Clients&FriendsMemo

UK Budget 2025 – Key Tax Measures

27 November 2025

The Chancellor of the Exchequer delivered the United Kingdom ("**UK**") Budget for 2025 on 26 November 2025.

It is unusual for the UK's Budget to be held so late in the year. This timing contributed to a sustained period of media speculation concerning the content of announcements which might be made by the Chancellor. Much of that speculation was dramatic, including rumours of manifesto-busting rises in the rate of income tax, suggestions of a new national insurance contributions charge on limited liability partnerships, and even an exit charge on wealthy individuals leaving the UK. When it was published, however, the technical detail was much less controversial, with only a limited number of real surprises.

In this Client & Friends Memo we have outlined the key tax measures that we expect to be of interest to Cadwalader's clients and friends.

UK Domestic Taxation Measures

Entrepreneurship in the UK

Considerable focus was given in the Budget to the promotion of entrepreneurship in the UK. As part of the Government's strategy, various key reliefs have been increased to enable growing businesses to accelerate their expansion. In this regard, the Government has committed to "use tax levers to incentivise greater investment and support companies to attract talent". Legislation will therefore be introduced in Finance Bill 2025-26 to increase the gross assets requirement that a company must not exceed for the Enterprise Investment Scheme ("**EIS**") and Venture Capital Trusts ("**VCTs**") to £30 million (from £15 million) immediately before the issue of the shares or securities, and £35 million (from £16 million) immediately after the issue of shares or securities.

To complement this facilitation of the growth of companies being within the EIS and VCT schemes, the annual investment limit that companies can raise will be increased to £10 million (from £5 million) and for knowledge-intensive companies to £20 million (from £10 million). A relevant company's lifetime investment limit will increase to £24 million (from £12 million) and for knowledge-intensive companies to £40 million (from £20 million). The Income Tax relief that can be claimed by an individual investing in VCT will be reduced to 20% from the current rate of 30%.

Anti-avoidance in Relation to Non-derecognition Liabilities

As with most UK Budgets, the Government has also identified a number of arrangements which is considers constitute tax avoidance. In this vein, the Government has proposed new anti-avoidance legislation to counteract transactions where there has been a "non-derecognition" of assets transferred to a securitisation vehicle and where a liability is recognised in connection with the transfer. The new rule will deny tax relief for amounts arising from such arrangements that are attributable to a main purpose of securing a tax advantage. The circumstances of this arrangement are highly fact specific, and are limited to both securitisations where an originating entity retains recognition (for accounting purposes) of the assets transferred to the securitisation SPV. The specific example given by the Government is where all the notes issued by the securitisation group are beneficially retained by the originator's group, a feature which would be unusual in almost all commercial securitisations.

While the spotlighted transaction is fundamentally different to the securitisations which are familiar to market participants, there is a residual concern regarding the draft anti-avoidance legislation included with the Government's Budget policy paper. That draft legislation defines the "relevant entity" to which the legislative measure applies in broad terms, and some caution will be needed in reviewing commercial transactions where non-derecognition, continued recognition or failed recognition (for accounting purposes) is a feature under IFRS.

*Stamp Duty Reserve Tax ("**SDRT**") – UK Listing Relief*

UK regulated markets received a boost in the form of a 3 year exemption from the 0.5% SDRT charge on agreements to transfer shares and other securities of a company whose shares are newly listed on such markets. This will also apply to agreements to transfer depository instruments over shares, where such instruments are newly listed, but will not apply to the 1.5% SDRT charge which applies to the transfer to depositary receipt systems or unelected clearance services. The exemption will be implemented by the Finance Bill 2025-26, and shall have effect for agreements to transfer chargeable securities made on or after 27 November 2025, where the shares of the relevant company are newly listed on or after that date.

Modernisation of the Stamp Taxes on Shares Framework

Some eight years after the Office for Tax Simplification first recommended the modernisation and digitisation of Stamp Duty, the UK government has announced that it will introduce legislation which will enable HM Treasury the power to make changes to Stamp Duty and SDRT legislation. HM Treasury intends to use such powers to commence testing of a digital service which would allow taxpayers to self-assess their stamp taxes on shares obligations. Such testing will be time-limited, with detailed rules to be included in a statutory instrument.

*Non-resident Capital Gains ("**NRCGT**")*

Two targeted technical amendments were put forward by the UK government in respect of NRCGT:

- protected cell companies (a type of company, established in a non-UK jurisdiction, in which assets and liabilities of one cell are segregated from the others) no longer assess their "property richness" based on the assets of the company as a whole. Rather this assessment is undertaken on a cell-by-cell basis (removing the opportunity for abusive planning in the form of asset over-weighting); and

- investors in collective investment vehicles will benefit from the Extra-Statutory Concession, which currently provides that they do not need to file a return in order to make a claim for relief under a double tax treaty, being formalised by HMRC.

Advance Tax Certainty Service for Major Projects

Following the UK Government's March consultation, the UK Government announced the introduction of Advance Tax Certainty Service ("**ATCS**"), due to launch in July 2026. The ATCS will give investors in 'major projects' a formal process for engaging with HMRC and obtaining greater clarity regarding certain UK tax outcomes which may arise with respect to their investment. A 'major project' is defined in the announcement as one in which total 'authorised project spend' exceeds £1 billion (a threshold which HMRC will review after the scheme has been in operation for 12 months).

The ATCS will offer investors the ability to obtain certainty with regard to the application of corporation tax, VAT, stamp taxes, PAYE and the Construction Industry Scheme to their investments. Transfer pricing (which would otherwise be the subject of Advance Pricing Agreements), purposes tests (including Unallowable Purpose) and hypothetical examples (i.e. project scenarios which have not been approved through internal governance) will all be excluded from the ATCS. Following the process, the ATCS would issue a clearance covering specific, material issues and give the government's view of the law as applied to the fully disclosed facts. Unless there is a material change in the facts or relevant legislation, the government would consider itself bound by the interpretation set out in the clearance. The government will not offer a view on an area of law which is subject to current change (i.e. a relevant case is currently before the courts).

Both UK and foreign entities will be able to make applications for clearance to the ATCS (and where the relevant investing entity has not been established at the time of the application, provision will be made for any resulting clearance to apply to such an entity once it is established). Early engagement meetings will allow investors to discuss applications to ATCS with HMRC prior to their submission and resolve any issues ahead of formal application submission. Once submitted, a formal 'scoping meeting' will be held between the applicant(s) and ATCS to agree and finalise any informational requirements and timetables. HMRC has set a target of 90 days turnaround time. Final clearances will last for a period of up to 5 years, will not be capable of appeal (as they are only binding on HMRC, not the taxpayer) and will not be available to the public.

The ATCS differs from other pre-approval processes adopted in other jurisdictions (e.g. the imposition of tax conditions as part of an Australian Foreign Investment Review Board approval) in that it allows investors the option of increasing the UK tax certainty with respect to their investments, providing greater reliability of future financial estimates and thereby enhancing the UK's attractiveness as a jurisdiction for investment in major projects.

International Tax and Tax-Reporting Measures

Reform of Transfer Pricing, Permanent Establishment and Diverted Profits Tax

The Government has announced that certain reforms to the UK's transfer pricing, permanent establishment and diverted profits tax rules will be included as primary legislation in Finance Bill 2025 / 2026 and will generally take effect for chargeable periods beginning on or after 1 January 2026. The draft legislation in this area was published in the Spring of 2025.

Various measures will be enacted including:

- **an end to domestic (UK-UK) transfer pricing:** an exemption from the requirement to calculate profits on a transfer pricing basis where the transaction is between UK companies within the charge to corporation tax in respect of the relevant activity;

- **broadening dependent agent PEs:** amendments to align the UK domestic definition of a permanent establishment with the definition set out in Article 5 of the 2017 OECD Model Tax Convention;

- **removing the 20% test from the IME (and other changes):** a number of changes to the UK's Investment Manager Exemption ("**IME**"), including the revision of the scope of the IME to cover a wider range of transactions conducted within a fund (correcting the overly restrictive legislation from Spring 2025 which, in the Government's words, "unintentionally restricted exemption access for some types of funds"). The revised proposals also will feature the inclusion of "investment advisors", so that the IME applies equally to advisors and managers;

- **integration of DPT to the CT regime:** repeal of the Diverted Profits Tax ("**DPT**") and introducing a new Corporation Tax charging provision for unassessed transfer pricing profits ("**UTPP**"). The new regime is intended to be simpler then DPT. In addition, as the UTPP charge is to corporation tax, businesses can benefit from access to the UK's treaty network in the usual way, including access to the Mutual Agreement Procedure to remove double taxation. The legislation retains the two gateway tests from the DPT regime, the effective tax mismatch outcome and the tax design condition, while attempting to simplify both gateways and improve their functionality; and

- **tightening the participation condition:** amendments to the UK's transfer pricing rules to amend the "participation condition" to include a new form of direct participation where two participants in an arrangement are subject to an arrangement for common management, which the Government states has been re-drafted from the version published in Spring 2025. The Government states that the revised provision "targets structures with a legal arrangement, a unified senior management, and share economic outcomes through a defined mechanism". HM Revenue guidance has been promised to provide details of in-scope structures.

The Government's stated objectives in enacting these measures has been to "simplify the UK's international tax rules, bring them up to date, and align them more closely with the UK's obligations under double taxation treaties". The amendments to the draft legislation from Spring 2025 are to be welcomed. Nevertheless, the legislation in these key areas relating to the perimeter of UK taxation remains complex, and any incremental gains through simplification will probably take some time to become apparent.

OECD Pillar 2: Further amendments to MTT and DTT

The UK government further announced certain targeted updates to the various Pillar 2 rules. These measures include:

- adjustments to the treatment of pre-regime deferred tax assets (to limit the availability of pre-regime DTAs);
- changes to allow a flow-through ultimate parent entity's profits to be reduced;
- recognition of payments for group relief as "covered tax" for Domestic Top-up Tax purposes;
- turning off another jurisdiction's Qualified Domestic Minimum Top-up Tax safe harbour where the Qualified Domestic Minimum Top-up Tax does not apply to securitisation vehicles;
- confirmation that no liability under the undertaxed profits rule can be applied to securitisation vehicles; and
- confirmation that profits and losses of Real Estate Investment Trusts are excluded from 'adjusted profits' for the purposes of the Domestic Top-up Tax.

Cryptoasset Taxation

*UK reporting for the Cryptoasset Reporting Framework ("**CARF**")*

The CARF is the OECD's flagship transparency standard to help combat criminal activity using crypto-assets to evade taxation. The CARF and amendments to the Common Reporting Standard will be implemented in the UK from 1 January 2026. Legislation will come into force on 1 January 2026 extending the CARF to include reporting on cryptoasset users who are resident in the UK or have controlling persons who are resident in the UK.

Reporting Cryptoasset Service Providers ("**RCASPs**") will be required to report information on UK resident cryptoasset users to HMRC. This measure ensures that HMRC will have CARF data on all UK taxpayers using both UK based and non-UK based RCASPs. This reporting requirement is for the RCASPs not individual cryptoasset users.

HMRC will receive the relevant data on an annual basis. HMRC could use existing information powers to request information regarding UK tax residents. However, this measure aims to streamline reporting obligations for RCASPs who will be reporting through the CARF and provide HMRC with tax relevant data to further compliance activities. The data collected will be used to tackle tax evasion, avoidance and help UK taxpayers to meet their tax obligations.

Registration of Tax Advisers

The Government has published a policy paper proposing that tax advisers who interact with HMRC on behalf of their clients will be required to register with HMRC and meet minimum standards.

Following the consultation in October 2024, there was support for mandatory registration to enhance the security of tax adviser services and deter unscrupulous actors. Mandatory registration of tax advisers with HMRC starts in May 2026, with at least a three-month transition period. Further details on registration timelines and transition arrangements for specific tax adviser groups will be communicated to stakeholders in advance of this period. The new requirement will be introduced in the Finance Bill 2025-26.

Tax advisers are those who provide professional tax advice and services. Firms that provide tax advice and interact with HMRC on behalf of their clients will be bound by the new requirement. HMRC will introduce a single digital route to streamline registration, making it faster and delivering one-off cost savings for firms.

Tax advisers may be suspended from interacting with HMRC on behalf of clients if they fail to meet minimum standards or registration conditions. Sanctions may also apply where tax advisers attempt to circumvent the registration requirements or fail to meet HMRC's minimum registration standards.

Individual taxpayers may be affected if their tax advisers are no longer able to act on their behalf because they are either unable to satisfy the new registration requirements imposed on (UK based and overseas) tax advisers, or if their tax adviser is subject to sanction.

Abolition of the Notional Tax Credit on Dividends Received by Non-UK Residents

The Government is abolishing the notional tax credit on dividends received by non-UK residents from UK companies.

Under current law, certain non-UK residents receiving UK dividends may benefit from a notional tax credit. The removal of notional tax credit will be effective for dividends distributed on or after 6 April 2026.

The measure aims to align the tax treatment of non-UK residents with that of UK residents by preventing non-UK residents from receiving a tax credit which is not available to UK residents.

This measure will impact fewer than 1,000 non-resident individuals a year with UK dividend income and UK rental or partnership income, who will no longer receive the notional tax credit in relation to UK dividends.

International Controlled Transaction Schedule

The Government is introducing legislation giving the Commissioners for Revenue and Customs the power to introduce regulations requiring in-scope multinationals to file an International Controlled Transactions Schedule ("**ICTS**").

The regulations will potentially affect UK resident businesses within scope of the transfer pricing legislation, UK resident businesses with a foreign permanent establishment, foreign businesses with a UK permanent establishment, and advisory firms, representative bodies, and legal firms, to the extent that they have relevant cross-border related-party transactions or dealings.

The ICTS is expected to be an annual filing requirement that captures specific factual information about relevant cross-border related party transactions in a standardised format. The information would be used for automated risk profiling and manual risk assessment by HMRC compliance teams, prior to the opening of enquiries.

The ICTS filing obligation will take effect for accounting periods beginning on or after 1 January 2027.

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If you have any questions, please feel free to contact either of the following Cadwalader attorneys.

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