

WINTER 2025

Hazlewoods

Talking Tax

INSIDE

- Autumn Budget 2025 – our top ten tax announcements
- Tax relief confusion in workplace pensions: What employers need to know
- Making Tax Digital – set to come in from April 2026
- When roles blur: NMW risks for directors with employment contracts
- Inheritance tax – where are we now?

Autumn Budget 2025 – our top ten tax announcements

The Chancellor's Autumn Budget 2025 introduced a number of new tax measures primarily aimed at plugging the £22 million 'black hole' she inherited from the previous government, which has since increased to £30 billion. Below is a roundup of the top ten tax announcements, a lot of which are aimed at going some way to achieve that.

1. Income tax and NI threshold freeze

Income tax and national insurance thresholds will remain frozen until 2030/31, one year later than originally announced.

This is effectively a 'stealth tax'; as wages rise so will tax revenues, with more taxpayers also moving into higher bands over time, but without the government raising headline rates.

2. Increased tax rates on property, savings and dividends

New rates are being introduced for property, savings and dividend income. Dividend rates are to increase from April 2026 by 2% but only for basic and higher rate taxpayers, resulting in rates of 10.75% and 35.75%, maintaining the 39.35% for additional rate taxpayers.

For property and savings income, the tax rates across all levels will be increased by 2%, giving rise to 22%, 42% and 47% rates, but these rate changes will come in a year later in April 2027.

3. High-value Council Tax Surcharge

A new 'mansion tax' will apply from April 2028 with charges ranging from £2,500 for houses valued at £2 million, to £7,500 for those valued over £5 million. There will be a consultation in early 2026 to consider possible reliefs and exemptions for those who may struggle to pay the charge, such as inherited properties.

4. Pension salary sacrifice cap

With effect from April 2029, a cap on the national insurance contributions (NIC) exemption for pension contributions made through salary sacrifice will apply. Any contributions above £2,000 will be subject to employer's and employee's NIC but income tax relief will not be impacted.

5. ISA reforms

From April 2027, the annual ISA cash limit will be reduced from £20,000 to £12,000, with the difference only being available for investment in stocks and shares. Those over 65, however, will continue to be entitled to a full £20,000 cash allowance.

6. APR and BPR 100% relief allowance

Despite much lobbying, it looks like the restriction on agricultural property and business property reliefs is still

set to come in from April 2026, with any qualifying transfers above £1 million being subject to just 50% agricultural property and business property relief.

One slight tweak, however, is that the £1 million allowance will now be transferable between spouses, bringing it in line with the nil rate band and residential nil rate band regime and effectively doubling the relief available to a couple.

7. Employee ownership

Currently, an individual disposing of their company shares to an employee ownership trust (EOT) can do so tax free, subject to meeting certain conditions. With effect from the Budget date, any transfers on or after 26 November 2025 will be taxed on 50% of the gain on disposal to the trust, incurring an effective 12% capital gains tax rate.

8. Low-emission vehicles

A new mileage tax will be introduced for drivers of electric or plug-in hybrid vehicles with effect from April 2028. This will be charged at 3p per mile for pure electric, and 1.5p per mile for hybrid vehicles. This is in addition to bringing electric cars into the charge to road tax earlier this year.

9. Incentive schemes

The eligibility criteria for the enterprise management incentives (EMI) scheme, which is a tax advantaged share scheme for employees, will be widened from April 2026. Many more companies may now find themselves being able to offer EMI schemes to their employees to help attract and retain top talent.

Investment limits and criteria for the Enterprise Investment Scheme and Venture Capital Trusts has also been extended. This will allow companies to obtain further funding via these schemes, whilst offering tax advantages to those investing. Income tax relief for individuals investing in VCTs, however, will reduce from 30% to 20% from the same date.

10. Non-residents

Non-UK residents can currently pay voluntary class 2 NIC contributions at a rate of £3.50 per week, to get their state pension stamp. From April 2026, voluntary class 2 NIC will be abolished for non-residents, meaning they would instead have to pay the higher class 3 NIC rates at the rate of £18.40 per week for 2026/27.

To access this, individuals currently only need to have lived in the UK for three years prior, but this will now also be extended to ten years.

For more in-depth analysis of the above announcements, please visit our dedicated Autumn Budget 2025 page www.hazlewoods.co.uk/expertise/for-individuals/tax/autumn-budget-2025



Tax relief confusion in workplace pensions: What employers need to know

Navigating pension contributions in the UK can be complex, particularly when it comes to understanding the two main methods of applying tax relief; Net Pay Arrangements (NPA) and Relief at Source (RAS). Misunderstandings between these two methods can lead to significant payroll errors, including the inadvertent application of double tax relief, a situation that employers must rectify to avoid liabilities with HMRC.

NPA vs RAS: What's the difference?

- **Net Pay Arrangement (NPA):** Pension contributions are deducted from an employee's gross salary before income tax is calculated. This means the employee automatically receives tax relief at their marginal rate.
- **Relief at Source (RAS):** Contributions are taken from net pay (after tax). The pension provider then claims basic rate tax relief (20%) from HMRC and adds it to the employee's pension pot. Higher and additional rate taxpayers must claim further relief via self-assessment.

Where confusion arises

The terminology itself can be misleading. Employers may mistakenly apply payroll deductions as if under one method while the pension scheme operates under the other. Most commonly we see NPA deductions being applied to a RAS scheme. This results in double tax relief with employers unintentionally providing tax relief via the payroll while the pension provider also claims relief from HMRC.

This duplicate relief can result in overstated pension contributions, underpaid tax to HMRC and the employer being liable for the tax shortfall.

How to rectify the issue

We would recommend the following steps are taken if you identify errors in the tax treatment of workplace pension contributions:

1. **Identify the scheme type:** Confirm whether the pension scheme operates under NPA or RAS.
2. **Review payroll practices:** Check if payroll deductions match the scheme's tax relief method.
3. **Assess the error:** Determine whether the mistake led to double relief or missed relief.
4. **Contact the pension provider:** Collaborate to understand the scale of the issue.
5. **Correct future payroll:** Immediately adjust payroll to reflect the correct method.
6. **Report past errors:** Use HMRC's digital disclosure facility to report and rectify historical mistakes.

Summary

The distinction between NPA and RAS is more than administrative, it directly affects employee take-home pay, pension savings, and employer tax liabilities. Employers must ensure their payroll systems align with the pension scheme's tax relief method and take action to correct any discrepancies.

Following the Chancellor's announcement in the Autumn Budget to cap the national insurance contributions relief for salary sacrificed pensions (see previous article), it may be a good time for employers to revisit how pension contributions are operated as well as assessing any potential cost impact of the proposed changes.

Making Tax Digital – set to come in from April 2026

The Autumn Budget was possibly the last opportunity for the government to announce a further delay to the implementation of making tax digital for income tax (MTD for IT).

There is more certainty than ever, therefore, that self-assessment tax compliance for some individuals will be changing from April 2026.

The first individuals affected will be those with combined gross property rental income and/or self-employment income of more than £50,000 on their 2024/25 tax returns. Those individuals will be required to maintain digital records and file quarterly returns using MTD for IT compatible software for each source of relevant income from April 2026.

Affected taxpayers will need to sign up to MTD for IT prior to April 2026 and start to keep digital records from that date, with the first quarterly filing deadline being 7 August 2026.

More individuals will then be brought into the rules from April 2027 and April 2028, when the combined gross income thresholds drop to £30,000 and £20,000 respectively.

We recently held a webinar, summarising the rules, outlining taxpayers' obligations and setting out how we can help our clients to comply from next year. If you missed out, the recording can be accessed here:

<https://youtu.be/dKtms6lyt5w>

Some of our top tips for preparing for MTD for IT include:

1. **Determine your eligibility** based on the above thresholds – we have been writing, and will continue to write, to clients to confirm this when sending out 2024/25 tax returns; and if you are mandated in:
2. **Choose MTD compatible software** – review current record keeping processes/software used and begin to keep digital records of income/expenses on a transaction by transaction basis.
3. **Check for exemptions** – these are generally limited to those below the relevant thresholds and the digitally excluded (due to age, disability or lack of internet access).
4. **Agree reporting responsibilities** – decide whether to submit quarterly update filings yourself or ask your accountant/bookkeeper to do this for you.
5. **Sign up for MTD for IT** – ensure that you are signed up to MTD for IT in plenty of time and prior to April 2026.

When roles blur: NMW risks for directors with employment contracts

It is not uncommon for long-serving employees to transition into director or shareholder roles further down the line. In many cases, these individuals may then reduce their salaries to a tax-efficient minimum, taking dividends where possible and providing the company has sufficient distributable reserves. However, when the original employment contract remains in place, this hybrid status can trigger unexpected National Minimum Wage (NMW) or National Living Wage (NLW) compliance risks.

Minimum wage requirements for directors

A company director is typically considered an office holder and not an employee. Office holders are not automatically subject to the NMW or NLW. However, if a director also has an employment contract, whether written, verbal, or implied, they may be classified as a worker and hence the NMW/NLW rules will apply to the work performed under that contract.

Many owner/directors adopt a low salary, high dividend model for tax efficiency. Whilst this is legal, it must be structured carefully, particularly when transitioning from an employee to a director/shareholder as failing to distinguish between the role of employee and office holder could lead to non-compliance.

The compliance trap

Problems may arise when a former employee becomes a director/shareholder but does not formally terminate their employment contract. Even if their salary is reduced to a basic amount for tax efficiency (i.e. somewhere between £6,500 and £12,570 per year depending on individual circumstances), HMRC may still view them as a worker and treat the dividends as disguised remuneration if:

- they continue to perform duties similar to their previous role;
- there is an expectation of regular hours or responsibilities;
- they receive regular payments, even if minimal.

In such cases, failure to pay the NMW/NLW; currently £12.21 per hour for those aged 21 and over (as of April 2025) could result in PAYE, national insurance contributions and apprenticeship levy (if the company pays) on the backdated wages, along with interest and financial penalties. HMRC may also publicly name and shame the company and, in severe cases, could result in a criminal liability.

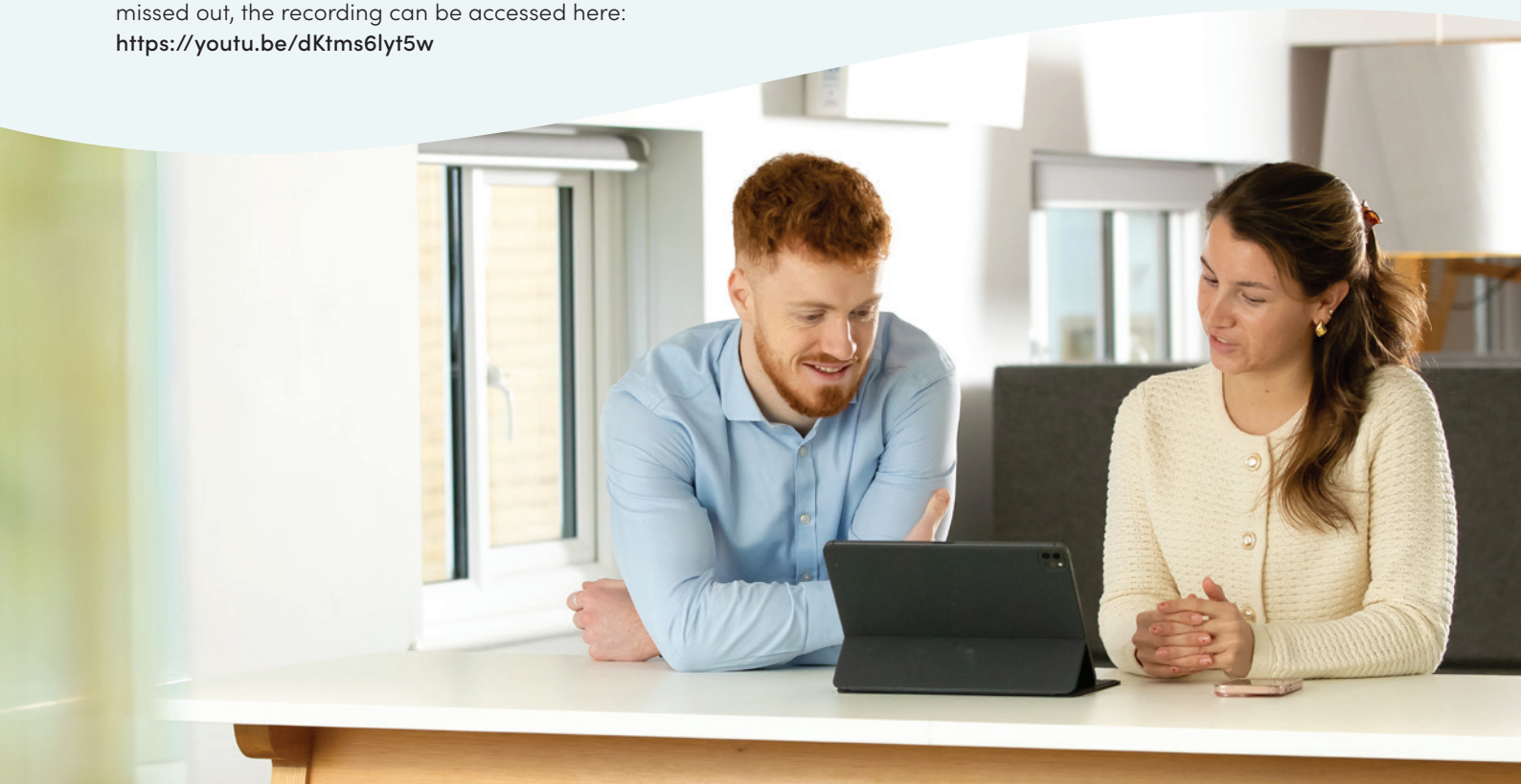
Best practice for employers

To avoid falling foul of NMW legislation we would recommend the following actions are taken:

1. **Review all contracts** – ensure employment contracts are terminated when moving from an employee to an office holder.
2. **Clarify duties** – define whether the director is acting solely in an office-holder capacity.
3. **Document decisions** – keep board minutes and shareholder resolutions that support remuneration and role changes.
4. **Seek legal advice** – especially when transitioning employees into director/shareholder roles.

Summary

The line between director and employee can blur easily, especially in small or owner-managed businesses. But when employment contracts are left in place, even unintentionally, companies risk breaching minimum wage laws. A proactive review of contracts, roles, and pay structures is essential to ensure both tax efficiency and legal compliance.



Inheritance tax – where are we now?

The Chancellor's October 2024 Budget introduced significant reforms to inheritance tax (IHT). The follow up consultation has now closed and, whilst we await final legislation, few changes are expected to the original proposals.

Based on the proposals, a summary of the current and upcoming IHT landscape is summarised below.

Current rules (until 6 April 2026):

- Each estate benefits from a tax-free nil rate band of £325,000.
- An additional £175,000 residence nil rate band (RNRB) to those passing on a qualifying residence on their death to their direct descendants. This relief is tapered by £1 for every £2 that the value of the estate exceeds £2 million, and is lost entirely where the estate exceeds £2.35 million (or £2.7 million where the surviving spouse is eligible for the transferable RNRB)
- Agricultural property relief (APR) and business property relief (BPR) are available at 100% in most cases, but occasionally 50% depending on the nature of the asset, with no limit on the value of assets qualifying for relief.

Changes from 6 April 2026:

- A new £1 million cap per estate will apply to assets qualifying for 100% APR/BPR.
- Any value above this cap will only benefit from 50% relief, resulting in an effective IHT rate of 20% on any qualifying asset above the £1 million cap.
- As announced at the Autumn Budget 2025, the £1 million APR/ BPR allowance will now be transferable between spouses, bringing this in line with the other nil rate bands which was welcome news.
- Any resulting IHT liability can be paid in instalments, spread over 10 years. Instalments are usually liable to interest; however, if the liability relates to APR or BPR qualifying assets, the instalments will be interest free.

Changes from 6 April 2027:

- Pension funds will form part of an individual's death estate and will be, broadly, subject to a 40% IHT charge (unless exemptions/ allowances apply e.g. transfers to spouse, availability of nil rate band etc.).

Mitigating the impact

Lifetime gifting of assets

Any lifetime gift of an asset made to an individual more than seven years prior to death will fall out of your death estate for IHT purposes. Where the asset gifted qualifies for APR or BPR it is possible to holdover the capital gain, so no immediate capital gains tax (CGT) charge arises. The recipient takes on the original base cost of the asset and would pay CGT on the difference between the net sales proceeds and the original cost.

Where it is not clear who the eventual recipient of the asset will be, or the recipient is a minor, or there is a requirement to protect the asset, a gift into trust could be beneficial. There are many benefits to using a trust, but they also come with additional administrative requirements.

It is essential to take both tax and legal advice before embarking on lifetime gifting.

Making gifts out of income

If you are generating more annual income than you need to cover your outgoings, consider making regular gifts out of income to friends or family to prevent your estate from increasing in size any further.

Will planning

Wills may include a discretionary trust to allow assets to be left to the next generation, or to prevent the remaining spouses' estate from increasing in value. A partnership agreement

will take priority over a Will, so ensuring both documents complement each other is crucial.

Post death planning

If an individual has died within the last two years, consider making maximum use of the IHT reliefs currently available. A deed of variation can be prepared to reallocate assets amongst beneficiaries up to two years after the individual has passed away.

What should you be doing now?

It is important for all individuals to understand their IHT position and to start a succession plan.

Our top tips are:

- Review your IHT position, using up-to-date market values and business valuations to ascertain your potential IHT exposure.
- Consider lifetime gifting of assets and any excess income.
- Check your Will is up to date and allows flexibility on your death.
- Ensure your Will and any partnership agreement complement each other.
- Have open conversations with family members regarding your wishes on your death.
- Consider taking out life insurance cover to provide a capital sum to cover potential IHT liabilities.

The proposed changes to APR and BPR represent the most significant IHT reforms affecting business owners and the farming sector for many years. Early planning is essential to mitigate the impact and preserve family wealth.

If you need any help with navigating the changes, please do get in touch.



Your key contacts



Nick Haines

nick.haines@hazlewoods.co.uk



Tom Woodcock

tom.woodcock@hazlewoods.co.uk



Nicholas Smail

nicholas.smail@hazlewoods.co.uk



Gemma Read

gemma.read@hazlewoods.co.uk



Bernardo Almeida

bernardo.almeida@hazlewoods.co.uk



Jemma Vaughan

jemma.vaughan@hazlewoods.co.uk



Megan Lewis-Bourke

megan.lewis-bourke@hazlewoods.co.uk



Tom Verity

tom.verity@hazlewoods.co.uk



Krista Woodman

krista.woodman@hazlewoods.co.uk

☎ 01242 680000 | 📍 [hazlewoods.co.uk](https://www.hazlewoods.co.uk)