



Budget Breakdown

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Autumn Budget 2025 – what it means for you

As we approached the 2025 Budget Statement, speculation was rife about how Chancellor Reeves would increase the tax intake without breaking the Labour Party manifesto.

Headlines predicted sweeping changes to capital gains tax, pensions, income tax and more. Our advice was simple: wait for facts, don't act on rumours.

As per last year's mania, we encouraged clients to take a "wait and see" approach. That patience has been rewarded.

The Chancellor delivered no changes to capital gains tax or VAT, and no substantial pension reforms. Notably, there were no reforms to tax-free cash on pensions, pension tax relief or IHT caps on gifting, despite months of rumour and speculation. The main rates of income tax and NI are also unaffected.

For clients who resisted the urge to make hasty decisions based on speculation, this is welcome news. The big changes many feared simply didn't arrive.

What did arrive were smaller, targeted adjustments aimed at increasing tax collection over time.

Rachel Reeves' second budget as Chancellor introduces £26 billion in revenue raising measures, including an extended freeze on tax thresholds, tax increases for dividends, savings and rental income and changes to salary sacrifice. None of these changes should force anyone into rushed decisions.

Let's look at the main announcements.

Pensions

The main headlines are notable for what hasn't changed as well as what has.

- Tax relief on pensions – no change.
- Tax-free cash – no change.
- Salary sacrifice – limit on NI exemption

From April 2029, the National Insurance (NI) exemption for pension contributions made by salary sacrifice will be limited to £2,000 a year. This means that both employees and employers will have to pay NI on any salary sacrificed over this amount.

So, for example, in a scheme where employees make pension contributions of 5% of earnings via salary sacrifice, this would impact employees whose earnings exceed £40,000.

The change will have the biggest impact on those earning below the upper earnings limit (UEL) – currently £50,270 – as they will have to pay NI of 8% on any amount sacrificed over £2,000. NI for employees on earnings above the UEL is 2%. Employers will have to pay NI of 15% on any salary sacrifice over the £2,000 limit.

Those affected will see a reduction in their take-home pay – but that may not be the only consequence. Employers often agree to share part of their NI savings with employees by boosting their pension contributions, so this change will likely result in a smaller pension pot at retirement for many employees.

It may be beneficial for some employees to still sacrifice salary above the limit to continue to receive Child Benefit or tax-free childcare.

State Pensions

The triple lock on State Pensions will be retained for the remainder of this parliament, guaranteeing a 4.8% earnings-based increase in April 2026.

This means that the full New State Pension will increase to £241.30 a week and the full Basic State Pension will increase to £184.90 a week (single person) or £295.70 a week (married couples and civil partners).

With State pensions for some pensioners likely to exceed the Personal Allowance (PA) from April 2027 due to the triple lock and the freezing of the PA, the government is exploring how best to ensure that pensioners, whose only income is the Basic or New State Pension, don't have to pay small amounts of tax via Simple Assessment.

PPF and FAS increases

Currently, any compensation in payment from either the Pension Protection Fund (PPF) or the Financial Assistance Scheme (FAS) in respect of pensionable service on or after 6 April 1997 is increased each year in line with CPI (up to 2.5%).

From January 2027, these increases will be extended to include any amount in respect of pre-6 April 1997 service where the original scheme provided this benefit.

ISAs

Although the Chancellor maintained the overall annual ISA limit at £20,000, from April 2027, only individuals aged 65 and over will be able to save the full £20,000 into a Cash ISA.

For those under 65, the Cash ISA limit will be capped at £12,000, with the remaining £8,000 allowance available only for investment into a Stocks and Shares ISA.

There will also be a consultation on reforming Lifetime ISAs. The proposal will be to replace Lifetime ISAs with another ISA product aimed at first-time buyers. The consultation is expected to be published in early 2026.

Income Tax and National Insurance

As widely predicted, the Chancellor confirmed that the personal allowance, higher rate threshold and additional rate threshold will be frozen until 2030-31. The thresholds for Scotland will be confirmed in the Scottish Budget in January 2026.

The secondary threshold for NICs will also be frozen at £5,000 until 2030-31. This is the threshold above which employers must collect and pay NI on an employee's earnings. There were no increases to NI rates.

The rate of tax on dividends and savings income will rise by two percentage points. The same increase will also apply to rental income from property. This means:

- From April 2026 dividends taxed at the ordinary rate and upper rate will increase to 10.75% (currently 8.75%) and 35.75% (currently 33.75%) respectively. There will be no changes to the additional rate which remains at 39.35%. The dividend allowance is unchanged at £500 pa.
- From April 2027 tax on savings income (e.g. deposit interest) will increase by two percentage points in each tax band. Savings income falling in the basic, higher and additional rate bands will therefore be taxed at 22%, 42% and 47% respectively. The increases will also apply to chargeable event gains on investment bonds which are taxed as savings income.
- From April 2027, the rates of tax on property income will be 22%, 42% and 47%, depending on whether such income falls in the basic, higher or additional rate bands.

These rises emphasise the importance of sheltering tax on dividends and savings in ISA where possible (or a pension for longer term savings). The increases applied to offshore bonds can be countered where withdrawals triggering a taxable gain can be taken within unused allowances.

Other announcements affecting a smaller number of taxpayers include:

- Investors in VCT schemes will see upfront Income Tax reduction from 30% to 20% from April 2026.
- From April 2027 the income tax ordering rules will change, meaning that the personal allowance must be set against earned income and pensions before dividend income, savings income and property income.

Mansion Tax

The chancellor stopped short of introducing a full-blown wealth tax. Instead, she announced the introduction of new High Value Council Tax Surcharge on properties worth £2 million or more.

The surcharge, which will be introduced from April 2028, is payable by the homeowner and is in addition to any existing council tax. Properties will be valued by the Valuation Office and the surcharge applied as follows:

Property value	Surcharge
£2.0m to £2.5m	£2,500
£2.5m to £3.5m	£3,500
£3.5m to £5.0m	£5,000
£5.0m+	£7,500

A consultation will be issued on the application of the charge for properties with complex ownership structures such as trusts and businesses.

Electric Vehicle Road Pricing

As fuel duty revenues decline with the shift away from petrol and diesel vehicles, the government is looking to replace that income. From 2028, electric and hybrid vehicle drivers will face new charges for using the roads. This will be a per-mile charge in addition to existing road taxes.

Still to come

HMRC will be issuing further tax related documents over the coming days providing further detail on today's announcements.

More Details

If you need more details, [the official document is here](#).

The Value of Waiting

On a positive note, the state pension will rise by 4.8% in April, in line with average wage growth. Regulated rail fares in England will be frozen until March 2027, and fuel duty remains frozen until September 2026. These won't transform anyone's financial plan, but they're worth knowing about.

Looking back at the speculation from recent weeks, much of it missed the mark. Those who made significant changes based on rumoured CGT increases or pension overhauls would now be reconsidering those decisions. This is why we advocate patience. Facts beat speculation (almost) every time.

The changes announced are manageable. Most are phased in over the coming years, giving us time to plan thoughtfully rather than react hastily.

As always, every client's situation is different. Some of these changes will affect you more than others. At our next meeting, we'll discuss what this means for your specific circumstances and whether any adjustments make sense.

If you have immediate questions, please get in touch. We're here to help you navigate these changes with clarity and confidence.

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