Market View
The Spring Statement: a pause on further tax rises

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Date 28 March 2025

Reading time 3 minutes

At a glance

The Chancellor, Rachel Reeves, delivered the Spring Statement amidst a challenging economic backdrop, addressing a £14 billion fiscal gap.

Included in the statement were announcements to introduce welfare cuts, departmental savings and increase defence spending.

Several tax-raising measures, announced in the October budget, are also set to come into effect from 6 April 2025.

The Chancellor delivered the Spring Statement amidst a challenging economic backdrop. Following the October budget, a fiscal gap of £14 billion has emerged, driven by rising borrowing costs and a decrease in the UK's projected growth for 2025 forecasted by the Office for Budget Responsibility (OBR). With the possibility of a trade war on the horizon, the announcements come as the medium-term economic outlook for the UK remains uncertain.

Economic outlook

The OBR has revised its growth forecast for the 2025 calendar year, reducing it from the previously projected 2% to 1%. This adjustment has significantly impacted the fiscal landscape, leaving the government with limited flexibility to increase spending. The fiscal headroom, which mandates that current spending be matched by tax intake by the end of the 2029/30 tax year, is therefore now under considerable strain with any further downward revision by the OBR likely to increase the pressure to raise taxes later this year.

To address the fiscal gap, the government has announced £4.8 billion in welfare cuts and £3.6 billion in savings from government departments. Additionally, the government introduced measures to increase defence spending and stimulate economic growth. Given this challenging environment, further uncertainty and speculation about potential tax rises are expected as we move towards the autumn budget.

Key tax measures

Several tax-raising measures announced in the October budget are set to come into effect from 6 April 2025. Key measures include:

- The employer National Insurance rate will rise from 13.8% to 15%, anticipated to raise £23.8 billion in the 2025/26 tax year, increasing to £25.7 billion by 2029/30. The increased costs to businesses are likely to impact salary increases for employees and could result in higher prices, potentially leading to inflationary pressures.
- The abolishment of non-domiciled status and the introduction of the long-term residency regime received Royal Assent following the enactment of the Finance Act 2025. These changes will come into effect on 6 April 2025.
- The rate of tax applied to private equity carried interest is set to increase to 32% on 6 April 2025.
- From April 2026, the scaling back of business property relief and agricultural property relief to a £1 million cap per estate will be introduced, with any additional business relief / agricultural relief assets being liable to a 20% inheritance tax rate.
- Unused pension pots will become liable to inheritance tax from April 2027.

Planning ahead

Individuals will need to carefully assess their wealth planning strategies in light of these changes. Key considerations include:

- Reviewing corporate structures and employer-related tax implications due to the increase in National Insurance contributions.
- Revisiting succession planning strategies to mitigate the impact of the expanded scope of inheritance tax, particularly for those with assets benefiting from business and agricultural relief.
- Considering the implications of pensions becoming subject to inheritance tax from 2027 and adopting a proactive approach to financial planning for strategic wealth transfer.