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"Breathing space for today, fresh hope for the future"

Budget 2026

Chancellor of the Exchequer John Healey delivered his maiden Budget on 28 October, pledging *"breathing space for today, fresh hope for the future."* With cost-of-living challenges a prominent feature of the speech, banks are set to face an additional 3% surcharge (totalling 6%) on their profits for a 15-month period beginning in January 2027, with the Chancellor saying the temporary increase would help fund household support.

Economic forecasts

Chancellor Healey said he was delivering his speech *"at a time when global uncertainties and pressures are swirling worldwide and hitting people here at home,"* but that his Budget would help *"steer us through the global economic storms*." He noted the Office for Budget Responsibility (OBR) had raised its economic growth projection for 2026 from 1.1% to 1.2% but had also revised down its forecast for 2027 from 1.6% to 1.0%, an unexpectedly sharp decline.

The OBR's Economic and Fiscal Outlook document highlighted *'further adverse developments'* since its Spring Statement forecasts, explaining, *'As a net importer of energy, the rise in energy prices constitutes a negative terms-of-trade shock for the UK, which pushes up on inflation and lowers real household disposable incomes.'* It expects Consumer Prices Index (CPI) inflation will remain above the Bank of England's 2% target in 2026 and 2027, reaching 3.1% this year and rising to 3.4% in 2027.

OBR confirmed that borrowing has been markedly higher than expected this year, and will increase by a further £8bn in 2026–27, £4bn in 2027–28 and £0.4bn in 2028–29, before reducing thereafter. OBR noted that the outlook for the UK economy and public finances is uncertain and remains highly dependent on energy prices, *'with significantly better or worse outcomes of broadly equal probability.'*

More positively, the Chancellor highlighted that the International Monetary Fund (IMF) recently commended the UK for delivering the biggest reduction in borrowing out of the G20 countries this year, and was on track to have the lowest level of borrowing in the G7 from 2029.

Cost-of-living measures

With some announcements trailed prior to Budget Day, Mr Healey spoke about his intentions to ease the cost-of-living for UK households, outlining plans to scrap standing charges on household gas bills, replacing them with costs per unit, saving around two-thirds of households an average of £45 a year.

Other cost-of-living measures include extending the VAT cut on electricity to July and providing a £100 energy payment to up to 20 million households in Council Tax bands A to D in England, with funding for similar support provided to the rest of the UK. The 5p Fuel Duty cut and freeze are being extended to 1 July 2027, import tariffs will be removed on more than 100 supermarket products and self-employed fathers will become eligible for paternity pay for the first time. Changes to Carer's Allowance will remove the earnings threshold "*cliff edge*" that has left some claimants facing substantial debts.

Personal taxation, savings, wages and pensions

- There are to be no changes to the basic, higher or additional rates of **Income Tax,** employee **National Insurance contributions** (NICs), **Dividend Tax** or **VAT**
- The **Income Tax Personal Allowance** was already frozen at £12,570 and the higher rate threshold at £50,270 until April 2031. National Insurance thresholds are also already frozen until 2031
- There is no change to the starting rate of **Income Tax for savings** which stays at £5,000 until April 2031
- Rates of Income Tax applied to **property income** will increase by 2 percentage points. From 2027 to 2028, the property basic rate will be 24%, the property higher rate will be 44% and the property additional rate will be 49%. These rates will apply across England, Wales and Northern Ireland. This newly announced hike comes on top of a 2 percentage point increase previously scheduled in the 2025 Budget
- All rates of Income Tax applied to **savings income** will increase by 2 percentage points from 6 April 2027. The savings basic rate will be 24%, the savings higher rate will be 44% and the savings additional rate will be 49%. This newly announced hike comes on top of a 2 percentage point increase previously scheduled in the 2025 Budget
- The **Trading Allowance**, which lets individuals earn an amount of gross trading income tax-free, will triple from £1,000 to £3,000 from 6 April 2027
- The **National Living Wage** will increase by 3.9% for individuals to £13.21 per hour from April 2027. The **National Minimum Wage** for 18 to 20-year-olds will also increase by 3.9% to £11.27 per hour and to £8.31 per hour for 16 to 17-year-olds and eligible apprentices.

Pensions and retirement income

- In line with the government's commitment to the **Triple Lock** throughout this Parliament, the State Pension will continue to rise by the highest of 2.5%, inflation or earnings growth each year through to April 2029. From April 2030 the State Pension will rise each year by the highest of 2.5%, inflation, or the amount required to maintain its value relative to earnings as reached in April 2029
- From April 2027, this means a 3.9% rise - £250.70 a week for the full, new flat-rate State Pension (for those who reached State Pension age after April 2016) and £192.10 a week for the full, old basic State Pension (for those who reached State Pension age before April 2016)
- A **Pension Tax Allowance (PTA**) will ensure that pensioners whose total income is up to the value of the full new State Pension do not have the administrative burden of paying small amounts of tax. The value of the PTA is calculated by applying the basic rate of Income Tax (20%) to the difference between the full new State Pension and the Personal Allowance. Individuals over State Pension age are eligible for the automatic tax deduction if their income, regardless of source, is below or at the value of the full new State Pension. For those with incomes just above the value of the full new State Pension, the allowance will be gradually withdrawn through a taper. The allowance will apply from 6 April 2027 until 5 April 2030 and will be uprated in line with the full new State Pension across this Parliament
- Budget 2026 proposes three pension tax changes: expanding serious ill-health lump sum access, simplifying tax collection on excess lump sum death benefits and removing the two-year rule that can make death benefits taxable if paid late. Implementation dates vary, with some changes applying retrospectively or from 28 October 2026.

Inheritance Tax (IHT)

- The IHT nil-rate bands are already set at current levels until April 2031. The government will amend IHT rules to clarify when liabilities relating to trust property may reduce the value of assets for IHT purposes, align the treatment of liabilities affecting trust property with personal liabilities and strengthen anti-avoidance provisions. As previously outlined, from April 2027 most unused pensions and death benefits will be subject to IHT.

ISAs

- The annual cash Individual Savings Accounts (ISA) subscription limits remain at £20,000 for the 2027-28 tax year (this was due to reduce to £12,000 for under-65s from April 2027)
- Annual subscription limits remain at £4,000 for Lifetime ISAs and £9,000 for Junior ISAs and Child Trust Funds until 5 April 2031
- The government will introduce a new First-Time Buyer ISA from April 2029. The product will replace the Lifetime ISA (LISA) for new savers and provide a 25% government bonus, paid on withdrawal, towards the purchase of a first home worth up to £450,000. The maximum value of the bonus will be capped at £20,000
- Existing LISA holders will be able to continue contributing to and using their accounts under the current rules. In addition, from midnight 29 October 2026 the withdrawal charge for purchases of properties above the LISA property price cap will be reduced to 20%. The charge for unauthorised withdrawals will remain at 25%
- The government will work with industry to explore a new ISA incentive for people investing in a stocks and shares ISA for the first time. The detailed design will be developed with industry.

Business, AI, enterprise and innovation

The Chancellor outlined measures to support business investment and entrepreneurship, including:

- **Business rates -** the Small Business Rate Relief threshold for eligible retail, hospitality and leisure properties in England will rise from £12,000 to £18,000. A two-year real-terms freeze will apply to other eligible properties in these sectors
- **Business taxation -** the Business Asset Disposal Relief lifetime limit will fall from £1m to £500,000. From April 2027, proposed Founders' Relief will offer a 10% Capital Gains Tax rate up to £10m of qualifying lifetime gains, subject to eligibility
- **Entrepreneurs -** a Young Entrepreneurs Allowance pilot is proposed for England and British Business Bank commitments to women-led businesses and funds will double to £200m
- **Investment and AI -** an additional £20.4bn is pledged through the National Wealth Fund and British Business Bank. A £700m AI package includes £120m for the AI Security Institute and £165m for a National AI Biosecurity Initiative, with further support for UK-developed AI
- **Industrial energy -** from April 2027, the British Industrial Competitiveness Scheme is intended to cut electricity bills by up to 25% for more than 10,000 eligible businesses in energy-intensive industries.

Housing

The Budget set out further support for affordable housing, rough sleeping and first-time buyers, including an additional £1.5bn for social and affordable homes and £4.7bn in government-backed lending for the previously announced Your First Home equity loan scheme, available in England only. It aims to support around 70,000 first-time buyers; eligibility, property price and income limits will apply. A further £432m has been pledged in England to tackle rough sleeping.

Other key points

- **Local funding -** £285m for 2027-28 to help areas progress towards devolution
- **Fiscal powers -** from 2028, mayors are expected to receive an assigned share of existing Income Tax revenues
- **Devolved nations -** additional Barnett funding is indicated for Scotland (£600m), Wales (£450m) and Northern Ireland (£270m)
- **Defence spending -** the government is targeting 3% of GDP by 2030, 3.5% by 2035
- **Support young people -** Jobs Guarantee for eligible 18 to 24-year-olds on Universal Credit and investing £100m in local apprenticeship services
- **Alcohol Duty rates -** increased in line with RPI.

Closing comments

John Healey signed off his speech saying this is a Budget for *"the worker, the sole trader, the parent at the school gate."*

The end of the 2026/27 tax year is approaching

Now is a good time to review any changes to your tax position, make the most of available allowances and reliefs, and consider any planning opportunities before the tax year ends.

We're here to help you make the most of the opportunities available and plan ahead with confidence.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding of the Budget taxation and HMRC rules and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only**. Some rules may vary in different parts of the UK**; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

All details are believed to be correct at the time of writing (28 October 2026)