Armstrongs.

Chartered Accountants & Tax Advisers

The Chancellor held the Spring Statement on 3 March 2026. The government has been keen to have only one tax event per year (the Budget) and so the Spring Statement was intended to provide an interim update on the economy and public finances.

Whilst the Chancellor did meet the commitment not to make major tax announcements, there was plenty to say on the economy more generally.

Looking back a year, the previous Statement focused on a commitment to increasing defence spending, cuts to the welfare state and economic growth. Over the last year, the majority of those cuts to welfare spending were not supported by backbench MPs and the economy has continued to grow slowly, so what did the Chancellor have to say a year on?

The strap line was that current policies mean that the government has the right economic plan for Britain. The Chancellor stated that the '...Spring Forecast has shown that the government's economic plan to cut the cost of living, cut national debt and grow the economy, is the right one.'

Whilst the speech was highly political, the Chancellor specifically referred to three particular areas to show that the government's policies were working:

Cutting the cost of living - the OBR's forecast shows inflation, borrowing and debt interest are falling, whilst investment is rising.

Cutting borrowing - the OBR's forecast shows borrowing is down by nearly £18 billion compared to the autumn, with borrowing this year set to be the lowest in six years and falling below the G7 average.

Growing the economy - the OBR's forecast shows GDP per person is now set to grow more than was expected in the Budget, with growth of 5.6% over the parliament.

That was what the government said but what did the OBR have to say in its 125-page report? The start of the report stated that the fiscal context for the next Budget will remain challenging, so does this mean even more tax rises? It certainly does not appear that tax cuts are on the way anytime soon.

Highlights of the report were summarised by the OBR:

- productivity growth will pick up to 1% in the medium term
- labour supply growth will decline, mainly due to lower net migration and population ageing
- GDP growth will slow down to 1.1% in 2026, before averaging 1.6% over the rest of the five-year forecast
- inflation will reach its 2% target in late 2026
- public sector net borrowing is projected to fall from 5.2 % of GDP in 2024/25 to 4.3% of GDP this year and then to 1.6% in 2030/31
- weekly wage growth will slow to around 3.5% in 2026 and then average 2.25%
- unemployment will rise from 4.75% in 2025 to a peak of 5.33% in 2026, primarily driven by new entrants into the labour market struggling to find work.

Of course, the Spring Forecast is exactly that; for example, the effects of the current situation in the Middle East have not been factored into any of the data released by the OBR. The OBR also makes some other important points:

- the tax-to-GDP ratio is forecast to increase to a post-war high of 38% of GDP in 2030/31
- there continue to be pressures on the government's departmental spending plans
- there are concerns that the future costs of welfare spending may follow the sharp growth of disability and health caseloads since the pandemic.

To summarise, not a great deal of growth appears to be around the corner.

Public spending is one side of the equation but taxation is the other, so what does the tax system have to offer over the next year?

PERSONAL TAX

Tax bands and rates

The basic rate band remains at £37,700, with the higher rate threshold remaining at £50,270. The additional rate threshold remains at £125,140. The freeze of these thresholds will continue until April 2031. The NICs Primary Threshold and Lower Profits Limit remain at £12,570. The NICs Upper Earnings Limit and Upper Profits Limit will remain aligned to the higher rate threshold at £50,270 up to April 2031. Other employer NICs relief thresholds aligned to the Upper Earnings Limit will also be maintained at this level.

The additional rate for non-savings and non-dividend income will apply to taxpayers in England, Wales and Northern Ireland. The additional rate for savings and dividend income will apply to the whole of the UK.

Scottish residents

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

The rates and bands for 2026/27 are as follows:

Band £	Rate %
0 - 3,967	19
3,968 - 16,956	20
16,957 - 31,092	21
31,093 - 62,430	42
62,431 - 125,140	45
Over 125,140	48

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

Welsh residents

Since April 2019 the Welsh Government has had the right to vary the rates of Income Tax payable by Welsh taxpayers (other than tax on savings and dividend income). For 2026/27 the tax payable by Welsh taxpayers is the same as that payable by English and Northern Irish taxpayers.

The personal allowance

The Income Tax personal allowance is fixed at the current level of £12,570 and will remain frozen until April 2031.

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

The government will increase the married couple's allowance and blind person's allowance from 6 April 2026 by the CPI rate for September 2025 of 3.8%. These become £11,700 and £3,250 respectively.

Tax on property income

Property income is any income from letting land and buildings.

Individuals have a Property Allowance. This exempts property income of £1,000 or less. Property income over £1,000 can be offset either by the £1,000 Property Allowance or by deducting relevant expenses.

The government is introducing the following separate tax rates for property income from 2027/28:

- 22% for basic rate taxpayers
- 42% for higher rate taxpayers
- 47% for additional rate taxpayers.

It remains to be seen whether the Scottish and Welsh governments will follow suit by increasing taxes on property income in the future, as the government is devolving that power to those governments.

Tax on savings income

Savings income is income such as bank and building society interest.

The Savings Allowance applies to savings income and the available allowance in a tax year depends on the individual's marginal rate of Income Tax. Broadly, individuals taxed at up to the basic rate of tax have an allowance of £1,000. For higher rate taxpayers the allowance is £500. No allowance is due to additional rate taxpayers.

Savings income within the allowance still counts towards an individual's basic or higher rate band and so may affect the rate of tax paid on savings above the Savings Allowance.

Some individuals qualify for a 0% starting rate of tax on savings income up to £5,000. This will remain at £5,000 until 5 April 2031. However, the rate is not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income, less allocated allowances and reliefs) exceeds £5,000.

The current tax rates on savings income will be maintained for 2026/27. From 6 April 2027, there will be a 2% increase in the applicable tax rates. The basic rate will increase to 22%, the higher rate will increase to 42% and the additional rate will increase to 47%.

These rules apply to the whole of the UK.

Tax on dividends

Currently, the first £500 of dividends is chargeable to tax at 0% (the Dividend Allowance). This £500 is retained for 2026/27.

From 6 April 2026, there will be a 2% increase in the ordinary and upper rates of Income Tax applicable to dividends. The additional rate will remain unchanged at 39.35%.

Dividends received above the Dividend Allowance will be taxed at the following rates for 2026/27:

- 10.75% for basic rate taxpayers
- 35.75% for higher rate taxpayers
- 39.35% for additional rate taxpayers.

Dividends within the allowance still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on dividends above the Dividend Allowance.

To determine which tax band dividends fall into, dividends are treated as the last type of income to be taxed.

These rules apply to the whole of the UK.

Comment

There had been some speculation before the Budget about charging National Insurance contributions on investment income.

Increasing rates on dividend income is a similar way of raising revenue. Unlike National Insurance contributions, though, it will affect those over state retirement age.

In addition, tax computations will become increasingly complex.

Pension tax limits

For 2026/27:

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

Comment

There had been much speculation that some of the above limits would be reduced or that the amount of tax free lump sum would be cut but such changes did not happen.

Individual Savings Accounts

For 2026/27, the limits are as follows:

- Individual Savings Accounts (ISAs) £20,000
- Junior ISAs £9,000
- Lifetime ISAs £4,000 (excluding government bonus)
- Child Trust Funds £9,000.

These limits will remain frozen until 5 April 2031.

From 6 April 2027, the annual ISA cash limit will be set at £12,000. The remaining £8,000 will be designated for stocks and shares ISA investment. This restriction will not apply for those over the age of 65, where the cash ISA limit will remain at £20,000.

Comment

This change had been widely trailed by the government. It appears as though the government wishes more people to use their ISA allowance on shares rather than cash, so this seems to be an attempt to 'force' that change.

However, with interest rates falling and the volatility that can arise with stocks and shares, quite whether this change will have the desired effect remains to be seen.

EMPLOYMENT

National Insurance contributions

Employees

For 2026/27 the rates of Class 1 employee NICs are 8% and 2%. The employer rate is 15%.

The Secondary Threshold is the point at which employers become liable to pay NICs on an individual employee's earnings and is currently set at £5,000 a year for 2026/27. The government has announced that this will be maintained at this level until April 2031.

The Employment Allowance allows eligible businesses with employer NICs bills to deduct £10,500 from their employer NICs bill.

The self-employed

For 2026/27 the rates of Class 4 self-employed NICs are 6% and 2%.

For Class 2 NICs from 6 April 2026:

- Self-employed people with profits of £7,105 and above get access to contributory benefits, including the State Pension, through a National Insurance Credit, without paying Class 2 NICs.
- Those with profits under £7,105 may pay Class 2 NICs voluntarily to get access to contributory benefits, including the State Pension. The rate of Class 2 contributions will be £3.65 per week

Employer NICs relief for veterans

The government will extend the employer NICs relief for employers hiring qualifying veterans to April 2028.

This means that businesses continue to pay no employer NICs up to annual earnings of the Veterans Upper Secondary Threshold of £50,270 for the first year of a veteran's employment in a civilian role.

National Living Wage and National Minimum Wage

The government has announced increased rates of the National Living Wage (NLW) and National Minimum Wage (NMW) which will come into force from 1 April 2026.

The rates which will apply are as follows:

	NLW	NMW 18-20	NMW 16-17	Apprentices
From 1 April 2026	£12.71	£10.85	£8.00	£8.00

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

Taxable benefits for company cars

The rates of tax for company cars are amended for 2026/27:

- the charge for zero emission cars rises from 3% to 4%
- the charge for other cars with emissions below 75g/km increases by 1%
- the maximum charge of 37% remains.

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

The government announced that it is introducing a temporary easement to mitigate the increasing benefit in kind tax liabilities of plug-in hybrid electric vehicle (PHEV) company cars due to new emission standards. The easement will apply retrospectively from 1 January 2025 to 5 April 2028. Transitional arrangements will apply to certain PHEVs until 5 April 2031.

Car fuel benefit charge

The government will increase the car fuel benefit charge from 6 April 2026 to £29,200.

Company vans

The government will increase the Van Benefit Charge and the Van Fuel Benefit Charges from 6 April 2026 to £4,170 and £798 respectively.

Mandating the reporting of benefits in kind via payroll software

The government has confirmed that the use of payroll software to report and pay tax on benefits in kind will become mandatory, in phases, from April 2027. This will apply to Income Tax and Class 1A NICs.

Changes to salary sacrifice for pensions from April 2029

The government is changing how salary sacrifice for pension contributions works.

Salary sacrifice is when you agree to reduce your gross salary or sacrifice a bonus and, in return, your employer pays the same amount into your pension.

From April 2029, only the first £2,000 of employee pension contributions through salary sacrifice each year will be exempt from NICs. Contributions through salary sacrifice, like all pension contributions, will still be exempt from Income Tax (subject to the usual limits).

Employers and employees can still make contributions above £2,000 through salary sacrifice arrangements. However, employee contributions above this amount will be subject to employer and employee NICs like other employee workplace pension contributions.

Employers will need to report the total amount sacrificed through their existing payroll. All employer pension contributions will continue to be free of NICs.

Employees who choose to salary sacrifice to maintain eligibility for Tax Free Childcare or minimise the High Income Child Benefit Charge can keep doing so.

Comment

The changes to salary sacrifice lack detail but what is clear is that employers are likely to pick up another large National Insurance increase from 2029.

Those businesses are going to be able to quantify the financial effect now and, on top of rises in both the NMW and employers' National Insurance, it will be interesting to see the effect on recruitment, etc. over the next few years.

Bear in mind that affected employees will also see a rise in their National Insurance contributions, which would appear to be an increase for 'working people'.

Rather strangely, the Income Tax reliefs available on pension contributions are retained in full for both employers and employees.

It is widely acknowledged that many employees do not save enough for their retirement. This change does not seem likely to encourage employers or employees to contribute more to pension pots.

CAPITAL TAXES

Capital Gains Tax

Capital Gains Tax rates

The Capital Gains Tax rates remain unchanged for 2026/27.

Capital Gains Tax annual exemption

The annual exempt amount will remain at £3,000 for 2026/27.

Employee Ownership Trusts

The current relief available for qualifying disposals by business owners selling their shares to Employee Ownership Trusts (EOTs) is a 100% exemption of any gain. From 26 November 2025, the relief only exempts 50% of the gain. Business Asset Disposal Relief and Investors' Relief will not be available where the 50% exemption has been claimed. The remaining 50% of the gain on disposal will not form part of the disposer's chargeable gain. Instead, 50% of the gain will be held over and deducted from the trustees' acquisition cost. This will mean that it will come into charge on any subsequent disposal or deemed disposal of the shares by the trustees of the EOT.

Incorporation Relief

The government will introduce a requirement for taxpayers to actively claim incorporation relief for transfers of a business to a company on or after 6 April 2026. The relief previously applied automatically.

Business Asset Disposal Relief

The rate applying for individuals claiming Business Asset Disposal Relief and Investors' Relief will increase to 18% for disposals made on or after 6 April 2026.

Carried interest rates and reform

From April 2026, all carried interest will be taxed within the income tax framework. A multiplier of 72.5% will be applied to any qualifying interest brought within the charge.

Inheritance Tax

Inheritance Tax nil rate bands

The nil rate band has been frozen at £325,000 since 2009 and will continue to be frozen until 5 April 2031. An additional nil rate band, called the 'residence nil rate band' is also frozen until 5 April 2031 at the current £175,000 level, as is the residence nil rate band taper starting at £2 million.

Unused pension funds and death benefits

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

All death in service benefits payable from registered pension schemes will be excluded from the value of an individual's estate for IHT purposes.

The personal representatives will be responsible for paying any IHT due on unused pension funds and death benefits in a person's estate. However, pension beneficiaries of registered pension schemes will be able to request the pension scheme administrator pay their IHT liability directly to HMRC in specific circumstances. They may also direct scheme administrators to withhold 50% of taxable benefits for up to 15 months.

Comment

The rules may potentially have significant effects for those with pension funds.

For example, John made contributions to his private pension scheme. At the date of his death, aged 90, the pension fund is valued at £400,000. The remainder of his estate is valued at £1,000,000.

Currently, the IHT bill is £270,000. This will rise to £430,000 under the new rules.

Agricultural Property Relief & Business Property Relief

From 6 April 2026, agricultural and business property will continue to benefit from the 100% IHT relief up to a limit of £2.5 million. The limit is a combined limit for both agricultural and business property. Such property in excess of the limit will benefit from a 50% relief.

The £2.5 million limit applies per person and is refreshed every seven years. From 6 April 2026, this allowance will be transferable between married couples or civil partners. This will include where the first death was before 6 April 2026.

There may be a further £2.5 million allowance for trusts in certain situations but the rules are complex.

The £2.5 million limits for both individuals and trusts will be frozen until 6 April 2031.

Comment

There has been a great deal of press coverage reflecting the unhappiness of farmers with these changes. However, the changes are much broader and potentially affect the owners of many SMEs in the UK. Early IHT planning becomes critical under the new rules.

The transferability of the allowance between spouses/civil partners seems to be recognition of taxpayer concerns, as does the increase in the limit from the £1 million previously proposed to £2.5 million. However, there will still be large numbers of business owners affected by the changes.

BUSINESS

Corporation Tax

The government has confirmed that the rates of Corporation Tax will remain unchanged, which means that, from 1 April 2026, the rate will stay at 25% for companies with profits over £250,000. The 19% small profits rate will be payable by companies with profits of £50,000 or less. Companies with profits between £50,001 and £250,000 will pay tax at the main rate reduced by a marginal relief, providing a gradual increase in the effective Corporation Tax rate.

Comment

The government has committed to capping the main rate of Corporation Tax at 25% for the duration of the Parliament.

The penalty for taxpayers submitting a Corporation Tax return late will double for returns for which the filing date is on or after 1 April 2026.

Capital allowances

The Full Expensing rules for companies allow a 100% write-off on qualifying expenditure on most plant and machinery (excluding cars) as long as it is new and unused. Similar rules apply to integral features and long-life assets at a rate of 50%.

The government will reduce the main rate Writing Down Allowance (WDA) from 18% to 14% per year from 1 April 2026 for Corporation Tax purposes and 6 April 2026 for Income Tax purposes. For businesses with chargeable periods which span 1 April (Corporation Tax) or 6 April (Income Tax), a hybrid rate will apply. The WDA on the special rate pool remains at 6% per year.

For expenditure incurred on or after 1 January 2026, the government will introduce a new first year allowance (FYA) of 40% for all businesses on main rate assets, including most expenditure on assets for leasing. Cars, second-hand assets and assets for leasing overseas will not be eligible.

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

The 100% FYA for qualifying expenditure on zero-emission cars and the 100% FYA for qualifying expenditure on plant or machinery for electric vehicle chargepoints have been extended to 31 March 2027 for Corporation Tax purposes and 5 April 2027 for Income Tax purposes.

Comment

The AIA was originally introduced as a simplification measure due to the plethora of FYAs at the time. It just goes to show, if you hang around long enough in tax everything goes full circle, as we now have the AIA and a plethora of FYAs!

Targeted Research and Development Advance Assurance Service

The government will pilot a targeted advance assurance service from spring 2026. This will enable small and medium-sized enterprises to gain clarity on key aspects of their Research and Development (R&D) tax relief claims before submission to HMRC. A summary of responses to the advance clearance consultation will also be published.

Enterprise Investment Scheme and Venture Capital Trusts investment limit increase and restructure

The government has announced significant changes to the limits applying to the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) from 6 April 2026. The gross assets requirement that a company must not exceed for EIS and VCTs will increase from £15 million to £30 million immediately before the issue of the shares, and from £16 million to £35 million immediately after the issue. The annual investment limit that companies can raise will increase from £5 million to £10 million. For Knowledge-Intensive Companies (KICs), the annual investment limit will increase from £10 million to £20 million. The company's lifetime investment limit will increase to £24 million and for KICs to £40 million. The Income Tax relief that can be claimed by an individual investing in VCTs will decrease from 30% to 20%.

Expanding the eligibility limits of the Enterprise Management Incentives scheme

The government is also increasing certain limits relating to the Enterprise Management Incentives (EMI) scheme. For EMI contracts granted on or after 6 April 2026, the employee limit will increase from 250 employees to 500 employees, the gross assets test will be increased from £30 million to £120 million, and the company share option limit will be increased from £3 million to £6 million. The limit on the exercise period will increase to 15 years, and will also apply retrospectively to existing EMI contracts which have not already expired or been exercised.

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