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2025 SPRING STATEMENT

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March 2025

Introduction

The Spring Statement (26 March 2025) focused more on public spending cuts than tax. However, the picture for tax from April 2025 now becomes more certain as a result of the announcements.

And, as is often the case, some significant information around tax emerged in the finer details contained within Treasury and HMRC papers that were released after the Chancellor's main speech.

Rachel Reeves told Parliament there will be no more tax rises as a result of her Spring Statement.

Often with Budgets or Spring Statements it can be just as important to analyse what was missing from the announcement as what was actually said.

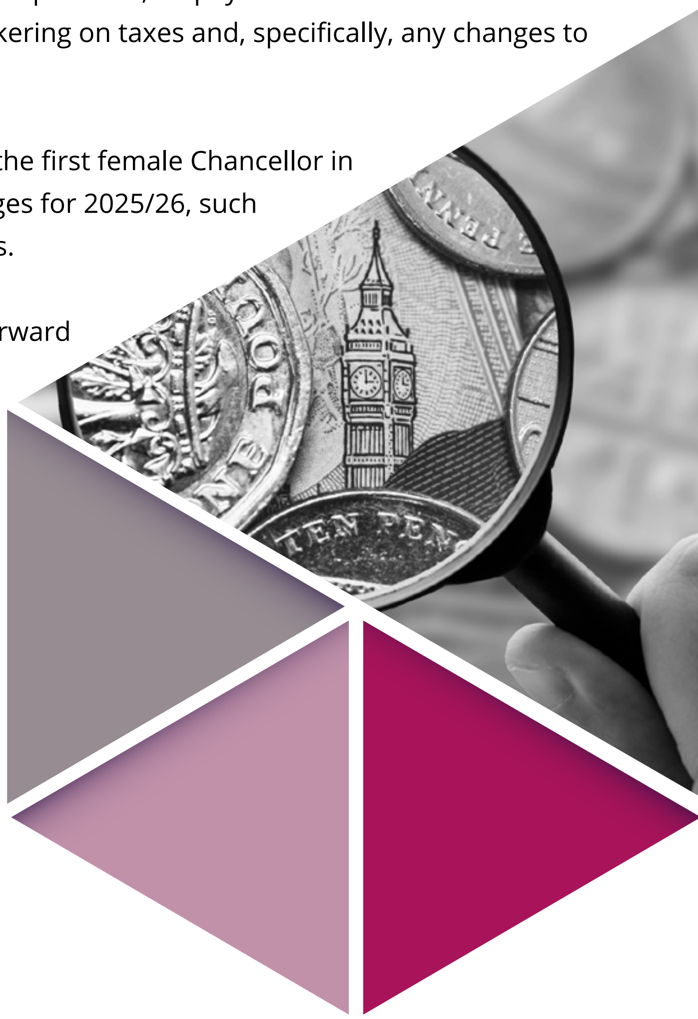
And with the new tax year just around the corner, starting on 6 April 2025, taxpayers and businesses around the UK have been waiting to hear if there would be further tinkering on taxes and, specifically, any changes to those outlined in the Autumn Budget.

Before today's statement, there was still a chance Ms Reeves, the first female Chancellor in UK history, could have tweaked or axed some of the key changes for 2025/26, such as the rise in National Insurance contributions from employers.

Essentially, what today's news means is that we can now go forward with confidence that several tax changes outlined in October will go ahead, unchanged.

So, we can now look ahead to the 2025/26 tax year with greater certainty in key areas, and businesses can plan accordingly, knowing exactly where they stand.
Below, we summarise what these changes look like.

But as is often the case with a Chancellor's announcements, new details pertaining to tax came out in the Treasury's Spring Statement documents. First, we take a look at those newly revealed details.



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“The new rates will be 3% of the tax outstanding where tax is overdue by 15 days, plus 3% where tax is overdue by 30 days, plus 10% per annum where tax is overdue by 31 days or more”.

Late Fines For Self-Assessment Tax Returns

Some commentators had speculated in the lead up to today’s announcement that one way to raise more money in future could be to increase late filing penalties of £100 for Self-Assessment Tax Returns. The £100 fine has stayed the same since the late ‘90s.

And this was one prediction that has proven to ring true. Despite the fact Ms Reeves didn’t mention it in Parliament, there were some brief details in the Treasury papers released immediately afterwards.

The official Spring Statement document from the Treasury stated: “The government will increase late payment penalties for VAT taxpayers and income tax Self-Assessment taxpayers as they join Making Tax Digital, from April 2025 onwards.

“The new rates will be 3% of the tax outstanding where tax is overdue by 15 days, plus 3% where tax is overdue by 30 days, plus 10% per annum where tax is overdue by 31 days or more.”

With about one million people failing to meet the 31 January Self-Assessment deadline this year, it is easy to see why the Treasury has looked at this area for reform.

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“Extend MTD to a wider range of customers and introduce various improvements to how MTD works”

Updates on Making Tax Digital (MTD)

Following the Spring Statement in Parliament, HMRC released what was titled as a ‘Technical note’ on MTD.

This revealed some updated measures, which “extend MTD to a wider range of customers and introduce various improvements to how MTD works”, the documents stated.

Plans include:

• Expanding MTD for Income Tax to sole traders and landlords with income over £20,000 from April 2028
• Improving end-of-year processes by making MTD-compatible software the default for submitting end of year information and Final Declaration (The Tax Return)

• Finalising the policy framework for MTD and penalty reform. One element of this will be a new power for HMRC to “cancel or reset late submission penalty points and to cancel associated financial penalties”. It gave the example of axing points in periods prior to insolvency.

• Exempting or deferring certain taxpayer groups from MTD. These would be people who have a Power of Attorney; non-UK resident foreign entertainers and sportspeople who have no other income sources that count as qualifying income for MTD; taxpayers for “whom HMRC cannot provide a digital service”

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The Treasury released details of a new consultation which "explores options to simplify the ways in which penalties are calculated and applied

Review of HMRC Penalties For Failures and Inaccuracies

Alongside the Spring Statement, the Treasury released details of a new consultation which "explores options to simplify the ways in which penalties are calculated and applied and provide a stronger deterrent for those who deliberately avoid paying what they owe."

Officials stated the focus will be fines for 'inaccuracies' returns and documents submitted to HMRC, plus where taxpayers fail to meet requirements to tell HMRC about circumstances "that affect their tax liability." This consultation will close on 18 June.

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“A consultation is coming to explore ways to “enhance HMRC’s powers and sanctions to take swifter and stronger action against tax advisers who facilitate non-compliance.”

Greater Powers and Investment Foost For HMRC

In a section called ‘closing the tax gap’, the Spring Statement papers from the Treasury contained details of plans to give HMRC a boost with extra investment and greater powers.

This includes:

- ***£87 million extra investment over the next five years in HMRC’s existing partnerships with private sector debt collection agencies to collect more unpaid tax debts***
- ***£114 million to recruit 600 extra HMRC debt management staff over five years***
- ***£100 million over the next five years to recruit 500 more HMRC compliance staff***

A consultation is coming to explore ways to “enhance HMRC’s powers and sanctions to take swifter and stronger action against tax advisers who facilitate non-compliance.”

This includes “expanding information powers against tax advisers” and tougher penalties on offenders. The review will also consider releasing details on tax advisers who are subject to HMRC sanctions and sharing a greater range of information about tax advisers with their professional bodies.

A separate consultation is to be published on “a package of measures to close in on promoters of marketed tax avoidance”.

“The aim is to increase the number of tax fraudsters who are charged by 20%”

Tax Evasion Crackdown

Reflecting on the fact she would not be raising any taxes, sticking to her previous promise, Rachel Reeves emphasised that the Government will up its efforts to crack down on tax avoidance and evasion. She told MPs that she is introducing further measures to support this goal, which she claimed would increase money raised from combating tax evasion and avoidance by £1bn. That’s on top of a £6.5bn estimate that was announced at the Budget in October.

The way the Government will do that, she said, would be investing in two things: cutting edge technology and HMRC’s capacity to crack down. The aim is to increase the number of tax fraudsters who are charged by 20%, she added.

The total figure of £7.5bn extra raised in taxes has been verified by the Office for Budget Responsibility (OBR), Ms Reeves stated.

Reforms To Savings Accounts

There was significant speculation in the newspapers leading up to the statement that rules around cash ISAs would be altered. At the moment savers can pay in £20,000 per year tax-free. The Telegraph had reported this maximum could be drastically cut to just £4,000, while the FT was also reporting a strong possibility of changes in this area, citing comments from Treasury minister Emma Reynolds questioning the tax incentives provided for saving in cash ISAs.

Ms Reeves didn't mention savings or ISAs in her speech, but the Treasury papers did contain some information on this, suggesting that changes could be coming before long.

The Spring Statement papers stated: "The government is looking at options for reforms to Individual Savings Accounts that get the balance right between cash and equities to earn better returns for savers, boost the culture of retail investment, and support the growth mission. Alongside this, the government is working closely with the Financial Conduct Authority to deliver a system of targeted support to give people the confidence to invest."

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The Spring Statement papers from the Treasury outlined the Government's ambition to "ensure that the UK is the best place in the world to start and grow a business"

Tax Reliefs For Entrepreneurs

The Spring Statement papers from the Treasury outlined the Government's ambition to "ensure that the UK is the best place in the world to start and grow a business" with a "dynamic environment for entrepreneurs".

It pledged to carry on speaking with top entrepreneurs and venture capital firms on policies and tax reliefs such as the Enterprise Management Incentives Scheme, the Enterprise Investment Scheme and the Venture Capital Trust Scheme.

Officials will hold roundtables with key stakeholders during April.

There will be policy details announced at the next Budget in Autumn 2025

Reforms to Business Rates

Last October, plans were announced to reform the business rates system, with the aim of boosting the High Street. Today, it was announced that an interim report will be published this summer to set out the path forward. There will be policy details announced at the next Budget in Autumn 2025, it stated.

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There were a number of areas where the Chancellor could have chosen to tweak or cancel tax changes announced in the Budget.

Tax Rules: Certainty and Clarity Arrive For The 2025/26 Tax Year

As mentioned in the introduction, there were a number of areas where the Chancellor could have chosen to tweak or cancel tax changes announced in the Budget. However, with that now ruled out, we can say with confidence that the following will apply.

From 6 April this year, employer NICs will rise from 13.8% to 15%.

National Insurance Contributions For Employers

Despite the controversy around it since it was announced in October, we can now say with certainty that the Government will not do a late U-turn on the rise planned for NI employers' contributions.

So, from 6 April this year, employer NICs will rise from 13.8% to 15%.

And there will also be changes for the Secondary Threshold - the point at which employers become liable to pay NICs on employees' earnings. This will go down to £5,000 a year from 6 April 2025 until 6 April 2028. That is a drop from the current rate of £9,100 a year. From 2028, it will increase in line with the Consumer Price Index (CPI).

There will be no increase in income tax

Income Tax

Despite the enormous and rising pressures on the public finances, Ms Reeves resisted what may have been a temptation to break her promise on freezing income tax. So, there will be no increase in income tax. This means that the rates and thresholds for 2025/26 will be as follows:

For the UK:

- ***Basic tax rate: 20% (annual earnings up to £37,700)***
- ***Higher tax rate: 40% (from £37,701 to £125,140)***
- ***Additional tax rate: 45% (Above £125,140)***

For Scotland

- ***Starter tax rate: 19% (Up to £2,827)***
- ***Basic tax rate: 20% (from £2,828 to £14,921)***
- ***Intermediate tax rate: 21% (from £14,922 to £31,092)***
- ***Higher tax rate: 42% (from £31,093 to £62,430)***
- ***Advanced tax rate: 45% (from £62,431 to £125,140)***
- ***Top tax rate: 48% (above £125,140)***

From 2028 income tax thresholds will be uprated again, in line with inflation, looks set to go ahead

Income Tax Thresholds

There had been speculation around income tax thresholds and allowances, with the possibility of the freeze being extended beyond 2028 – despite apparently being ruled out at the Budget in October. The attraction of this idea was easy to see, with the move potentially bringing in up to £4bn a year, according to calculations by The Institute for Fiscal Studies.

Whilst it remains possible that the Treasury could change tack in coming years, today it did not come to pass. There was no mention of the thresholds in either Ms Reeves' statement or the documents released subsequently.

This means that the Budget announcement in October that from 2028 income tax thresholds will be uprated again, in line with inflation, looks set to go ahead.

Extending the threshold freeze would "hurt working people", Ms Reeves told Parliament in October 2024.

VAT or National Insurance for employees will remain at the existing levels for 2025/26.

VAT and NI For Employees

Ms Reeves said in her first Budget that she would stick to the Labour manifesto commitments to avoid raising either VAT or National Insurance for employees. And with no changes announced today, both will remain at the existing levels for 2025/26.

With no alterations announced today for Corporation Tax, the Budget announcement will stand

Corporation Tax

With no alterations announced today for Corporation Tax, the Budget announcement will stand. So that means Corporation Tax will remain at 25%. The small profits rate and marginal relief will also stay as they are. As will R&D reliefs.

The existing capital allowances system, including permanent full expensing and the £1 million annual investment allowance, will also remain unchanged.

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CGT rates for carried interest will increase from 28% to 32% from April 2025

Reform To Tax On Carried Interest

CGT rates for carried interest will increase from 28% to 32% from April 2025, with further reform from April 2026 to make it ‘fairer’ and ‘better targeted’.

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Another possible area for tinkering today was reducing the tax relief on employee pension contributions

Tax Relief On Employee Pension Contributions

Another possible area for tinkering today was reducing the tax relief on employee pension contributions. There had been some speculation that this might happen, meaning tax relief would only be allowed at a flat rate of 20 per cent or 25 per cent rather than at someone's marginal tax rate, making employer pension contributions liable to employer NI contributions or introducing VAT on other items like private medical treatment. But there was no mention at all of pension contributions. Perhaps this will be one to look out for again in the Autumn 2025 Budget.

Summary Of Other Announcements

Sticking to fiscal rules amid global uncertainty
The Chancellor’s big pitch from the start was to position the statement in the context of the major conflicts happening in the world, especially the Russian invasion of Ukraine. She said the government's task is to "secure Britain’s future in a world that is changing before our eyes".

She said: “The global economy has become more uncertain…and borrowing costs rise for many major economies."

Much has been said about the so-called ‘fiscal rules’ which Ms Reeves has said she will not bend. Today she reiterated their importance, saying they are part of an “unwavering commitment to bring stability to the economy and bring security for working people”.

The two key rules are:
(A) Balancing the budget by 2029/30, meaning day to day spending is paid for by tax receipts
(B) Debt must be reduced by the end of the forecast period to 2029/30

Gloomy Economic Forecast
There was disappointing news on the economy. New forecasts showed an expected growth for this year of only 1%, rather than the previous forecast of 2% - a figure that Ms Reeves said was not satisfactory. She said she was determined to take action for growth by moving forward with projects such as the third runway at Heathrow Airport.

Inflation
Inflation fell in February – against expectations – MPs were told. Ms Reeves revealed that the OBR estimates CPI inflation will average 3.2% this year before falling to 2.1% in 2026. The target of 2% for inflation will be reached by 2027, the Chancellor told Parliament.

New Social Homes
There will be a £2 billion investment to build up to 18,000 new social and affordable homes.

Construction Worker Scheme
A training programme has been kick started to develop 60,000 construction workers to tackle skills shortages and get more young people into jobs.

Welfare Cuts
Cuts to the welfare budget to make it ‘more sustainable’ will save £4.8bn, Ms Reeves told MPs, with some “final adjustments” since the move was first publicised last week.

Summary Of Other Announcements...Cont'd

Civil Service Spending
The cost of running government was also a focus of the cuts, with plans announced today to save £2bn by reducing costs by 15%. That will be tied in with an investment of more than £3bn to reform how public services are delivered to make them more efficient and effective.

Money For Defence Innovation
Plans were revealed to establish a protected budget of £400m within the Ministry of Defence for “UK defence innovation with a clear mandate to bring innovative technology to the front line at speed”.

Planning Reforms
The OBR says the Government’s plans to reform the planning system will permanently increase GDP by 0.2% by 2029/30, which is worth £6.8bn, and increase GDP by 0.4% within 10 years. Ms Reeves claimed this is the “biggest positive growth impact that the OBR have ever reflected in their forecast” – and comes without spending a penny. There was a focus within this on new homes and the Government’s target of 1.5m new homes during this Parliament. The OBR says the planning reforms will enable 1.3m new builds over the coming 5 years, Ms Reeves stated.

Household Spending
People will be over £500 better off on average under this Government. That’s according to the OBR, Ms Reeves said, adding this meant higher living standards.

UK Export Finance
The Government will provide £2bn worth of increased capacity for UK Export Finance. This will provide loans for overseas buyers of UK defence goods and services- with the aim of creating more jobs.

Spending Review
There will be a Government Spending Review in June.