

End of year  
tax planning

2025-26



With the new tax year approaching, it's an opportune time to take stock and speak with your clients about their current and future financial plans. The most recent Autumn Budget announced some changes which could affect these plans as we move forward. In this Tech Talk we look at some of the key changes coming in and some potential solutions clients should be considering to ensure their financial plans are not only tax efficient but allow them to obtain their financial goals.

## Contents

Summary of upcoming changes which may affect client recommendations	3
Income Tax	5
Capital gains tax (CGT)	7
Inheritance tax	8
Pensions	10
ISAs	11
Investment bonds	12
Other tax efficient investments	13
Venture capital trusts (VCT)	13
Enterprise investment scheme (EIS) and Seed enterprise investment scheme (SEIS)	14

**Please note:** Where references are made to tax planning for married couples and spouses, this includes civil partners.



# Summary of upcoming changes which may affect client recommendations:

## From April 2026

- Personal tax allowances, income tax bands and nil rate and residence nil rate bands will now be frozen until tax year 2030-31.
- For Scottish income tax payers, there has been an increase in the starter, basic and intermediate tax bands, meaning more money in the pocket of lower earners and reduced tax bills potentially for many more. This was proposed in the Scottish Budget on 13 January 2026 and awaits ratification by parliament.
- The allowance for 100% relief for qualifying agricultural and business relief assets has increased to £2.5m. 50% relief applies to values in excess of the allowance. Spousal transfer for unused allowance similar to the transferable nil rate and residence nil rate bands is now applicable.
- Rate relief reduction from 100% to 50% in all circumstances for shares traded on, but not listed on, the markets of recognised stock e.g. AIM.
- A two percentage point increase to the rates of tax paid on basic and higher dividend income. The rates will increase to 10.75% and 35.75% respectively. The rate of 39.35% will remain at the current level for additional rate taxpayers and trustees.
- Increase to the lifetime limits for investments into venture capital trusts (VCTs) whilst at the same time a reduction in income tax relief from 30% to 20%.
- Business Asset Disposal Relief (BADR) rate for capital gains tax (CGT) increases to 18% on the lifetime limit which remains at £1 million.
- Anti-avoidance legislation to be introduced for non-UK long-term residents to prevent them from using overseas companies to benefit from excluded property rules if holding UK agricultural land for inheritance tax purposes.
- The amount of State Pension and the age at which this will be received will increase.
- Voluntary Class 2 national insurance contributions (NICs) for people living abroad will be abolished. Voluntary class 3 NICs will remain available but there will be a change to eligibility requirements.

## From April 2027

- Most unused pension funds will be subject to inheritance tax (IHT).
- A two percentage point increase in the rates of tax for savings and property income. The rates for basic, higher and additional rate taxpayers will increase to 22%, 42% and 47% respectively for those sources of income. At the same time there will be a change to the order of income tax and how this is calculated.
- New rules for under 65 year olds and their ability to subscribe to cash ISAs. Under 65's will be limited to subscribing a maximum of £12,000 each tax year into cash ISAs and "cash-like" investments. Over 65s the rules remain the same but more detail on this will come in 2026.

## From April 2028

- Introduction of the "mansion tax" for those properties in England valued in 2026 at over £2m.
- For Scottish residents, two new council tax bands will be introduced for properties valued between £1m-£2m and £2m plus from 1 April 2028 levying a "mansion tax" on Scottish properties.
- A charge on the mileage for electric and hybrid vehicles.

## From April 2029

- A cap on the amount of salary sacrifice to £2,000 for pension contributions, where employer and employee NICs will not be charged. Above this limit, NICs will apply.



# Taxation considerations

## Income tax

We know that most personal tax allowances and income tax bands will now be frozen until tax year 2030-31. The devolved powers for Scotland and Wales mean that Scotland has the ability to set their own income tax bands and rates above the personal allowance for non-savings, non dividend income, while Wales has the ability to set the first 10p in the pound. Scotland has used these powers to create new rates and bands, which are different to the rest of the UK and announced new changes to the starter, basic and intermediate band due from April 2026. Wales has kept the first 10p aligned with that of England and Northern Ireland.

The Autumn Budget announced increased rates of tax at basic and higher levels for dividend tax from April 2026 and for all bands for savings and property income from April 2027. While the dividend and savings income are set for the UK by the UK government, they will consult with Scottish and Welsh governments about the rise in the rates of property income.

Most people will start the tax year with the standard personal allowance of £12,570 and this is used currently in the most effective way against your income tax bill. For most people this would go against their non-savings, non dividend income such as their salary, self-employed earnings, pension income or rental income. This will be changing when the increase in rates of savings and property income due from April 2027. The current draft legislation states that the personal allowance will be used against income which is not property, savings, or dividend first (i.e. salary, self-employed earnings and pension income). If there are any allowances or reliefs available or they don't have these sources of income then a new order will be property income then savings and dividend income. This shouldn't affect clients until tax year 2027-28, but something to be mindful of when speaking to clients over the next twelve months if they've multiple sources of income. Clients should also be discussing this with their tax adviser to ensure tax efficiency.

For those with adjusted net income over £100,000, the personal allowance reduces by £1 for every £2 up to £125,140, where the personal allowance will be lost and individuals will be additional rate taxpayers. Other allowances which might be available depending on the rates of income tax an individual pays would be:

- Personal savings allowance, £1,000 for basic rate and £500 for higher rate taxpayers. Additional rate tax taxpayers and trustees don't have a personal savings allowance.
- The dividend allowance of £500 for all except trustees.
- £1,000 trading allowance.
- £1,000 property allowance.

Individuals should speak with their tax adviser to see what allowances and relief they can set against their income every tax year as this may change.

Given some of the upcoming changes to income tax, it's an opportune time to review the sources of income clients have and where possible make changes to ensure tax efficiency and that all allowances are used, especially if spouses pay different rates of tax.

- Equalise income producing assets between married couples to potentially increase the level of household income where there's a disparity in the rates of tax paid, especially with the upcoming increases to the rates of dividend, savings and property income.
- If capital is required or if there's been a change in the rates of tax married couples pay, assigning individual policies or a bond to a non or lower rate tax paying spouse could reduce the tax payable upon a chargeable event. However, this gift should be outright, not conditional or seen as deliberate tax avoidance.
- Review current income sources with a view to turning off taxable income and switch on income from more tax efficient sources such as natural income or withdrawals from ISA or withdrawals from investment bonds within the deferred allowance.
- By making pension contributions individuals could extend their basic rate band which would reduce their income tax bill and benefit from tax relief on those contributions. For those who earn in excess of £60,000 or the £100,000 threshold, you could reduce the impact of the Higher Income Child Benefit Tax Charge and regain some or all of their personal allowance and/or free child care.
- Applying gift aid to extend the basic rate band when making gifts to registered charities could also reduce their income tax bill.
- Business owners could consider employing spouse and other family members provided that such an arrangement can be justified commercially to increase household income and create tax savings through the company.
- Where there's a basic rate and a non-tax paying spouse, marriage allowance might apply to transfer up to 10% of their personal tax allowance.

## Capital Gains Tax (CGT)

Currently, individuals are entitled to an annual exemption of £3,000, while trustees are entitled to half of this, £1,500, which can be split up to a maximum of five, depending on the number of settlements a settlor has created. These exemptions remain at the same values for tax year 2026-27. Some factors to consider before the end of the tax year are:

- Equalising assets between married couples, so both sets of CGT exemptions can be used. Disposals between spouses are done on a 'no gain no loss' basis so long as such gifts are not conditional or seen as deliberate tax avoidance.
- When looking to utilise the annual exemption especially if selling down and repurchasing shares, the share matching rules will apply so any purchases within 30 days will be matched with the disposal. However, it's possible to 'bed and breakfast,' (sell and repurchase) using a sale by one spouse and repurchase by the other.
- Unless the contract is conditional, the disposal date is normally the date of contract. It may be advantageous to defer the date of contract until the new tax year therefore deferring the date any tax will be payable.
- Business Asset Disposal Relief rate for CGT will increase to 18% in the new tax year, so consider disposals before the rate is due to increase.



# Inheritance Tax

With changes coming in from April 2026 to agricultural and business relief and unused pension funds being subject to IHT from April 2027, now is a great time to think about estate planning and review the current plans in place to see if any changes are required to maximise tax efficiency.

## Wills

- Now is a perfect time to review Wills and any power of attorneys which might be required to ensure they are valid, up to date and in line with the personal circumstances individuals are currently facing as things may have changed since these were created or last reviewed.

## Make use of exemptions and exempt gifts

- Individuals have an annual exemption of £3,000 each year and this can be carried forward for one year if unused. This means potential gifts for couples of £12,000. This can be deducted from larger gifts made which in most cases will be potentially exempt transfers (i.e. exempt if the donor survives for seven years).
- Smaller gifts of £250 can be made to multiple individuals so long as it's not the same who have benefitted from the annual exemption.
- For those with loved ones getting married, making gifts to them could help reduce the taxable estate. The value of the tax-free gift will depend on your relationship. Each parent can give away £5,000, each grandparent £2,500 and anyone else £1,000.
- The normal expenditure out of income exemption can also be useful as there is no limit on the amount, so long as:
  - Gifts are regular
  - Normal for that person making the gift
  - Paid out of taxable or non-taxable income (not from capital)
  - The purpose, value and nature of the gift are considered
  - Should not affect the donor's standard of living

## Trusts

Trusts are a tried and tested financial planning tool which can help clients achieve their financial aims. They can be created in lifetime or on death and can help clients who are looking at:

- Inheritance tax and estate planning.
- How to manage a compensation payment.
- Complex family needs and requirements.
- Providing for minors or those lacking in mental capacity to manage their own finances.
- Avoiding probate.
- Controlling their wealth now and in the future.

There are different types of trust which individuals can use depending on their circumstances. The type and the basis on which the trust is created will determine the taxation of the trust property, who the beneficiaries can be, named or in classes, the trust property, and how that property should be managed. Individuals looking to create trusts should seek legal and tax advice before doing so, to appreciate the implications upon creation and so the trustees understand any reporting registration and management responsibilities associated with the trust.

Now let's have a look at what investment wrappers and options we have available to maximise tax efficiency before this tax year and looking forward to 2026-27 tax year.

## Pensions

- Pension are a fundamental building block to a good financial plan to provide for your future. They are free from income tax, capital gains tax and in most cases IHT free until proposed changes take effect in 2027, so are one of the most tax efficient wrappers available.
- Individuals should therefore check their existing pension provisions to ensure that they're taking advantage of the tax relief currently available and review any salary sacrifice arrangements which they might have in place before the changes in April 2029.
- Most people will have an annual allowance of £60,000 a year (plus any carry forward) which is the maximum tax efficient contribution from all sources. Personal contributions get tax relief up to the higher of £3,600 or 100% of their relevant earnings.
- If an individual has triggered their money purchase annual allowance (MPAA) by flexibly accessing their benefits (taking income not just tax free cash), they will be limited to a maximum contribution of £10,000 each year and there is no carry forward for this allowance. If they exceed this they will face a tax charge.
- For those with "threshold income" exceeding £200,000 and "adjusted income" of more than £260,000 in a tax year, they will be subject to a tapered annual allowance. £1 of annual allowance is lost for every £2 of adjusted income above £260,000. Individuals with adjusted income of £360,000 or more will be subject to an annual allowance of £10,000 in the tax year. Carry forward is available where tapering applies.
- When taking benefits from pensions, consideration should be given to the lump sum allowance and lump sum and death benefit allowance as well as any protections which might be in place.
- With unused pension funds being brought into the estate for IHT purposes from April 2027 onwards, we must make sure we understand the new rules, how they will work and communicate this with our clients. Whilst we don't have the final legislation yet and there might be a few more changes before implementation, it's important that clients, especially if they're personal representatives for someone, understand what will be expected from them. It's also important to make sure all expression of wishes are up to date in case these changes affect the wider holistic plan.

## ISAs

- Investments held in ISAs are free from income tax and capital gains tax, but will be subject to IHT unless the asset qualifies under the new agricultural or business relief rules applicable from April 2026 and are within the £2.5m combined allowance. Investments in AIM shares will only be subject to 50% relief from April 2026.
- Individual UK residents aged 18 or over (16 for cash ISAs) can make annual subscriptions of up to £20,000 a year and currently this can be to cash or stocks and shares ISAs. This £20,000 subscription limit will remain in place until tax year 2031. The rules will change for under 65s from April 2027 where there will be a £12,000 limit for those wanting to invest in cash or "cash-like" investments. For those over 65 there will be no change and they can place the full £20,000 in to a cash or "cash-like" ISA if that is suitable for them.
- 'Bed and ISA' disposals may be an effective way to move assets into a tax efficient wrapper, saving income tax, especially with the increases in dividend and savings income coming in if the income is in excess of any tax allowances. Consideration must however be given to any CGT that could be payable if this disposal exceeds the clients available CGT exemption.
- Retain their tax-privileged status on death and, in most cases, freedom from income tax and capital gains tax will continue during the estate administration period.
- Surviving spouses may also benefit from being able to make an additional permitted subscription (APS) into their own ISA based on the value of their deceased partner's ISA.
- For those with flexible ISAs, you can withdraw and replace ISA monies within a tax year without it counting towards the annual subscription limit.
- The government are looking to drive greater investment into the UK to help stimulate growth. As part of this, financial services firms will be providing new, easily navigable ways for people to find the right UK investment for them. More information about this will be coming in 2026.
- Lifetime ISA (LISA) will be consulted on with a view to replace this and introduce a new, simple product to help first time buyers get on the housing ladder.
- Junior ISA (JISA) allows up to £9,000 a year to be invested on behalf of a child. This subscription amount will remain in place until tax year 2030-31.

## Investment bonds

- Investment bonds (structured as single premium life assurance policies or on a capital redemption basis for some offshore bonds) offer investors the opportunity to defer an income tax liability until the point withdrawals are made in excess of the cumulative allowance or a bond is surrendered. This may be attractive to those who are trustees, higher or additional rate taxpayers but who may expect to pay income tax at a lower marginal rate in future years.
- Investments within onshore bonds are subject to the corporation tax regime applicable to life assurance companies. Investors benefit from a basic rate savings tax credit in relation to any chargeable event gains arising on excess withdrawals or surrenders. This is currently at 20% but when the rates of savings income increase in April 2027, this will increase to 22%.
- Offshore bonds benefit from gross roll-up meaning there is no tax on the underlying assets unless withholding taxes apply, which are non-reclaimable. However, there is no tax credit for the investor when a chargeable event gain is triggered.
- Policyholders can have 5% of the amount invested returned to them on a tax deferred basis over 20 years. Clients considering making withdrawals in excess of this amount, or surrendering individual policies of their investment bonds, will want to consider this in the context of their total taxable income from all sources to determine which side of the tax year end they would be better off doing so.
- Top slicing relief may be available if the client has moved up a tax band due to a chargeable gain being added to their income to help reduce the tax payable. Regulated tax advice on this matter should be sought.

## Other tax efficient investments

Those with a greater appetite for risk may want to consider EIS, SEIS or VCT investments and benefit from income and capital gains tax reliefs for investors in new shares issued before 5 April 2035.

From April 2026, agricultural and business relief will be limited to 100% on a combined and apportioned value of the first £2.5 million and then a reduced 50% relief applied to qualifying assets above that allowance. The allowance will apply individually, so spouses and registered civil partners will have an allowance each and in a change to the previously announced rules, any unused allowance will now be transferable like the nil rate and residence nil rate bands currently are.

The rate of relief will reduce from 100% to 50% in all circumstances for shares traded on, but not listed on, the markets of recognised stock, such as AIM and for qualifying shares listed on foreign exchanges which aren't a recognised stock exchange from April 2026.

## Venture capital trusts (VCT)

- VCTs are investment companies that are listed on the London Stock Exchange and set up to invest in small, unquoted, UK businesses that meet certain criteria. The government offers generous tax benefits for VCT investing, reflecting the higher risk nature of the companies they invest in.
- Income tax relief – an income tax reducer equal to 20% from April 2026 of the value of VCT shares acquired, provided the shares are retained for five years.
- Tax-free dividends – no income tax to pay on dividends from ordinary shares in VCTs, which is particularly useful considering the increase in rates for dividend income at basic and higher rates from April 2026.
- CGT relief – the client won't be liable to CGT when they sell their VCT shares.
- The reliefs are available to individuals and not to trustees, companies or others who invest in VCTs.

## Enterprise investment scheme (EIS) and Seed enterprise investment scheme (SEIS)

- EIS and SEIS involve investments in smaller unquoted trading companies. These investments are not suitable for everyone as they represent greater risk with limited liquidity. However, the potential significant and reduced tax liabilities may suit more experienced investors with a high attitude to risk.
- Qualifying subscriptions potentially benefit from the following tax advantages:
  - Income tax relief – an income tax reducer equal to 30% of the value subscribed for new shares. Shares must be held for three years to avoid a clawback of this relief. It's possible to carry back an EIS investment to the previous tax year and claim the income tax reducer in that year, provided the overall limit for that year is not exceeded.
  - Dividends from shares held in EIS are taxable but if the EIS company fails, losses can be offset against tax in the form of loss relief against income/ gains on other assets.
  - CGT relief – there will be no CGT charged on any gain on EIS shares as long as the shares are held for at least three years.
  - CGT deferral – clients can reinvest proceeds from any chargeable gain into EIS shares and thereby defer the gains for CGT purposes, usually until the EIS shares are subsequently sold.
  - Capital losses – losses realised on disposal of EIS shares are allowable for CGT purposes. Similarly to losses on shares subscribed for in other unquoted trading companies, losses on EIS shares can also be utilised against income.
  - Inheritance tax relief – most investments in EIS shares will qualify for business relief (BR) after two years but the changes in BR will affect these investments from April 2026.

- SEIS incentivises investors to place capital in start-ups seeking vital early-stage funding and operates on a similar basis to EIS.
- Qualifying subscriptions potentially benefit from slightly more generous tax advantages than EIS that reflect the higher risk nature of investments in companies in their early stages:
  - Income tax relief is given at 50% providing the shares are held for three years
  - CGT exempt if held for three years.



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