax rate from 0% to 12% in the swish of a pen. One wonders how that impacts those mid-transaction?

Is this Budget a damp squib?

We are always asked what we think about Budgets once they have been and gone. And our reaction is that this one is a bit of a damp squib, with many of the changes not coming into effect for years, perhaps even after the next election.

But we cannot avoid the fact that this Budget significantly increases the welfare bill, continues to protect the civil service and their pension schemes, and asks those in the private sector and the 'wealthy' to contribute more to the Government's spending plans.

The Chancellor maintains that Labour has kept their manifesto pledge not to raise income tax or National Insurance for working people. But with the combined effect of freezing thresholds, National Insurance on pension contributions and taxes on investment income, the reality is that employees and investors will pay more tax. We will let you decide whether the Chancellor's claims are valid.

At Gravita, we remain available to our clients and any business owners or individuals who would like our support interpreting what the Budget means for them and what actions they might take next to minimise the impacts.



Foreword

Regardless of which changes have impacted you or your business, we've been studying the legislation so that you don't have to. We welcome anyone who would like a discussion about their circumstances with one of our tax experts. Read on for the full analysis, or contact me: thomas.adcock@gravita.com, and I can put you in touch with the right person.



Thomas Adcock
Partner, Tax



About Gravita

Gravita is a team of high-calibre, pragmatic accountants.

We partner with fast-growing, established businesses who need skilled experts to help manage their growth ambitions.

As a Gravita client, you can expect innovative yet practical solutions to reach your goals, leaving us to take care of everything behind the scenes.

We are efficient, reliable and move at pace to let you get on with what really matters: growing your business.

Our accreditations

Gravita is an ICAEW chartered accounting firm and an authorised training employer.

We're also part of DFK International, the 6th largest association worldwide of independent accounting firms and business advisors.

Our membership of DFK International enables our clients to operate with firms like Gravita all over across the world.



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Employment Tax

Salary Sacrifice pensions

The government will charge employer and employee National Insurance (NI) on pension contributions above £2,000 per annum made via salary sacrifice. This will take effect from 6th April 2029.

In a salary sacrifice scheme, employees can forgo some of their salary, in exchange for an additional employer pension contribution. This amount sacrificed does not currently attract any NI for either employer or employee. This is therefore a tax efficient arrangement and is widely used – especially if employees are seeking to reduce earnings below thresholds for income tax, or high-income child benefit.

From 6th April 2029, this NI saving will be capped at £2,000, after which amounts will be subject to both employee and employer NICs. These rates of NIC will be 15% for employers and 8% for employees with earnings less than £50,270 and 2% on income above that.

At present, employees are automatically enrolled into employer pension schemes and the minimum contribution level is 5%. Therefore, this measure is likely to impact anyone with a salary above £40,000 in a salary sacrifice arrangement.

By way of example, an employee earning £120,000 and saving £20,000 into their pension via salary sacrifice (a sensible amount to bring taxable income to £100,000 and preserve the personal allowance). From April 2029, this would result in the employer paying an additional £2,700 and the employee paying an additional £360, in NICs.

Gravita's view

This was widely reported prior to the Budget and is going to be another additional cost for employers, who will find the pressure mounting with the rise in the minimum wage and the NIC increases in last year's budget, as well as the employee.

The Chancellor is very proud that her Budget stuck to the key tenet of Labour's manifesto, not to raise Income Tax, National Insurance or VAT – particularly for working people. We are struggling to see how

this is not a National Insurance rise on working people who are looking to do the right thing and save for their retirement.

It is obvious of course that these changes will reduce the amount that an employee will be saving towards their retirement. Moreover, it is possible that some employees will take the view that salary sacrifice arrangements are simply not worth it anymore, and that they would rather have the cash in their pocket to help them save for a house or go on holiday. Not exactly an ideal outcome given that workplace pensions have been so successful in encouraging – if not forcing – many who may not have otherwise done so, to save for their retirement.

Maintaining thresholds for Income Tax and National Insurance, from April 2028

The government is maintaining personal tax thresholds and the National Insurance contributions (NICs) secondary threshold from 2027–28 until 2030–31, in addition to retaining the starting rate for savings, which will also be stay at £5,000.

The personal allowance, and income tax thresholds were due to increase by CPI from 6th April 2028 (having already been frozen since 2021), however this has now been extended until at least 5th April 2031. Equally National Insurance thresholds, will remain aligned to the Income Tax thresholds and will also be maintained.

Gravita's view

Whilst this was not the increase in income tax rates that were rumoured, this policy will affect millions of taxpayers who will experience 'fiscal drag'. Essentially as wages rise and the tax bands remain frozen more people will pay more tax. The OBR, estimates the freeze in these tax thresholds, will raise an additional £67 billion by the end of the decade, and by that date also cause 700,000 more people to be brought into Income Tax, who otherwise would not have paid tax if the personal allowance was in line with inflation.

We will let you decide whether this is in keeping with the Chancellor's promise not to raise taxes on working people.



Employment Tax

Plan 2 student loan repayment threshold to be frozen

The student loan Plan 2 repayment threshold is to be maintained at 2026–27 levels for three years from 2027–28 to 2029–30 tax years.

You are typically on a Plan 2 student loan repayment plan if you started studying a relevant course after 1st September 2012 (prior to this it was Plan 1). The Plan 2 student loan repayments are calculated at 9% of annual income over £28,470 and this threshold will remain frozen until at least 2030.

Tax treatment of payments received for cancelled, moved or curtailed shifts

Following the introduction of the Government's Employment Rights Bill, workers will receive the right to receive payments for their employers if their shifts are cancelled, moved or curtailed at short notice. This measure puts beyond doubt that this payment is subject to income tax.

Gravita's view

The Employment Rights Bill includes a myriad of provisions that significantly alter the rights of workers in certain situations. If you have not done so already, and you are an employer, we strongly recommend that you seek advice on its impact.

Image rights payments

From 6th April 2027 all image rights payments related to an employment will be taxed as employment income and subject to income tax, and employer and employee National Insurance contributions.

Gravita's view

This is likely to impact most on high profile individuals, such as athletes and entertainers and seems a fair measure, as it would be hard to argue it is not employment income.

Abolition of Homeworking Expenses

The government will remove the deduction from Income Tax for non-reimbursed home working expenses. Employers can still reimburse employees for these costs where eligible without deducting Income Tax and National Insurance contributions. This will be legislated for in Finance Bill 2025–26 and take effect from 6th April 2026

Gravita's view

If you have been claiming homeworking expenses (around £312 a year), that's ending from April 2026. This is unless your employer reimburses the costs. HMRC says too many claims were ineligible, and the relief was originally expanded during COVID but isn't needed in the same way now.

There is a clear push to get more people back into the office, especially with rail fares now frozen. That shift could create real challenges for parents juggling school runs and put extra pressure on employers who downsized office space during the remote-working boom.

Expanding workplace benefits relief

The income tax and National Insurance exemption for employer-provided benefits will be extended to cover reimbursements for eye tests, home working equipment, and flu vaccinations. This will be legislated for in Finance Bill 2025–26 and this will take effect from 6 April 2026.

Gravita's view

The policy means lower tax and NICs for employees on everyday work-related costs however, the delay means those savings won't arrive until April 2026. This a small but welcome saving.



Savings and investments

ISAs

The annual ISA limit of £20,000 remains unchanged, but the way in which you can save is not. From April 2027, the cash ISA limit will be cut from £20,000 to £12,000 (unless you are over 65 when the £20,000 limit will remain). To be able to save up to the £20,000 limit, a saver will need to invest the remaining £8,000 into a stocks and shares ISA.

Gravita's view

It was feared by savers and investors alike that the limit was going to be heavily cut and so retaining it at £20,000 comes as a welcome surprise. However, many savers will be frustrated that they will be forced to invest into what they may see as volatile markets in order to maximise their allowance. Time will tell if this measure along with others looking to encourage investment into the UK stock market have a positive effect on growth.

Stamp Duty Reserve Tax – UK Listing Relief

From 27th November 2025, the transfer of securities of a company newly issued on a UK regulated market will be exempt from the 0.5% Stamp Duty Reserve charge. This exemption will apply for the first three years from the company first listing.

Gravita's view

It is hoped that this will encourage more people to invest in listed companies. In turn, this may encourage more companies to list on the UK stock exchange which is not having the best of times in attracting retaining companies on its index. Coupled with the change in the ISA rules (which will only allow you to continue to benefit from the £20,000 annual allowance if you invest £8,000 in a stocks and shares ISA), this does have the whiff of a plan behind it.

The government have also announced a new digital service to allow taxpayers to self-assess their liabilities to stamp taxes on off market transfer of securities. This is a good idea and has been welcomed by anyone who is affected.

Ordering of Income Tax reliefs and allowances

At present, there is a lot of flexibility about the order in which some reliefs are applied in calculating Income Tax which can give different results, depending on what the reliefs are applied to. From

6th April 2027, changes will be made so that reliefs and allowance can only be applied to property, dividend and saving incomes (i.e. those taxed at the 2% higher rate) once they have been applied to all other sources of income. This will mean that income which attracts a lower rate of tax will be relieved first, leaving those sources which are taxed at the higher rate still being subject to tax.

Gravita's view

This is actually a return to the past (the last time investment income attracted a different rate of tax), when there was a strict ordering of how reliefs applied and which required no creativity in application. This must be helpful to the software developers who have to write the tax calculation programs!

Income Tax

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Gravita's view

It feels a little disingenuous for the Chancellor to claim that she has not changed the rate of Income Tax, having made this change... to the rate of Income Tax. Agreed, it does not impact those whose sole income is from employment, but it will affect anyone who invests or who structures their income via a dividend, although curiously not additional rate taxpayers in receipt of dividends, presumably because business owners were not the immediate target – but we are guessing!



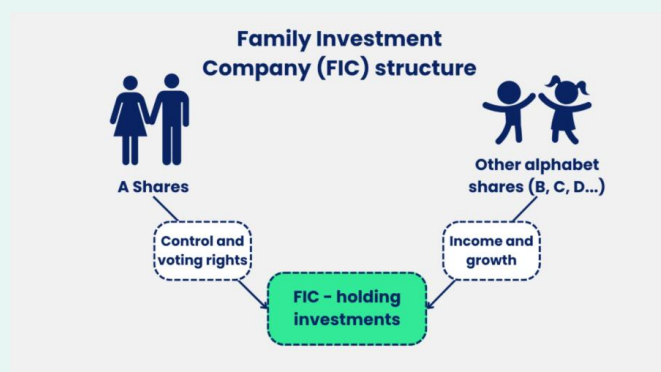
Savings and investments

However, this is slightly less punitive than the pre-Budget proposals which would have seen 2% added to Income Tax on all sources of income, but with a 2% reduction in National Insurance Contributions (NIC) at the basic rate. Had this gone ahead, the impact would have been born by higher and additional rate tax paying employees and of course those not paying NICs, like pensioners. The final form of this measure therefore impacts those who it was intended to hit – those with passive income.

Combined with the reduction in cash ISA allowances, this may be felt doubly by some investors who rely on interest income.

It may also drive investors to incorporate their investment activity into a Family Investment Company – usually referred to as a FIC. A FIC is simply a company that often has different classes of shares owned by different members of a family. The benefits include the use of a lower tax rate on investment returns – companies pay tax at 25% on income and gains, and usually 0% on the receipt of dividends – and allow for a methodology to pass some of the future growth down to the next generation which helps mitigate against a growing Inheritance Tax (IHT) burden.

Gravita has prepared a number of articles and an infographic that explains more about FICs. This can be found here:



Learn more about FICs here:

- Will the Budget make Family Investment Companies even more fashionable?
- [Short video: Family Investment Companies explained](#)
- [What is a Family Investment Company \(FIC\) and is it right for me?](#)

If you are interested, please do contact us.

Abolition of Dividend Tax Credit for non-UK residents

Under current legislation, non-UK tax residents have the choice to either pay UK Income Tax on their UK Dividend Income or treat this as disregarded income and forego their tax-free personal allowance. In the case of the former, a basic rate tax credit is given and so often there is no UK tax to pay, even if the income is not disregarded. For those with other UK source income, most notably UK rental income, the ability to preserve the personal allowance is important.

From 6th April 2026, non-residents will no longer be able to claim the basic rate tax credit when they do not disregard their Dividend Income.

Gravita's view

A minor change that will affect only a small number of people, but which will bring the taxation of dividends broadly into line with the treatment received by UK taxpayers. The fact that the credit existed at all is a hangover from long since repealed legislation, so this really is just a tidy up – those with high dividend levels are more likely to use the disregarded income route as a rule anyway.

Savings and investments

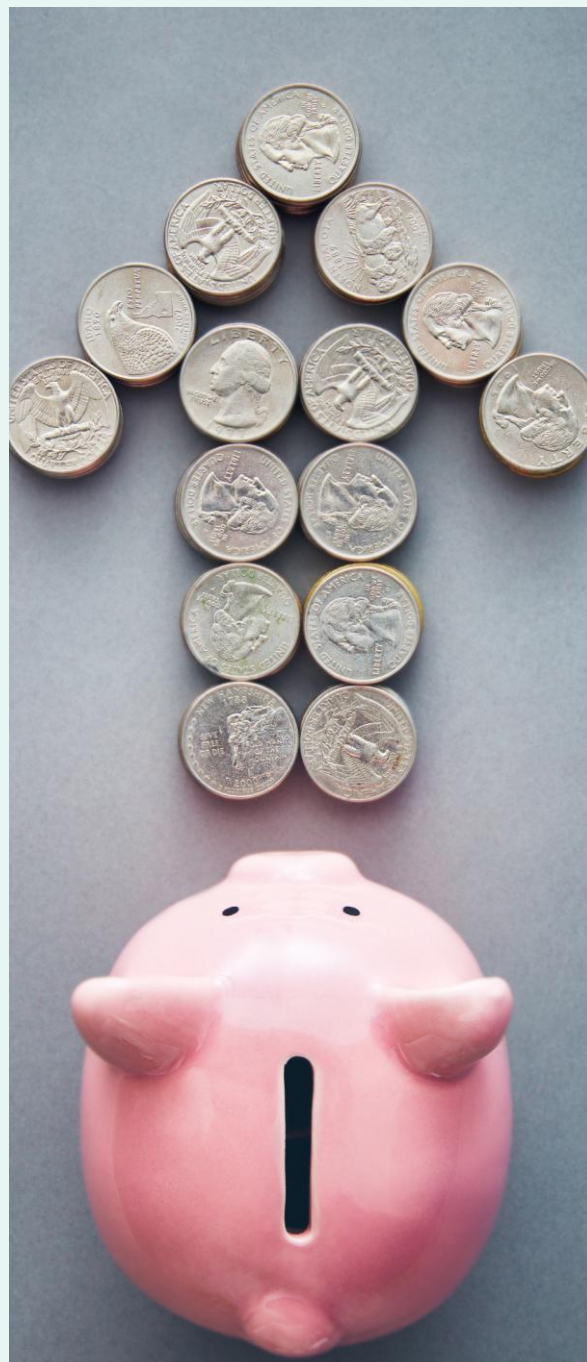
Capital Gains Tax and Non-Resident Capital Gains (NRCG)

With immediate effect, the definition of a “property rich company” has been changed for Capital Gains Tax (CGT) purposes, introducing anti-avoidance legislation to ensure that where Protected Cell Companies (PCC) are used, the individual cells are looked at when assessing whether it is property rich, rather than considering the overall structure, which currently can be used to take a disposal of a property outside of the NRCG rules.

Changes will also be made to formalise an existing Extra-Statutory Concession that applies to non-resident individuals who have invested in Collective Investment Vehicle which exempts them from making a formal double tax treaty claim.

Gravita's view

PCCs are a vehicle that is popular in the Chanel Islands. They are not possible to set up in the UK, or many other jurisdictions. In essence they act as an inverted group. Each company exists as a cell that is encased in a wrapper. They are used to isolate investment risk and enable different interests in each investment by different investors without the need for complicated limited partnerships (LP) or group structures.



Property taxes

Annual Tax on Enveloped Dwellings – out of time claims for relief

From Royal Assent to the Finance Bill, the law will be changed so that claims for relief from ATED will be able to be made without being blocked by the current 12-month time limit. However, claims to amend an ATED return that has already been submitted will remain restricted under a different provision. Late filing penalties will still remain payable.

Gravita's view

ATED was introduced back in 2012 to discourage the ownership of homes through companies. This is because it was seen as a way of avoiding Stamp Duty Land Tax (SDLT), as the property could be effectively sold by selling the shares in the company which attracts a far lower rate of Stamp Duty than the sale of land. Fortunately, there are many reliefs such as renting the property to a third party or holding the property as stock.

It has been a very successful tax and it has raised a lot of money. Interestingly of course, it has also created an annual compliance burden with many taxpayers not realising they have an obligation to file when they do not have a liability because there is a relief available to them.

Where a taxpayer is late in filing their return, the legislation could act to block them from making a claim for relief. This is being changed so that they can claim any relief they are entitled to, even where they are filing the return late. This is good news. They will still be subject to penalties for late filing though, and these can be pretty high.

Somewhat unsurprisingly (although frankly annoying) is that those that have filed a return but not claimed a relief that they later discover they could have done, will remain time barred from doing so in many cases. We agree that time limits are good as they both protect the taxpayer and HMRC in roughly equal measure. However, it does seem a little unfair that a taxpayer who has complied with their filing obligations and later discovers that they should have paid significantly less tax (and sometimes no tax at all) cannot change their returns, whilst a taxpayer who has not

complied can get the relief.

High Value Council Tax Surcharge

The government is introducing a High Value Council Tax Surcharge (HVCTS) in England for residential properties worth £2 million or more from April 2028. The proposed bandings for properties are as follows:

- Value between £2 million and £2.5 million will pay £2,500 per annum
- Value between £2.5 million and £3.5 million will pay £3,500 per annum
- Value between £3.5 million and £5 million will pay £5,000 per annum
- Value in excess of £5 million will be charged £7,500 each year.

Properties will need to be valued every five years and the charge will be on the property owners rather than tenants. It will be payable in addition to existing Council Tax.

Gravita's view

The government is asking those owning the highest-value properties to contribute more and they estimate that fewer than 1% of the property owners will be impacted, with only 140,000 properties affected mainly in London and the southeast.

However, many of these properties, especially in London will be a far cry from the traditional "mansion" that this is supposedly aimed at, given the prices currently being charged for relatively modest properties.

There will clearly be issues around valuation and who will be responsible in determining those properties within the new charge. However, HMRC have initially proposed that the Valuation Office will conduct a targeted valuation exercise to identify properties above £2 million and after which revaluations will then be carried out every five years to determine if the surcharge applies and at what threshold. With this and the BPR/APR changes, it is a good time to get into the valuations game it would seem.



Income Tax

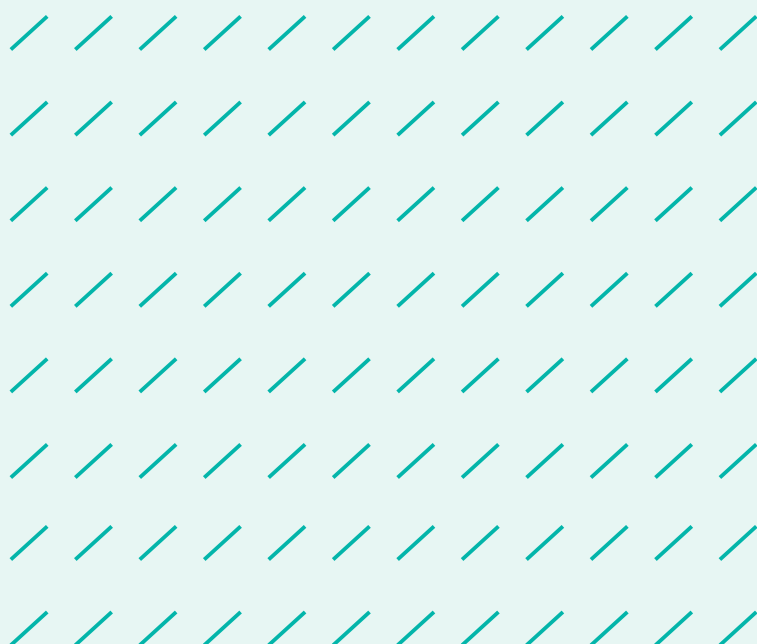
Winter Fuel Payments

From April 2026, pensioners whose total income is over £35,000 will have their Winter Fuel Payment (or pension age winter heating payment) clawed back via PAYE at a rate of roughly £17 a month for someone who receives the typical £200 payment. This will rise temporarily to £33 a month for a typical payment of £200 in the tax years 2027–28 to recover payments for 2026–27. An online payment calculator will be available to help assess if you are caught.

Gravita's view

Well, the Chancellor kept this quiet! It was not that long ago that the government backed down from attempting to means test this benefit. It would appear that they have decided to ignore the calls from their members and bank benches and introduce means testing by stealth.

The Government state that the £35,000 is broadly in line with average earnings and well above the income level of pensioners in poverty. Arguably not a high bar!



Transport

Fuel Duty: 2026–27 main rates

The temporary 5p duty cut will be extended for a further five months to September 2026, and then reversed by 1p on 1st September 2026, 2p on 1st December 2026 and the last 2p on 1st March 2027. During the Budget speech it was made clear that provisions would be put in place to make fuel pricing at the forecourt more transparent to encourage the pump owners to pass the savings on.

Gravita's view

Anything that suppresses already sky-high fuel prices for a little longer has got to be a good thing!

Motability Scheme: Reforming tax reliefs

The Motability Scheme supports the independence of disabled people and changes to the scheme will be introduced from July 2026 so that vehicles leased through the Motability Scheme (or equivalent) will be subject to 20% VAT any on top-up payments used to acquire more expensive vehicles on the scheme.

Insurance Premium Tax will also be applied at the standard rate of 12% for insurance related to vehicles leased through the scheme.

Tax changes will not apply to vehicles designed for, or substantially and permanently adapted for, wheelchair or stretcher users.

Gravita's view

This seems perfectly reasonable, given what the scheme is designed to do! If someone chooses to upgrade, then they should cover the full cost of this.

Per mile road charging for Electric Vehicles (EV) and Plug-in Hybrid Electric Vehicles (PHEV)

The Government has announced that from April 2028 a per mile road charging scheme will be introduced for EV and PHEV vehicles to protect the loss of tax to the Treasury from lower fuel duty receipts arising from the take up cars powered by these powertrains.

The plan is for the driver of an EV to pay an annual charge equal to 3p per mile and a driver of a PHEV to pay 1.5p per mile.

A consultation has been launched.

However, broadly the plan is that a motorist will estimate the number of miles they will drive in the coming year which will increase their annual road tax. At the end of each year, this will be checked under a self-assessment system with any over or under being paid or reclaimed by the motorist.

Gravita's view

The Government is quite rightly looking to fill the hole in lost revenues from the use of EVs and PHEVs by motorists – there are after all an estimated 2.8 million on UK roads already. We completely agree that the most sensible strategy is to increase the annual road tax paid by those motorists as other options, like using a black box in each person's car, or somehow taxing the electricity used to power the vehicles, are obviously unworkable for many reasons – with the former having already been specifically ruled out by the Government as a breach of privacy.

However, this system has all the hallmarks of a good idea that is practical in its application. In an ideal world, this would work. But we do not live in one of those. Drivers drive their cars overseas. They buy and sell cars during the same year. Technology changes and improves which will dramatically change powertrains including how they charge. All of this will add layers of complexity.

Now, let us return to the estimated 2.8 million such cars already on the road. That is a lot of people who need to conform.

It seems to us that they are so close to a simple solution, but they are doing their best to make it difficult. Why not simply add a bit to the annual road tax for an EV and a bit less for those that drive a PHEV. Yes, there will be some winners and losers – there are already with cars that run on petrol and diesel. But the cost of administration will be minimal, there would be little room to avoid it as there is today, and therefore the compliance levels will be very high and the cost of enforcement very low.



Transport

We hope that following consultation, they opt for a simple system, which is perhaps not ‘fair’ per person, but is ‘fairer’ across the board.

Company car tax – Employee car ownership schemes

In the Autumn Budget 2024, the government announced it would bring employee car ownership schemes (ECOS) into scope of the Benefit in Kind rules from 6th April 2026. To allow more time for the sector to prepare for and adapt to this change in treatment, its implementation will be delayed to 6th April 2030, with transitional arrangements until April 2031.

G Gravita's view

The policy will bring ECOS into the Benefit-in-Kind (BiK) system meaning these schemes will eventually be taxed like regular company cars.

ECOS have been popular because they avoided BiK charges as the car was technically “owned” by the employee. Once the new rules kick in, expect higher tax bills, especially for cars with high list prices or emissions.

The silver lining is that the change, originally set to come in from April 2026, has been pushed back to April 2030, with transitional arrangements until 2031. So, there is some time for both employees and employers to prepare.

Capital allowances – First year 100% allowances for zero emission vehicles (ZEVs) and charge points
The government will extend for a further year 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 (EV) charge points. The FYA will now be in place until 31st March 2027 for corporation tax purposes, and 5th April 2027 for income tax purposes.

G Gravita's view

The government has decided to keep the generous tax break for electric vehicles and charging equipment going for another year. More breathing room for now.

The delay means businesses can still claim 100% first-year allowances on qualifying zero emission cars and EV charge points. So, instead of spreading the tax relief over several years, which will be the case once the relief ends, you get the full deduction upfront in the year you buy them, a big boost for cash flow.

The extension runs until 31st March 2027 for corporation tax and 5th April 2027 for income tax.

If you are thinking about investing in electric vehicles or charging infrastructure, you have a little more time to take advantage of the tax benefit right away. However, as a note of caution, please keep in mind that from April 2028, EV drivers will pay 3p per mile (and 1.5p for plug-in hybrids) as a road usage tax, on top of Vehicle Excise Duty (VED).

Company car tax – Plug-in hybrid electric vehicle (PHEV) tax easement

The government will introduce a temporary benefit in kind tax easement for plug-in hybrid electric vehicles (PHEVs) in the Benefit in Kind system to prevent their tax charge increasing significantly due to new emissions standards. This easement will be in place from 1st January 2025 to 5th April 2028.

G Gravita's view

During this easement period, PHEV company cars will have lower BiK charges than they would under the updated emissions data, meaning employees won't see a sudden hike in their monthly PAYE deductions until after 5 April 2028.



Tax incentive schemes

Expanding the eligibility of the Enterprise Management Incentive (EMI) scheme

The Chancellor's Autumn Budget 2025 delivered the most significant expansion of the Enterprise Management Incentive (EMI) scheme since its launch in 2000.

Key changes (effective for EMI options granted on or after 6th April 2026):

- Gross assets limit for the employing company increased from £30 million to £120 million. Maximum number of full-time equivalent employees increased from 250 to 500
- Total value of shares over which unexercised EMI options may be outstanding at any one time doubled from £3 million to £6 million
- Individual employee limit remains unchanged at £250,000 (unrestricted market value at grant)
- All other core rules (qualifying trade, independence, UK permanent establishment, etc.) remain in place

The accompanying policy paper highlights long-standing evidence that EMI-participating companies enjoy significantly higher employment growth and lower staff vacancy rates than comparable peers.

Gravita's view

This is a transformative reform. The previous combination of £30 million gross assets and 250 employees had become an increasingly tight straitjacket for capital-intensive UK scale-ups, particularly in tech, life sciences and fintech where headcount often stays relatively modest while balance-sheet growth accelerates rapidly.

Raising both thresholds to £120 million assets and 500 employees, alongside doubling the company-wide option pool to £6 million, effectively brings hundreds of additional high-growth businesses into scope. It allows genuinely innovative UK companies to continue using the most tax-efficient equity incentive through Series B, C and even late-stage private rounds, without being forced into less attractive all-employee plans or cash bonus schemes that damage runway.

Venture capital trusts, Enterprise Investment Scheme investment limit increase and restructure

In the Autumn Budget 2025, Chancellor Rachel Reeves has announced targeted reforms to the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) to bolster UK innovation and scale-up funding, effective for investments made on or after 6 April 2026 (subject to Finance Bill 2025-26).

Key Changes for EIS:

- Annual company investment limit: Increased from £5 million to £10 million, with an enhanced £20 million (up from £10 million) specifically for knowledge-intensive companies (KICs) i.e. those investing at least 15% of operating costs in R&D
- Company lifetime investment limit: Raised from £12 million to £24 million overall, with £40 million (up from £20 million) for KICs
- Gross assets threshold: Lifted from £15 million to £30 million pre-investment, and from £16 million to £35 million post-investment enabling larger early-stage firms to qualify
- Investor Income Tax relief: down from 30% to 20%

Gravita's view

By doubling company annual and lifetime investment limits the Chancellor has materially increased the quantum of tax-advantaged capital available to high-growth UK companies from 6th April 2026. Although, the income tax relief for individual investors will decrease from 30% to 20%.

Frustratingly it still does not allow employees of those businesses to get similar relief for investing in the business in which they work.



Tax incentive schemes

Capital Gains Tax — Employee Ownership Trusts relief reduction

Previously, business owners could dispose of shares to an Employee Ownership Trust (EOT), a trust set up to facilitate employee ownership and claim 100% relief from Capital Gains Tax (CGT) on qualifying disposals, effectively eliminating the tax liability (with gains held over until future trust disposals).

Key change effective immediately for disposals on or after 26th November 2025:

- Relief reduction: The relief is halved to 50%. Only 50% of the gain on qualifying share disposals to EOT trustees will now be exempt; the remaining 50% becomes immediately chargeable to CGT at standard rates (24% for higher/additional rate taxpayers) with no Business Asset Disposal Relief (current tax rate of 14%) available.

Gravita's view

This change came completely out of the blue. Given that the Government announced pretty much everything else in advance – some of which they will not go through with – it has come as a bit of a shock. Perhaps the largest being that it is effective immediately. Like any sale, EOT transactions take some time to complete.

Key points for business owners to consider:

- 50% CGT relief still represents an effective maximum tax rate of 12% on gains for higher/additional-rate taxpayers substantially below the standard CGT rates of 24%
- When combined with the unlimited income tax-exempt bonuses payable through an EOT (currently up to £3,600 per employee per year), the overall tax efficiency of the structure often remains compelling, particularly for trading companies with material annual profits
- The EOT route continues to offer a flexible, market-value sale mechanism without the need for third-party buyers

At Gravita, we have guided many businesses through successful transitions to employee ownership. Our experience shows that the decision to move to an EOT has always been driven primarily

by long-term cultural, governance and succession objectives rather than short-term tax arbitrage.

For owners contemplating exits, the window to secure detailed planning and HMRC clearance remains open.

It is worth noting that the changes may cause a cash flow issue for the seller as it seems from the information currently available that they will need to settle the 12% tax liability on the whole gain where the cash may not be paid to them for many years to come.

In most third-party sales, the seller will receive their consideration over a period of 3 years. For EOTs the time frame is usually much longer – often between 7 and 10 years. So, it is possible that the seller of an EOT may not receive enough cash to pay the tax before the tax becomes due.

In third party deals, we tend to use loan notes to defer the tax liability until the cash is paid. However, the rules do not allow the redemption of the loan notes to attract any reliefs that may have been available on the sale of the shares – such as BADR (business asset disposal relief); the reason being that the asset you are selling is a loan note and not the original shares. The same issue will appear to be the case here with a potentially worse effect as the redemption of the loan note would trigger a tax charge at the usual CGT rates of 24%, negating the benefit of selling to an EOT in the first place.

Care will need to be taken in ensuring that sufficient funds are available to settle the resulting tax liability from the sale going forward – an issue that we could ignore under the 0% regime.



Tax incentive schemes

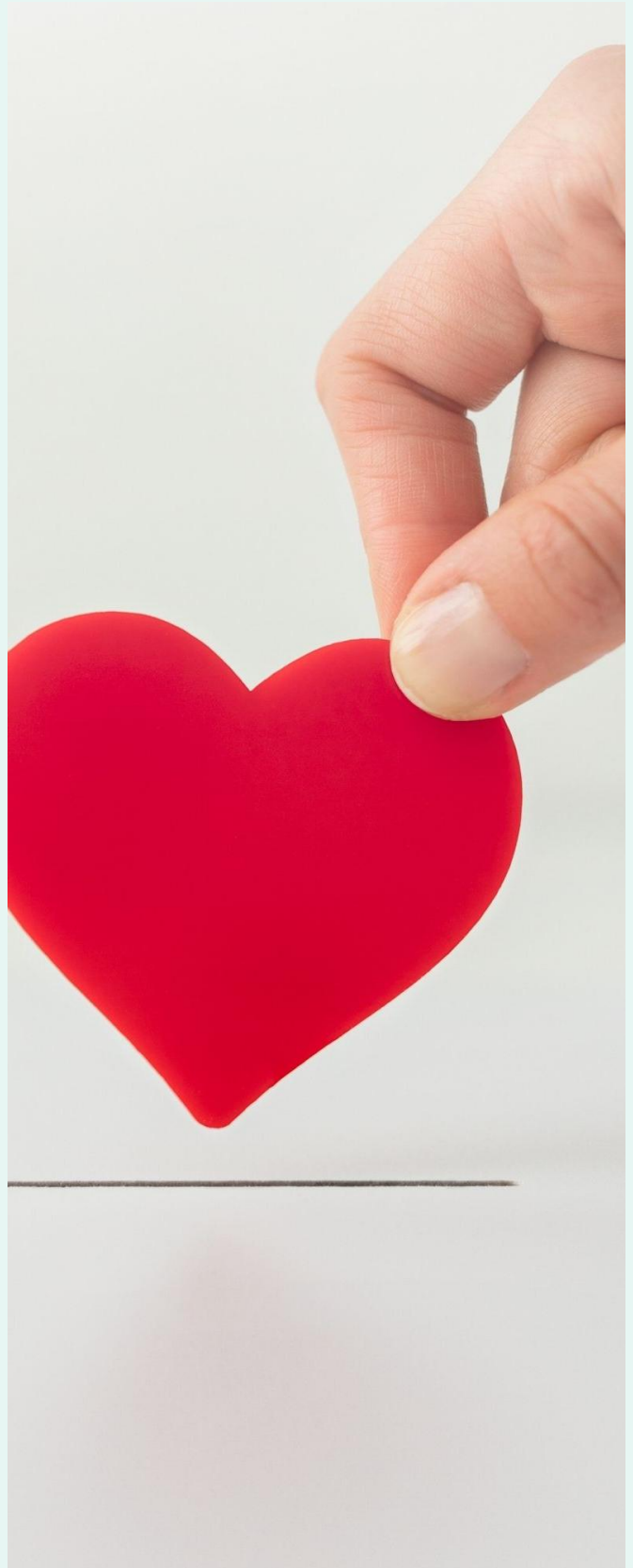
Changes to charity (and CASC) tax rules

The budget saw a few changes to tax reliefs for charities which are important for reliefs charities claim.

1. Tainted donations for traders: these rules currently ensure that the usual tax reliefs for charities are not available where the donor enters arrangements to obtain a financial advantage, for themselves or someone else, in return for their donation. They do not usually apply to simple arrangements such as gift aid or gifting of shares and property but are there to stop certain tax avoidance arrangements. The government is going to lower the bar on this test and not solely look at the motivation of the person making the donation
2. Investment income: There are currently twelve types of investment income that a charity can obtain tax relief on but only one of them is subject to the requirement that the investment must be made for the benefit of the charity. New rules will be put in place to extend this to all twelve types of investment income
3. Legacies: specific legacies left to a charity may receive significant Inheritance Tax relief. New rules are being put in place for these legacies (under Attributable Income rules) to ensure the legacy must be spent on the charity's charitable purpose, otherwise it is subject to a tax charge. This measure equalises the treatment for charitable gifts that are left under the residual of an estate where these changes already apply

Gravita's view

These are sensible changes to the existing rules to make sure tax relief is given where funds and investments are made for the charitable purpose and to tighten the tax avoidance position for certain contrived charitable donations. Charities should review these new rules and obtain advice (especially when receiving legacies or large donations) to make sure they retain the valuable tax reliefs charities can receive.



Inheritance Tax

Capping Inheritance Tax Trust charges for former non-UK domiciled residents

One of the few measures being introduced retrospectively (applying back to April 2025), this measure introduces a cap on the amount of 10-year and Exit charges payable by Trusts which were excluded for UK IHT prior to the changes introduced from April 2025.

Historically, following changes to non-dom legislation in 2017 and the introduction of the concept of Protected Trusts, use of overseas trusts to ringfence overseas assets from the UK tax net long term became very common. The changes announced in the October 2024 Budget effectively brought these trusts back into the UK tax net, leaving many in the difficult position of having to decide whether to retain the trust, along with all the costs that come with it, but without the previous tax benefits, or simply to wind it up.

Those who decided to keep them will now be preparing to pay IHT liabilities of up to 6% of the value of the net assets held by the trust when they reach the next 10-year anniversary, if the settlor remains UK long term resident.

This measure forms part of several transitional reliefs which mean that any trust which held excluded property prior to 30th October 2024 will benefit from a cap in how much IHT is payable. In a full 10-year cycle it will be capped at £5 million. For shorter periods (i.e. the first time a periodic charge arises after the April 2025 changes), the cap will be set at £125,000 per quarter in that period. This will cover both periodic and Exit charges.

Gravita's view

Our first observation must be that this is only going to benefit the most valuable trusts. In order to pay more than £5 million IHT during a 10-year cycle, the trust will need to hold assets worth at least £83.33 million. And, as we read it, it seems like it is going to apply per trust, and so if anyone has spread their wealth across multiple trusts, any benefit is further diluted. Realistically, very few trustees will be impacted by this, with most still facing onerous charges when their next 10-year anniversary comes around, many of which we suspect may be in 2027.

For those who it will apply to, let us take the example of a trust settled in March 2017, with its next 10-year anniversary being in March 2027. The assets will be relevant property from April 2025, so 8 quarters will pass between that date and the anniversary. The cap on the tax payable in relation to the 2027 anniversary will therefore be £1,000,000. When they come to their 2037 anniversary, all things being equal the charge will be capped at the full £5 million.

IHT and Infected Blood Compensation payments

This change is an extension of the existing legislation where payments from the Infected Blood Compensation scheme are exempt from UK Inheritance Tax (IHT). These changes mean that where someone has already died at the time the payment from the scheme is made in relation to their case, the first living recipient(s) of that payment will receive an IHT credit to pass on the value of the compensation following their own death, without an IHT charge.

It will also be possible for all or some of the compensation payment to be passed on within 2 years of receipt without any subsequent IHT, should the donor pass away.

Inheritance Tax – Anti-avoidance measures for non-long-term UK residents and trusts

This change brings UK situs agricultural property and buildings into the UK IHT net in a similar way to residential property, by looking at the underlying asset, rather than the situs of the structure.

Historically, UK agricultural property held by an overseas company or overseas trust, would not be considered relevant property for non-long term UK tax residents, and so is not subjected to IHT on death (up to 40%), or in the case of trusts, not subject to periodic (10-year) or Exit charges (up to 6% at relevant intervals).

Following this announcement, trust Exit charges will apply with immediate effect and IHT will apply on deaths on or after 6th April 2026.



Inheritance Tax

In addition, where a settlor ceases to be a long-term UK resident, there will be an IHT charge if there is a later change in situs of their trust assets from UK to non-UK, so that the trust cannot manipulate situs rules to avoid an Exit charge.

G Gravita's view

Presumably it will still be possible to apply Annual Percentage Rates (APR) when calculating IHT on qualifying assets, but as that is now restricted to £1 million this could still leave those with indirectly held agricultural property and buildings with an unexpected IHT liability. Assuming APR allowances are exceeded, this could mean 20% IHT being payable at death or up to 3% every 10 years for trust held assets. This brings the IHT of agricultural property in line with the way UK residential properties are taxed under the property rich regime (for companies) and relevant property regime (for trusts). Interestingly, commercial property does not seem to have been attacked yet.

This is another blow for those investing in the UK's agricultural system...although we probably will not see those affected marching on Parliament this time.

Inheritance Tax – Anti-avoidance measures for charities

IHT charity exemption will now be restricted to gifts made directly to UK charities and community amateur sports clubs. Gifts to trusts which do not meet the required charity or club definition will no longer be exempted because it is not possible to confirm whether they have UK jurisdiction or if they are regulated.

The changes will take effect for lifetime charitable gifts after 26th November 2025 or on a death from 6th April 2026.

Inheritance Tax thresholds and rates

These remain frozen at £325,000 for the nil rate bands, £175,000 for the residential nil rate band, and with the tapering point still at £2 million for the residential nil rate band. The rate payable remains at 40% before taking into account any reliefs.

G Gravita's view

The last time the IHT threshold changed was 16 years ago, and the rate has been fixed for over 40 years, so it would have been a bit of a shock if either of these had changed.

Freezing the nil rate bands is yet another example of a stealth tax which slides by unnoticed by many, but which will increase tax take over time as the value of property and other assets increase.

Ability to Transfer the £1 million Annual Percentage Rate (APR)/ Business Property Relief (BPR) allowances between spouses

In October 2024 it was announced that from April 2026 100% IHT relief for qualifying APR and BPR assets would be capped at £1 million per person (combined for both APR and BPR assets), and just 50% relief thereafter. The way the policy was drafted was that the allowance would apply per person without the ability to transfer between spouses, something that is possible in relation to the standard nil rate band and residential nil rate band.

During the Budget speech it was announced that when the changes to APR and BPR come into force in April 2026 the £1 million allowance will be transferrable between spouses. This is a change to the original draft legislation which did not allow this.

Any unused amount of the £1 million allowance will therefore be transferred to a surviving spouse or civil partner from 6th April 2026. In addition, if the first death was before 6th April 2026, it will be assumed the entirety of the £1 million allowance will be available for transfer to the surviving spouse or civil partner.

Trusts will also qualify for their own £1 million allowance, but for trusts set up post 30th October 2024 there are some restrictions, and where multiple trusts have been settled, the allowance will be reduced.

Alternative Investment Market (AIM) listed shares will not qualify for the 100% relief at all but will be eligible for 50% relief. It will be possible for IHT on qualifying assets to be paid via 10 annual instalments, interest free.

Inheritance Tax

Gravita's view

Sense has prevailed! In the consultation that followed the original announcement, this was the most commented on issue that industry leaders felt needed to be introduced. However, the initial response from the policy makers was a flat out “no”. This change of heart is very welcome and will prevent many couples from having to unnecessarily incur the expense of shuffling ownership of business and agricultural assets between themselves to hedge their bets and make sure the (arguably too small) relief is maximised. Of course, reversing the proposal entirely and maintaining 100% APR and BPR without any limit would have been more welcome.

Reforming Inheritance Tax – unused pension funds and death benefits

Under current legislation, undrawn pension pots pass IHT free on death, making them a useful tool for tax planning. In the October 2024 Budget, it was announced that this exemption would be removed from 6th April 2027. This did not affect death in service benefits payable from a registered pension scheme, which remain excluded for IHT purposes even after 6th April 2027.

Clarification has now been given about how the IHT will be collected, and it has been confirmed that whilst personal representatives (Executors/Administrators) will be liable for reporting and paying any Inheritance Tax due, they will be able to direct the pension scheme administrator to either pay the IHT to HMRC prior to releasing the balance, or to withhold 50% of the taxable benefits for up to 15 months post death prior to making payment.

Funds under £1,000 will fall outside of these rules, as will any continuing annuities.

Personal representatives will also be protected from liability for pensions discovered after they have received clearance from HMRC.

Gravita's view

Well, we were wondering how this was going to be administered. On the basis that this is going to create more work for pension administrators, this could (not unreasonably) equate to an increase in management charges applied to the fund.



Tax residence

Residence-based tax regime: technical amendments

Several small amendments have been made to the way the legislation introduced from April 2025 will be applied including in relation to the Foreign Income and Gains (FIG) regime, Overseas Workday Relief (OWR) and the Temporary Repatriation Facility (TRF).

The changes will be retrospective and do not fundamentally change any of the areas affected but ensure that these work as intended.

The FIG regime will provide 100% relief on overseas income and gains for the first 4 years of tax residency for newly arrived individuals, provided that they have not been a UK tax resident in any of the 10 consecutive years prior to arrival. These individuals will still be able to claim OWR during the same period, capped at the lower of 30% of their total employment income and £300,000.

The TRF is now open to any individual who has previously used the remittance basis and will allow previously unremitted income and gains that has not been subject to UK tax to be designated and remitted to the UK at a reduced rate of tax – 12% in 2025–26 and 2026–27 and 15% in 2027–25.

There has been no significant changes to the residency based IHT rules which came into force on 6th April 2025 which have replaced the historic domicile-based system. Any individual deemed to be a long-term UK tax resident, defined as having been a tax resident for 10 or more of the last 20 tax years, will be subject to UK IHT on their worldwide estate. Upon leaving the UK, the individual will be subject to a “tail” of between 3 and 10 years, where their assets will remain exposed to UK IHT during that time.

Overseas settlements will similarly be brought into the UK tax net at any time when the settlor is treated as a long-term UK tax resident.

Gravita's view

The legislation was brought in in April 2025, and these amendments just tidy up the wording so that the legislation operates as intended. These rules can be very beneficial for short term visitors to the

UK and potentially for some previously UK domiciled individuals who would historically not have been able to extricate themselves from the UK IHT net, but now who may have the opportunity to do that, if they leave the UK for 10 or more years.

For more detailed information, please refer to our guide here: [Becoming non-resident: Why it is not quite as simple as the “90-day rule”](#) – Gravita

Temporary non-residence rules – post departure trade profits

Under current rules, individuals who become non-resident for UK tax purposes but who return to the UK within a period of 5 years are deemed to be Temporary Non-Resident under anti avoidance legislation, designed to prevent individuals leaving the UK for short periods of time for tax reasons. If they return within the 5 years certain income and gains that arose in the period come back into charge, taxed in the year of return.

For Income Tax purposes this historically has applied to dividends, but only those paid from pre-departure profits – i.e. profits accumulated in the company before the individual left the UK.

The changes which will apply from 6th April 2026 will bring all dividends paid during the period into charge if the individual returns to the UK within 5 years.

This only affects dividends (and distributions) from closely held UK companies, so dividends received from publicly listed companies, for example, have never been brought into charge and remain outside it. Salaries are also not caught.

Gravita's view

In reality, it has always been hard to prove that dividends paid out during a period of Temporary Non-Residence came from new profits because it has been necessary to apportion on a “just and reasonable” basis, which can be arguable. This at least provides certainty and makes staying overseas and being careful about accidentally spending too much time in the UK even more important.



Corporation Tax

Anti-avoidance rule in relation to non-derecognition liabilities

Legislation will be introduced with immediate effect to target particular arrangements whereby a UK company is perceived to receive a tax advantage arising from transaction involving financial assets (such as loan notes) and a securitisation vehicle. Whilst HMRC state that they believe existing legislation is robust enough to negate any UK tax advantages already, they have felt the need to introduce a targeted anti-avoidance measure to counter this arrangement.

Capital allowances: new first-year allowance and reducing main rate writing-down allowances

The Government has reduced the rate of Writing-Down Allowance (WDA) on the main pool of plant and machinery from 18% to 14% per year, with effect from 1st April 2026 for companies and from 6th April 2026 for businesses within the charge to Income Tax.

In addition, it introduces a First-Year Allowance (FYA) of 40% for main rate expenditure, with reduced restrictions compared to other FYAs, to encourage investment where those FYAs are not available, such as for assets bought for leasing and by unincorporated businesses. The new FYA will be available for expenditure incurred from 1st January 2026 but will not apply to second hand assets or cars.

Gravita's view

The 18% rate was set back in 2012. The reduction in the main pool WDA rate still allows for full relief for the expenditure incurred, albeit over a slightly longer period. It should be noted that the proposed change will largely affect those businesses with historic main rate expenditure which pre-dates the introduction of the super-deduction or full expensing regimes (companies only). The new 40% FYA will be a boon to those unincorporated businesses which do not have access to full expensing, but we can see that this will largely be paid for by the reduction in the main rate.

Corporate Interest Restriction (CIR) —reporting companies

Administrative changes will be made regarding the appointment of reporting companies for CIR purposes. In particular, HMRC will remove the time limit to appoint a reporting company, and remove the requirement for the appointment to be made 'by notice' to HMRC. Instead, businesses will be responsible for ensuring the reporting company has been appointed for a period, with details of the appointment disclosed in the interest restriction return. The majority of the changes have effect for periods ending on or after 31st March 2026.

Gravita's view

It is important to note that reporting company appointments will no longer automatically rollover to later periods. Groups will therefore need to ensure there is a valid appointment made each period and there is a new £1,000 penalty for failing to do so.

Pillar 2: Further amendments to Multinational Top-up Tax and Domestic Top-up Tax

Changes will be made to update UK legislation in line with administrative guidance published by the OECD in January 2025 as well as issues identified as a result of stakeholder consultation.

Most of the changes will take effect for accounting periods beginning on or after 31st December 2025, although it will be possible for affected taxpayers to elect into some of these changes at an earlier date if beneficial to them.

However, changes to the treatment of pre-regime deferred tax assets will take effect for accounting periods ending on or after 21st July 2025.



Corporation Tax

Gravita's view

The Multinational Top-up Tax and Domestic Top-up Tax are the UK's implementation of the Global Anti-Base Erosion (GloBE) rules agreed by the UK and other members of the Organisation for Economic Co-operation and Development (OECD) and G20 Inclusive Framework on Base Erosion and Profit Shifting.

The rules, collectively known as "Pillar 2", seek to ensure that large multinational enterprises (broadly those with revenue in excess of €750 million) pay a minimum level of tax (currently 15%) across all the jurisdictions in which they operate.

The rules are very complex and you should seek advice immediately if you think you are affected.

Reform of UK law in relation to transfer pricing, permanent establishment and Diverted Profits Tax

On 26th November 2025 the Government confirmed big changes to three important international tax rules. Most will start from January 2026.

Transfer Pricing (TP) – the "arm's length" pricing rules

- You'll only be allowed to adjust prices in one direction: upwards (to pay more UK tax) or to reduce a loss. Downward adjustments that would cut your UK tax bill will be blocked
- Purely UK-to-UK deals between companies taxed at the same rate will be completely exempt from transfer pricing documentation (removing an unnecessary compliance burden)
- The rules will catch more cross-border arrangements, especially where companies share management or use artificial structures to shift profits out of the UK tax net

Permanent Establishment (PE)

- The definition of when a foreign company has a taxable presence in the UK is being updated to match the latest OECD wording
- How profits are allocated to a UK PE and therefore taxed in the UK will follow the latest clearer OECD guidelines

Diverted Profits Tax (DPT) – the 25% + surcharge "Google tax"

- Good news: the separate DPT is being scrapped completely
- It's being replaced by a new 31% charge called "Unassessed Transfer Pricing Profits" (UTPP) that sits inside normal corporation tax
- The new charge still targets profit-shifting, but it now benefits from double-tax treaties, so it's easier to defend and more predictable

In short: simpler rules, less double taxation risk, but tougher anti-avoidance tests in some places.

Gravita's view

These reforms represent a significant and largely positive development for internationally active UK businesses.

The abolition of the standalone DPT removes a long-standing compliance burden and aligns the UK more closely with international norms, providing access to double-tax treaty protections that were previously unavailable.

The new transfer pricing exemption for transactions between UK-resident companies subject to the same corporation tax rate will materially reduce administrative obligations for many groups. The much-anticipated reduction in SME limits, that would have brought many smaller groups within the UK transfer pricing provisions has now been scrapped.

Updated permanent establishment rules, now fully aligned with current OECD guidance, introduce greater certainty in profit attribution and should reduce the scope for protracted disputes with HMRC.

While the introduction of asymmetrical (one-way) transfer pricing adjustments strengthens the anti-avoidance framework, the practical impact on groups that apply arm's-length pricing in good faith is expected to be limited.



Corporation Tax

International Controlled Transactions Schedule (ICTS)

Issued alongside the Autumn Budget 2025, this HMRC policy paper finalizes responses to the April 2025 consultation on the ICTS, confirming its introduction as a cornerstone of UK transfer pricing reforms.

Effective for accounting periods starting on or after 1st January 2027, the ICTS mandates annual reporting of cross-border related-party transactions directly with corporation tax returns.

Key details include:

- **Scope and thresholds:** Applies to all UK entities subject to transfer pricing rules. Mandatory if aggregate cross-border related-party transactions total £1 million or more, or if dealings involve “non-qualifying” territories (countries without a UK double tax treaty). Transactions below £100,000 are generally exempt from line-by-line disclosure
- **Reporting requirements:** A standardized schedule (HMRC have provided a draft template) captures objective data such as transaction type (e.g., goods, services, intangibles), counterparty details, values, and geographic locations. Excludes UK-domestic transactions, Advance Pricing Agreement (APA)-covered dealings, and exempt dividends
- **Purpose and benefits:** Designed to enable HMRC’s automated, data-driven risk assessment, improving enquiry targeting, upstream compliance, and efficiency. It aligns UK rules with OECD standards and peers (e.g. similar schedules in Australia and Canada), while addressing 2021 feedback by narrowing scope and minimizing burdens—estimated at low ongoing costs for most filers
- **Implementation:** Legislation via Finance Bill 2025–26; HMRC will provide guidance and software integration by mid-2026. No penalties will be applied for good-faith errors in the first year, with a focus on education over enforcement

Gravita’s view ICTS marks a significant step towards greater transparency and risk-based enforcement in UK transfer pricing. By embedding structured, transactional-level reporting within the corporation tax return framework from 2027, HMRC will gain substantially improved visibility of cross-border related-party flows while aligning the UK more closely with established international practice.

For well-advised groups that already maintain robust transfer pricing documentation, the practical impact is expected to be manageable. The £1 million aggregate and £100,000 per-transaction thresholds, combined with exclusions for domestic dealings and APA-covered arrangements, appropriately limit the burden on smaller and mid-sized multinationals.

Creative industry and Research & Development (R&D) tax reliefs – administration changes

We have seen many changes to R&D tax reliefs and creative industry tax reliefs in recent years, and we can breathe a sigh of relief that only minor changes have been announced in this Budget. The changes relate to the administration of R&D Expenditure Credits (RDEC), and companies claiming Audio-Visual Expenditure Credits (AVEC) or Video Games Expenditure Credits (VGEC) for film, TV programme or video game production. There are 3 minor changes to the rules:

1. Additional wording to clarify that payments made between group companies in return for one company surrendering RDEC, AVEC or VGEC to the other company are to be ignored for Corporation Tax purposes. Payments are only ignored if they do not exceed the amount of the credit surrendered. This provides clarity for groups and avoids having to approach HMRC for agreed treatments
2. A small change to VGEC calculations when transitioning from the old video game tax relief regime to the new VGEC
3. Closing a loophole in the rules where visual effects credit calculations gave an unintended generosity to some companies which was meant to lower the claim value (specific negative clauses in the law)



Corporation Tax

Gravita's view

R&D and creative industry reliefs can provide valuable additional cash to companies or lower tax bills and with the changes in recent years and added HMRC scrutiny of claims, it has never been more important to seek industry leading advice on claims (such as from our dedicated R&D team). These new changes, although minor, provide clarity on some complex areas, something we support for our clients.

Oil and Gas (Energy Profits Levy) – decommission relief deeds

It was confirmed that the windfall tax on oil and gas is to remain until 2030, and the OBR assessment projects receipts from the tax for the next decade. This tax is a levy introduced on oil or gas in the UK or on the UK continental shelf and is set at a rate of 38% (increased from last years budget).

Decommissioning Relief Deeds (DRDs) are contracts entered into between HM Treasury and oil and gas companies. They define and, in effect, guarantee a minimum level of tax relief that an oil and gas company will receive in relation to its decommissioning expenditure (and companies can claim a payment). The Energy Profits Levy does not allow a deduction for the decommission expenditure incurred. The policy measure announced confirms (as was always intended) that no payments can be made under the DRD in relation to unavailable tax relief for decommission expenditure in the Energy Profits Levy.

Gravita's view

This is a simple clarity measure for the rules. More importantly for the oil and gas industry, the Energy Profits Levy is here to stay which will be bitterly disappointing for the industry, especially given many in the industry are saying that the levy is crippling the sector (given oil prices have halved since it was brought in and many believe there is no or little profit to be made in the UK and are taking their cash to other parts of the world).



HMRC powers

Domestic reporting of UK resident cryptoasset users under the Cryptoasset Reporting

Framework

The UK is implementing CARF, the Cryptoasset Reporting Framework developed by the OECD. This will require so-called Reporting Cryptoasset service providers (RCASPs) to collect relevant tax information and undertake due diligence in respect of their users on an annual basis. The measure means that HMRC will have CARF data on all UK taxpayers using UK based RCASP, together with information from non-UK RCASP. Under existing measures, HMRC would not have had this information, as the common reporting standard (CRS) which allows tax authorities to exchange information with one another does not cover cryptoassets. The measure will be effective from Royal Assent of the Finance Bill.

Gravita's view

This measure is widely anticipated to cause a flurry of disclosures and tax investigations as taxpayers who may not have declared all that they should have to HMRC, will now do so.

Umbrella company market: Changes to Income Tax rules to tackle non-compliance

Umbrella companies sit between the worker and an agency that then onward supplies that worker to the end user. A very typical example is a nurse, that may contract with an umbrella company that in turn contracts with an agency that works with a specific NHS Trust. The structure is seen to provide a level of flexibility for both the end user (the NHS) and the worker, as they only need a contract with one entity, who then offers their services via the agencies that interact with the local NHS Trusts.

The current law broadly works by saying that if the worker would be treated for tax purposes as an employee, the umbrella company must tax them as such when it pays them. This is called off-payroll working (some will know it by IR35 which applies to personal service companies).

The problem is that there are a number of cases, including a very high-profile case that is rumbling through the courts, whereby it is alleged that the umbrella company is not fulfilling its duties and withholding PAYE as it should.

The government is therefore legislating to make agents – who they believe have the control over the supply chain – and the end user, jointly and severally liable to the PAYE that should be accounted for where there is an umbrella company in the supply chain. In essence, they are moving the burden to the agency (or the end user if they have the direct relationship with the worker).

Gravita's view Any change is to close the tax gap by protecting against fraudulent behaviour of a small number of umbrella companies. It's also to prevent workers facing large tax bills, and to ensure that the temporary labour market operates on a level playing field, as fraudulent operators will no longer be able to undercut their competitors.

All of these are admirable aims, and we welcome any change in law that protects against fraudulent behaviour, especially where it targets those that are on lower or middle income.

Closing in on promoters of marketed tax avoidance schemes

The government is introducing a suite of measures to continue to tackle avoidance schemes:

- DOTAS – the penalty regime will be updated so that HMRC can directly issue penalties to taxpayers instead of seeking tribunal approval
- DASVOIT – the penalty regime will be updated so that HMRC can directly issue penalties to promoters instead of seeking tribunal approval
- USRs (universal stop regulations) – Regulations will be introduced enabling HMRC to issue stop notices to those promoting arrangements that have no realistic prospect of success. Failure to comply will attract sanctions including publications, financial penalties and criminal prosecutions
- PANs (promoter action notices) – These will be issued to business that provide goods or services used in the promotion of tax avoidance schemes requiring them to stop doing so. Again, the same range of sanctions as for USRs will apply



HMRC powers

- AAINs (anti-avoidance information notices) – Granting HMRC the power to issue notice to compel those that HMRC reasonably believe are connected to the promotion of marketed tax avoidance schemes requesting relevant information. This will include the ability for HMRC to issue such a notice to financial institutions (having received approval from the tribunal) to obtain banking data of promoters or those connected with promoters. The same sanctions will apply for non-compliance
- Legal professionals facilitating avoidance – this measure widens the scope of HMRC powers allowing them to publish those involved under certain circumstances

Gravita's view

We are not knowingly involved in the promotion of avoidance schemes and therefore welcome any measures that aid HMRC to tackle those that are.

We work closely with those that have been caught up with such schemes, helping them bring their affairs up to date with HMRC. In our experience, many that have been involved, have done so without fully grasping what they are being caught up in, and have been fearful of coming clean. By approaching HMRC in the right way, those that we have acted for often get a far better result than if HMRC have caught up with them. The measures now being introduced make that much more likely and so we would urge anyone who has been involved in such schemes to work with your advisors to bring the matter to the attention of HMRC.

Tackling tax adviser facilitated non-compliance by enhancing HMRC's powers

Further measures are being introduced to target and tackle tax advisors that deliberately facilitate non-compliance of their clients' tax affairs.

The changes build on legislation introduced in 2012 as a result of consultation. The measures include:

- Allowing HMRC to obtain information from tax advisors using a file access notice where there is reasonable suspicion that they have deliberately facilitated non-compliance in their clients' tax

affairs

- Removing the requirement for tribunal approval before issuing a file access notice, replacing it with a senior HMRC officer approval mechanism, where a file access notice is approved by HMRC it will be appealable to the tribunal
- Revising the penalties for failure to comply with a file access notice to include where inaccurate information is provided, and allowing HMRC to increase the penalty amounts with tribunal approval
- Introducing a new penalty framework to sanction tax advisers who are found to have deliberately facilitated non-compliance in their clients' tax affairs
- Introducing new powers to publish information about tax advisers where HMRC has used relevant sanctions

Gravita's view

We, along with all the professionals that we work with, work incredibly hard to not just understand the law (all 21,000 pages of it) but then explain how that law works to a client who often only comes across it once in their lifetime. With new law, there is often a great deal of debate on its application, and we are required to interpret it as best we can, using all the tools that are available to us.

It is therefore welcomed by those of us that provide high levels of professional services to clients that HMRC is introducing such measures to tackle those that do not.

Tackling Construction Industry Scheme fraud

Measures will be introduced to:

1. Provide for the immediate cancellation of Gross Payment Status (GPS)
2. Make the business who entered into the transaction connected to fraud liable for the lost tax
3. Allow a penalty of 30% of the lost tax to be charged to the business found liable, as well as to its directors and other persons connected to the business

The time limit for reapplication where GPS has been immediately removed is also increased from one year to five years.



HMRC powers

Loan charge independent review

HMRC will establish a new loan charge settlement scheme, which is aimed at giving those using historic disguised remuneration schemes a chance to bring their tax affairs up to date with more favourable terms. This measure will take retrospective effect from 5th April 2019.

G Gravita's view

For a long time, the loan charge has been a controversial issue, having left those who were involved in this sort of planning (often unwittingly) in hardship.

Since 2016 successive governments have tried to collect the tax from those individuals. Under the proposals, the way the tax will be calculated should leave those affected with significantly lower liabilities than under previous attempts to recover the tax, with estimates in the press suggesting that up to a third of those affected may have no liabilities at all. The government are keen to draw a line under this once and for all, and as can be seen to the related announcements about Umbrella companies, they are keen to make sure it does not happen again.



HMRC administration

Modernising HMRC's outbound digital communications

From spring 2026 HMRC will be able to operate a 'digital by default' model for outbound communications. This means new and existing customers using our digital services will automatically receive digital letters instead of letters by post.

Gravita's view

We are all accustomed to receiving correspondence from HMRC via the post, and aware of the problems this causes in terms of delays, especially when clients are travelling. Therefore, this is a very welcomed measure, which will be rolled out to both individuals and business owners.

There is however still a long way to go to try and meet the ultimate ambition, from HMRC which is to ensure that at least 90% of customer interactions are digital by 2030.

Advance Tax Certainty service

The Government will introduce a service whereby businesses can request clearance from HMRC on the application of corporation tax, VAT, stamp taxes, PAYE and the operation of the Construction Industry Scheme (CIS) to major investment projects. Once issued, the clearance will bind HMRC for 5 years (unless there is a change in the applicable law). To qualify, the project must cost at least £1 billion. The service opens in July 2026.

Gravita's view

This will be a very welcome addition for businesses that carry out such significant projects in the UK. One has to wonder if such a step would be necessary if the system was not so complicated in the first place!

Collective money purchase scheme – registration for unconnected multiple employers

The 2021 Pension Schemes Act introduced a new type of collective pension scheme arrangement. Currently the law only allows single or connected employers to operate the scheme. The Department for Work and Pensions (DWP) are expanding the scheme to allow for unconnected employers to do

so. The measures will be effective from Royal Assent to the Finance Bill.

Crown Immunity: repeal of old legislation

This measure repeals what is seen as an obsolete provision relating to 'Dominion Governments'. Following consultation, which attracted no comments, it was agreed that the definition of 'Dominion Governments' is so uncertain that it is arguable that it no longer applies to any states. It is therefore being abolished.

Gravita's view

You have to ask yourself how many more such provisions exist in the 21,000 or so pages of UK tax legislation.

Making Tax Digital (MTD) for Self-Assessment and VAT

For taxpayers joining Making Tax Digital for Income Tax in 2026–27, the government will waive late submission penalties on quarterly updates for that year. From 6th April 2027, the new late submission and late payment rules will apply to all other ITSA taxpayers. Penalties for late payment under both ITSA and VAT will also rise from 1st April 2027, with the details set through secondary legislation.



HMRC administration

Increases to Corporation Tax late filing penalties

Late filing penalties were originally introduced in 1998 to encourage companies to file their CT returns on time. Over time, the relative value of these penalties has been eroded by inflation and they do not have the same behavioural impact as originally intended. With effect from 1 April 2026, the penalties are set to double as follows:

	Current rate	New rate
Return late	£100	£200
Return is more than 3 months late	£200	£400
Three successive failures, return late	£500	£1,000
Three successive failures, return is more than 3 months late	£1,000	£2,000

Gravita's view

This is expected to raise £45m in the next year alone, rising to £70m in 2030-31. It is unlikely that this increase will change the behaviour of taxpayers that are consistently late with their tax returns and perhaps a tax-geared penalty system should be introduced alongside the flat-rate penalties for those companies which are profitable.

Capital Gains Tax: anti-avoidance for share exchanges and reorganisations

In simple terms, the government has closed a loophole that allowed some taxpayers to reduce or eliminate Capital Gains Tax (CGT) when swapping or reorganising company shares.

What's changing?

- Normally, when a company carries out a genuine share-for-share exchange or reconstruction no CGT is due at the time, the

gain is simply rolled over and taxed later when the new shares are sold

- From 26th November 2025, if HMRC decides that securing a tax advantage is the main purpose or one of the main purposes of the overall arrangement (not just the reorganisation itself), the rollover relief is denied, and CGT becomes payable immediately
- The old rule only examined the reorganisation in isolation; the new rule looks at the bigger picture, including any linked steps

Gravita's view

This primarily effects complex, multi-step transactions. Genuine business restructurings and legitimate succession planning, including transitions to EOTs, remain fully supported and tax efficient. The new rules simply prevent artificial arrangements designed primarily to reduce tax.

Good news for anyone who submitted a clearance application to HMRC before 26th November 2025, the current legislation will apply to shares issued until at least 25th January 2026 or if later, 60 days after HMRC provides clearance.

The change is not retrospective, only share issues from 26th November onwards fall under the new test.

Gravita's view

The amendment to the anti-avoidance provisions (in sections 137 and 139 TCGA 1992) is a measured tightening of the legislation rather than a fundamental shift. Legitimate commercial reorganisations and reconstructions continue to qualify for rollover treatment provided the primary driver is business rather than tax-driven.

Gravita has advised on and obtained HMRC non-statutory clearance for many share reorganisations and employee-ownership transactions. None of these relied on the contrived multi-step arrangements now targeted by the revised rules. For our clients, the practical impact of the change announced in the Budget is therefore minimal, while the additional clarity strengthens the defensibility of properly structured transactions.

HMRC administration

We continue to recommend early engagement on any proposed reorganisation, particularly where it forms part of a wider succession or exit strategy. Our tax team can:

- Review existing plans against the new “main purpose” test
- Prepare and submit clearance applications where appropriate
- Model the tax and cash-flow outcomes of alternative structures, if required

Clients with transactions already in progress or under active consideration will be contacted by their usual Gravita Tax advisor to confirm their position and, if required, adjust documentation ahead of implementation.

Capital Gains Tax (CGT) – Incorporation Relief claims

From April 2026, businesses that look to transfer to a limited company tax free via Incorporation Relief will be required to make a claim for the relief via their self-assessment tax return. Previously the relief was automatic, but now claimants will be required provide a brief description of the transaction, the tax computations and type of business being transferred.

Gravita's view

For most trading business, this appears to be a small amount of extra administration, but we suspect the reason for the change is the increased take up of property incorporations over recent years, as the tax landscape for individual landlords has become more onerous. HMRC will want details of the business to review as part of the transaction instead of having to find out about it. There are a lot of tax avoidance schemes being promoted on property incorporations and although moving property businesses to a company can offer great tax savings, it is incredibly important to obtain good advice to make sure the transfer does not come with a big CGT bill.



Get in touch

Our team of UK-based experts are here to help with any query, regardless of how complex it may be.

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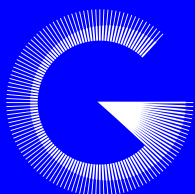
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