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Recaptured – in focus

Tax rates 2025/26

Autumn Budget 2024

Contents

Personal tax	1
National Insurance Contributions 2025/26	13
Indirect taxes	17
Business tax	25
Offices	33

These tables are a summary and do not cover all situations.

They are based primarily upon information announced by the UK government and the devolved governments on or before the date of the Autumn Budget 2024 (30 October 2024) and may not reflect subsequent legislative changes or policy decisions.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations. Application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.

Personal tax

Income tax rates 2025/26 (2024/25)

Income band (£)	Dividends (%)	Other savings income (%)
Up to 37,700 ^{a, b} (up to 37,700)	8.75 (8.75)	20 (20)
37,700 – 125,140 ^b (37,700 – 125,140)	33.75 (33.75)	40 (40)
Over 125,140 ^b (over 125,140)	39.35 (39.35)	45 (45)

Income band (£)	Other income (%)	Cumulative tax (£)
Up to 37,700 ^c (up to 37,700)	Basic rate: 20 (20)	7,540 (7,540)
37,700-125,140 ^c (37,700 – 125,140)	Higher rate: 40 (40)	42,516 (42,516)
Over 125,140 ^c (over 125,140)	Additional rate: 45 (45)	

- a. A 0% starting rate applies to the first £5,000 of savings income. For many taxpayers this is not relevant as the starting rate does not apply if their taxable non-savings income exceeds the starting rate limit.
- b. Subject to personal allowance, personal savings allowance, and dividend allowance (see [page 3](#)).
- c. Subject to personal allowance, property allowance, and trading allowance (see [page 3](#)).

The government has announced that the basic rate band will be maintained at £37,700 until 5 April 2028. From 2028/29 onwards, these thresholds are due to resume increasing annually in line with inflation.

The income bands are broadly used in the following order:

- Non-savings income
- Savings income
- Dividends

From 6 April 2024, most trusts with up to £500 of net income have no income tax liability. Where net income exceeds this amount, the full amount is subject to income tax. For discretionary and accumulation and maintenance trusts an income tax rate of 45% normally applies. The rate of tax on dividend income is 39.35%.

Income tax rates – Scotland

The Scottish Parliament has the power to set income tax rates and bands for **non-savings, non-dividend income** of Scottish resident taxpayers. (The dividend and other savings tax rates and bands on [page 1](#) apply to the dividend and other savings income of Scottish taxpayers.)

The 2025/26 Scottish Budget is due to be published on 4 December 2024 and therefore the income tax rates and bands for 2025/26 were not known as at the date of publication.

The following six tax rates and bands for non-savings, non-dividend income apply in **2024/25**:

Income band (£) – 2024/25	Other income (%)	Cumulative tax (£)
Up to 2,306	Starter rate: 19	438
2,306 – 13,991	Scottish basic rate: 20	2,775
13,991 – 31,092	Intermediate rate: 21	6,366
31,092 – 62,430	Higher rate: 42	19,528
62,430 – 125,140	Advanced rate: 45	47,748
Over 125,140	Top rate: 48	

Subject to Personal Allowance, Property Allowance, and Trading Allowance (see [page 3](#)).

Income tax rates – Wales

The Senedd has the power to vary the income tax rates (but not the bands) for **non-savings, non-dividend income** of Welsh resident taxpayers. (The dividend and other savings tax rates and bands on [page 1](#) will apply to the dividend and other savings income of Welsh taxpayers.)

The draft 2025/26 Welsh Budget is due to be published on 10 December 2024 and therefore the income tax rates and bands for 2025/26 were not known as at the date of publication.

The income tax rates and bands for 2024/25 are aligned with those in England and Northern Ireland.

Income tax allowances

	2025/26 (£)	2024/25 (£)
Personal allowance – individuals ^{a, d, e}	12,570	12,570
Married couple's allowance (elder born before 6 April 1935) ^{b, c, d}	11,270	11,080
Personal savings allowance for basic rate taxpayers ^f	1,000	1,000
Personal savings allowance for higher rate taxpayers ^f	500	500
Dividend allowance ^g	500	500
Property allowance ^h	1,000	1,000
Trading allowance ^h	1,000	1,000

- a. Reduced by £1 for each £2 of income (less deductions) in excess of £100,000.
- b. Reduced by £1 for each £2 of income (less deductions) which exceeds £37,700 (2024/25: £37,000). The minimum age-related married couple's allowance is £4,360 (2024/25: £4,280).
- c. Restricted to relief at 10%.
- d. Neither of these allowances is available to a non-UK domiciled individual who makes a claim to pay tax on the remittance basis of taxation in 2024/25. These restrictions will also apply to individuals claiming reliefs against foreign income, earnings or gains under the replacement residence-based regime from 2025/26.
- e. Spouses or civil partners are able to transfer £1,260 (2024/25: £1,260) of their unused personal allowance to their partner. This is available provided neither person pays income tax at the higher rate (or Scottish equivalents). This is not available if the couple are in receipt of the married couple's allowance.
- f. A 0% tax rate for personal savings income for basic and higher rate taxpayers only.
- g. A 0% tax rate for dividend income available to all taxpayers.
- h. Subject to some exceptions, allowances for property income and trading income available to all UK taxpayers. Where individuals are in receipt of gross property income or gross trading income below the allowances, the income will not be subject to income tax. Where gross receipts are in excess of these amounts, the recipient can choose to take the £1,000 allowance as a deduction against their gross income instead of deducting actual expenses to arrive at their taxable income figure.

The government has announced that the personal allowance for individuals will be maintained at £12,570 until 5 April 2028, after which date these thresholds will resume increasing annually in line with inflation.

Income tax reliefs and incentives

Annual limits	2025/26 (£)
Enterprise Investment Scheme (EIS) (maximum) ^a	1,000,000/ 2,000,000
Seed Enterprise Investment Scheme (SEIS) (maximum) ^b	200,000
Venture Capital Trust (VCT) (maximum) ^c	200,000
Individual Savings Account (ISA) (maximum) ^d	20,000
Junior ISA (maximum per child) ^d	9,000

- a. Income tax relief restricted to 30%. Capital gains tax deferral on gains on disposal of other assets is also available. From 6 April 2018, the annual limit doubled to £2 million, provided any amount over £1 million is invested in one or more 'knowledge-intensive companies'.
- b. Rate of income tax relief is 50%. The relief applies to shares in qualifying trading companies with fewer than 25 full-time equivalent employees, and assets of up to £350,000 issued after 6 April 2012. Maximum stake 30% of share capital and voting rights. Total SEIS financing per company is limited to £250,000 cumulatively (within three years preceding the share issue).
- c. Rate of income tax relief for investors in VCTs is 30%. Dividends received on qualifying VCT investments are exempt from income tax.
- d. A Lifetime ISA can be opened by individuals between the ages of 18 and 40. Individuals can save up to £4,000 each tax year into an account which will be topped up at the end of the tax year with a government bonus of 25%. The money saved, including the bonus, can be used to buy a first home worth up to £450,000 or can be withdrawn from the age of 60. Any contribution to this Lifetime ISA counts towards the overall ISA subscription limit. At Autumn Budget 2024, the government announced that the ISA, Lifetime ISA, Junior ISA and Child Trust Fund subscription limits will remain frozen at current levels until 5 April 2030.

Relief is available at the taxpayer's marginal rate of income tax for charitable donations via the Gift Aid and Payroll Giving schemes and for charitable gifts of quoted shares and securities and real property.

Pensions

	2025/26 (£)	2024/25 (£)
Annual allowance	60,000 ^{a, b, c}	60,000 ^{a, b, c}
Adjusted income limit	260,000	260,000
Threshold income limit	200,000	200,000
Minimum annual allowance	10,000	10,000
Money purchase annual allowance	10,000 ^c	10,000 ^c
Lump sum allowance	268,275	268,275
Lump sum and death benefit allowance	1,073,100	1,073,100
Overseas transfer allowance	1,073,100	1,073,100

- a. The annual allowance is reduced by £1 for every £2 of adjusted income (broadly net income plus any relievable pension savings) over the adjusted income limit, subject to the minimum annual allowance. The reduction does not apply where threshold income (broadly net income plus employer contributions made via salary sacrifice arrangements after 8 July 2015) is below the threshold income limit.
- b. The annual allowance may be increased with unused allowances from the previous three years. If earlier allowances were reduced, the reduced amounts are carried forward.
- c. Where a member has flexibly accessed their uncrystallised or drawdown fund, the annual allowance for contributions to a money purchase scheme is capped at the level of the money purchase annual allowance, with no unused allowance brought forward. A potentially higher limit for defined benefit schemes remains.

Aggregate contributions made by employers and individuals to a money purchase (defined contribution) registered pension scheme attract an annual allowance charge to the extent they exceed the annual allowance for the tax year in which the pension input period ends, augmented by any brought forward unused relief from the previous three years. No charge arises where the member dies in the year or is medically assessed as unable to work ever again.

An annual allowance charge similarly applies to salary-related pension accrual where the inflation-adjusted increase in pension entitlement, multiplied by a valuation factor of 16, exceeds the annual limit. No charge applies where the member's active participation in the scheme has ceased. Where the annual limit is exceeded, tax is payable on the excess at the individual's marginal rate i.e. normally 20%, 40% or 45%. (Scottish rates, excluding the 19% starter rate, apply to Scottish residents). This is normally payable by the individual via self-assessment, but in some cases they may elect for the pension scheme to pay the tax instead.

From 6 April 2024, the maximum tax-free pension commencement lump sum payable is the lesser of 25% of the value of an individual's uncrystallised fund, the available 'lump sum allowance' (normally £268,275) and one third of the amount crystallised for the payment of a pension or annuity for life, or as funds available for drawdown.

The aggregate tax-free elements of lump sums paid in a pension saver's lifetime and in death is capped at the 'lump sum and death benefit allowance' (normally £1,073,100) from 6 April 2024. This allowance is only relevant where the pension saver dies before reaching age 75. Higher lump sum allowances are available for eligible individuals who have certain historical lifetime allowance protections in place. Both new allowances may be reduced under transitional rules if any pension benefits were crystallised before 6 April 2024.

Subject to the agreement of the scheme administrator, members of money purchase schemes who have reached the minimum pension age of 55 are able to take funds from their drawdown account flexibly – whenever they want, and in any desired amount. Members also have the option of taking an 'uncrystallised funds pension lump sum', 25% of which is tax-free. From 6 April 2024 the tax-free element is limited to the amount of 'lump sum allowance' available.

From 6 April 2024, if the member dies before age 75 any unused drawdown or undrawn uncrystallised funds can be paid to dependants or nominees free of tax to the extent that they fall within the available 'lump sum and death benefit allowance' (subject to transitional rules). After that age lump sums are taxable in full. Death benefit lump sums will normally be taxed as pension income of the recipient (i.e. marginal income tax rates).

Any unauthorised lump sum is taxed on the member at rates of 40% or 55%, with a further charge on the scheme.

Making contributions to pensions is a long-term investment decision and individuals should take advice on the suitability of making pension contributions in their particular circumstances.

Company car, van and fuel benefits

For more detail see www.cartaxguide.co.uk

Company car tax rates

A company car benefit is calculated by multiplying the car's list price (including selected optional accessories) by the appropriate percentage graduated according to the car's carbon dioxide (CO₂) emissions, fuel type and electric range (where applicable).

Appropriate percentage for cars

CO ₂ emissions ^a (g/km)	Electric range figure ^b (miles)	% of list price ^c					
		2024/ 25	2025/ 26	2026/ 27	2027/ 28	2028/ 29	2029/ 30
0	N/A	2	3	4	5	7	9
1-50	>130	2	3	4	5	18	19
1-50	70-129	5	6	7	8	18	19
1-50	40-69	8	9	10	11	18	19
1-50	30-39	12	13	14	15	18	19
1-50	<30	14	15	16	17	18	19
51-54		15	16	17	18	19	20
55-59		16	17	18	19	20	21
60-64		17	18	19	20	21	22
65-69		18	19	20	21	22	23
70-74		19	20	21	21	22	23
75-79		20	21	21	21	22	23
80-84		21	22	22	22	23	24
85-89		22	23	23	23	24	25
90-94		23	24	24	24	25	26
95-99		24	25	25	25	26	27
100-104		25	26	26	26	27	28
105-109		26	27	27	27	28	29
110-114		27	28	28	28	29	30
115-119		28	29	29	29	30	31
120-124		29	30	30	30	31	32
125-129		30	31	31	31	32	33
130-134		31	32	32	32	33	34

CO ₂ emissions ^a (g/km)	Electric range figure ^b (miles)	% of list price ^c					
		2024/ 25	2025/ 26	2026/ 27	2027/ 28	2028/ 29	2029/ 30
135-139		32	33	33	33	34	35
140-144		33	34	34	34	35	36
145-149		34	35	35	35	36	37
150-154		35	36	36	36	37	38
155-159		36	37	37	37	38	39
160+		37	37	37	37	38	39

- a. Unless otherwise specified, CO₂ emissions should be rounded down to the nearest 5g/km.
- b. For cars in the 1-50g/km of CO₂ band, the 'electric range figure' is relevant for determining the appropriate percentage. The 'electric range figure' is the number of miles which is the equivalent of the number of kilometres specified in an EC certificate of conformity, an EC type-approval certificate or a UK approval certificate on the basis of which a car is registered, as being the maximum distance for which the car can be driven in electric mode without recharging the battery.
- c. Add 4 percentage points to the '% of list price' if the car runs solely on diesel, up to the limit of 37% (or 38% in 2028/29 and 39% in 2029/30). Cars that meet the Real Driving Emissions Step 2 (RDE2) standard are exempt from the supplement.

Double cab pick-ups (DBPUs)

The benefit-in-kind treatment of DCPU vehicles with a payload of 1 tonne or more will change for vehicles ordered on or after 6 April 2025. The change will see affected vehicles being treated as company cars (previously these vehicles may have been treated as company vans). Transitional rules will apply for employers who have purchased, leased or ordered a DCPU before 6 April 2025. The transitional rules will use the previous treatment, until the earlier of disposal, lease expiry, or 5 April 2029.

Employee contributions

The list price of the car is reduced by up to a maximum of £5,000 for capital contributions made by an employee. Employees' contributions towards private use reduce the taxable benefit pound for pound.

Private fuel benefit

Fuel benefit for company cars is calculated by applying the appropriate percentage for the car based on fuel type and CO₂ emissions to a pre-set figure which is £28,200 (2024/25: £27,800).

Van & van fuel benefit

The private use of vans attracts a scale charge of £4,020 (2024/25: £3,960), regardless of the age of the vehicle. In addition, if free or subsidised fuel is provided for private use in a company van, a taxable fuel benefit will arise of £769 (2024/25: £757).

Optional Remuneration Arrangements

Where employees select a company car via either a salary sacrifice arrangement or instead of a cash allowance (where they have that choice), then rules, which came into effect from 6 April 2017, may affect the calculation of company car benefit. These rules do not affect cars with CO₂ emissions of 75 g/km and below.

Where employees entered into arrangements on or after 6 April 2017, then their company car benefit will equal the greater of (i) the amount as calculated above, and (ii) the value of the cash pay given up (i.e. the gross salary sacrifice/gross cash allowance forgone).

Electric vehicles

The appropriate percentage for zero-emission electric cars for the purposes of company car tax is 2% for the 2024/25 tax year. This will rise to 3%, 4%, 5%, 7% and 9% in the five tax years 2025/26 to 2029/30 respectively.

Since 2021/22, a nil rate has applied to zero-emission vans within the van benefit charge.

The provision of workplace facilities for charging vehicles and electricity to employees is exempt from tax as a benefit in kind. The exemption applies to workplace charging provided for company cars and private cars (although there are certain criteria to be met for the private car exemption to apply).

Approved mileage rates

Employers can make tax – and NIC-free payments to employees using their own vehicle for business travel, as follows:

- cars and vans – 45p per mile for the first 10,000 miles and 25p per mile thereafter (for NIC purposes there is no mileage limit for the 45p per mile rate);
- motor cycles – 24p per mile;
- bicycles – 20p per mile; and
- passengers – an optional 5p per mile for each passenger who is an employee travelling on business.

Business expenditure on leased cars

Corporation tax relief and income tax relief for expenses incurred by businesses on the hiring of cars can be restricted according to the CO₂ emissions of the car. From 1 April 2021 (for corporation tax) or 6 April 2021 (for income tax), 15% of the leasing expenses are generally disallowed if emissions exceed 50 g/km.

Capital gains tax (CGT)

	2025/26 (£)	2024/25 (£)
Main CGT rate – combined income and gains less than the upper limit of the income tax basic rate band ^{a, b, c}	18%	10%/18% ^c
Main CGT rate – combined income and gains above the upper limit of the income tax basic rate band ^{a, b, c}	24%	20%/24% ^c
Gains on residential property – combined income and gains less than the upper limit of the income tax basic rate band ^{a, b}	18%	18%
Gains on residential property – combined income and gains above the upper limit of the income tax basic rate band ^{a, b}	24%	24%
Gains on carried interest – combined income and gains less than the upper limit of the income tax basic rate band ^{a, b}	32%	18%
Gains on carried interest – combined income and gains above the upper limit of the income tax basic rate band ^{a, b}	32%	28%

- a. Chargeable gains are treated as the top slice of an individual's combined gains and income. Any part of a taxable gain exceeding the upper limit of the income tax basic rate band (£37,700 for 2024/25 and 2025/26) is taxed at the higher rates.
- b. For trustees and personal representatives of deceased persons, the CGT rates are aligned to the higher rates applied to individuals.
- c. At Autumn Budget 2024, the government announced that the rates of CGT for disposals made on or after **30 October 2024** will be 18% and 24% for the lower and upper band, respectively.

Annual CGT exemptions apply for individuals and trusts, as follows:

	2025/26 (£)	2024/25 (£)
Individual	3,000	3,000
Trust	1,500	1,500

Gains realised on the disposal of an EIS or SEIS investment are exempt from CGT provided certain conditions are met including that the shares are held for at least three years, and both the investor and company remain eligible for EIS/SEIS throughout this period.

Up to 50% of capital gains of up to £200,000 realised on disposals of assets are exempt from CGT if the investment is a qualifying SEIS investment and appropriate claims are made.

The lifetime limit for business asset disposal relief (formerly known as entrepreneurs' relief) is £1 million. Qualifying gains made on disposals prior to 6 April 2025 and within the £1 million limit are subject to a reduced capital gains tax rate of 10%. From 6 April 2025 an increased rate of 14% will apply, with a further increase to 18% to take effect from 6 April 2026.

Investors' relief, for external investors in unlisted trading companies, applies to newly-issued shares purchased on or after 17 March 2016, provided they are held for a minimum of three years from 6 April 2016, and subject to a lifetime limit of £10 million of gains on disposals made prior to 30 October 2024. From 30 October 2024 onwards, the lifetime limit for investors' relief is £1 million. This limit is separate from the lifetime limit of gains for business asset disposal relief.

There is no chargeable gain on the disposal of a single chattel if the gross consideration does not exceed £6,000.

Inheritance tax (IHT)

IHT is charged on an individual's estate at death, on gifts within seven years of death, and on chargeable lifetime transfers of value (e.g. a transfer to a trust). The nil rate band is £325,000. Cumulative chargeable transfers up to the limit of the nil rate band do not result in an IHT charge. To the extent that chargeable transfers exceed the nil rate band, the tax rate is 20% for lifetime transfers where the donor survives seven years, and 40% for transfers on death and in the three years preceding death. A tapered inheritance tax rate applies to gifts made between three and seven years before death.

At Autumn Budget 2024, it was announced the value of most unused pensions savings and death benefits will be brought within the scope of an individual's estate for inheritance tax purposes from 6 April 2027. This is in addition to any income tax charges that may apply.

At Autumn Budget 2024, it was also announced that Business Property Relief (BPR) and Agricultural Property Relief (APR) will be restricted from 6 April 2025. These reliefs are currently uncapped and can reduce the taxable value of certain assets by 50% or 100%. The scope of assets that can attract 100% relief will be reduced, and the amount of relief at 100% will be capped at £1 million. Relief at 50% will be available on qualifying assets in excess of the cap.

When a surviving spouse or civil partner dies, relief is due on that death in respect of any unused proportion of the nil rate band of the spouse or civil partner who died first. This is in addition to any unused nil rate band of the survivor. In 2024/25, transfers between spouses or civil partners who are both UK-domiciled or both non-UK domiciled are exempt. When a transferor spouse or civil partner is UK-domiciled and a transferee spouse or civil partner is not, the spouse exemption is limited to the level of the IHT nil rate band. Also, a non-UK domiciled spouse or civil partner can elect to be treated for IHT as UK-domiciled. If he or she does so the full spouse/civil partner exemption will be due.

At Autumn Budget 2024, it was confirmed that the current domicile-based inheritance tax system is to be replaced with a new residence-based system from 6 April 2025. Those who are 'long-term UK resident' at the time a chargeable event (including death) arises will be subject to inheritance tax on worldwide assets. This status will normally apply where the individual has been resident for at least 10 of the preceding 20 tax years, but special rules apply to those who have already left the UK or who have spent fewer than 20 tax years in the UK by the time they leave.

Where 10% or more of a person's net estate is left to charity, the rate of IHT is reduced to 36%.

An additional residence nil rate band (RNRB) was introduced with effect from 6 April 2017, which applies when a residence is passed to a direct descendant. The RNRB is £175,000. Any unused RNRB can be transferred to a surviving spouse or civil partner. It will also be available when a person downsizes or ceases to own a home and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants. There is a tapered withdrawal of the RNRB for estates with a net value of over £2 million, at a rate of £1 for every £2 over this threshold.

At Autumn Budget 2024, it was announced that the IHT nil rate band will be maintained at £325,000, the RNRB will be maintained at £175,000, and the residence nil rate taper will continue to start at £2 million, until 5 April 2030.

National Insurance Contributions 2025/26

Class 1 (employees and employers) rates 2025/26

Weekly earnings (£)	Employees	Weekly earnings (£)	Employers
125.00 or less ^a	–	96.00 or less ^d	–
125.01 – 242.00 ^{b, c}	0%	Over 96.00 ^d	15% ^f
242.01 – 967.00 ^e	8%		
Over 967.00 ^e	2%		

- a. At the time of publication, the monthly and annual equivalents were yet to be confirmed, but these are expected to be approximately £542 and £6,500 respectively.
- b. A zero rate of NIC applies to earnings between the lower earnings limit of £125 per week and the primary earnings threshold of £242 per week to protect employees' contributory benefit entitlements.
- c. The monthly equivalent of the £242 per week primary earnings thresholds is £1,048. The annual equivalent is £12,570, being aligned with the income tax personal allowance for individuals.
- d. At Autumn Budget 2024, it was announced that the employee secondary threshold would be decreased from £175 (per week)/£9,100 (annually) in 2024/25 to £96 (per week)/£5,000 (annually) from 6 April 2025. At the time of publication, the monthly equivalent was yet to be confirmed, but is expected to be approximately £417 per month.
- e. The monthly and annual equivalents are £4,189 and £50,270 respectively.
- f. At Autumn Budget 2024, it was announced that the Class 1 employer rate would increase from 13.8% in 2024/25 to 15% with effect from 6 April 2025.

Employees' qualifying business travel and subsistence expenses are excluded from earnings for Class 1 NICs purposes. Employers can pay up to 45p per mile to employees travelling on business in their own cars without incurring a NIC charge. This rate applies, for NICs purposes, irrespective of the business mileage incurred.

An employment allowance of £10,500 per year (2024/25: £5,000) is available to eligible employers to offset against their employer Class 1 NICs. A restriction to employers with an employer's NICs bill below £100,000 in the previous tax year will be removed with effect from 2025/26.

Employers are not required to pay employer Class 1 NICs in respect of the wages they pay to employees under the age of 21 up to £967 per week.

For apprentices under the age of 25, the apprentice upper secondary threshold is also £967 per week. This means that employers will not be required to pay employer Class 1 NICs in respect of the wages they pay to eligible apprentice employees under the age of 25 up to £967 per week.

A NICs relief is available for employers who hire armed forces veterans until 6 April 2026. This relief applies in respect of employer Class 1 NICs on the earnings paid to qualifying armed forces veterans. The relief is only available for 12 consecutive months from the veteran's first day of civilian employment, and applies a 0% Secondary Class 1 NICs rate on earnings up to the veteran upper secondary threshold (£967 per week).

There is also a NICs relief for employers who hire employees that are reasonably expected to spend 60% or more of their working time in a single designated Freeport or Investment Zone tax site in which the employer has business premises. This relief applies a 0% Secondary Class 1 NICs rate on up to £25,000 of the annual earnings paid to each qualifying employee. The relief is available for a period of three years per new employee.

Class 1A (employers providing benefits-in-kind)

Employers are liable to Class 1A NICs at 15% (2024/25: 13.8%) on most benefits-in-kind subject to income tax. Scale rate allowances covered by an approval notice or benefits-in-kind included in a PAYE settlement agreement are not subject to Class 1A NICs (but see below). Certain other benefits are specifically exempt from both income tax and Class 1A NICs or are subject to Class 1 NIC rather than Class 1A.

With effect from 6 April 2020, the scope of Class 1A NICs was extended to include contributions on taxable termination payments above £30,000.

Class 1B (employers settling tax liabilities via PAYE settlement agreements)

Class 1B NICs are employer-only contributions, similar to Class 1A, payable by employers on the value of the tax and on certain benefits paid via PAYE settlement agreements. The rate for 2024/25 is 15% (2024/25:13.8%) and contributions are payable by 19 October following the end of the tax year, along with the tax under the PAYE settlement agreement.

Other Classes

Class 2 (self-employed, voluntary)	2025/26
Weekly rate	£3.50
Lower profits limit (annual)	N/A
Small profits threshold (annual)	£6,845

Class 2 NICs are weekly flat-rate contributions which were previously payable by self-employed individuals earning more than £12,570 and could be paid as a voluntary contribution by certain individuals working overseas who are not liable to pay compulsory NICs.

Since 6 April 2024, self-employed individuals with profits above £12,570 are no longer required to pay Class 2 NICs, but will continue to receive access to contributory benefits, including the state pension. Those with profits between £6,845 (2024/25: £6,725) and £12,570 will continue to get access to contributory benefits, including the state pension, through a National Insurance credit without paying NICs. Those with profits under £6,845 (2024/25: £6,725) who choose to pay Class 2 voluntarily to get access to contributory benefits, including the state pension, will continue to be able to do so.

Class 3 (voluntary)	2025/26
Weekly rate	£17.75

The *Social Security (Contributions) (Amendment No. 3) Regulations 2023* (SI 2023/309) and the *Social Security (Contributions) (Amendment No. 4) Regulations 2023* (SI 2023/751) have extended, until 5 April 2025, a deadline for individuals to make voluntary Class 2 and Class 3 contributions in respect of the tax years 2006/07 to 2017/18 to increase their entitlement to the UK State Pension. Any such contributions will be payable at 2022/23 rates (£3.15 per week for Class 2 voluntary NICs and £15.85 per week for Class 3 voluntary NICs). The regulations also provide that any voluntary contributions made in respect of the tax years 2017/18 to 2022/23 (inclusive) in the period between 6 April 2023 and 5 April 2025 will also be payable at 2022/23 rates. From 6 April 2025 onwards, historical voluntary Class 2 and Class 3 contributions can be made by individuals in respect of the previous six tax years only, payable at the rate applicable for the tax year in which the voluntary contribution is made.

Class 4 (self-employed)	2025/26
Lower profits limit (annual)	£12,570
Upper profits limit (annual)	£50,270
Rate on profits between lower and upper profits limits	6%
Rate on profits above upper profits limit	2%

The government has announced that the upper profits limit will be maintained at £50,270 until 5 April 2028.

The lower profits limit has been aligned with the income tax personal allowance for individuals since 2023/24. This is due to be maintained at £12,570 until 5 April 2028 (see [page 3](#)).

Apprenticeship Levy

Since 6 April 2017, some employers are required to pay the Apprenticeship Levy. The Levy is set at a rate of 0.5% of an employer's annual pay bill and is collected through the PAYE system.

The pay bill is the total amount of earnings liable to employer's Class 1 NIC, including earnings below the secondary threshold (see [page 13](#)). Similarly, where the age-related secondary percentage of NIC is 0%, e.g. for employees under the age of 21, such earnings are included in calculating the pay bill.

Employers receive an annual allowance of £15,000 to offset against payment of the Levy, and therefore the Levy is only payable by employers who have pay bills in excess of £3 million per year. Where two or more companies are connected, only one company can claim the allowance.

Prior to Autumn Budget 2024, it was announced that the government will take steps in due course to transform the Apprenticeship Levy into a more flexible Growth and Skills Levy.

Indirect taxes

Value Added Tax (VAT)

From 1 April 2024, VAT registration is required where taxable supplies exceed £90,000 for the previous 12 months or are expected to do so within the next 30 days. The deregistration threshold from 1 April 2024 is £88,000.

Rates

Zero rate (e.g. newspapers, children's clothes)	0%
Reduced rate (e.g. certain fuel and power, some residential property works)	5%
Standard rate	20%
VAT fraction for standard rate VAT inclusive price	1/6

Insurance premium tax

The standard rate of insurance premium tax applying to most general insurance is 12%. Life and other long-term insurance is exempt.

A higher rate applies to some mechanical breakdown and travel insurance, and insurance sold with certain goods. The higher rate is 20%.

Stamp duty land tax (SDLT) – England, Northern Ireland

SDLT applies to purchases of properties in England and Northern Ireland. SDLT rates for residential properties apply to slices of consideration rather than to all the consideration.

The Stamp Duty Land Tax (Temporary Relief) Act 2023 provides that, with effect from 23 September 2022 the threshold above which SDLT is payable on the purchase of residential property would increase from £125,000 to £250,000. This change is temporary and the threshold above which SDLT is payable on the purchase of residential property will return to £125,000 with effect from 1 April 2025.

The SDLT bands and rates for residential purchases from 23 September 2022 are provided in the table below:

Relevant consideration (£) – residential property (from 23 September 2022)	Rate (%)
Up to 125,000 (1 April 2025 onwards)	0
Up to 250,000 (23 September 2022 – 31 March 2025)	0
Above 125,000 to 250,000 (1 April 2025 onwards)	2
Above 250,000 to 925,000	5
Above 925,000 to 1,500,000	10
Over 1,500,000	12

For example, SDLT of £1,250 is ordinarily payable on a residential property bought between 23 September 2022 and 31 March 2025 for £275,000, made up of nothing on the first £250,000, and £1,250 (5%) on the remaining £25,000.

Reduced rates are available for first-time buyers purchasing a single dwelling (and intending to occupy the purchased dwelling as their only or main residence):

- Prior to 23 September 2022, those claiming the first-time buyers relief paid no SDLT on the first £300,000 of the consideration, and paid 5% on any excess over £300,000, but no relief was available where the total consideration was more than £500,000.
- The Stamp Duty Land Tax (Temporary Relief) Act 2023 provides that, with from 23 September 2022 to 31 March 2025, the threshold above which SDLT is payable for first-time buyers purchasing a single dwelling is temporarily increased to £425,000 and the maximum value of a property on which first-time buyers' relief can be claimed is temporarily increased to £625,000.
- The first-time buyers' threshold is due to return to £300,000, and the maximum value of a property on which first-time buyers' relief can be claimed is due to return to £500,000, with effect from 1 April 2025.

Higher rates of SDLT apply to purchases of additional residential properties such as second homes and buy-to-let properties acquired for more than £40,000. The rates were increased at Autumn Budget 2024 with effect from 31 October 2024. The higher rates will levy an additional 5% (3% prior to 31 October 2024) on the total price paid for the property – such that, as shown below, the nil rate band will increase to 5% and so on up to the top slice of SDLT (which increases to 17%).

Relevant consideration, above £40k (£) – residential property (from 31 October 2024)	Normal rate (%)	Additional rate (%)
Up to 125,000 (1 April 2025 onwards)		
Up to 250,000 (31 October 2024 – 31 March 2025)	0	5
Above 125,000 to 250,000 (1 April 2025 onwards)	2	7
Above 250,000 to 925,000	5	10
Above 925,000 to 1,500,000	10	15
Over 1,500,000	12	17

Purchasers will not incur the additional charge if they replace a main residence which has been sold within the last 36 months. Where the purchaser has paid the additional charge because they have not been able to sell their previous main residence before the acquisition of the new property, they will be able to claim a refund if they then sell their previous main residence within 36 months.

A higher rate of 17% (15% prior to 31 October 2024) may apply to all the consideration where certain 'non-natural' persons, such as a company, purchase an interest in a single residential property and consideration of more than £500,000 is attributable to the property. This 17% charge will apply instead of the normal SDLT rates unless a relief is available to disapply the 17% rate. The reliefs available are broadly the same as those available in respect of ATED (discussed below).

Since 1 April 2021, an additional 2 percentage point SDLT surcharge on top of the above rates applies to non-UK residents purchasing residential property in England and Northern Ireland. The charge applies to non-resident individuals and non-natural persons including companies, trusts and partnerships, as well as to UK-incorporated close companies with non-resident shareholders.

SDLT for non-residential or mixed use properties applies the same progressive slice system as for residential property so that SDLT will be chargeable on the portion of the purchase price which falls within each tax band as set out below:

Relevant consideration (£) – non-residential or mixed use property	Rate (%)
Up to £150,000	0
Above £150,000 to £250,000	2
Over £250,000	5

For example, SDLT of £3,250 is payable on a non-residential property bought for £275,000, made up of nothing on the first £150,000, £2,000 (2%) on the next £100,000 and £1,250 (5%) on the remaining £25,000.

The relevant consideration is determined by aggregating the consideration of all linked transactions. The relevant consideration is the VAT inclusive amount or value of any consideration given by the purchaser (or persons connected with him/her) in money or money's worth.

Although no SDLT will be payable until the relevant consideration exceeds the nil rate band, a transaction may nonetheless be notifiable (such that an SDLT land transaction return is required) where the relevant consideration is £40,000 or more.

Where six or more residential properties are acquired in a single transaction, they are treated as non-residential property, such that instead of the residential rates, the rates applicable to commercial or mixed property will apply (unless the relief for bulk purchases is claimed).

Until 30 September 2031 relief from SDLT in full is available for purchases of land and buildings within a Freeport tax site in England, where Freeport tax sites have been designated, subject to a control period of up to three years and the land being acquired and used in a qualifying manner.

At Spring Budget 2023, the government announced that relief from SDLT in full will be available for purchases of land and buildings within an Investment Zone tax site in England, where Investment Zone tax sites have been designated, subject to a control period of up to three years and the land being acquired and used in a qualifying manner. The commencement date and end date for this relief have yet to be confirmed.

SDLT will also be charged on the grant of a lease under which rent is payable at the rate of 1% of the net present value of the (VAT inclusive) rent payable over the term of the lease, to the extent that value exceeds £125,000 in the case of residential property (where the lease is granted prior to 8 July 2020 or on or after 1 April 2021) and £150,000 in the case of other property. Since 17 March 2016, a 2% SDLT rate also applies in respect of the grant of a lease of mixed use or non-residential property where the net present value (NPV) of the rent exceeds £5m.

SDLT is also charged on any premium paid by the tenant on the grant of the lease at the rate applicable to residential, non-residential or mixed-use properties, as set out above.

Land and buildings transaction tax (LBTT) – Scotland

Note: the 2025/26 Scottish Budget is scheduled for 4 December 2024.

LBTT (instead of SDLT) applies to property purchases in Scotland. A progressive system is used.

As of 31 October 2024, the following LBTT rates apply to slices of consideration in the following bands:

Consideration (£) – residential transactions	Rate (%)	Consideration (£) – non-residential transactions	Rate (%)
Up to 145,000	0	Up to 150,000	0
Above 145,000 to 250,000	2	Above 150,000 to 250,000	1
Above 250,000 to 325,000	5	Above 250,000	5
Above 325,000 to 750,000	10		
Over 750,000	12		

For example, LBTT of £3,350 is payable on a residential property in Scotland bought for £275,000, made up of nothing on the first £145,000, £2,100 (2%) on the next £105,000 and £1,250 (5%) on the remaining £25,000.

As for SDLT, an additional LBTT charge (the additional dwelling supplement – ADS) applies to purchases of investment properties and second homes for more than £40,000. There are, however, some technical differences between the SDLT and LBTT regimes. For transactions on or after 16 December 2022, the ADS has been set at 6 percentage points. (Between 25 January 2019 and 15 December 2022, the ADS rate was set at 4 percentage points).

Generally, leases of residential property that are under 175 years are exempt from LBTT.

For chargeable leases, LBTT is payable at the rate of 1% of the net present value of the (VAT inclusive) rent payable over the term of the lease, to the extent that value exceeds £150,000. With effect for transactions entered into after 6 February 2020, the rate applicable to chargeable non-residential leases rises to 2% to the extent the net present value exceeds £2 million.

A relief from LBTT for first-time buyers came into force on 30 June 2018. Subject to conditions, the relief raises the 0% threshold for eligible first-time buyers purchasing a dwelling to £175,000. First-time buyers purchasing a dwelling above £175,000 are also entitled to a relief on the portion of the price below the threshold.

Land transaction tax (LTT) – Wales (from 1 April 2018)

Note: the Draft Welsh Budget for 2025/26 is scheduled to be published on 10 December 2024.

LTT (instead of SDLT) applies to property purchases in Wales. A progressive system is used.

As of 31 October 2024 LTT rates apply to slices of consideration in the following bands:

Consideration (£) – residential transactions	Rate (%)	Consideration (£) – non-residential transactions	Rate (%)
Up to 225,000	0	Up to 150,000	0
Above 225,000 to 400,000	6	Above 150,000 – 250,000	1
Above 400,000 to 750,000	7.5	Above 250,000 – 1,000,000	5
Above 750,000 to 1,500,000	10	Over 1,000,000	6
Over 1,500,000	12		

For example, LTT of £3,000 is ordinarily expected to be payable on a residential property in Wales bought for £275,000 after 10 October 2022, made up of nothing on the first £225,000, and £3,000 (6%) on the remaining £50,000.

As with SDLT, increased LTT charges apply to purchases of investment properties and second homes for more than £40,000. There are, however, some technical differences between the SDLT and LTT regimes. For transactions with an effective date on or after 22 December 2020 the following rates and bands apply:

Consideration (£) – higher residential transactions (22 December 2020 onwards)	Rate (%)
Up to 180,000	4
Above 180,000 to 250,000	7.5
Above 250,000 to 400,000	9
Above 400,000 to 750,000	11.5
Above 750,000 to 1,500,000	14
Over 1,500,000	16

For chargeable leases, LTT will be charged on the grant of a lease of non-residential property under which rent is payable at the rate of 1% of the net present value (NPV) of the (VAT inclusive) rent payable over the term of the lease, to the extent that value exceeds £150,000, and 2% rate where the NPV of the rent exceeds £2 million.

Unlike for the equivalent taxes in the rest of the UK, there is no specific relief from LTT for the purchase of dwellings by first-time buyers.

Stamp duty and Stamp duty reserve tax (SDRT)

Stamp duty and SDRT generally apply to transfers of UK shares (being shares in a company that is incorporated in the UK or which maintains its share register in the UK) and UK securities at a rate of 0.5% of the consideration given by the purchaser. Payment of the appropriate amount of stamp duty (or a valid claim for relief from stamp duty) generally cancels the charge to SDRT. As such, SDRT is generally only paid in the context of electronic trading, where shares are held in dematerialised form.

Share transfers where the value of the chargeable consideration is £1,000 or less are exempt from stamp duty, provided they do not form part of a larger transaction or series of transactions where the combined value of the consideration exceeds £1,000 and a certificate confirming this is given on the reverse of the instrument of transfer.

There is a higher 1.5% rate of stamp duty and SDRT which applies to certain transfers of shares to depositary receipt issuers and persons providing clearance services.

Annual tax on enveloped dwellings (ATED)

There is an ATED charge in respect of single interests in UK residential property valued at more than £500,000 held by 'non-natural' persons, such as companies. ATED generally increases each year based on inflation. The rates for 2025/26 (1 April 2025 – 31 March 2026) are set out below:

Taxable value of property	ATED charge per annum – 2025/26 (£)
£500,001 – £1,000,000	4,450
£1,000,001 – £2,000,000	9,150
£2,000,001 – £5,000,000	31,050
£5,000,001 – £10,000,000	72,700
£10,000,001 – £20,000,000	145,950
Over £20,000,000	292,350

Relief from ATED is available for certain businesses and investors. Reliefs are available to, amongst others, property rental businesses, property developers and property traders. Relief must be claimed annually.

For the five chargeable periods 2023/24 to 2028/29, the taxable value of a property for ATED purposes is the market value of the property on 1 April 2022 if the property was owned on this date, otherwise the market value of the property on acquisition is used.

Properties need to be revalued, and thus may move into a different ATED band, if there is a substantial acquisition of an additional chargeable interest in a dwelling or a substantial disposal of part of a chargeable interest where the acquisition cost or disposal proceeds are £40,000 or more. For transactions not at arm's length, for example, gifts or sales between connected persons, market values should be used.

Business tax

Corporation tax rates

	Year ending 31 March 2026	Year ending 31 March 2025
Main rate	25%	25%
Small profits rate	19%	19%

The main rate of corporation tax increased from 19% to 25% with effect from 1 April 2023 for companies with profits over £250,000.

Certain companies with taxable profits of £50,000 or less pay a small profits rate of 19%, and companies with profits between £50,000 and £250,000 pay tax at the main rate of 25% reduced by a marginal relief. Limits are reduced proportionally for short accounting periods and where there are 'associated companies'.

At Autumn Budget 2024, the government confirmed its intention to cap the main rate of corporation tax at 25% for the duration of the current parliament, and to maintain the small profits rate and marginal relief at current rates and thresholds.

Corporation tax payments

Large and very large companies pay corporation tax in instalments. Companies that are neither large nor very large must pay corporation tax by nine months and one day after the end of the accounting period.

Large companies are broadly those with taxable profits of at least £1.5 million and a corporation tax liability in excess of £10,000 for a 12-month accounting period. The £1.5 million threshold is reduced pro rata for the number of 'associated companies' (or '51% related group companies' for accounting periods commencing prior to 1 April 2023) and for accounting periods of less than 12 months. The £10,000 is also reduced proportionately for shorter accounting periods.

In a 12-month accounting period, four instalments are payable as follows:

- 6 months and 13 days from the first day of the accounting period;
- 3 months after the first instalment;
- 3 months after the second instalment; and
- 3 months and 14 days from the last day of the accounting period.

Large companies are not required to make instalment payments in the first year in which the £1.5 million threshold is reached unless their profits exceed £10 million. The £10 million threshold is also reduced pro rata for the number of ‘associated companies’ and for accounting periods of less than 12 months.

Very large companies are broadly those with annual taxable profits of £20 million or more and a corporation tax liability in excess of £10,000 for a 12-month accounting period. As above, where a company is a member of a group, the £20 million threshold is divided by the number of ‘associated companies’ in the group. The £20 million and £10,000 limits are also reduced proportionately for shorter accounting periods.

In a 12-month accounting period, four instalments are payable as follows:

- 2 months and 13 days from the first day of the accounting period;
- 3 months after the first instalment;
- 3 months after the second instalment; and
- 3 months after the third instalment.

Different instalment arrangements apply for ‘ring-fence’ profits and the bank levy.

Capital expenditure

	Year ending 31 March 2026	Year ending 31 March 2025
First year allowance for main rate assets ('full expensing') ^a	100%	100%
First year allowance for special rate assets ^b	50%	50%
Annual investment allowance (AIA) ^c	1,000,000	1,000,000
Plant and machinery	18%	18%
High emission cars ^d , Long-life assets ^e , integral features ^f , thermal insulation, solar panels ('special rate pool')	6%	6%
Zero emission cars/goods vehicles and electric vehicle charging points	100%	100%
Research and development allowances (RDAs) ^g	100%	100%
Structures and buildings allowances (SBAs) ^h	3%	3%

-
- a. 100% in-year relief ('full expensing') applies to capital expenditure by companies on most new main rate plant and machinery, subject to certain exclusions including second-hand assets, cars (though zero emission cars continue to attract a 100% deduction), and most assets provided for leasing.
 - b. 50% first year allowances are available for capital expenditure by companies on special rate assets, subject to certain exclusions including second-hand assets, cars, and most assets provided for leasing.
 - c. The AIA is given per business or per group of companies only. The AIA is allocated against total expenditure on plant and machinery (other than cars), long-life assets and integral features. It is optional which class of asset the AIA is allocated against.
 - d. Cars (other than zero emission cars) with CO₂ emissions up to 50g/km are added to the main pool and cars with CO₂ emissions that exceed 50g/km are added to the special rate pool. Autumn Budget 2024 announced changes to in relation to the treatment of double cab pick-up vehicles (DCPUs) to treat DCPUs as cars for capital allowances purposes.
 - e. Applies to businesses spending more than £100,000 per annum (the monetary limit) on certain assets with a useful life of 25 years or more.
 - f. Applies to a prescribed list of assets covering: electrical systems; cold water systems; space or water heating systems, ventilation, air cooling or purification systems (and any floor or ceiling comprised in such systems); lifts, escalators or moving walkways; and external solar shading.
 - g. Available to businesses incurring capital expenditure in carrying out R&D or providing facilities for carrying out R&D relating to their trade.
 - h. Relief is available on eligible construction costs on qualifying non-residential structures and buildings at an annual rate of 3% (on a straight line basis).
-

An enhanced 100% capital allowance rate is available for companies investing in main rate and special rate plant and machinery for use in Freeport tax sites, where Freeport tax sites have been designated. The enhanced rate is available until 30 September 2031 for Freeport tax sites in England, with the equivalent date in Scotland and Wales being 30 September 2034. Similarly, an enhanced 10% rate of Structures and Buildings Allowances is available for the construction or renovation of non-residential structures and buildings within designated Freeport tax sites where the structure or building is brought into use on or before 30 September 2031 in England and September 2034 in Scotland and Wales.

An enhanced 100% capital allowance rate will be available for companies investing in qualifying plant and machinery for use in an Investment Zone tax site, where Investment Zone tax sites have been designated. Similarly, an enhanced 10% rate of SBAs will be available for qualifying expenditure on non-residential structures and buildings within designated Investment Zone tax sites. A 30 September 2024 sunset date will apply.

Tax relief is available for the cost of intangible assets (including goodwill and intangible property). This will, in most cases, be the level of amortisation/impairment recognised in the accounts. A fixed rate of 4% per annum may be applied on election. For intangible software, an election can be made to treat such costs as eligible for capital allowances instead of amortisation deductions. However, for goodwill and certain customer-related intangible fixed assets acquired on or after 8 July 2015 no amortisation or fixed-rate deduction is allowed. For such assets, debits arising on realisation are treated as non-trading debits. For purchases made on or after 1 April 2019, relief for acquired goodwill was partially re-instated for the acquisition of businesses with eligible intellectual property.

Patent box

The Patent box regime was introduced with effect from 1 April 2013. The regime effectively enables companies to apply a lower rate of corporation tax to profits attributable to patented products, processes and services. The relief provides for an effective corporation tax rate of 10% on the patented profits, achieved by deducting an additional amount from trading profits. The benefit is broadly limited by reference to the company's R&D expenditure on developing, licensing or acquiring patents.

Research and development (R&D) relief: revenue costs

R&D reliefs for accounting periods beginning on or after 1 April 2024

Finance Act 2024 includes legislation for a new merged R&D regime to replace the previous R&D Expenditure Credit (RDEC) and small and medium-sized enterprise (SME) schemes, and for a new additional tax relief for loss-making, R&D intensive SMEs ('enhanced R&D intensive support' – ERIS).

The new regimes apply for accounting periods beginning on or after 1 April 2024 and have the following features:

- For contracted out R&D, the credit is claimed by the customer where it is reasonable to assume that the customer intended or contemplated that R&D of that sort would be done, except in certain circumstances where the customer is not entitled to relief (e.g. charity or overseas company).
- For contracted out R&D and externally provided workers (EPWs), relief is available on 65% of the qualifying cost for payments to unconnected parties.
- Restrictions apply to limit qualifying expenditure on contracted out R&D and EPWs in relation to R&D undertaken overseas. Relief will only be available for R&D carried out overseas where there are necessary conditions that are present in the overseas location but not in the UK and that it would be wholly unreasonable to replicate in the UK. Conditions may include geographical, environmental or social conditions

and legal or regulatory requirements, but cost and availability of workers are specifically excluded.

- Where two companies are in a contractual relationship and one moves into the new R&D regime ahead of the other, transitional provisions apply to prevent relief being available twice or not at all.
- Subsidised expenditure qualifies for relief, but contributions to independent R&D no longer qualify.
- The cash credit payable is capped at £20,000 plus three times the amount paid in respect of PAYE and Employee Class 1 NIC liabilities. A company is exempt from the cap if its employees are creating, preparing to create or actively managing intellectual property, **and** qualifying R&D expenditure does not include more than 15% of spend relating to connected party subcontractors or connected party externally provided workers.
- A going concern requirement applies.

For the merged RDEC regime:

- Claimants receive relief for R&D expenditure via a taxable, above-the-line credit at a rate of 20% of qualifying R&D spend.
- Loss-making companies are subject to a notional tax deduction of 19% rather than the current corporation tax rate of 25%, delivering a net benefit of 16.2% versus 15% for taxpaying companies.

For the additional relief for loss-making, R&D intensive SMEs (ERIS):

- A company meets the R&D intensity condition if its qualifying R&D expenditure is at least 30% of its total expenditure for the period, with a 12-month grace period.
- The additional deduction is 86% of qualifying R&D expenditure and the repayable tax credit will be claimed at a higher rate of 14.5% (compared to 10% in the previous SME regime – see below). This will provide a benefit equivalent to up to 27p in the pound compared to 16.2p in the pound for other SME claimants.
- Special provisions apply to certain Northern Ireland companies.
- The additional relief is also available for expenditure incurred from 1 April 2023 for SMEs meeting a higher R&D intensity threshold of 40%, but the grace period and other features of the new regimes only apply for accounting periods beginning on or after 1 April 2024.

R&D reliefs for accounting periods beginning prior to 1 April 2024

Large companies (i.e. those that are not SMEs – see below) and SMEs where the R&D expenditure is subsidised can make claims under the RDEC regime. Under this regime, the benefit is recorded as a taxable credit in operating profit and is equal to 20% of the qualifying expenditure for expenditure incurred on or after 1 April 2023 (13% for expenditure incurred between 1 April 2020 and 31 March 2023).

Companies that are SMEs (see below) are entitled to an additional deduction of 86% (expenditure incurred prior to 1 April 2023: 130%) of qualifying R&D expenditure for expenditure that is not subsidised. For non-taxpaying SMEs a cash payment of up to 18.6p for every pound of qualifying expenditure may be available depending on their current year tax losses (expenditure incurred prior to 1 April 2023: 33.35p). From 1 April 2023, this increased to 27p for certain R&D-intensive non-taxpaying SMEs with qualifying R&D expenditure of at least 40% of total expenditure (see above).

A cap limits the total amount of SME R&D a company can claim on each project to €7.5 million and a going concern requirement applies.

The cash credit available to SMEs is capped at £20,000 plus three times the amount paid in respect of PAYE and Employee Class 1 NIC liabilities. A company is exempt from the cap if its employees are creating, preparing to create or actively managing intellectual property, **and** qualifying R&D expenditure does not include more than 15% of spend relating to connected party subcontractors or connected party externally provided workers.

General

An SME for R&D purposes is a company which, together with certain related enterprises, meets the EU definition of an SME but with higher limits such that it has fewer than 500 employees and **either** turnover not exceeding €100 million **or** total assets not exceeding €86 million.

The meaning of R&D for tax purposes is set out in s1006 Income Tax Act 2007, supplemented updated government guidelines issued on 7 March 2023 (and given force by the Research and Development (Prescribed Activities) Regulations 2023 (SI2023/293)). This version of the guidelines has been updated to include pure mathematics within the definition of R&D for tax purposes for accounting periods beginning on or after 1 April 2023. For accounting periods beginning on or after 1 April 2023 qualifying expenditure includes data and cloud computing costs.

For accounting periods beginning on or after 1 April 2023, claimants may be required to submit a claim notification within 6 months of the end of the period of account. An Additional Information Form is required for all R&D tax relief claims submitted on or after 8 August 2023.

No new assignments of R&D tax credits are possible from 22 November 2023 to prevent third parties being given property rights over R&D tax credit payments. The credit can only be paid to the claimant company and not to a nominee for claims made on or after 1 April 2024.

Global minimum tax (Pillar Two)

The UK is in the process of implementing rules that generally are in line with the global anti-base erosion (GloBE) or 'Pillar Two' model rules published by the OECD/G20 Inclusive Framework on BEPS that are designed to ensure a global minimum level of taxation of **15%** for multinational enterprise groups with annual consolidated revenue of at least EUR 750 million.

An IIR (income inclusion rule, named the 'multinational top-up tax' in UK legislation) applies for accounting periods beginning on or after 31 December 2023. The UK has also enacted a qualified domestic minimum top-up tax (sometimes referred to as a QDMTT, and named 'domestic top-up tax' in UK legislation), applicable for accounting periods beginning on or after 31 December 2023. The UK is in the process of implementing a UTPR (sometimes referred to as the undertaxed profits rule or the undertaxed payments rule). The UTPR will form part of the UK's multinational top-up tax legislation, and will take effect for accounting periods beginning on or after 31 December 2024.

Digital services tax

A Digital services tax (DST) applies to in-scope revenue earned from 1 April 2020, with payment due nine months and a day after the end of the accounting period.

DST is a 2% tax on the revenues of large businesses that provide a social media platform, search engine or online marketplace to UK users. There is an allowance of £25 million, which means a group's first £25 million of revenues derived from UK users will not be subject to DST.

DST will apply if more than £500 million of global revenues arise to the group in connection with any in-scope digital services and more than £25 million of those revenues are linked to the participation of UK users.

The government remains committed to developing an internationally agreed solution, via the G20/OECD Inclusive Framework, to the tax challenges arising from digitalisation and has committed to repeal DST once an appropriate global solution is in place.

Diverted profits tax

With effect from 1 April 2015, the government introduced a diverted profits tax (DPT).

The tax applies in two situations:

1. Where a non-UK company has artificially avoided having a taxable presence (permanent establishment) in the UK; or
2. Where a group has a UK company (or UK permanent establishment of a non-UK company) and there is a tax advantage as a result of an entity or transactions that lack economic substance.

The diverted profits tax applies to diverted profits arising on or after 1 April 2023 at a rate of 31% (1 April 2015 – 31 March 2023: 25%).

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