TAX BRIEFING
WINTER & BUDGET 2025

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UNDERSTANDING SIMPLE ASSESSMENTS

If you owe income tax that cannot be collected automatically via PAYE, such as tax on bank interest or the state pension, HMRC may send you a simple assessment notice

This letter shows how much tax HMRC believe you owe based on information they hold. It is important to check the figures against your own records, including bank statements and letters from the Department for Work and Pensions.

Contact us if you have received a letter and you are not sure whether the calculation is correct

If you normally complete a self assessment tax return you should not also receive a simple assessment. If you do, HMRC must withdraw it. You have 60 days from the date on the notice to challenge the figures or request withdrawal. We can help you with this.

Most people will receive only one notice, but it is possible to get more than one for the same tax year. For example a taxpayer who has already received a letter for 2024-25 that did not include their bank and building society interest may receive a second letter taking that information into account. The updated notice will show the total tax due for the year, even if some has already been paid. Make sure you deduct any tax paid following the first letter from the tax shown as due in the second letter before paying the remaining balance.

The payment deadline depends on when the notice is issued. If it is dated before 31 October, the tax must be paid by 31 January the following year. For notices dated on or after 31 October, you have three months from the date of issue to pay the tax. If you cannot pay in full, HMRC's new self-serve Time to Pay system allows you to set up an instalment plan online.

Simple assessment letters are now being issued for income earned in the 2024-25 tax year. Contact us if you have received a letter and you are not sure whether the calculation is correct.

ELECTRIC VEHICLE EXCISE DUTY

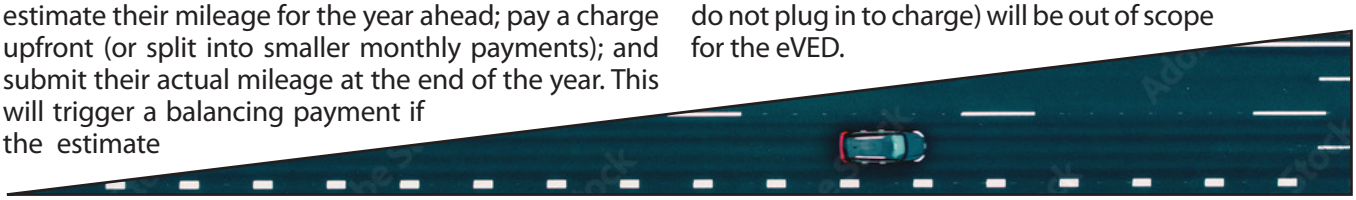
If you drive an electric or plug-in hybrid car you will have to pay a new mileage-based charge from April 2028

The electric vehicle excise duty (eVED) will be charged on top of the current vehicle excise duty charge paid by all vehicles. The charge will equal 3p per mile for fully electric cars and 1.5p per mile for plug-in hybrids from 1.4.28. The average electric car driver covering 8,000 miles is expected to be charged £240 a year, roughly half the rate of fuel duty tax paid by petrol and diesel drivers.

How the scheme will work is subject to a consultation. Under the current proposal motorists will be required to estimate their mileage for the year ahead; pay a charge upfront (or split into smaller monthly payments); and submit their actual mileage at the end of the year. This will trigger a balancing payment if the estimate was too low, or a credit towards next year's liability if the actual mileage was lower than estimated.

Mileage checks will be performed annually by an accredited provider during the car's MOT or, for new cars that do not yet require an MOT, around their first and second registration anniversaries.

Other vehicle types such as vans, buses, coaches, motorcycles and HGVs as well as hybrid cars that use petrol or diesel as their sole external power source (ie those that do not plug in to charge) will be out of scope for the eVED.



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PAY THE HIGH INCOME CHILD BENEFIT CHARGE VIA PAYE

Taxpayers can use HMRC's new online service to register for the high income child benefit charge to be collected automatically from their payslip

Since the high income child benefit charge (HICBC) was introduced, taxpayers have had to choose between opting out of child benefit payments or registering for self assessment to pay the charge. In some cases, where the total amount due was less than £2,000 HMRC could collect the HICBC through a later PAYE tax code, but there was no way to pay the charge in real time.

A new service launched in September allows employees to pay the HICBC directly through their PAYE tax code without completing a self assessment tax return, provided they have no other reason to file one. Taxpayers with income from other sources such as property or self-employment income will still be required to file a self assessment tax return and will not be able to use the new HICBC service.

Individuals have until 31 January after the end of the tax year to notify HMRC via the new online service that they wish to settle the HICBC through PAYE. If you previously filed self assessment returns you must deregister before joining the new service. If you have not yet filed your 2024-25 tax return, you can use the new service to settle both your 2024-25 and 2025-26 HICBC through your PAYE code in 2025-26. From 2026-27 onwards the HICBC will revert to being collected in the tax year to which it relates.

When you register, HMRC will check that you have deregistered from self assessment and ask questions to confirm whether you or your partner has the higher adjusted net income. Where your partner receives child benefit, HMRC will use their national insurance number to verify the exact amount of child benefit payments made to them.

After confirming the details, your PAYE code should be updated within 48 hours. Future changes to your child benefit entitlement, such as a new child or a child turning 16, will normally update automatically. However any change of circumstances such as a new partner must still be reported to HMRC.

If you have income above £60,000 and you or your partner receive child benefit payments, we can help you determine whether you need to pay the HICBC and how best to settle your liability.

SALARY SACRIFICE PENSIONS

Many employers offer salary sacrifice schemes enabling employees to give up some of their salary in exchange for an equivalent employer's contribution into their pension

If you sacrifice some of your salary to your pension, the amount you give up is not counted as taxable income so you do not pay tax on it. This can be mutually beneficial for employees and employers due to the national insurance contributions (NICs) and income tax saved.

There is currently no limit on the amount that can be sacrificed and avoid NICs, but income tax relief is subject to an annual allowance of £60,000 (tapered for high earners to a minimum of £10,000) after which contributions are charged at the individual's highest marginal tax rate.

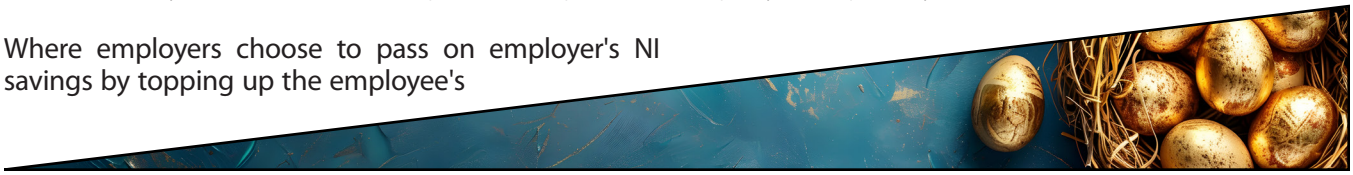
The Chancellor has announced that from April 2029 annual contributions above £2,000 will attract employer's NI (currently 15%) and employee's NI at standard rates (currently 8% or 2% depending on earnings).

Where employers choose to pass on employer's NI savings by topping up the employee's pension contributions these arrangements will need to be reviewed. Employers who deal with payroll in-house will need to ensure that their software is updated to apply the new cap accurately across salary sacrifice arrangements.

If you currently choose to sacrifice some of your salary in order to qualify for tax free childcare or child benefit you may be better off continuing to do so, even if it results in higher NICs.

No other changes were announced to the taxation of pensions, including the tax-free lump sum allowance which remains at £268,275.

Speak to an independent financial advisor before making any changes to your pension contributions.



INCOME TAX INCREASES

The Chancellor will add two percentage points to the rates of tax paid on income received from dividends, savings and property

If you receive dividends; interest and other savings; or income from a property you rent out as a sole trader landlord you will see an increase in the amount of tax you have to pay on these sources of income.

Directors and business owners should review their salary and dividend arrangements

Directors and business owners should review their salary and dividend arrangements to ensure they are extracting profits from their company in the most tax efficient way. We can help you run the numbers.

Dividends will be taxed at 10.75% basic rate; and 35.75% higher rate (currently 8.75%; and 33.75%). The additional rate for dividends will remain unchanged at 39.35%. Property and savings income will be taxed at 22% basic rate; 42% higher rate; and 47% additional rate (currently 20%; 40%; and 45%). The hike on dividend tax will be effective from 6.4.26 while taxpayers with savings and/or property income have an extra year's reprieve until April 2027.

The Chancellor also announced a freezing of the personal tax thresholds for a further three years. The personal allowance (the amount you can earn before paying any income tax) will remain at £12,570, with the higher rate and additional rate thresholds fixed at £50,270 and £125,140 respectively until April 2031. This means that as income from dividends, property and savings increases as a result of inflation, more people will be drawn into paying these increased taxes.

ISA allowance

Currently you are allowed to invest up to £20,000 per year in an individual savings account (ISA) and any interest you receive is tax free. From 6.4.27 the ISA allowance will be amended so that while the maximum investment will remain at £20,000, £8,000 of this must be invested in non-cash ISAs such as stocks and shares ISAs. This effectively reduces the maximum annual amount that can be put into cash ISAs to £12,000.

Taxpayers over 65 will still be able to invest up to £20,000 in cash ISAs.

Speak to an independent financial advisor if you are considering making any changes to your investments.

HIGH VALUE COUNCIL TAX SURCHARGE

From April 2028 residential properties valued at £2m or more will attract a new high value council tax surcharge

Announced in the Autumn Budget, eligible owners (rather than occupiers) of properties identified as being valued £2m or more by the Valuation Office will pay this recurring annual surcharge on top of their existing council tax.

The surcharge will work on a sliding scale as follows for 2028-29, depending on the value of the property based on 2026 valuations:

Threshold	Rate
£2m-2.5m	£2,500
£2.5m-3.5m	£3,500
£3.5m-5.0m	£5,000
£5m+	£7,500

Exemptions and reliefs will be available in due course, as well as separate rules for more complex ownership structures including where residential property is owned by companies, funds, trusts or partnerships or where a person is required to live in a property as a condition of their job. We will update our clients when more details are available.

LOAN CHARGE SETTLEMENT OPPORTUNITY

The Chancellor has announced significant and welcome changes for individuals facing tax bills under the loan charge

The loan charge was introduced in 2019 to tackle 'disguised remuneration' schemes, where workers were paid through loans instead of salary to avoid paying income tax and national insurance. If these loans remained unpaid by 5.4.19 they were caught by the loan charge and treated as taxable earnings as a lump sum in 2018-19 meaning that individuals had to declare them and pay the tax through self assessment.

Many affected individuals entered into the schemes in good faith, having been advised by accountants, employment agencies or umbrella companies. Because all outstanding loans were taxed in a single year many people were pushed into higher tax bands, dramatically increasing the amount they owed. For those who had already spent or invested the funds this often meant facing a tax bill far beyond their current income, putting them at risk of bankruptcy, severe debt or even losing their homes.

In January 2025 the government ordered an independent review of the loan charge to address these long-standing issues and offer a fair, affordable route to closure after years of uncertainty. Following its recommendations new legislation will be introduced to create a fairer 'settlement opportunity' for individuals and a small number of employers to resolve their liabilities on more manageable terms.

Those that decide to settle should see their loan charge bills cut by at least 50% with around 30% paying nothing at all. The tax due will be recalculated based on the years in which the income was earned; the new amount will be reduced to account for promoter fees; late-payment interest and penalties will be removed; and the first £5,000 of each person's liability will be written off. Individuals can also spread payments over five years. For those with larger bills, reductions could reach up to the maximum under the settlement of £70,000.

CAPITAL ALLOWANCES

The writing-down allowance (WDA) for capital assets will be lowered from April 2026 and a new first year allowance is introduced

Currently, companies can claim full expensing to deduct 100% of the cost of new and unused qualifying assets from their taxable profits. The annual investment allowance (AIA) also provides 100% tax relief on up to £1m per year of qualifying expenditure for companies and unincorporated businesses.

Certain assets do not qualify for the reliefs, for example full expensing cannot be claimed on second-hand or leased assets, while cars are excluded from both full expensing and the AIA.

Where neither relief is available businesses can claim a WDA to deduct a percentage of the cost of plant and machinery from their taxable profit each year. From 1.4.26 for companies and 6.4.26 for unincorporated businesses the WDA for assets in the main pool will be reduced from 18% to 14% (reducing balance). Some assets attract a lower rate of capital allowances if they are long lasting or integral to the building. These should be recorded in the special pool where the WDA will remain unchanged at 6%.

For businesses with a year end that does not coincide with the change a hybrid rate will need to be calculated and applied to assets purchased in the 2026-27 tax year.

To offset the reduced WDA a new permanent first year allowance (FYA) will allow businesses to deduct 40% of the cost of qualifying main pool assets, including assets bought for leasing, from 1.1.26. Cars, second-hand assets and assets for leasing overseas will not be eligible for the FYA.

Qualifying expenditure on zero-emission electric cars and electric vehicle charge points attracts a separate 100% first year allowance. This was due to expire in 2026 but has been extended to 31.3.27 for companies and 5.4.27 for individuals.

If you are planning to purchase assets for use in your business, or there is a significant balance in your main pool, contact us to discuss what these changes will mean for your business.