Review

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Planning beyond the horizon

The changes happening in 2026/27 tax year are only part of a much broader story.

Short-termism is a criticism often directed at politicians. However, they are not unique in their focus on getting through the next twelve months rather than considering the longer term. The frenetic flow of news tends to shorten both our horizons and attention spans.

In this age of hyperfocus, those same short-termist politicians have found it useful to defer the start of difficult changes, such as tax increases. What is announced in a Budget in year one may not take effect until year four, by which time the original chancellor may have been replaced. Such delayed implementation can create problems for financial planning.

Diverted attention

A good example is the freeze to the personal allowance and income tax thresholds, which was extended for another three years to April 2031 in the Autumn 2025 Budget. That may seem too distant to worry about, but it increases the odds that if you are a basic-rate taxpayer today, you will be a higher-rate taxpayer in the future.

On pensions, the last Budget also included a change to salary sacrifice rules, not due to take effect until April 2029. But before that, April 2028 brings an increase to 57 for the normal minimum age at which benefits can be drawn, another measure announced long before its implementation.

> *Personal allowance and income tax threshold freezes were extended to April 2031, increasing the odds that basic-rate taxpayers will become higher-rate taxpayers in the future.*

It is hard to keep abreast of all the revenue-raising tax changes that various chancellors have scattered across future tax years, which is why experts can really make a difference when it comes to long-term planning.

✣ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

Occupational pension schemes are regulated by The Pensions Regulator.

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ESTATE PLANNING

Time for an estate planning review?

Amendments to inheritance tax (IHT) rules, announced in the Autumn 2024 Budget, are about to start biting.

IHT payments have been rising much faster than inflation in recent years. In the last decade IHT receipts rose by over 115% and are projected to increase by another 75% over the next six years.

The Autumn 2024 Budget helped IHT revenues further along their upward course by introducing two important reforms:

- **Business and agricultural reliefs** For 2025/26 these reliefs are at a rate of 50% or 100%, with no limit. From 2026/27, the 100% relief will be capped at a combined £2.5 million per individual, with any unused amount transferable to a surviving spouse or civil partner.
- **Pension death benefits** At present, pension death benefits are normally excluded from your estate for IHT purposes. From 6 April 2027 that is due to change, and most pension death benefits will fall within the scope of IHT.

Credit: Peter Turner Photography/Shutterstock.com

Of these two changes, the reduction in agricultural relief has attracted by far the most attention. However, in practice the changes to reliefs will be much less significant than the inclusion of pensions in the IHT net. Even before the yuletide climb down, the relief reforms were projected to raise little more than a third of the revenue of the pension change.

In addition, including pension values into estates will, for some homeowners, mean that their residence nil rate band is reduced or completely extinguished due to the effect of tapering.

The cumulative effect of the extended nil rate band freezes and Autumn 2024 Budget reforms means that any estate planning should now be reviewed. If you have no estate planning at present, the pension change could be a reason to start. Estate planning requires expert advice, as in some instances it may be necessary to restructure other aspects of your financial planning, such as retirement provision.

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RETIREMENT

Annuities cycle back

Retirement-funding behaviours have shifted in recent years, with annuities staging a comeback.

These retirement products, which provide a guaranteed income for life, fell out of favour over the past decade, but economic conditions have pushed up annuity rates, making them a more attractive proposition. Last year, annuity sales totalled £7.4bn — the highest level since 2014.

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Annuities offer peace of mind, guaranteeing a regular income no matter how long you live. On the downside, however, they are inflexible. Once purchased, you cannot switch provider or unwind the contract. There is also the risk that if you die early, you may have received less in income than the amount paid for the annuity.

Many annuities pay a level income that does not rise over time, meaning inflation can erode spending power, particularly over a long retirement. Escalating annuities are becoming more popular with sales up 10% from 2024 to 2025. They increase payments each year, either at a fixed rate or in line with inflation, but they cost more and usually start with a lower income.

Other choices matter too. Joint-life annuities continue paying a reduced income to a surviving spouse or civil partner, while enhanced or impaired-life annuities offer higher payouts to those with health conditions. Changing tax rules add another consideration. From April 2027, unused pension pots will fall within inheritance tax calculations, potentially influencing how retirees use their savings.

Importantly, annuities need not be an all-or-nothing decision. Many retirees combine an annuity with flexible drawdown, or delay converting pension funds to annuities until later in retirement.

✣ *The value of your investment, and the income from it, can go down as well as up and you may not get back the full amount you invested.*

Past performance is not a reliable indicator of future performance.

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INVESTMENT

The best-selling fund sector in 2025 was...

Sales of investment funds threw up a surprise winner in 2025.

The Investment Association recently published its 2025 report on investment fund sales and assets under management. For individual investors, the fund sector with the highest net sales (purchases less redemptions) over the year and the last three quarters of 2025 was Short Term Money Market funds – low-risk funds offering deposit-like returns. The worst selling sector, as usual, was UK All Companies.

Contradictory result

And yet, according to Trustnet, in 2025 the average UK All Companies fund produced a return of 15.4%, whereas the average Short Term Money Market fund return was 4.3%.

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TAX

The other new year: planning for 2026/27

Credit: Pajor Pawel/Shutterstock.com

The cumulative impact of several Budgets will make themselves felt on Easter Monday, when the 2026/27 tax year gets underway. Are you ready for the impact?

On income tax it almost goes without saying that the personal allowance and the thresholds for higher-rate tax and additional-rate tax (top rate in Scotland) will remain the same. What is changing is:

Dividend tax Unless you are an additional-rate taxpayer, the rate of tax you pay on any dividends above the dividend allowance (frozen at £500) will rise by two percentage points in 2026/27. That means if you are a UK basic-rate taxpayer, your dividend tax rate will be 10.75%, while if you are a UK higher-rate taxpayer a 35.75% rate will apply.

Tax administration Making Tax Digital (MTD) for income tax starts on 6 April. For 2026/27, you will be within its scope if:

- You are self-employed, a landlord or both;
- Your combined self-employment income and rental income (both before deductions for expenses) was more than £50,000 in the 2024/25 tax year; and
- You are not eligible for any of the strictly limited exemptions.

MTD for income tax requires affected taxpayers to use HMRC–approved software to submit quarterly income and expenses returns, with the first due by 7 August 2026. If you fall within the scope of MTD, you must have registered with HMRC by 5 April 2026.

Income tax relief for venture capital trust investments (VCTs) Investment in VCTs will only attract 20% income tax relief from 2026/27, down from the previous 30%.

Company cars The scale charge on most company cars will rise by one percentage point. It may feel more dramatic than that if you have an electric car (0g/km CO_2), as the 1% translates into a one third increase in tax.

MTD for income tax starts on 6 April. You will be within its scope if your combined self-employment income and rental income was over £50,000 in 2024/25.

Capital taxes

Here again there are freezes applied to the main exemptions, alongside some changes:

Inheritance tax (IHT) reliefs The contentious reforms to agricultural and business IHT reliefs come into full effect on 6 April 2026, limiting the value that qualifies for 100% relief to a combined £2,500,000 per individual, with any excess qualifying for 50% relief, and cutting relief on all holdings of qualifying AIM-listed shares to 50%. While the changes have been watered down from the original proposals, they could still have a significant impact if you are a farmer or business owner.

Capital gains tax (CGT) There is no change to the main rates of CGT, but there is an increase to the rate on gains that qualify for business assets disposal relief from 14% to 18% in 2026/27. Other rates of CGT remain unchanged.

If any of these changes could affect you, the sooner you seek advice on what action you can take, the better.

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PENSIONS

Pension savers losing millions in tax relief

Millions of people may be due tax refunds as a result of tax code errors and confusion over pensions tax relief. However, individuals will need to apply for refunds, as HMRC won't necessarily automatically correct these errors.

Multiple income streams

Wrong tax codes can be issued when HMRC does not have up-to-date information on company benefits or employee earnings. This can occur when people previously held more than one job, or had external sources of income, such as rental income, dividends or freelance work. It is estimated HMRC overcharged employees £3.5bn last year through such coding problems.

Higher-rate taxpayers can claim further relief

Many higher earners are also paying too much tax on their income, as they are not claiming back additional tax relief.

Basic-rate tax relief, at 20%, is automatically added to pension contributions at source. But higher-rate taxpayers, contributing to SIPPs or private pensions, can claim an additional 20% tax relief (or 25% for additional-rate taxpayers).

Some workplace schemes automatically give higher earners full tax relief, but not all. Those missing out are able to reclaim this money through self-assessment. HMRC also offers an online tax relief refund service for those that don't normally file a tax return.

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INVESTMENTS

Check in on your ISAs

Savers are being urged to make full use of this year's £20,000 individual savings account (ISA) allowance with rule changes on the horizon.

Currently, adults can invest up to £20,000 each tax year into ISAs, whether in cash, stocks and shares, or a combination of both. From April 2027, however, while the overall annual limit will remain £20,000, those under 65 will only be able to allocate a maximum of £12,000 into cash ISAs. This makes planning ahead increasingly important.

To maximise returns, savers should consider investing earlier rather than later in the tax year. Doing so allows more time to benefit from tax-free interest, dividends and capital growth. Delaying contributions can reduce overall returns – particularly for higher-rate taxpayers.

From April this year, dividend tax rates will increase, and savings tax rates go up from next April, making ISAs more attractive from a tax perspective.

There's generally more focus on starting off a new ISA allowance, but savers should also track the performance of existing holdings – both stocks and shares and cash ISAs. If investment returns are poor, or interest rates have dropped, you can switch products, and providers, without affecting current allowances. Since increased flexibility was introduced in 2024, you can take out multiple ISAs provided the amount invested does not exceed the £20,000 limit.

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Investments do not offer the same level of capital security as deposit accounts.

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EDUCATION

Navigating student loans

Student loans are making headlines with opposition MPs, consumer groups and student bodies calling for changes to the way they operate in England.

The controversy surrounds Plan 2 loans, issued to students starting university between 2012 and 2023. Previously, students were on Plan 1 loans, with newer undergraduates on Plan 5 loans. Scotland and Wales operate separate student finance systems.

The government's controversial decision to freeze the repayment threshold for Plan 2 borrowers for three years from April 2027 means graduate repayments (9% of earnings above the threshold) will rise as salaries increase.

Consternation is also brewing over interest charged on these loans. While studying and until earnings reach the repayment threshold, interest is applied at the Retail Price Index (RPI). Once earnings exceed £51,245, borrowers pay RPI plus three percentage points. Between £28,470 and £51,245, this rate increases gradually – meaning someone earning £39,857 would pay RPI plus 1.5 percentage points.

Rates are set each year using the previous March's RPI figure. Last year this was 3.2%, leaving higher earners facing interest of 6.2%.

With average graduate debts of around £53,000 – covering £9,000-a-year tuition fees and maintenance loans – balances can grow quickly, particularly in a higher-inflation environment.

Any remaining balance under Plan 2 is written off after 30 years. However, many will still make substantial repayments over much of their working lives and could repay far more than they borrowed.

Graduates and parents considering early repayment should tread carefully. Those with the means may be tempted to clear some or all of this debt. But caution is needed. Partial repayments will not reduce monthly repayments, which are linked to earnings, not the size of the outstanding debt. There is also a risk of repaying sums that would otherwise have eventually been written off.

For those entering university now, Plan 5 charges interest at RPI only. But repayments start at £25,000 and continue for 40 years – potentially creating loan repayments through to their 60th birthday.

NEWS IN BRIEF

News round up

If you failed to file...

HMRC says that 11.48 million people filed their 2024/25 tax return by the 31 January 2026 deadline. However, that means an estimated one million missed the cut off. If you didn't make it, do not delay further. You already face a £100 fine, even if you have no tax to pay, and penalties of £10 per day loom if you file more than three months' late. Interest on any overdue tax is at bank rate + 4%.

NS&I cuts some variable rates

NS&I has cut the rates on both its Direct Saver accounts and Income Bonds for the first time since March 2025. The new rate for both, effective from 12 February 2026, is 3.05% AER. There are plenty of instant access accounts offering higher rates, but it pays to read the terms and conditions. Top-paying accounts often have short-term bonuses or allow only a limited number of withdrawals per year.

Rental demand drops

Buy-to-let investors have had a hard time of late, with tax burdens rising and, in England, the removal of 'no fault' evictions from 1 May 2026. Rental demand has also been falling, with one major property portal reporting that in January 2026 average enquiries were down a fifth on January 2025 and at their lowest level since 2019. Slow price growth and falling interest rates are turning would-be renters into first-time buyers.