Proskauer

UK Budget 2026

Tax Talks on **October 29, 2026**

On Wednesday 28 October 2026 the UK government announced its much-anticipated Autumn Budget, which included a broad range of tax measures. The measures are expected to be implemented over the next two years, with some measures taking effect from 28 October 2026, some next year, and others that are expected to be implemented in 2028 and beyond following further consultation. Here is a summary of ten key takeaways from the Budget based on what we know so far.

1. **Four percentage point increase to savings and property income rates and to withholding tax rates**

Income tax rates for both savings and property income will be increased by 2% from 6 April 2027, which is in addition to the previously announced 2% increase (the new rates will be: basic rate – 24%, higher rate – 44% and additional rate – 49%). The rate of interest withholding tax is aligned to the basic savings rate and so this is also expected to increase to 24% from 6 April 2027 (prior to today's announcement it had been expected to increase to 22% from the current rate of 20%).

2. **Bank surcharge increase**

The government announced a temporary increase in the rate of the corporation tax surcharge on banking companies to 6%, for 15 months. The increase in the rate of the surcharge (from the current rate of 3%) will apply from 1 January 2027 to 31 March 2028, and is less than a number of media commentators had discussed in advance of the Budget.

3. **CGT business asset disposal relief (BADR)**

The lifetime limit on capital gains eligible for business asset disposal relief (BADR, formerly entrepreneurs' relief) will be reduced to £500,000 (from £1 million) from 6 April 2027.

4. **New CGT Founders' Relief**

The government announced a new Founders' capital gains tax relief, providing a 10% CGT rate on up to £10 million of lifetime gains per individual for qualifying disposals from 6 April 2027. The relief could be valuable for founders and significant early investors, although many businesses will fall outside its scope. Only individuals would be able to claim the relief. Eligibility would depend on conditions applying both to the individual claimant and to the company whose shares or securities are being sold:

- *Individual claimant conditions:* a 25% ordinary shareholding with corresponding voting and economic rights when the original trade or preparation commenced; five years' ownership of the shares or securities sold; and five continuous tax years of prior UK residence.
- *Conditions for the company concerned:* UK corporation tax exposure and substantial UK presence for the five accounting periods before disposal; qualifying trading activities and continuation of the original trade without major change; and at least £10 million turnover and 15 qualifying full-time employees in the accounting period before disposal.
- *Company growth and innovation tests:* satisfaction of two of three tests: 25% average annual compound turnover growth, equivalent qualifying headcount growth, or £1.5 million of qualifying R&D expenditure with relief claimed.

5. **New Securities Transfer Tax**

As discussed in our previous blog post available here, the government intends to replace Stamp Duty and Stamp Duty Reserve Tax on shares and certain other securities with a single, self-assessed Securities Transfer Tax. The standard 0.5% rate is expected to be retained. The new tax is expected to take effect from late 2027, with the exact commencement date to be confirmed. Under the draft rules, ordinary transfers of limited partnership interests are expected to fall outside the scope of the new tax, subject to a targeted anti-avoidance rule.

6. **Treaty relief and withholding tax on interest – reforms**

The government published an update on its consultation on treaty relief from withholding tax on interest (see our blog post here for further background). In short, the government considers that there is scope to streamline and simplify the current system of HMRC (His Majesty's Revenue & Customs) directions, but notes that many respondents saw significant risks in replacing it entirely with a self-assessment regime, given the certainty which the directions system currently gives borrowers and the lending market. The options the government is now considering include a simpler process where the lender holds an HMRC double tax treaty "passport", a limited self-assessment option, better real-time information for lenders and borrowers, and further work on more complex financing arrangements. A full summary of consultation responses and the government's response are expected shortly. HMRC also intends to publish new interim guidance on operating the existing rules correctly, including how to deal with administrative failures.

7. **Reforming taxation of UK resident individual members in US LLCs**

HMRC published the outcome of its consultation on reforming the UK tax treatment of UK-resident individual members of US LLCs and other foreign reverse hybrids. As background, UK members of foreign reverse hybrids, most notably US LLCs, often face high effective tax rates. This is because they generally do not qualify for double tax relief for the tax paid by them on the reverse hybrid's underlying profits in the foreign jurisdiction against UK tax on distributions. Having considered options including automatic or elective UK tax transparency of the reverse hybrid in the consultation, the government has chosen to resolve this issue through credit relief. This means UK resident individuals could elect to claim credit for eligible foreign taxes paid personally on the entity's profits, income and gains, including federal, state and local taxes. (The credit would be calculated on the basis of the individual's average rate of foreign tax as opposed to a tracing mechanism). A further technical consultation will follow, with claims expected to be possible from early 2028.

8. **New regime proposed for sovereign tax status**

The UK government plans to overhaul the UK tax regime for non-UK sovereign entities. Currently the UK tax regime for sovereigns is not codified and is based on principles of international law and administrative practice. This uncodified regime results in a broad exemption from UK direct taxes for foreign sovereigns and certain related entities. The proposal for consultation, announced in the Budget, replaces this with effect from 1 January 2029 with a sovereign tax status regime set out in legislation. Sovereign tax status would be available for states, heads of states, and other entities such as entities wholly owned by states, sovereign wealth funds, state-operated overseas pension funds. In summary, those within the regime would become taxable on income arising from UK land, on gains on disposals of direct holdings of UK land and interests in certain UK property rich vehicles (although it is proposed that state-operated overseas pension funds would be exempt from tax on such gains), and on UK trading income. The government intends to publish draft legislation for technical consultation, with legislation being enacted in 2028 and the regime being in force from 2029.

9. **Modernising the distributions framework**

The government has announced its intention to proceed with all seven proposals to reform the framework for the taxation of company distributions. These proposals were introduced by the government in a public consultation which ran between 23 June 2026 and 14 September 2026 (see our blog post here), and a summary of responses to the consultation and the government's reply was published on Budget Day. The government has confirmed that draft legislation will be published for technical consultation in 2027. Any new legislation is intended to apply prospectively from April 2028.

The government's proposals seek to modernise the taxation of company distributions. One of the central themes of the proposals is to apply a consistent tax treatment to returns of value to shareholders regardless of legal form, company residence or transaction structure. The proposed changes seek to erode the tax attractions of value being returned in a capital form rather than as income, a preference which is explained by the lower rate of capital gains tax and the availability of other capital gains tax reliefs.

The changes proposed affect a wide range of transactions including reductions of capital, statutory and capital reduction demergers, distributions made by non-UK companies, loans to participators in close companies, purchases of own shares, stock dividends, and transactions which fall within the scope of the Transactions in Securities anti-avoidance legislation. The reforms target shareholders who are individuals or trusts; corporate shareholders are not directly targeted.

While the government has stated that it intends to proceed with its proposals, it has announced in the Budget that several of the proposals will be amended in line with stakeholders' responses in the public consultation. Key changes from the consultation include:

- a modernisation of the statutory demerger relief to enable its operation in a much broader set of circumstances;
- the exclusion of listed companies from the reduction of capital proposal, which will apply only to reorganisations undertaken after the new rules come into force, removing any need to analyse historic share capital or share premium; and
- confirmation that certain distributions from non-UK resident companies will be within the charge to income tax in line with the tax treatment of distributions from UK companies. Returns from non-UK companies that are currently treated as capital, either because they are not dividends or because of the mechanism by which they are made under local company law (the *Rae v Lazard* approach), may in future be taxed as income under the proposed changes. The main protection announced is for asset managers' co-investment and "genuine investment returns in fund structures", which will keep capital treatment where it is available under current rules. The government has said that it will engage with stakeholders on how this applies across different structures that are used to facilitate fund investment, stating that it will "explore how to provide greater clarity and a reasonable framework for shareholders with smaller interests" on the meaning of "dividend" and "repayment of share capital" for non-UK companies.

Given the inter-connection between the distributions legislation and a wide variety of transactions, the draft legislation to be published in 2027 will be important for the planning of reorganisations, demergers, buybacks or fund arrangements that may complete after April 2028.

10. **Withdrawal of proposed extended close company reporting regime**

Following consultation, the government has decided not to proceed with the proposed extended reporting regime for close companies, which we discussed in our previous blog post available here. The proposals would have required close companies to report loans, dividends, asset transfers and certain other transactions involving their shareholders and other participators to HMRC.

As is often the case with UK legislation, the eventual implementation of some of these measures may differ from what has been presented on Wednesday 28 October. We expect more updates to come.

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