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UK BUDGET COMMENTARY

29 OCTOBER 2026



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KEY POINTS

- The Budget made no notable change to Inheritance Tax (IHT). Clients may continue to consider IHT mitigation strategies as part of their ongoing financial planning considerations, including gifting property to family members and utilising various bespoke trust planning strategies. Details of our trust range are available on **www.utmostgroup.com** or via your Utmost sales consultant.
- Despite some rumours beforehand, in respect of Capital Gains Tax (CGT) there were no changes announced to the rates or the way the tax is calculated. However, there was the introduction of a new Founders' Relief from April 2027 and the reduction of the lifetime limit for Business Asset Disposal Relief from £1 million to £500,000.
- No further changes were made to the pension regime. Death benefits will remain in scope for Inheritance Tax (IHT) from 6 April 2027.
- The High Value Council Tax Surcharge will come in from April 2028, creating an additional charge alongside council tax for properties over £2m. Changes were made to account for those who cannot immediately fund the charge.
- In a perhaps surprising announcement, the rates of savings and property income will increase by a further 2% in addition to the 2% increases announced in the last Budget. From April 2027 the rates rise to 24% (basic rate), 44% (higher rate) and 49% (additional rate). Despite these increased savings tax rates, due to the previous increase to the dividend rates and the reduction of the annual exempt amount, Overseas Insurance Bonds (OIBs) remain very attractive for both individuals and trustees.

INTRODUCTION

Following the resignation of Keir Starmer, this was the first Budget of Andy Burnham's new Labour Government and the first with John Healey as Chancellor. No doubt keen to avoid the mistakes of previous Chancellors, this Budget was very much about balancing the books with a commitment to strict spending controls, which he referred to in the statement as 'fiscal discipline'. Prior to the Budget the Chancellor was clear in his initial speeches that, unlike previous years, he would not cause panic or fuel speculation about what would be contained in the Budget - so very little was known beforehand. There was speculation around changes to CGT rates, including possibly changes to the CGT uplift at death, and a rumour of changes to inheritance tax. There was also some speculation around a possible introduction of National Insurance on pension and savings income.

The Budget very much centred on not increasing Government borrowing, trying to boost growth and providing some help for taxpayers who are struggling to cope with the cost of living crisis caused by continuing global uncertainty.

PERSONAL INCOME TAX

PERSONAL ALLOWANCES, RATES AND THRESHOLDS[1]

- In addition to increases in last year's Budget announcement, the Chancellor made a surprise statement in this Budget introducing a further 2% increase in the main rates of Savings Rates and Property Income Tax across all bands from April 2027. As a result, tax on property and savings income will rise from 20% to 24% for basic rate taxpayers, it will rise from 40% to 44% for higher rate taxpayers and up to 49% for additional rate taxpayers.
- There will be a new order of taxation that will apply from April 2027, with non-savings income applying first, then property income followed by savings income and dividend income. In order to prevent the personal allowance being offset against the higher taxed savings and rental income, the personal allowance must be offset against non-savings income first and a new category of ordering has been created with property income now being taxed after non-savings income.
- All major personal tax thresholds remain frozen until April 2031 and there was no further extension in this Budget.
- From 6 April 2026, individuals who have 'adjusted net income' of £100,000 p.a. or more will continue to lose their personal allowance by £1 for every £2 of income over £100,000. Where income exceeds £125,140, the entire allowance is lost. These individuals will suffer an effective tax rate of 60% for non-savings income and 66% for savings and property income between £100,000 and £125,140.
- The Dividend Allowance, whereby individuals will not have to pay tax on an amount of dividend income, remains at £500 for 2027/28. The dividend income above the Dividend Allowance will be taxed at 10.75% (basic rate), 35.75% (higher rate) and 39.35% (additional and trust rate).

[1] For Scottish taxpayers the rates for non-savings income are set by the Scottish Parliament. HMRC will determine whether someone is deemed a Scottish taxpayer based on their main place of residence.

PERSONAL INCOME TAX (CONTINUED)

- The Personal Savings Allowance (PSA) will continue unchanged for 2027/28, meaning that a basic rate taxpayer will not have to pay tax on the first £1,000 of savings income received, whilst a higher rate taxpayer will not have to pay tax on the first £500 of savings income received. Additional rate taxpayers are not eligible for the PSA.
- The Married Couple's Allowance (MCA), only available where at least one of the spouses was born before 6 April 1935, will be increased by the Consumer Price Index. This allowance is given as a tax reducer at the rate of 10% and reduced by £1 for every £2 of adjusted net income that exceeds the £40,600 income limit, subject to a minimum of £4,690.
- The Blind Person's Allowance will increase to £3,370.
- In line with their manifesto promise, there continued to be no changes to the main rates of income tax for non-savings income which will remain at 20% for basic rate taxpayers, 40% for higher rate taxpayers and 45% for additional rate taxpayers with 'adjusted net income' in excess of £125,140 p.a. (which is the threshold at which taxable income is subject to the additional rate).
- The threshold for the starting rate for savings income will remain at £5,000 with a corresponding nil rate of tax. Should an individual's taxable non-savings income exceed the starting rate limit for savings income, then this is not available.
- A spouse or civil partner who is not in receipt of Married Couples Allowance and not liable to Income Tax at the higher or additional rates, will be entitled to transfer £1,260 of their personal allowance to their spouse or civil partner (this is providing the recipient is not subject to Income Tax at the higher or additional rate).



Full details of the rates of tax and personal allowances etc. are set out in our separate Tax Summary.



COMMENT

The rise to Income Tax rates for savers and property investors across all the bands (from April 2027) has been further increased by 2% in this Budget. Whilst this increase also applies to chargeable event gains, it is important to highlight that OIBs for UK residents can help to defer any chargeable gain and potentially reduce any tax payable. OIBs may be increasingly attractive if people believe these tax increases are not long term and may only be temporary whilst the Government deals with the current debt. Furthermore, the policyholder can also benefit from gross roll up and from other tax reliefs such as top-slicing relief which can help reduce the tax payable. Assignments can also be used to assign the OIB (or segments of the OIB) to family members to help further mitigate the impact of these tax changes. OIBs will also remain useful considering the various tax freezes and the increase to the basic and higher rate of tax on dividends that already applied from April 2026, a year earlier than these changes. Due to the 4% increase in savings rates OIBs may become more popular due to their tax treatment, especially the clients' ability to utilise their 5% tax-deferred allowance with no immediate charge to Income Tax, which may be very useful in the current 'higher tax' environment.

NATIONAL INSURANCE CONTRIBUTIONS (NICs)

The main rate of employees' Class 1 NICs (between the primary threshold and the upper earnings limit) will remain at 8% from 6 April 2027. The primary rate (above the upper earnings limit) will remain at 2%.

- The employer's secondary threshold will remain at £96 per week, and the employer's rate will also remain at 15%.
- The primary threshold for employee's NICs remains at £242 per week.
- The upper earnings limit for NICs remains at £967 per week.
- For the self-employed, the rate of voluntary Class 2 contributions for those below the Small Profits Threshold will increase to £3.80 per week.
- The rate of voluntary Class 3 contributions will increase to £19.05 per week from 6 April 2027.
- The rate of Class 4 NICs between the lower profits limit (£12,570) and the upper profits limit (£50,270) will remain at 6%, and 2% above the upper profits limit.
- Employers are not required to pay Class 1 secondary NICs on earnings paid up to the upper earnings limit in respect of any employee under the age of 21 or apprentices under the age of 25 who are working within a government-approved framework.



CAPITAL GAINS TAX (CGT)

The annual exemption is to remain at £3,000 for 2027/28 for individuals and £1,500 for trusts.

- The main rate of CGT for non and basic rate taxpayers will remain at 18% and for higher and additional rate taxpayers the rate will remain at 24%.
- These rates will also apply to capital gains on disposals of residential property (that do not qualify for private residence relief).

There is a new Founders' Relief rate of 10% from 6 April 2027. The relief will apply a 10% rate of CGT to qualifying disposals of shares, up to a lifetime limit of £10 million of gains per individual.

COMMENT

Despite various rumours before the Budget about Capital Gains Tax (CGT), no significant changes appear to have been made in this area. However, we did see the introduction of a new relief called Founders' Relief which is more generous than the current Business Asset Disposal Relief (BADR - often referred to as Entrepreneurs' Relief). There was also a reduction to the BADR from £1 million to £500,000 from 6 April 2027. Our understanding is that Founders' Relief will be more onerous to claim than BADR due to the preferential rate provided.

Whilst there were no further changes to the CGT rates in this Budget, UK investors currently holding individual assets directly may continue to look at investments in OIBs as an alternative. OIBs are non-income producing assets and therefore are only charged to savings rates of Income Tax when a chargeable event occurs, for example on surrender or death.



INHERITANCE TAX (IHT)

- The Nil Rate Band (NRB) remains frozen at £325,000 until 2030/31.
- The Residence Nil Rate Band (RNRB) also remains unchanged and, in line with the NRB, the RNRB limit and remains frozen at £175,000 until 2030/31. A full briefing on the RNRB is available in the **TECHNICAL SALES BRIEFING THE RESIDENCE NIL RATE BAND**.
- The £5m cap on relevant property and Inheritance Tax charges for trusts which were previously excluded property settled before the Autumn 2024 Budget remains in place and will be recycled every 10 years.
- Business Relief (BR) and Agricultural Relief (APR) are still restricted to 50% for qualifying assets above £2.5m. Any allowances can be transferred between spouses and civil partners if unused on first death.
- Previously announced changes to pension death benefits will come into effect from April 2027.



COMMENT

Both the NRB and RNRB have been frozen since 2009 and 2021 respectively, meaning that more and more estates are exceeding the thresholds as the economy continues to recover. There were no further extensions to these rate freezes in this Budget or indeed anything in relation to Inheritance Tax (IHT). Despite various concerns around the change to pension death benefits, it would appear that no further changes are to be forthcoming in this area. Advisers should consider the implications of the ongoing freeze, and the potential for more of their clients to be caught in the IHT net.

With the continued tax band freezes, tried and tested IHT mitigation schemes currently used in the UK such as discounted gift trusts, reversionary interest trusts and loan trusts can still be used to protect against the effect of this ongoing rate freeze.

The £5m cap to previously settled excluded property trusts will only be of benefit to those who hold significant assets in such trusts and is clearly designed to encourage those people to remain within the UK.

TRUSTS

Changes in savings rate and property income rates apply to Trustees as well as individuals from 6 April 2027. The following table taken from HMRC's overview of tax legislation and rates, Annex A, is a summary of the changes that will apply.

INCOME TAX RATES FOR TRUSTEES' INCOME

	TAX YEAR 2026 TO 2027	TAX YEAR 2027 TO 2028
THRESHOLDS	£500 de minimis trusts amount	£500 de minimis trusts amount
DIVIDEND ORDINARY RATE	10.75%	10.75%
PROPERTY BASIC RATE	Not applicable*	24%
SAVINGS BASIC RATE	Not applicable*	24%
DEFAULT BASIC RATE	20%	20%
DIVIDEND TRUST RATE FOR ACCUMULATED AND DISCRETIONARY DIVIDEND INCOME	39.35%	39.35%
PROPERTY TRUST RATE FOR ACCUMULATED AND DISCRETIONARY PROPERTY INCOME	Not applicable*	49%
SAVINGS TRUST RATE FOR ACCUMULATED AND DISCRETIONARY SAVINGS INCOME	Not applicable*	49%
TRUST RATE FOR OTHER ACCUMULATED AND DISCRETIONARY INCOME	45%	45%

*For tax year 2026 to 2027, property and savings income is charged at the default basic rate, or at the trust rate if it is accumulated or discretionary income.

COMMENT

The increase to the savings and property rates applicable to individuals will now equally apply to trusts. The arguments for using OIBs as a trust investment remain compelling, with assignments to beneficiaries to mitigate the 49% rate and the 5% tax deferred allowance being particularly attractive.

THE HIGH VALUE COUNCIL TAX SURCHARGE (HVCTS)

The High Value Council Tax Surcharge (an annual levy on residential properties valued above £2 million starting at £2,500 and increasing to a maximum of £7,500 on properties £5m and above) will apply from 2028/29 to support funding for local government services.



COMMENT

There was a rumour that the HVCTS would be reduced to £1.5m prior to the Budget, although it wasn't clear whether the Chancellor would go through with this plan. On budget day there was no change to the threshold, and it would appear the HVCTS will still come into force as planned with a threshold of £2 million.

To support those who may struggle to pay HVCTS the Government have announced at this Budget they will put a deferral scheme in place until change of ownership, subject to certain conditions being met. This measure is encouraging and will help people who are asset rich but cash poor, who may now have lower incomes and are unable to pay the charge without selling their property or borrowing.

FOREIGN INCOME AND GAINS (FIG) REGIME

The Budget made no changes to the Foreign Income and Gains (FIG) regime which was introduced in April 2025 to replace the remittance-basis system.

Under FIG, individuals non-UK resident for 10 consecutive years before arrival enjoy a four-year exemption on foreign income and gains and may remit funds to the UK tax-free during that period. Those claiming FIG forfeit the personal allowance and CGT Annual Exemption to preserve equity within the tax base. The Temporary Repatriation Facility (TRF) – allowing historic foreign income and gains to be remitted at concessional rates of 12% – 15% – remains open until April 2028.

For those beyond the four-year window, planning focus now moves from avoidance to optimisation through compliant, timing-flexible structures.



COMMENT

The FIG regime is a much simpler regime; it is free of charge but is only available for a maximum of four years. Compared to the previous remittance basis regime, longer term UK residents may be worse off unless they seek structures to give continued tax deferral.

Similarly, the removal of trust protections, and the loss of any Income Tax and Capital Gains Tax advantages, make investment bonds a very attractive alternative for UK-resident individuals wanting to preserve tax-deferred growth.

PENSIONS

The Pension Commencement Lump Sum (PCLS) remains fixed at £268,275, in line with the value set when the Lifetime Allowance was removed.

The Annual Allowance stays at £60,000, tapering from adjusted income above £260,000.

From 6 April 2027, and despite further lobbying in this area, unused pension funds on death will generally be subject to IHT for long-term residents aligning pensions with other assets subject to IHT on death.

No further announcements were made in relation to salary sacrifice arrangements. 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.

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CORPORATION TAX

- The Corporation Tax rate will remain at 25% for those companies making profits over £250,000.
- Companies classed as making 'small' profits (£50,000 or less) will continue to benefit from the 19% Corporation Tax rate and there will be relief for businesses with profits between £50,000 and £250,000 so that they pay less than the main rate.

CORPORATION TAX RATES

	2027/28
MAIN RATE	25%
SMALL PROFITS RATE	19%
LOWER THRESHOLD	£50,000
UPPER THRESHOLD	£250,000

VALUE ADDED TAX (VAT)

- The standard rate of VAT remains at 20%.
- There were no changes in the Budget to the VAT registration threshold, which will remain at £90,000 for 2027/28. The corresponding rate whereby a person may apply for deregistration remains at £88,000.

INDIVIDUAL SAVINGS ACCOUNT (ISA)

- The overall annual contribution limit will remain at £20,000 for 2027/28. In an announced reversal of the planned cut to the Cash ISA limit for under 65s, it remains possible for savers to contribute the full amount to a Cash ISA regardless of their age.
- It was announced in this Budget that there will be a new First Time Buyer ISA from April 2029. The product will allow contributions of up to £4,000 a year with a 25% government bonus. The bonus will be paid on the value of the account balance when funds are withdrawn for a qualifying first home purchase, up to the value of £450,000.
- The maximum contribution under a Junior ISA will also remain unchanged at £9,000, as has the maximum contribution to a Child Trust Fund (CTF).

SUMMARY

With respect to the taxation of Utmost's products in the UK market, very little has changed in this Budget and OIBs remain an attractive proposition. The freezing of many of the tax bands until April 2031, together with the changes announced in the 2024 Autumn Budget to the remittance regime, continue to make OIBs attractive to investors. Whilst we have seen an increase of 4% to the taxation of savings and property income across the bands, the planning opportunities afforded by OIBs with respect to assignments, tax deferral, and the 5% tax deferred allowance can all be utilised to mitigate these higher tax rates. Further, other tax reliefs such as top-slicing relief and time apportionment relief, for those who have spent time abroad, remain effective tax planning strategies.



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