

INCOME TAX

Please note that 'tax years' run to 5 April each year and that, for example, 2025/26 signifies the year to 5 April 2026.

Your personal allowance

Your tax-free personal allowance will remain at £12,570 in 2025/26. The personal allowance is partially withdrawn if your income is over £100,000 and then fully withdrawn if your income is over £125,140.

Income tax rates and allowances

For 2025/26, income tax rates and thresholds remain frozen at their 2024/25 levels.

After your tax-free 'personal allowance' has been deducted, your remaining income will be taxed in bands in 2025/26 as follows:

		2025/26		
		'Other income'	Savings income	Dividend income
Basic rate	£1 - £37,700	20%	20%	8.75%
Higher rate	£37,701 - £125,140	40%	40%	33.75%
Additional rate	Over £125,140	45%	45%	39.35%

'Other income' means income other than from savings or dividends. This includes salaries, bonuses, profits made by a sole trader or a partner in a business, rental income, pension income and anything else that is not exempt.

Scottish taxpayers

If your main residence is in Scotland or you are otherwise classed as a 'Scottish taxpayer', the application of income tax rates and bands applies differently where 'other income' is concerned. After the 'personal allowance' has been deducted, your 'other income' is taxed in bands as follows:

	2024/25	
Starter rate	£1 - £2,306	19%
Basic rate	£2,307 - £13,991	20%
Intermediate rate	£13,992 - £31,092	21%
Higher rate	£31,093 - £62,430	42%
Advanced rate	£62,431 - £125,140	45%
Top rate	Over £125,140	48%

The rates for 2025/26 are expected to be announced at the Scottish Budget, on 4 December 2024.

Welsh taxpayers

Similarly, you pay Welsh income tax if you live in Wales. The rates set by the Welsh government usually shadow the main UK income tax rates and allowances and this was the case for 2024/25. We expect the 2025/26 rates to be confirmed when the Welsh Budget is published on 10 December 2024.

Tax on savings income

A savings allowance determines how much savings income you can receive at 0% taxation, instead of the usual tax rates for savings income as shown above. This will remain at the 2024/25 level of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers.

Interest income from an Individual Savings Account (ISA) continues to be exempt from tax.

Tax on dividend income

A dividend allowance determines how much dividend income you can receive at 0% taxation, instead of the usual tax rates for dividend income as shown above. This will remain at the 2024/25 level of £500.

Dividend income from a 'stocks and shares' ISA continues to be exempt from tax.

Individual Savings Accounts (ISAs)

The limit on how much you can save into ISAs (including cash and stocks and shares ISAs) in 2025/26 remains at £20,000 overall. This includes up to £4,000 that can be saved into a Lifetime ISA. The Junior ISA and the Child Trust Fund limit both remain at £9,000. These ISA limits are now fixed until 2030.

Previous plans to introduce an additional 'British ISA' allowance will not be taken forward by the new government.

The High-Income Child Benefit charge (HICBC)

You may have to pay the HICBC if you are considered to have 'high income' and child benefit is being paid in relation to a child that lives with you, regardless of whether you are a parent of that child. If you are living with another person in a marriage, civil-partnership or long-term relationship, you will only be liable to HICBC if you have the higher income of the two of you.



Since 2024/25 the child benefit 'high-income' threshold is £60,000. The HICBC is calculated at 1% of the child benefit received for every £200 of income above the threshold. This means that child benefit is only fully clawed back where income exceeds £80,000.

The HICBC does not apply if the child benefit claimant opts out from receiving the payments.

The new government will not proceed with previous plans to explore a household income basis of calculating the HICBC.

CAPITAL GAINS TAX

As expected, and with immediate effect from the budget date of 30 October 2024, the rates of capital gains tax (CGT) have been increased on some asset types as follows:

	2025/26	2024/25	
Annual exempt amount	£3,000	£3,000	
		From 30 October 2024	Prior to 30 October 2024
Rate of CGT on assets other than residential property and qualifying business disposals:			
Within the basic rate band	18%	18%	10%
Outside the basic rate band	24%	24%	20%
Rate of CGT on residential property disposals:			
Within the basic rate band	18%	18%	18%
Outside the basic rate band	24%	24%	24%
Rate of CGT on qualifying business disposals:			
Business Asset Disposal Relief (BADR) lifetime limit	£1million	£1million	
Rate of CGT on gains qualifying for BADR	14%	10%	10%

Entrepreneurs will be pleased to learn that Business Asset Disposal Relief (BADR) will continue to apply when they dispose of their business. However, the rate of CGT on BADR qualifying disposals is increasing from 10% to 14% for disposals made on or after 6 April 2025, and from 14% to 18% for disposals made on or after 6 April 2026. These rates apply to the first £1 million of qualifying disposals.

NATIONAL LIVING WAGE (NLW) AND NATIONAL MINIMUM WAGE (NMW)

Employers must pay their employees at least the NLW, for workers aged 21 and over, or the NMW otherwise. The minimum hourly rates change on 1 April each year and depend on the worker's age and if they are an apprentice.

	1 April 2025 – 31 March 2026	1 April 2024 – 31 March 2025
NLW - age 21 and over	£12.21	£11.44
NMW - 18-20 year old	£10.00	£8.60
NMW - 16-17 year old and apprentice	£7.55	£6.40

The percentage increases for the 18-20 year old rate (16.3%) and the 16-17 year old and apprentice rate (18.0%) are significant. This is a step towards Labour's ambitions for all adults to receive the same minimum wage. While this is good news for workers, employers will need to carefully consider affordability when planning their headcount for the year ahead.

EMPLOYMENT TAXES

For employees

The national insurance contributions (NICs) rates and annual thresholds for employees for 2025/26 are as follows:

Employees' Class 1 NICs	2025/26	2024/25
Lower earnings limit (LEL)	£6,500	£6,396
Primary threshold (PT)	£12,570	£12,570
Upper earnings limit (UEL)	£50,270	£50,270
Earnings between the LEL and the PT	0%	0%
Earnings between the PT and the UEL	8%	8%
Earnings above the UEL	2%	2%

Earnings below the LEL are not subject to primary Class 1 NICs and do not accrue entitlement to state benefits. Earnings between the LEL and the PT do accrue entitlement to state benefits and are subject to primary Class 1 NICs, albeit at the 0% rate.

For employers

The Chancellor announced a package of changes to employers' Class 1 NICs that will apply from 6 April 2025:

- An increase in the employers' NICs rate, from 13.8% to **15%**;
- A decrease to the threshold at which an employer starts to pay NICs on each employee's salary (the 'secondary threshold') from £9,100 to **£5,000***; and
- A widening of availability and an increase in the amount of the 'employment allowance', which eligible employers can offset against their employers' Class 1 NICs liability, from £5,000 to **£10,500**. In particular, the employment allowance has only been available to businesses who have incurred an employers' Class 1 NICs liability of less than £100,000 in the previous tax year but that restriction will be removed for 2025/26.

** A higher secondary threshold of £50,270 applies for employees who are under 21 and apprentices under 25. Other variations can also apply.*

This increase in employers' NICs is undoubtedly a blow to some businesses and, indirectly, employees. Combined with the increases in the NMW and potential costs associated with reforms in employment law, these measures will stretch employer wage budgets and potentially lead to slower growth in some employee wages or higher costs for consumers.

