UK 2026 Budget Review

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Personal and Corporate Financial Planning

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Budget 2026: breathing space for households, a higher tax bill for savers and landlords

- Economy: energy shock slows growth
- Public finances: higher debt interest uses up headroom
- Taxes: savers and landlords pay more again





Key points

1. The OBR has lowered growth outlook for 2027 to 1.0% (from 1.5% in 2025 Budget) and expects CPI inflation of 3.4% (from 2.0%), as the conflict in the Middle East pressures energy costs.

2. Higher interest rates add £14 billion a year to debt interest compared with March. The stability rule is met by £15 billion in 2029-30, £7 billion less than in the 2025 Budget.

3. Tax on savings and property income increases by a further 2 percentage points from April 2027, while the planned cut to the cash ISA limit is reversed and founders get a new 10% CGT rate

Savers and landlords pay more again; founders and cash savers get relief

What are the key announcements from the Budget?

Chancellor John Healey's first Budget rejects broad-based tax increases, keeping headline rates of income tax, National Insurance and VAT unchanged as per the Labour manifesto. Instead it uses part of last year's headroom to absorb higher debt interest, offers immediate help with energy bills, and makes a small number of targeted tax changes. The biggest of these again is on unearned income: tax on savings and property income increases for the second Budget in a row.

- **Asset tax ("mansion tax"):** No change to the High Value Council Tax Surcharge announced last year, which starts in April 2028 in England only. Following consultation, it will include a deferral scheme, discounts and exemptions, and a 100% premium on properties left empty for 12 months or more.
- **Unearned income:** Tax on savings and property income increases by a further 2 percentage points from 6 April 2027, on top of last year's increase. Savings rates will be 24%, 44% and 49% across the UK; property income rates will be 24%, 44% and 49% in England, Wales and Northern Ireland. No change to dividend tax rates. The government says 84% of income tax payers are unaffected.
- **Company distributions:** The tax treatment of company distributions will be reformed from April 2028, so the rules apply consistently whatever the legal form or transaction structure. Capital treatment is protected for genuine changes in ownership, including families passing down a business. Draft legislation follows in 2027.
- **Income tax and the Personal Allowance:** No change to headline rates, and thresholds stay frozen to April 2031 as announced last year. A new Pension Tax Allowance from April 2027 to April 2030 means pensioners with total income up to the full new State Pension pay no income tax.
- **Employers:** No change to employer NICs. The main writing-down allowance decreases by 2 percentage points to 12% from April 2027, while the main first-year allowance increases from 40% to 50% from 1 January 2027. The Bank Corporation Tax Surcharge temporarily increases from 3% to 6% from 1 January 2027 to 31 March 2028.
- **Employee share schemes:** The EMI2 scheme (formerly CSOP) doubles the individual option limit from £60,000 to £120,000 from April 2027, with a 15-year exercise period. The EMI exercise window after a disqualifying event extends from 90 to 180 days, and companies moving to an Employee Ownership Trust keep access to EMI.
- **Capital Gains Tax:** No change to CGT rates. A new Founders' Relief offers a 10% rate on up to £10 million of lifetime gains for qualifying founders of high-growth, innovative companies from 6 April 2027, with final design subject to consultation. The lifetime limit for Business Asset Disposal Relief (18% rate) decreases from £1 million to £500,000 from 6 April 2027.

- **Entrepreneurs and new businesses:** The Trading Allowance triples from £1,000 to £3,000 from 6 April 2027. VCT, EIS and SEIS get technical changes to make them easier to use. A new Securities Transfer Tax replaces Stamp Duty and Stamp Duty Reserve Tax on shares from late 2027.
- **Employment costs:** From 1 April 2027 the National Living Wage increases 3.9% to £13.21 an hour. The rate for 18–20 year olds increases 3.9% to £11.27, and for 16–17 year olds and apprentices to £8.31. The 55p tax-free mileage rate for the first 10,000 business miles is made permanent, and the rate above 10,000 miles increases from 25p to 35p from April 2027.
- **Inheritance tax:** No change to rates or nil-rate bands. New rules on liabilities in trust arrangements, which strengthen anti-avoidance provisions, apply to deaths on or after 28 October 2026.
- **Business and agricultural property relief:** No change.
- **Corporation tax:** No change to rates; the main rate stays capped at 25% under the Corporate Tax Roadmap.
- **Pensions:** The Triple Lock continues to April 2029. From April 2030 the State Pension will increase each year by the highest of 2.5%, inflation, or the amount needed to keep its value relative to earnings as reached in April 2029. The two-year rule on taxing pension and lump sum death benefits is removed from 28 October 2026.
- **Households and energy:** A £100 Household Energy Payment for council tax bands A–D in England from January 2027. The 0% VAT rate on domestic electricity and the 5p fuel duty cut and freeze are both extended to 1 July 2027.
- **ISAs:** The cash ISA limit stays at £20,000, reversing last year's planned cut to £12,000 from April 2027. The government will explore a new incentive for first-time stocks and shares ISA investors.
- **First-time buyers:** A new First Time Buyer ISA from April 2029 replaces the Lifetime ISA for new savers: up to £4,000 a year with a 25% bonus, for homes up to £450,000 and with no upper age limit. The Lifetime ISA withdrawal charge for homes above the £450,000 cap decreases from 25% to 20% from 29 October 2026. A new Your First Home equity loan could support around 70,000 first-time buyers from April 2027.
- **SIPPs:** No change to pension contribution limits.
- **International investors:** Double taxation relief for UK investors in US Limited Liability Companies and similar entities from early 2028.
- **Gambling:** Machine Games Duty increases from 20% to 25% on machines with stakes over £1 from April 2027.

Growth lowered near term; inflation, unemployment and interest rates revised higher

Economy

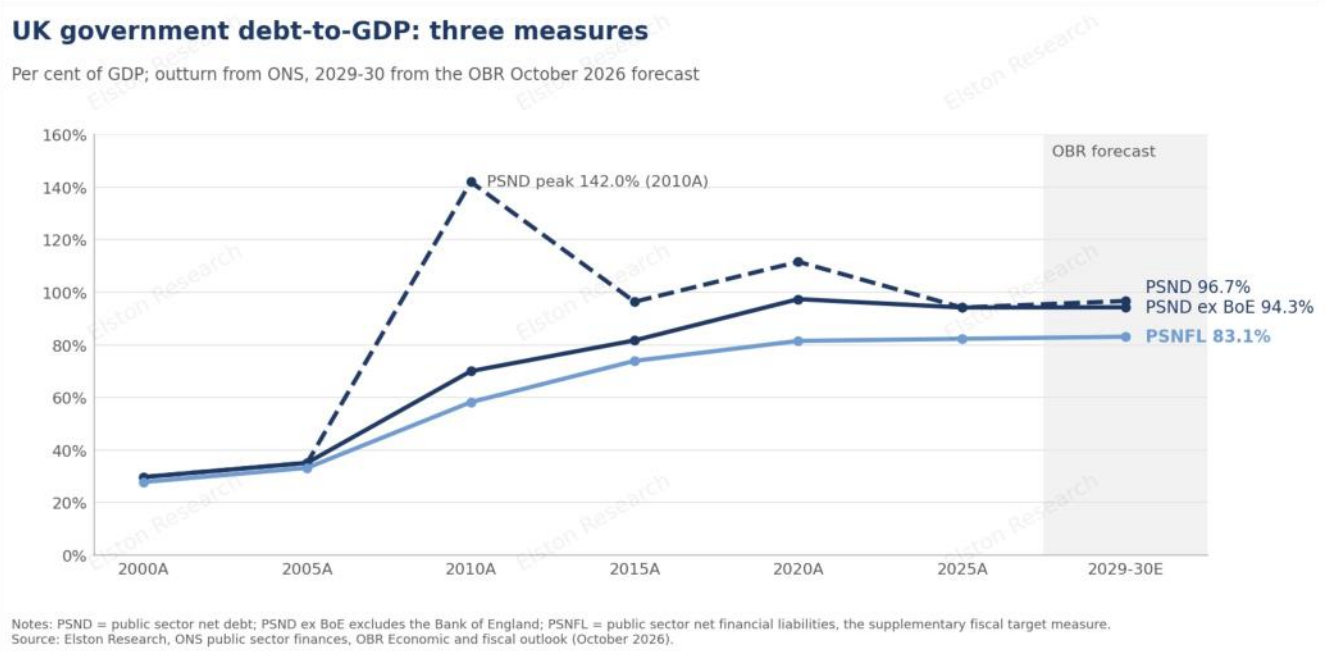
Measured against the November 2025 Budget, the OBR's outlook has been impacted by the energy shock from the conflict in the Middle East: weaker growth in the near term, higher inflation and unemployment, and higher interest rates. As a net importer of energy, the UK takes the hit through higher prices and lower real incomes. The OBR assumes energy prices then ease in line with futures prices, and assumes growth recovers from 2028.

The figures below compare the October 2026 Budget forecast with the November 2025 Budget forecast; full charts are in the appendix.

- **Growth:** GDP growth is cut to 1.2% in 2026 (from 1.4%) and 1.0% in 2027 (from 1.5%), before strengthening to 1.6% in 2028 and 1.8% in 2029. Calculating average annualised growth over 2025–2029 shows a decline from 1.5% to 1.4% a year.
- **Inflation:** CPI inflation is revised higher, to 3.1% in 2026 (from 2.5%) and 3.4% in 2027 (from 2.0%). It returns close to the 2% target from 2028. To compare both Budget forecasts, the average inflation rate over the 2025–2029 period increases from 2.4% to 2.8%.
- **Rates:** The Bank Rate assumption is 4.8% in 2027-28 and 2028-29, against 3.7% and 3.8% previously, and averages 4.4% to 2029-30 (from 3.8% last Budget).
- **Gilts:** Market gilt rates average 5.2% to 2029-30 (from 5.0%) and reach 6.0% by 2031-32. Debt interest is £14 billion a year higher than in March.
- **Productivity:** Trend productivity growth slows to 0.7% in 2027 because of energy prices, then strengthens to 1.1% from 2029. Average Productivity growth over 2025–2029 is slightly higher at 0.9% (from 0.8%), and the OBR has not changed its underlying productivity judgement. This is a key variable for long-term debt affordability.
- **Employment:** Unemployment is now estimated to peak at 5.1% in 2027 (from a 4.9% peak in 2026), before easing to 4.1% by 2031.
- **Debt/GDP:** PSNFL is 83.1% of GDP in 2029-30 (from 83.0%), peaking at 83.8% before declining to 81.7% by 2031-32. Net debt excluding the Bank of England is 94.3% in 2029-30 (from 95.3%).
- **Fiscal rules:** The stability rule is met by £15 billion in 2029-30, £7 billion less than at Budget 2025; the OBR puts the chance of meeting it at 56%. The PSNFL target is met by £24 billion, unchanged.
- **Energy costs:** Oil is estimated to average $76 a barrel to 2029-30, 14% above November 2025's $66, peaking at $86 in 2026. Gas prices are 19% higher on average for the forecast, at £1.27 a therm in 2026 (from £0.81).
- **Currency:** The implied exchange rate averages $1.34 per £1, little changed from November 2025.

The margins against the fiscal rules are small relative to the size of typical forecast errors, so the public finances remain exposed to any further shock to energy prices, interest rates or growth.

Fig.1. UK government debt-to-GDP levels using different definitions



Debt-to-GDP steady, but the margins are thin

Debt affordability

Debt-to-GDP is expected to stay broadly steady over the next five years. Public sector net debt peaks at around 97% of GDP in 2028-29 before declining slightly to 96% in 2031-32. The ratio is the standard measure of national indebtedness: if the economy were a house, national debt would be the mortgage and debt-to-GDP its loan-to-value. Historically it has declined through economic growth, not cuts to spending.

Fig.1 shows three measures. Public sector net debt (PSND) ballooned in the financial crisis and again during Covid. PSND excluding the Bank of England removes the effect of quantitative easing, and public sector net financial liabilities (PSNFL, pronounced “Per-snuffle”!), used for the fiscal target since October 2024, also counts some government financial assets.

Borrowing is expected to decline to just under 2% of GDP by 2031-32, but higher interest rates slow the pace of that improvement. Government borrowing could increase if growth or energy prices disappoint.

No shocks, but UK finances are not improving

Bottom line

The focus is on some breathing space now. But the tax take is expected to increase in future years, primarily driven by improved tax collection.

The good news is there were no show stoppers or shocks, with fewer leaks and less speculation than the previous two budgets.

The bad news is that 1) Savers – particularly higher and additional rate taxpayers – are being penalised again; 2) UK finances are not structurally improving and 3) there was a missed opportunity to make Treasury Bills tax-exempt that would make them attractive alternatives to Cash.

Getting in touch

If you would like to find out more or discuss any of the above, please contact your financial adviser.

Forecast revisions: October 2026 vs November 2025

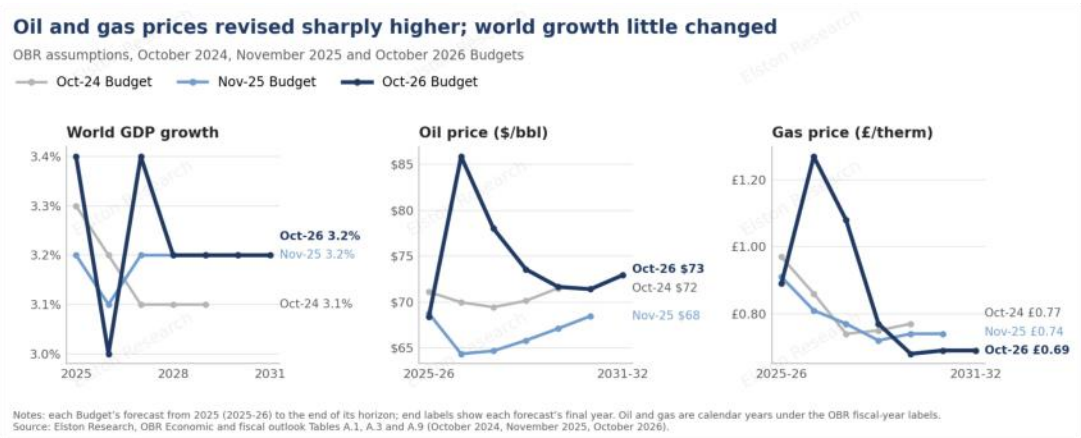
Appendix: forecast revisions, October 2026 vs November 2025

Against the November 2025 Budget, the OBR lowered near-term growth and revised inflation, unemployment, interest rates and energy prices higher. The scorecard gives one summary figure per assumption for each of the last three Budgets; the charts that follow show each forecast year.

Assumption	Summary measure	Oct-24	Nov-25	Oct-26	Change vs Nov-25
World GDP growth	5Y CAGR 2025–2029	3.16%	3.18%	**3.24%**	+0.06pp
Oil price ($/bbl)	5Y average to 2029-30	$70.45	$66.17	**$75.50**	+14.1%
Gas price (£/therm)	5Y average to 2029-30	£0.82	£0.79	**£0.94**	+18.7%
UK GDP growth	5Y CAGR 2025–2029	1.68%	1.48%	**1.38%**	−0.10pp
CPI inflation	5Y average 2025–2029	2.22%	2.40%	**2.82%**	+0.42pp
Bank Rate	5Y average to 2029-30	3.64%	3.82%	**4.44%**	+0.62pp
Market gilt rates	5Y average to 2029-30	4.34%	4.96%	**5.24%**	+0.28pp
Sterling (USD per GBP, implied)	5Y average to 2029-30	$1.31	$1.34	**$1.34**	+0.3%
PSNFL (% of GDP)	2029-30 level	82.0%	83.0%	**83.1%**	+0.1pp
Trend productivity growth	5Y CAGR 2025–2029	1.10%	0.78%	**0.88%**	+0.10pp
LFS unemployment rate	5Y average 2025–2029	4.08%	4.56%	**4.86%**	+0.30pp

Source: Elston Research, OBR Economic and fiscal outlook detailed tables A.1, A.3 and A.9 (October 2024, November 2025 and October 2026). Oil and gas prices, and the sterling rate derived from them, are calendar years under the OBR's fiscal-year labels.

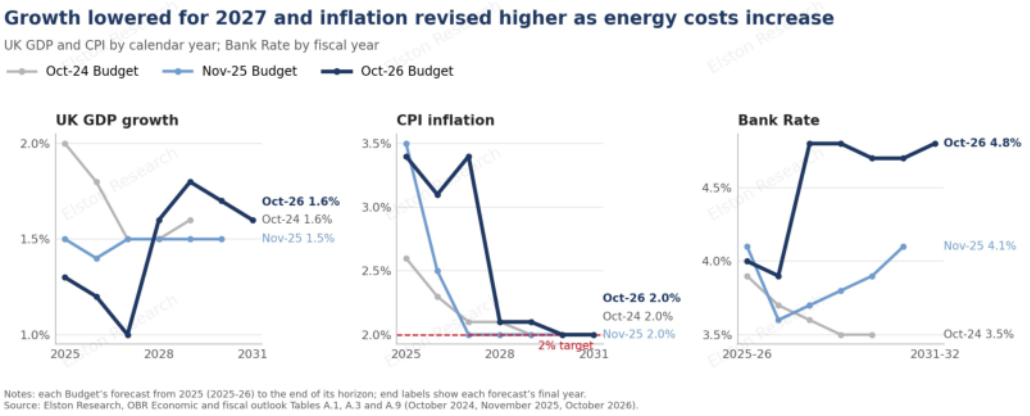
Fig.2. World macro factors: world GDP growth, oil and gas prices



A1. World macro factors

Oil and gas prices were revised sharply higher by the conflict in the Middle East: oil averages $76 a barrel to 2029-30, 14% above November 2025, and gas 19% higher. Both are assumed to ease from their 2026 peak in line with futures prices. World growth is little changed, at about 3.2% a year.

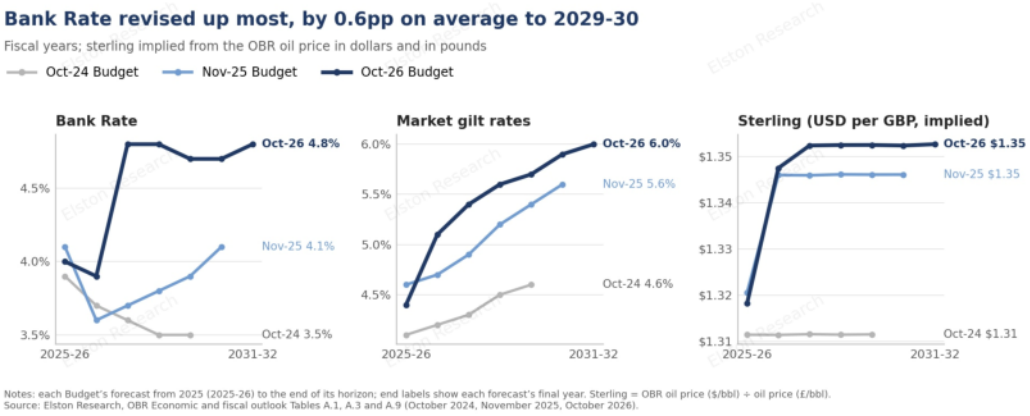
Fig.3. UK macro factors: UK GDP growth, CPI inflation and Bank Rate



A2. UK macro factors

UK growth is lowered to 1.0% in 2027, from 1.5%, before recovering to 1.8% in 2029. CPI inflation is revised higher to 3.4% in 2027, from 2.0%, and returns close to target from 2028. The Bank Rate assumption is 0.6 to 1.1pp higher from 2027-28, at 4.7% to 4.8%.

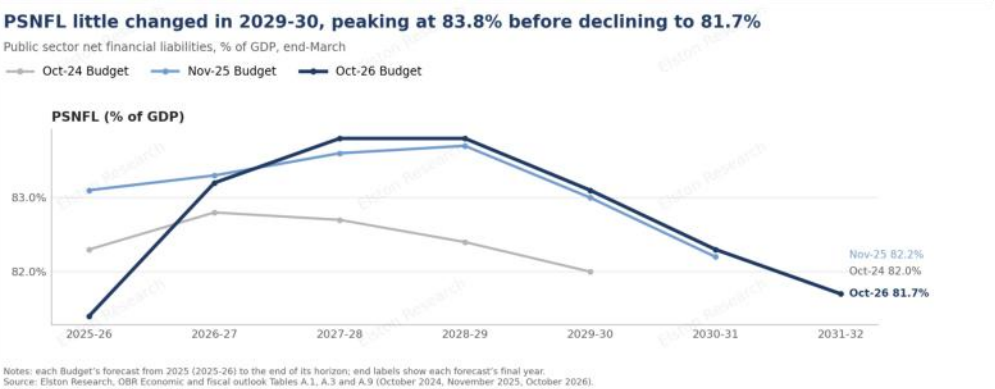
Fig.4. UK rates and currency: Bank Rate, market gilt rates and implied sterling



A3. UK rates and currency

Bank Rate is the largest upward revision, averaging 4.4% to 2029-30 against 3.8%. Market gilt rates are higher in every year from 2026-27, reaching 6.0% by 2031-32, which adds £14 billion a year to debt interest. The implied pound is little changed at around $1.35.

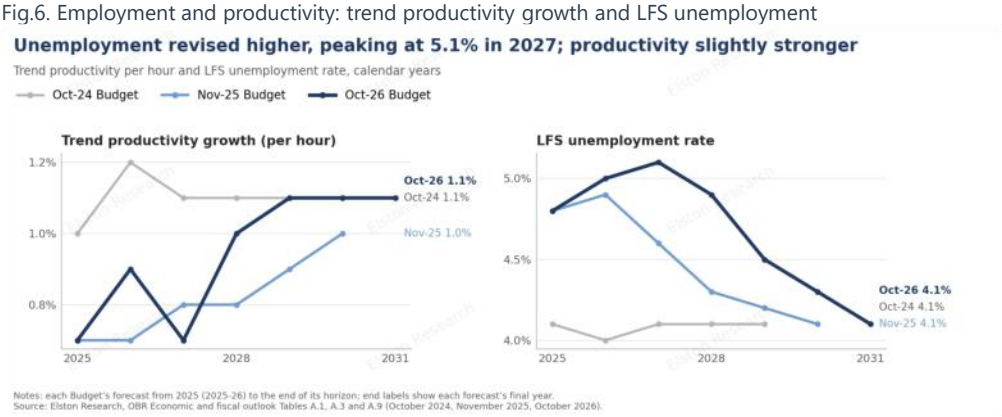
Fig.5. UK debt affordability: PSNFL as a share of GDP



A4. UK debt affordability

PSNFL is little changed at 83.1% of GDP in 2029-30, peaking at 83.8% before declining to 81.7% by 2031-32. It still declines in 2029-30, as the supplementary target requires, with an unchanged margin of £24 billion.

Fig.6. Employment and productivity: trend productivity growth and LFS unemployment



A5. Employment and productivity

Unemployment is revised higher from 2026, peaking at 5.1% in 2027 before easing to 4.1% by 2031. Trend productivity growth dips to 0.7% in 2027 because of energy prices but is slightly stronger over the forecast as a whole, averaging 0.9% a year over 2025–2029 against 0.8%.

Sources: Elston Research; HM Treasury, Budget 2026 (HC 726, 28 October 2026); Office for Budget Responsibility, Economic and fiscal outlook (October 2024, November 2025 and October 2026); ONS public sector finances.

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