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UK BUDGET COMMENTARY

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4

INTRODUCTION

4-5

PERSONAL INCOME TAX

6

NATIONAL INSURANCE
CONTRIBUTIONS (NICS)

7

CAPITAL GAINS TAX (CGT)

8

INHERITANCE TAX (IHT)

9

THE HIGH VALUE COUNCIL TAX
SURCHARGE (HVCTS)

9

FOREIGN INCOME AND GAINS (FIG)
REGIME - ONE YEAR ON

10

PENSIONS

10

CORPORATION TAX

11

VALUE ADDED TAX (VAT)

11

INDIVIDUAL SAVINGS ACCOUNT (ISA)

11

SUMMARY

KEY POINTS

- › Following an unprecedented lead up to the 2025 Budget culminating in a catastrophic error by the OBR in publishing their report before the Chancellor had even stood up, the Budget itself could be seen as somewhat of an anticlimax.
- › A lot of the Budget ideas had been floated prior to the day and thus there was no surprises announced.
- › The Budget made one notable change to Inheritance Tax (IHT) whereby any unused portion of the £2.5m individual allowance for agricultural or business property relief will be able to be transferred between civil partners or spouses on death.
- › In respect of Capital Gains Tax (CGT) there were no changes announced, but we did see a change in the savings rates of Income Tax from April 2027 and, as widely predicted, changes to the dividend tax rates for basic and higher rate taxpayers from April 2026. 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 rental income now being taxed after non-savings income.
- › Introduction of High Value Council Tax Surcharge from April 2028, creating an additional charge alongside council tax for properties over £2m.
- › Overseas Insurance Bonds remain very attractive to a wide range of individuals with the previously announced changes to the remittance regime enhancing their attractiveness to those who cannot benefit from the FIG regime (or those who intend to remain in the UK beyond the period in which they can).

INTRODUCTION

In a unique pre-Budget address earlier this month, the Chancellor, Rachel Reeves, set the tone for this Budget, promising *"a Budget for growth with fairness at its heart"*. The Chancellor stated: *"I will make the choices necessary to deliver strong foundations for our economy"*.

In this pre-Budget speech she also warned that, while global growth was improving, Britain still faced weak productivity, high debt, and fragile public services. She pledged to protect the NHS, reduce national debt, and improve living standards through *"fair, responsible choices"* - making clear that those with greater wealth and unearned income would shoulder more of the tax burden. Of course, in this Budget she had

her hands tied with respect to raising taxes, due to Labour's manifesto promise not to increase taxes on 'working people' including Income Tax, National Insurance and VAT.

With this aim in mind, Chancellor Rachel Reeves has delivered her second Budget, some sixteen months after Labour's election victory. The Chancellor sought to reassure markets of her fiscal discipline while responding to pressure for visible improvements in public services and living standards. Accordingly, the Budget broadly relied on freezing allowances and introducing tax-raising measures to take effect in later tax years rather than dramatic rate hikes or immediate tax-raising measures.

PERSONAL INCOME TAX

PERSONAL ALLOWANCES, RATES AND THRESHOLDS¹

The Chancellor announced a 2% increase in the main rates of Savings Rates and Property Income Tax by 2% across all bands from April 2027. As a result, tax on property and savings income will rise from 20% to 22% for basic rate taxpayers, it will rise from 40% to 42% for higher rate taxpayers and up to 47% for additional rate taxpayers.

There will be a new order of taxation 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 rental income now being taxed after non-savings income.

All major personal tax thresholds remain frozen until April 2031, extending fiscal drag and maintaining rate stability for non-savings income in line with the Labour party manifesto promise.

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 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 2026/27. There were no further measures announced in this area in this Budget.

In this Budget the Chancellor has also increased the dividend tax rates by 2% for basic and higher rate taxpayers from April 2026. As a result, dividend income above the Dividend Allowance will move to 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 2026/27, 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 £39,200 income limit, subject to a minimum of £4,530.
- › The Blind Person's Allowance will increase to £3,248.
- › As above, there were 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 MCA 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

Whilst the raise to Income Tax rates for savers and property investors (from April 2027) will apply equally to chargeable event gains, Overseas Insurance Bonds for UK residents can help to defer any chargeable gain to when the policyholder is in a lower tax band and this will become increasingly attractive if people believe these tax increases are not long term. The policyholder can also benefit from gross roll up and from other tax reliefs such as top-slicing relief. Further, assignments can be used to assign the bond (or segments) to family members to help further mitigate the impact of these tax changes. Overseas Insurance Bonds will also remain useful in light of the various tax freezes and the increase to the basic and higher rate of tax on dividends, applying from April 2026 a year earlier than the savings rates changes.

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 2026. 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 £3.65 per week.

› The rate of voluntary Class 3 contributions will increase to £18.40 per week from 6 April 2026.

› 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 2026/27 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).

The rates for individuals for gains on carried interest are 32% for both basic and higher rate taxpayers.



COMMENT

Despite various rumours before the Budget, no further changes were made in this area. These increased rates mean that UK investors currently holding individual assets directly may wish to look at investments in Overseas Insurance Bonds as an alternative. Overseas Insurance Bonds 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) is to remain frozen for a further year at £325,000 until 2030/31.
- › The Residence Nil Rate Band (RNRB) also remains unchanged and, in line with the NRB, the RNRB limit will also be frozen at £175,000 until 2030/31. A full briefing on the RNRB is available from our website.

The Government introduced a £5m cap on relevant property and Inheritance Tax charges for trusts which were previously excluded property settled before the Autumn 2024 Budget. This cap will be recycled every 10 years.

As announced in last year's Budget, from April 2026 Business Relief (BR) and Agricultural Relief (APR) are to be restricted to 50% for qualifying assets above £2.5m and importantly AIM-listed shares are no longer exempt.

However, and perhaps in response to ongoing criticism especially from the farming community, they have announced that the £2.5m* restriction for 100% APR and BR will be transferrable between spouses and civil partners if unused on first death.

Major changes to Pension death benefits were also announced in the last Budget and 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. Advisers should consider the implications of the freeze, and the potential for more of their clients being caught in the IHT net.

Despite numerous rumours of changes to IHT, no significant changes were announced in this area. However, with the continued 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 trust and is clearly designed to encourage those people to remain within the UK.

Finally, the transfer of the BR and APR £1m cap will no doubt be welcomed by many, including those in the UK farming community, who have campaigned against this since it was introduced last year.

* In the Budget itself the threshold remained at £1m, meaning that it was possible to get up to £3m in exemptions following the announcement that any unused amount could be transferred between spouses and civil partners on first death. However, in a further updated announcement just prior to Christmas the Government responded to increased pressure from the business and farming communities by raising the threshold at which 100% APR and BR applies to £2.5m. The increased threshold means that it is now possible to get up to £5.65m in exemptions, which includes the transferable nil rate band of £325,000 and the transferable threshold.

THE HIGH VALUE COUNCIL TAX SURCHARGE (HVCTS)

The introduction of 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 houses £5m and above) is expected to affect the top 1% households. The levy should raise roughly £430 million per year from 2028/29 to support funding for local government services.



COMMENT

It will be interesting to see how this change will impact UK property prices over the £2m bracket and whether this will change purchase behaviour.

It will also be interesting to see how this will affect those who are "asset rich but cash poor" and indeed how the Valuation Office Agency will ensure valuations remain consistently fair around the various brackets.

FOREIGN INCOME AND GAINS (FIG) REGIME - ONE YEAR ON

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 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.

The Chancellor also announced a significant reform 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.



COMMENT

The Treasury estimates that the change to NI on salary sacrifice will recover around £4 billion each year in lost NI revenue (£1.2 billion from employees and £2.8 billion from employers). However, industry bodies have noted that such a change could undermine the critical role employers play in promoting quality pension saving.

Together with other tax freezes, these measures increase the fiscal contribution of higher-income savers and retirees while maintaining incentives for genuine long-term saving.

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

	2026/27
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 2026/27. 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 2026/27. From 6 April 2027 it will no longer be possible for savers to contribute the full amount to a Cash ISA unless they are 65 or over. Persons under this age will only be able to contribute a max of £12,000 to a Cash ISA and any excess must go into a Stocks and Shares ISA.
- › The maximum contribution under a Junior ISA will also remain unchanged at £9,000, as has the maximum contribution to a Child Trust Fund. It has been possible from 6 April 2015 to convert a CTF to a JISA.

The Government are to consult on a simpler ISA product to support first-time home buyers, this will commence early 2026.

SUMMARY

With respect to the taxation of Utmost's products in the UK market, very little has changed following this Budget. The continuing freeze in the bands of taxation and the previous changes announced in the 2024 Autumn Budget to the remittance regime continue to make Overseas Insurance Bonds attractive to investors.

The Government's need to increase taxes and stimulate growth will mean many investors will look for structures which will enable them to plan for both their and their family's future by seeking tax deferment, control over when taxes are payable and for them or appointed managers to have choice of linked investments. Overseas Insurance Bonds can satisfy these needs and offer further tax and succession planning opportunities.

This briefing represents our current understanding of the major issues arising from the Budget in 2025. Inevitably some further details will emerge over the coming weeks, and the impact of the changes can then be assessed. We will, of course, keep you informed of all major developments.

This document was first released in November 2025 and updated in January 2026.



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