

TAX BRIEFING
BUDGET 2026

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Sound business advice

PROPERTY AND SAVINGS TAX INCREASED

The income tax rates applying to property and savings income were due to increase by two percentage points from April 2027, as announced at Budget 2025.

The Chancellor has now announced plans to add a further two percentage points taking the total increase to four percentage points at each level of taxable income.

From 6 April 2027 for taxpayers in England, Wales and Northern Ireland the rates applied to property and savings income will be:

Tax band	Total taxable income (£)	2026-27	2027-28
Basic rate	12,571-50,270	20%	24%
Higher rate	50,271-125,140	40%	44%
Additional rate	Over 125,140	45%	49%

Property income tax rates in Scotland may differ. Savings rates apply across the UK. The income tax rates for trading, employment and pension income are unchanged.

For individual landlords, a basic rate tax reduction is available for qualifying residential finance costs. This is generally (but not always) calculated as 20% of qualifying costs and will increase to 24% from April 2027.

Individuals with savings income, such as bank or building society interest, may also benefit from the Personal Savings Allowance (PSA). This is the amount of savings income you can receive tax-free, depending on your tax band. The PSA is £1,000 for basic rate and £500 for higher rate taxpayers. Lower income savers could also be entitled to an additional relief, the Starting Rate for Savings, worth up to £5,000 of tax-free savings income per year.

If you have property and/or savings income, we can help you understand how these changes will affect your tax position.

BUSINESS ASSET DISPOSAL RELIEF SLASHED

Business asset disposal relief (BADR) offers a reduced rate of Capital Gains Tax (CGT) when you sell a business; shares in your company; or qualifying business assets, subject to certain conditions.

For the tax years 2026-27 and 2027-28 eligible disposals benefit from a CGT rate of 18%.

For qualifying disposals made before 6 April 2027, BADR can be claimed on a maximum of £1m of eligible gains over an individual's lifetime. For a higher rate taxpayer this is worth up to £60,000 in saved tax. The lifetime limit will be halved to £500,000 for qualifying disposals made on or after 6 April 2027, reducing the maximum value of the relief to £30,000.

If you are planning to dispose of shares in your company or significant business assets in the next few months, it might be beneficial to expedite the disposal to make use of the current lifetime allowance before it is reduced. Contact us if you think this might be relevant to you.



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MAKING TAX DIGITAL FOR INCOME TAX

The new digital record-keeping requirements will come into effect from April 2027 for individuals with gross self-employment and/or property income ('qualifying income') above £30,000.

If you are a sole trader and/or a landlord and your qualifying income on your 2025-26 tax return is above £30,000, before deducting expenses, you will need to:

- maintain digital records;
- submit quarterly summaries of your income and expenses to HMRC; and
- file a tax return using HMRC recognised software.

If your qualifying income on your 2024-25 tax return was over £50,000, you should have been meeting the MTD requirements since April 2026, unless you are digitally or otherwise exempt.

The quarterly updates must be submitted by 7th August, 7th November, 7th February and 7th May. If you do not submit a quarterly update by the deadline you will receive a penalty point. Four penalty points will result in a £200 fine with each subsequent missed deadline incurring an additional £200 fine. You will need to complete a 12-month period of compliance and submit any outstanding quarterly updates and tax returns due in the previous 24 months to get rid of accumulated penalty points.

Individuals who joined MTD in the 2026-27 tax year will not incur penalty points for late submission of the first four quarterly updates. However, to comply with the new regulations:

- you still have to submit all four quarterly updates;
- you still need to keep digital records; and
- late annual tax returns can still attract penalties.

The 'soft landing' on penalty points will end for the first group of mandated taxpayers in April 2027. In Budget 2026 the Chancellor announced that the 12-month penalty waiver will also apply for taxpayers joining MTD for Income Tax for the first time in the 2027-28 tax year.

We have been preparing to help our clients navigate the new digital requirements for some time. We can help you ensure that you and your business are MTD-compliant.

TRADING ALLOWANCE TREBLED

If you earn money from a hobby or 'side hustle' you can generally earn up to £1,000 per tax year without paying any tax. This is known as the trading allowance.

The Chancellor has announced a trebling of the trading allowance to £3,000 from 6 April 2027.

Where an individual generates income from freelance activities, casual services or small-scale trading, the trading allowance can be used to offset that income, reducing the taxable profit. For example, if you make £3,500 per year from your dog-walking business in 2027-28, you can choose to deduct the £3,000 trading allowance, leaving you with £500 of profit to pay tax on.

You can either use the trading allowance or deduct your actual business expenses, not both. The £3,000 allowance is shared across all your qualifying trading and miscellaneous income; it is not available separately for each activity.

The Self Assessment reporting threshold for trading income will also increase from £1,000 to £3,000 from 6 April 2027. This ensures that where the allowance covers all relevant trading income, individuals will no longer have to declare that income or pay tax on it.

You may still be required to submit a Self Assessment tax return for another reason.





NEW PENSION TAX ALLOWANCE

The State Pension is set to increase by 3.9% in April 2027, taking the full State Pension to £13,037.

Because the income tax thresholds will remain frozen as planned until 2031, this will push recipients of the full State Pension above the Personal Allowance of £12,570 making them liable to income tax on the difference of up to £467.

Individuals of state pensionable age with income up to the value of the State Pension will receive a credit

To combat this and protect state pensioners from having to pay income tax on the excess, a new Pension Tax Allowance (PTA) will be available from 6 April 2027. Individuals of state pensionable age with income up to the value of the State Pension will receive a credit calculated by applying the basic rate of income tax (20%) to the difference between the full State Pension and the Personal Allowance. The maximum PTA for the 2027-28 tax year will be £94 (20% of £467).

For those with a small amount of additional taxable income above the value of the full new State Pension, the allowance will be gradually withdrawn at a rate of £1 for every £3 of income above this level. For example if you receive the full State Pension of £13,037 and a private pension of £150, the PTA will be reduced by £50 from £94 to £44. Once your taxable income reaches £13,319 the PTA will be fully withdrawn by the taper and income tax will be payable on all of your taxable income above £12,570.

The PTA is available to individuals of state pensionable age, subject to the limits above, and is based on total income not just the State Pension. It will be automatically applied to your tax calculation, you will not need to register to receive it.

TAX-FREE SAVINGS

One way to mitigate the increase in tax on savings income is to invest as much as possible in an Individual Savings Account (ISA).

This is because any interest earned on savings held in an ISA is completely tax-free. The maximum amount an individual can pay into an ISA is £20,000 per year. Planned changes to this annual limit which would have restricted the amount of cash invested each year to £12,000 for taxpayers under 65 have been cancelled, so the cash ISA limit remains at £20,000 per year for everyone.

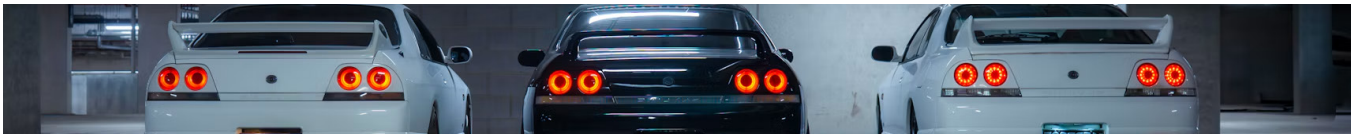
A new First Time Buyer ISA will be introduced in April 2029

A new First Time Buyer (FTB) ISA will be introduced in April 2029, providing a new way for first-time buyers to save towards a property deposit. The FTB ISA will provide a 25% Government bonus on the final account balance, up to a maximum of £20,000. The bonus will be paid on withdrawal, towards a purchase of a first home worth up to £450,000.

Unlike the existing Lifetime ISA (LISA) which is available for savers aged 18 to 40, the FTB ISA will not have an upper age limit. The annual contributions limit will be £4,000.

The FTB ISA will be available to new savers, while existing LISA holders will be able to continue using their accounts under the current rules. If money held in a LISA is used to purchase a first home costing more than £450,000, a withdrawal charge of 20% applies from 29 October 2026. The charge for other unauthorised withdrawals remains at 25%.





COMPANY VEHICLES AND BUSINESS MILEAGE

If you use your own car or van for business journeys, your employer can reimburse you using the approved mileage allowance rates without creating a tax charge, provided the payments do not exceed the approved amounts.

Sole traders can instead use HMRC's simplified mileage expenses to calculate their allowable business deduction, if they meet the conditions for using this method.

The mileage allowance for cars and vans was increased by 10p per mile from 45p to 55p per mile for the first 10,000 business miles in the tax year from 6 April 2026. The Chancellor has confirmed that the increase will be made permanent. The rate for business mileage exceeding 10,000 will also increase from 25p to 35p per mile from 6 April 2027.

If your employer or your business provides you with a company car that you can use privately, including for commuting, there is generally tax to pay on the benefit. The charge is based on the car's list price and its benefit-in-kind percentage. This percentage depends on the vehicle's CO_2 emissions, fuel type and, for qualifying hybrid cars, electric range.

Company car benefit percentages have been set for 2030-31, increasing by one percentage point across all emissions bands compared with 2029-30. The highest percentage for petrol/diesel cars with high CO2 emissions is 37% for 2026-27. The zero-emission car rate is 4% for the current tax year.

CAPITAL ALLOWANCES

Budget 2026 announced changes to capital allowances, altering the tax relief available to businesses investing in plant and machinery.

The main rate of First Year Allowance (FYA) will increase from 40% to 50% for qualifying expenditure incurred on or after 1 January 2027. This means that businesses can deduct half the cost of eligible assets from their taxable profits in the year of purchase, providing greater upfront tax relief.

The main rate of Writing Down Allowance will reduce from 14% to 12%

This is accompanied by a reduction in the main rate of Writing Down Allowance (WDA) from 14% to 12%. This lower rate will apply from 1 April 2027 for Corporation Tax and 6 April 2027 for Income Tax. The special rate WDA remains unchanged at 6%.

Currently, new and unused fully-electric cars attract a special 100% FYA. This separate relief is due to expire on 31 March 2027 for companies and 5 April 2027 for unincorporated businesses. This was not extended in the Budget, so if you are considering purchasing a new electric car through your business it might be sensible to incur the expenditure before the expiry date.

After the relief expires, qualifying zero-emission cars will generally enter the main rate pool and receive WDAs at the applicable rate, rather than going into the special rate pool.

Businesses should review the timing of planned expenditure to understand the impact on capital allowances. We can help you with this.

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