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DECEMBER 2025 NEWSLETTER

2025 BUDGET

On 26 November 2025 the Chancellor, Rachel Reeves, presented her Budget. It seemed that the pantomime season had already started when the OBR (Office for Budget Responsibility) inadvertently released the details over an hour before she spoke. The Chancellor had already prepared us for bad news a few weeks earlier, claiming she had a budget deficit to fill of around £20 billion. The OBR's figures claiming, "oh no it's not", showed a surplus of over £4 billion.

This Newsletter will focus on the 2025 Budget and how it will affect our clients for the remainder of the current tax year but particularly from April 2026.

DIVIDENDS

For owners of their own company, the most tax-efficient way of paying themselves is by a small salary with the remainder of profits taken as dividends.

The Chancellor announced that the annual tax-free dividend allowance will remain at £500, but the rate of dividend tax will increase by "two percentage points". Whilst this doesn't sound a lot, it effectively increases the rate of dividend tax for basic rate taxpayers from 8.75% to 10.75% (an increase of almost 23%!).

The new rates of dividend tax are as follows: -

	6 April 2026 to 5 April 2027	6 April 2025 to 5 April 2026
Basic rate (£1 - £37,700)	10.75%	8.75%
Higher rate (£37,701 - £125,140)	35.75%	33.75%
Additional rate (over £125,140)	39.35%	39.35%

TAX ON SAVINGS AND PROPERTY INCOME

Increases were also announced to the tax rates on income from savings and property rental, although these will not come into effect until April 2027.

	from 6 April 2027	Before 6 April 2027
Basic rate (£1 - £37,700)	22%	20%
Higher rate (£37,701 - £125,140)	42%	40%
Additional rate (over £125,140)	47%	45%

The first £1,000 of interest on savings (£500 for higher rate taxpayers) remains tax-free.

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NATIONAL MINIMUM WAGE

The rates will increase from 1 April 2026. The increases will take effect from the first pay period that starts on or after 1 April 2026. The new hourly rates will be as follows: -

Age	April 2026 to March 2027	April 2025 to March 2026
21 and over	£12.71	£12.21
18 to 20	£10.85	£10.00
16, 17 or apprentice	£8.00	£7.55

The current rate for workers aged 21 and over is actually called the National Living Wage. This will apply to workers aged 21 and over from 1 April 2026. The apprentice rate applies to apprentices aged under 19 or those aged 19 or over in their first year of apprenticeship. The significant increases in the rates for younger workers represented a step towards the Government's ambition for the same minimum wage to apply to all adults.

NATIONAL INSURANCE

No changes were announced to any of the rates of national insurance.

For employees, no national insurance is charged on the first £12,570 of pay, a rate of 8% then applies to the next £37,700 of earnings, with a rate of 2% applied to employment income above £50,270.

Employers will continue to pay national insurance at a rate of 15% on all earnings above £5,000, although there are higher thresholds for certain workers, particularly younger workers and apprentices.

The Employment Allowance will remain at £10,500. This means most employers (unless the director is the only employee) will not pay the first £10,500 of employer's national insurance.

Self-employed individuals will continue to pay class 4 national insurance at a rate of 6% on annual profits between £12,570 and £50,270 and 2% on any profits above £50,270.

PERSONAL ALLOWANCE AND TAX RATES

The personal allowance is the amount that can be earned before tax is payable. The Government had previously planned to keep this at £12,570 until April 2028. The Chancellor announced that this will now be extended for a further 3 years until April 2031.

The basic rate band was also frozen at £37,700, meaning that 40% tax will only be payable when income reaches £50,270. The 45% rate of tax will continue to apply to income above £125,140. The personal allowance will be partially withdrawn when income exceeds £100,000 and fully withdrawn once income reaches £125,140.

Child Benefit will continue to be paid in full where the highest earning parent has income below £60,000. No child benefit will be due where the highest earner has income above £80,000 and there is a sliding scale where income is between these two figures.

The Chancellor announced that the previous 2-child cap on benefits will be removed from April 2026.

STATE PENSION

The rising state pension and frozen personal allowance will mean that, from April 2027, pensioners whose only income is the state pension will have an income tax liability. After the Budget the Chancellor confirmed (in an interview with Martin Lewis) that pensioners in this situation will not have any tax to pay. We haven't seen any further details of how this will work in practice, particularly for this who have a small private pension as well as the state pension.

PENSION CONTRIBUTIONS AND SALARY SACRIFICE

The Chancellor announced that, from 6 April 2029, national insurance (both employees and employers) will apply to pension contributions above £2,000 in a year made via salary sacrifice. Tax relief will still be obtained on the payments.

Little has been published on these new rules since they will not come into effect for more than 3 years. Most of our clients with their own company do not have a contract of employment but will make payments into their pension. Our understanding of the position is that to sacrifice something you need to be entitled to it in the first place. Since they do not have a contract, they are not entitled to a certain salary and cannot sacrifice anything.

These rules are, therefore, unlikely to affect the majority of our clients.

CORPORATION TAX

No changes were made to the current rates of corporation tax. The rates applying from 1 April 2026 will remain as follows: -

Profits under £50,000	-	19%
Profits over £250,000	-	25%

These rates mean that any profits between £50,000 and £250,000 will effectively be taxed at a rate of 26.5%.

Associated company rules mean that where an individual controls more than one company, the limits are divided equally between the companies. Setting up two companies would not, therefore, enable you to make a profit of £100,000 and pay tax at 19% on all of the profits.

VAT

No changes were announced to the VAT registration limit, which stays at £90,000. The deregistration threshold remains at £88,000. The main VAT rate remains at 20% and the reduced rate remains at 5%.

Clients are reminded that this threshold applies on a rolling 12 months; it is not something to be calculated once a year when the year-end accounts are prepared.

CAPITAL GAINS TAX

No changes were announced to the rates of capital gains tax (CGT). An individual can continue to make a capital gain of £3,000 in a tax year and have no tax to pay. Tax will apply at a rate of 18% for basic rate taxpayers and 24% for higher rate taxpayers.

As previously announced, the rate of CGT for the disposal of business assets will increase from 14% to 18% with effect from 6 April 2026.

Clients are reminded that where a taxable gain is made on the sale of a residential property, the gain must be reported to HMRC and the tax paid within 60 days of the sale, otherwise automatic penalties will be charged.

WORKING FROM HOME ALLOWANCE

During the COVID-19 pandemic the Government introduced an allowance whereby employees could claim tax relief for working from home of £6 per week, through your tax return or tax code. The effect for a basic rate taxpayer is that they saved tax of £62.40 (£6 x 52 x 20%) each year.

From April 2026 this will not be possible. It will, however, be possible for employers to make such a payment to their employees and not have to deduct any tax or national insurance.

THE TAXATION OF SMALL COMPANIES

Over the last 25 years or so, it has been possible to make significant savings in tax and national insurance by operating a business as a limited company. The usual method of achieving these savings was to pay a small wage to the director with the balance of any profits taken as dividends. At the moment, the tax and national insurance rates mean that the optimum salary for many clients is likely to be £1,047.50 per month (or £241 per week).

However, many changes in recent years (decreases in national insurance for self-employed, increases in employer's national insurance, removal of the employment allowance for single director companies, increases in the dividend tax rates, reductions in the dividend allowance and the workplace pension laws) means that there is no longer a "one size fits all" solution to operating as tax-efficiently as possible.

The following table compares the total tax and national insurance that will be payable under the new rules (from April 2026) for a 'one-man business' operating on a self-employed basis with the total payable if the same business were operating as a limited company, but able to claim the employment allowance. As a limited company, the owner would pay themselves a wage of £1,047.50 per month with the remainder of the profits all taken as dividends.

Net profit	Tax and NI as a sole trader	Tax and NI as a Limited company	SAVING
15,000	632	620	12
20,000	1,932	2,005	(73)
25,000	3,232	3,390	(158)
30,000	4,532	4,776	(244)
35,000	5,832	6,161	(329)
40,000	7,132	7,546	(414)
50,000	9,732	10,317	(585)
60,000	13,888	13,267	621
70,000	18,088	18,421	(333)
80,000	22,288	23,699	(1,410)
100,000	30,689	34,254	(3,565)
120,000	43,089	44,809	(1,720)

As this table shows, there are no longer tax savings to be had by operating as a limited company.

To complicate the calculations further, some tax rules are different for limited companies and the self-employed. There are several other issues that must be considered, which will generally favour the limited company: -

- It is easier to spread the profits of limited companies to keep out of higher rate tax;
- Leaving profits in a company can reduce tax liabilities, whereas the self-employed are taxed on the business profit;
- It is easier to spread the profits of limited companies to fully use your tax-free allowance;
- Travelling in a van to a permanent workplace is classed as business travel for limited companies, but private travel for the self-employed;
- Companies can claim the cost of an annual event but the self-employed can't;
- Directors can be paid rent from their company but a self-employed trader cannot charge themselves rent;
- Tax is payable by limited companies nine months after their year-end whereas the self-employed have to make payments on account of their tax liability for next year, sometimes before their year-end;
- Making Tax Digital will be introduced for the self-employed and landlords from April 2026, whereas there are no such plans (at the moment) for limited companies.

Most of our clients will find that the main benefit of operating as a limited company will be to protect personal assets. However, it can be seen from the above calculations that it is important to seek advice specific to your particular circumstances.

MAKING TAX DIGITAL FOR INCOME TAX

With effect from April 2026, self-employed individuals and landlords with annual turnover (sales or rent) above £50,000 will be required to make quarterly submissions to HMRC. This threshold will reduce to £30,000 from April 2027 and to £20,000 “before the end of this parliament”.

The Chancellor announced that no penalties will be issued in the first 12 months for any late quarterly submissions.

We will be contacting clients affected by these new rules before April 2026.

LATE CORPORATION TAX RETURNS

Companies are currently charged a penalty if their corporation tax return is submitted late. These penalties are set to double for returns where the filing date is on or after 1 April 2026. From this date a late corporation tax return will attract a £200 penalty, which will increase to £400 if the return is more than 3 months late. These amounts will increase to £1,000 and £2,000 where three consecutive returns have been late.

DON'T FORGET YOUR CHRISTMAS PARTY

The taxman allows a full deduction (tax relief and, if registered, claiming back the VAT) for entertaining staff and their partners – so why not take full advantage this Christmas?

As long as the total cost (including VAT) is less than £150 per head, HMRC will relax their normally strict rules about entertaining and allow tax relief on the full cost. However, it is important to ensure the total cost is under £150 per head, otherwise it becomes taxable on the employees as a benefit in kind.

The £150 covers the full costs of the event so not only food and drink would be covered. Make sure you include taxis to and from the venue, the accommodation if your party includes an overnight stay and even gifts given out at the party. This applies even if your company's only staff are you and your spouse and the Christmas Party is anything from a table for two in your favourite restaurant to a full weekend away. So – treat yourselves and let the taxman share the cost!

SUMMARY

The removal of the 2-child restriction for claiming child benefit grabbed the main headlines, and over 500,000 families are expected to benefit by an average of over £5,000 each year.

However, the “fiscal drag” arising from the freezing of tax rates and allowances (i.e. not increasing them in line with inflation) will bring in far more money for the Government.

There is little for clients to be particularly happy about and the measures are likely to see increased taxes over the next few years. However, the general feeling was “it could have been worse”

BANK HOLIDAYS

**Our office will close for the Christmas break at
12 noon on Tuesday 23 December 2025
and will re-open on Friday 2 January 2026**

**(We will revert to our usual policy of closing the office on Fridays
whilst we work from home from 9 January 2026)**

**The easiest way to contact us during this period
will be by email**





We would like to take this opportunity to thank all clients for their custom during 2025 and wish you
a very merry Christmas and a healthy and prosperous New Year.



Please contact us for further information about any of the issues raised in this Newsletter

*This Newsletter is published for the information of clients.
It provides only an overview of the regulations in force at the date of publication,
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