

The Autumn Budget 2025

Fiscal Drag Race

This was no ordinary Budget, at least for those born in the last fifty years. The lengthiest of build ups has been beset by an unprecedented level of speculation, kite-flying and a prevailing sense of economic doom. With downgrades to productivity, shrinking fiscal headroom, a frozen property market and anaemic growth forecasts the nation was waiting with bated breath to see how Rachel Reeves would “steady the ship”. The icing on the chaotic cake of the preamble was the premature release of the Office of Budget Responsibility (OBR) report, stealing the Chancellor’s thunder minutes before she was due at the dispatch box.

The Chancellor approached her Budget having to perform one of the most delicate balancing acts in modern British politics. She needed to appease her party, keep inflation under control, calm jittery investment markets, and reassure voters who were seeking clarity on their own finances and future.

In this febrile climate of geopolitical flux and economic fragility, the decision to hold the line on income tax rises was as politically symbolic as any bold fiscal measure. This Budget was not just about numbers but about signalling stability in a world that feels anything but.

Years of crisis-driven spending and increased debt have stripped away the buffer that once allowed public finances to absorb shocks. Rebuilding that headroom is no longer optional. Without it, the UK remains exposed to future volatility, from geopolitical risks to climate costs and demographic pressures on health and pensions.

It was delivered as a Budget of restraint, no egregious tax hikes, no dramatic new levies. But taxes, like shadows, never truly disappear, they simply shift shape. So where were they hiding? In the freeze of thresholds, in the subtle creep of fiscal drag, and in the fine print of future legislation. The absence of noise was not the absence of impact.

The effects of freezing thresholds

Last week’s income tax U-turn sent 10-year gilt yields up by 14 basis points which was a sharp reminder that credibility is currency. According to the OBR the tax burden is at a seventy-year high and set to rise further to c. 38% of UK GDP by 2029/30.

Further projections signal that by 2028/29, an additional 3.7 million people will enter the income tax net, with 2.7 million moving into the higher-rate band and 600,000 into the additional rate band, generating around £8 billion in extra revenue by election year 2029.

While Inheritance Tax remains broadly unchanged, nil-rate bands are already set at current levels until April 2030 and will stay fixed at these levels for a further year until April 2031. The forthcoming combined allowance for the 100% rate of Agricultural Property Relief and Business Property Relief will also be fixed at £1 million for a further year until 5 April 2031 with the welcome news that Agricultural and Business Relief allowances will now be transferable between spouses on first death.

The start of a wealth tax?

Much was made of a possible “Mansion Tax” ahead of the Budget. While stamp duty rates remain unchanged, a new High Value Council Tax surcharge was introduced. From April 2028, properties valued above £2 million (in 2026 prices) will face an additional annual charge, starting at £2,500 for homes in the £2–2.5 million band and rising to £7,500 for properties worth £5 million or more, uprated annually by CPI, with revenue flowing to central government.

Though less severe than some feared, this measure raises a bigger question: is this the first step towards a fundamental shift in property taxation? The surcharge could dampen high-end property prices, create

clustering below key thresholds, and over time reduce receipts from Stamp Duty, Capital Gains Tax, and Inheritance Tax as valuations adjust. More significantly, it signals a move towards wealth-based property taxation, a change that could reshape the market.

The “Mansion Tax” was also coupled with an increase to tax on property income. From 2027, rental income will be subject to its own set of tax rates with 22% at basic rate rising to 42% on higher rate taxpayers and 47% on additional rate. These higher liabilities will reduce net rental yields. This may prompt a review of property portfolios, with some investors considering alternative structures to mitigate tax exposure. Increased costs could lead to higher rents, but also potential downward pressure on property prices as the tax burden increases.

For investments, there will be increases in income tax of 2% to both savings and dividends (excluding the additional rate on dividends). Combined with the increase in tax on rental income, an additional £2.1bn of annual revenue is due to be generated from savers and investors.

Supporting acts

Despite intense speculation, the Budget left many feared changes untouched. No increases to CGT, VAT, Stamp Duty Land Tax and the core rules around gifting. Pension tax free cash remains, providing the industry some relief following the IHT bombshell dropped a mere 12 months ago.

While the overall ISA allowance remains at £20,000, the annual cash limit will fall to £12,000 from April 2027 except for savers over 65, who retain the full £20,000 flexibility. CGT exemption on Employee Ownership Trust disposals drops from 100% to 50%, and VCT income tax relief falls to 20% even as investment limits rise. Looking ahead, pension salary sacrifice will lose its NIC advantage above £2,000 from 2029.

In a more strategic move to stem the exodus of ultra-wealthy non-domiciled individuals who have objected to recent rules bringing worldwide wealth into the UK IHT net, the Government will introduce a £5 million cap on the value of charges on assets that sit within pre-30 October 2024 excluded property trusts, effective from 6 April 2025. This strikes a careful balance, tightening tax rules while introducing a cap to mitigate the risk of high-net-worth individuals relocating in an attempt to ensure the UK remains an attractive jurisdiction.

In Scotland slightly different rules apply, with its Budget on 13 January potentially introducing further changes. Income Tax and National Insurance thresholds remain frozen until April 2031 (affecting only savings and investment income), savings income tax rises by 2%, and the High-Value Council Tax surcharge does not apply.

What next?

Considering the vast amount of energy that has been spent speculating on what the Budget may contain and how far policy might stretch, the actual outcome and extent of potential tax changes have been far more limited than expected.

In many ways this is a blast from the past, the most economically centre-left Budget since the 1970s. Increased taxes and increased spending on public services with a bias to funding from the wealthiest taxpayers; it has been cheered by the Chancellor’s own recalcitrant backbenchers. The balance of higher taxes and spending created fiscal headroom of £22bn, sufficient to placate the markets. Both sterling and government bond markets have strengthened.

But it is the electorate and the taxpayer who will feel the more permanent impact of yesterday’s announcement. What will they think? The first two Labour Budgets have raised taxes significantly for this Parliament. Estimates put this at nearly £70 billion (2% GDP) to fund nearly £80 billion of spending. This increase in the level of tax has come with an unhealthy dose of increasing complexity.

Over the next few years voters will now be focused on how to plan around a range of looming changes that will affect investments, businesses, farmers and pension funds. As a result of the subtle shifts in Income Tax, strategic planning around ownership structures and distribution strategies will become even more important and we look forward to helping you and your clients navigate the shifting sands.

This document is a Financial Promotion for UK regulatory purposes and is directed only at investors resident in the United Kingdom.

This document does not constitute investment advice or a recommendation.

Past performance is not a reliable indicator of future performance. The value of investments, and the income from them, may go down as well as up, so you could get back less than you invested.

This material has been issued and approved in the UK by James Hambro & Partners LLP, which is authorised and regulated by the Financial Conduct Authority and is a registered investment adviser of the Securities and Exchange Commission. It is listed in the Financial Services Register with reference number 513246. James Hambro & Partners LLP is a limited liability partnership registered in England & Wales with number OC350134 and registered office at 45 Pall Mall, London SW1Y 5JG. A list of members is available on request. The registered mark James Hambro[®] is the property of Mr J D Hambro and is used under licence.