

SPRING BUDGET 2026

 What the Chancellor's announcements mean for UK contractors

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SECTION 1: EXECUTIVE SUMMARY

The Chancellor did not make any major policy announcements, having resolved to keep major tax and spending announcements to the Autumn budgets, the intention being to provide certainty for households and businesses for the forthcoming year.

The purpose of the Spring Statement today is best thought of as an official “state of the economy update”, following her response to the Office of Budgetary Responsibility’s latest fiscal report today.

However, the economic outlook continues to remain challenging in terms of economic growth, inflation, public borrowing and national debt. What can we take away from the latest announcements – and what is the impact on the company and the individual moving into the new tax year and beyond?

What Changed

- From 6 April 2027, most unused defined pension funds and pension death benefits will be included in the inheritance tax calculations-meaning pensions form part of the taxable estate on death.
- From April 2026, Business Asset Disposal Relief increases from 14% to 18%.
- From April 2027, under 65’s will only be able to add a maximum of £12,000 into cash ISAs (currently £20,000).
- From April 2026, the basic rate of dividend tax has increased from 8.75% to 10.75%. The higher rate of dividend tax has increased from 33.75% to 35.75%. The additional rate of 39.35% remains unchanged.
- From April 2029, salary-sacrificed pension contributions above an annual £2,000 threshold will no longer be exempt from National Insurance. However, tax relief on salary sacrifice will still be in place. From April 2026, VAT thresholds remain unchanged.
- The government continues to address non-compliance in the Umbrella company through the introduction of the new Joint and Several Liability rules in April 2026.

What Stayed the Same

- Income tax thresholds frozen until April 2031.
- No changes to National Insurance thresholds/rates.
- No changes to stamp duty land tax from April 2026 for residential properties – including first time buyers.
- No changes to corporation tax rates.
- No changes to the Annual Investment Allowance which provides 100% relief on qualifying equipment purchases (up to £1 million).
- IR35 rules remain unchanged from April 2026.

SECTION 2: WHAT APPLIES TO EVERYONE

These changes and thresholds affect all UK contractors, whether you work through a limited company or umbrella arrangement (please note that slightly different income tax thresholds and rates apply to contractors residing in Scotland).

2.1 Income Tax Thresholds

Current figures:

Band	Rate	Threshold
Basic rate	0%	£12,570
Personal allowance	20%	£12,571 to £50,270
Higher rate	40%	£50,271 to £125,140
Additional rate	45%	Over £125,140

Status: Unchanged.

Frozen until: April 2031.

What this means:

Income tax thresholds determine how much you can earn before paying tax and at what rate. When thresholds stay frozen while wages rise, more earners get pushed into higher tax brackets over time. This is sometimes called “fiscal drag”- and will continue to be an issue for taxpayers in the short to medium term.

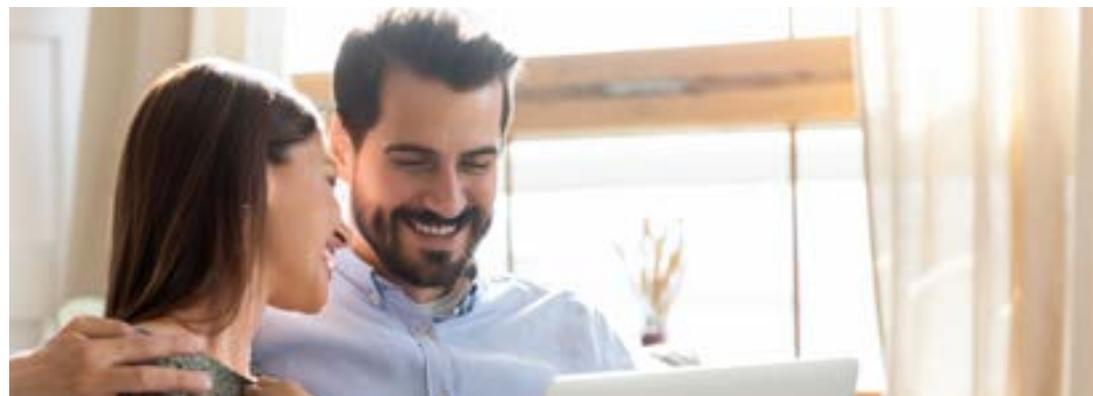
2.2 Scottish Tax Payers Income Tax Thresholds

Current figures:

Band	Rate	25/26 Threshold	26/27 Threshold
Personal allowance	0%	£0 to £12,570	£0 to £12,570
Starter	19%	£12,571 to £15,397	£12,571 to £16,537
Basic	20%	£15,398 to £27,491	£16,538 to £29,526
Intermediate	21%	£27,492 to £43,662	£29,527 to £43,662
Higher	42%	£43,663 to £75,000	£43,663 to £75,000
Advanced	45%	£75,001 to £125,140	£75,001 to £125,140
Top	48%	Over £125,140	Over £125,140

Status: Unchanged.

Frozen until: Higher, Advanced and Top rate April 2029



➤ 2.3 NATIONAL INSURANCE

National Insurance contributions fund state benefits including the state pension and NHS. Both employees and employers pay NI, though at different rates and thresholds.

Current figures:

- Employee Class 1 NIC rate-up to upper earnings limit 8% and 2% above.
- Primary threshold (employee): £12,570 per year
- Employer NIC rate: 15%
- Secondary threshold (employer): £5,000 per year

Status: Unchanged from April 2025

What this means:

From April 2025, the cost of employing staff has become significantly more expensive, leading to employers restricting job creation, “freezing” salaries, and looking at measures to optimise their workforce.

➤ 2.4 PENSIONS

Pensions remain one of the most tax-efficient ways to save for the future. Contributions made by your limited company count as a business expense, reducing corporation tax. Umbrella workers can benefit from salary sacrifice arrangements, which reduce tax and National Insurance.

Current figures:

- Annual allowance: £60,000
- Lifetime allowance: Abolished from 6 April 2024
- State pension increase: 4.8% for 2026/27
- Lump sum limits £268,275 for 2026/27 the maximum amount you can withdraw as a tax-free lump sum from your pension.
- The combined limit for tax-free lump sum and death benefits paid to beneficiaries £1,073,100 for 2026/27.

Key changes:

- From 6 April 2027, most unused defined pension funds and pension death benefits will be included in the inheritance tax calculations-meaning pensions form part of the taxable estate on death.

Planning tip:

Pensions reduce your taxable income while building retirement savings.

Those with large pension pots should consider the lump sum limits when planning withdrawals or estate planning as exceeding these limits may trigger tax charges.

➤ 2.5 INHERITANCE TAX

Inheritance tax applies to estates above certain thresholds when someone dies. Transfers to a spouse or civil partner are exempt, as are gifts to registered charities. If you leave your home to direct descendants and your estate is worth less than £2 million, you may qualify for an additional allowance.

Current figures:

- Nil rate band: £325,000
- Residence nil rate band: £175,000
- Rate above threshold: 40%

Status: Unchanged

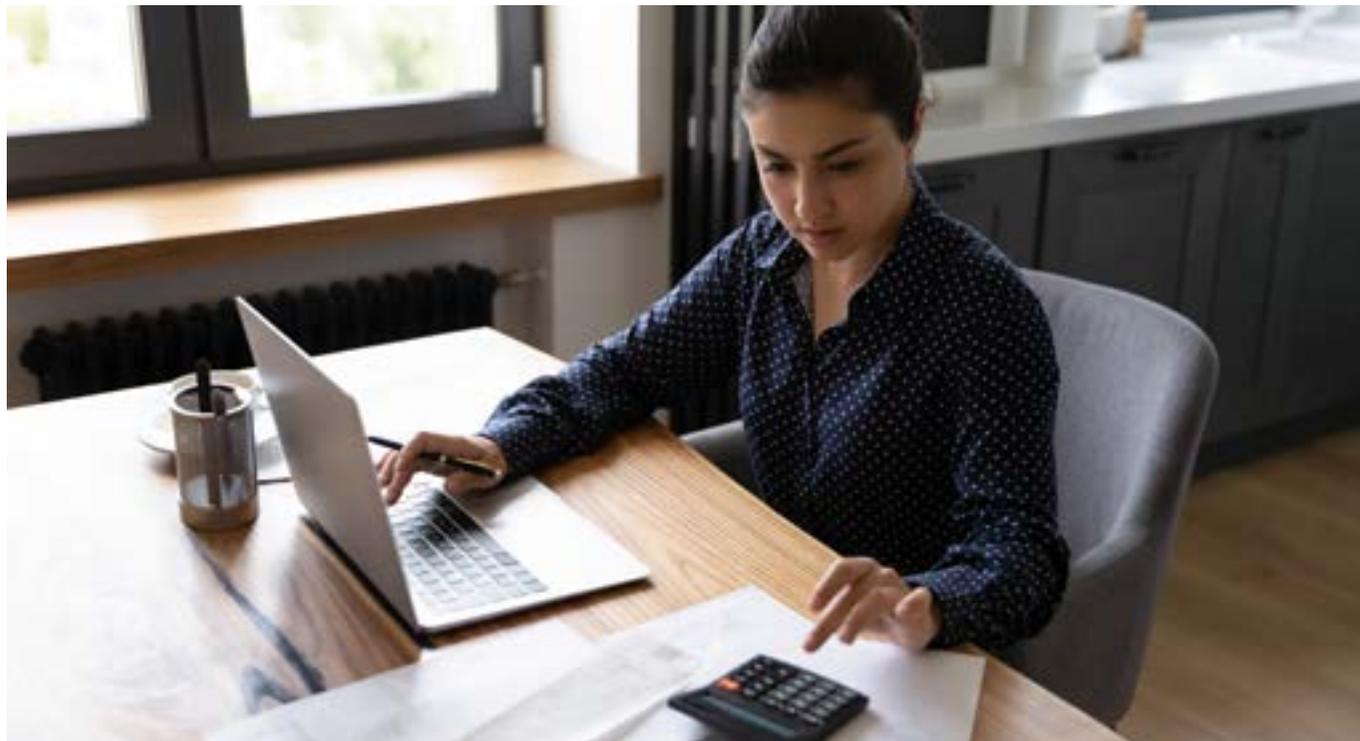
Frozen until: April 2030

Key changes:

- From 6 April 2026 a new £2.5 million allowance will apply to the combined value of property in an estate qualifying for 100% business property relief or 100% agricultural property relief. Relief at the lower rate of 50% will apply to the value of any qualifying relievable property over £2.5 million. Combined with the nil-rate bands, this means two individuals could pass on up to £5.65 million tax-free between them.
- From 6 April 2027, most unused defined pension funds and pension death benefits will be included in the inheritance tax calculations-meaning pensions form part of the taxable estate on death.

Planning tip:

Ensure you have a will in place that reflects your wishes. Review your estate planning arrangements periodically, particularly when tax rules change.



➤ 2.6 CAPITAL GAINS TAX

Capital gains tax applies when you sell or dispose of an asset that has increased in value. This includes shares, property (other than your main home), and business assets. Each tax year, you have an annual allowance before CGT applies.

Current figures:

- Annual allowance: £3,000
- Basic rate: 18%
- Higher rate: 24%
- Business Asset Disposal Relief rate: 18%

Status: From April 2026, Business Asset Disposal Relief increases from 14% to 18%.

What this means:

Planning to close your company and taking a withdrawal benefiting from Business Asset Disposal Relief has become more expensive; however, for higher rate taxpayers, this continues to be a tax efficient option, compared to taking a dividend.

Planning tip:

Transfers between spouses are exempt from CGT. If one spouse has unused allowance or is a basic rate taxpayer, transferring assets before sale can reduce your overall tax bill.



2.7 STAMP DUTY LAND TAX

Stamp Duty Land Tax (SDLT) applies when you buy property or land in England and Northern Ireland. Different rates apply depending on property value, whether it is your first home, and whether you already own other property.

Current thresholds:

- **Standard residential threshold: £125,000**
 - 0% on the first £125,000
 - 2% on the portion from £125,001 – £250,000
 - 5% on the portion from £250,001 – £925,000
 - 10% on the portion from £925,001 – £1.5 million
 - 12% on anything above £1.5 million
- **First-time buyer threshold:**
 - 0% rate (on properties up to £300,000)
 - 5% rate (on the portion between £300,001 and £500,000)
 - No relief on properties over £500,001

Status: No changes from April 2026.

Key Changes

None

2.8 ISAS

Individual Savings Accounts (ISAs) allow you to save and invest tax-free up to an annual limit. You pay no income tax or capital gains tax on ISA returns.

Current figures:

- Total annual allowance: £20,000
- Cash ISA allowance: £20,000 included in total annual allowance
- Stocks and shares allowance: £20,000 included in total annual allowance

Status: Unchanged from April 2026 to April 2027.

Key Changes

From April 2027, under 65's will only be able to add a maximum of £12,000 into cash ISAs.

➤ 2.9 MORTGAGES

While budgets rarely change mortgage rules directly, interest rate movements and broader economic policy affect borrowing costs. Contractors often face additional hurdles when applying for mortgages because lenders may not understand how contractor income works.

Current context:

- Bank of England base rate: 3.75%
- Recent trend: The Bank of England's base rate has seen a significant decrease from 4% to 3.75% over the past year, mainly as a response to persistent inflationary pressures.

Planning tip:

Review your mortgage arrangements periodically, even if your current deal is not due to end. Specialist contractor mortgage advisers can often secure better terms by using day rates rather than requiring years of historic earnings.



SECTION 3: FOR LIMITED COMPANY CONTRACTORS

If you operate through your own limited company (sometimes called a personal service company or PSC), this section covers the tax and compliance matters most relevant to you.

3.1 Corporation Tax

Corporation tax applies to your company's profits. The rate you pay depends on your profit level. Companies with lower profits benefit from the small profits rate, while those with higher profits pay the main rate. Companies with profits between these thresholds pay a marginal rate.

Current rates:

- Small profits rate (profits up to £50,000): 19%
- Main rate (profits over £250,000): 25%
- Marginal relief applies between £50,001 and £250,000

Status: Unchanged

Profits	Effective Rate	Corporation Tax
£50,000	19%	£9,500
£100,000	22.75%	£22,750
£150,000	24%	£36,000
£200,000	24.62%	£49,250
£250,000+	25%	25% of profits

Planning tip:

Pension contributions made by your company reduce taxable profits, which can help keep you within the small profits threshold. The Annual Investment Allowance also provides 100% relief on qualifying equipment purchases (up to £1 million).



➤ 3.2 DIVIDEND TAX

Dividends are payments made from company profits to shareholders. As a director-shareholder, dividends are typically the most tax-efficient way to extract profits from your company after paying yourself a modest salary. However, dividends are taxed at different rates depending on your total income.

Current figures:

- Dividend allowance: £500
- Basic rate: 10.75%
- Higher rate: 35.75%
- Additional rate: 39.35%

Status: The basic rate and higher rate of dividend has increased from April 2026.

Key changes:

- From April 2026, the basic rate of dividend tax has increased from 8.75% to 10.75%. The higher rate of dividend tax has increased from 33.75% to 35.75%. The additional rate of 39.35% remains unchanged.

What this means::

Although dividend rates have changed, they continue to remain more tax-efficient than salary for most contractors, though the increases to the dividend tax rates has narrowed this gap.

Planning tip:

If your spouse is a lower-rate taxpayer, appointing them as a shareholder allows you to distribute dividends across two people, potentially reducing your overall tax bill.



3.3 IR35

IR35 refers to tax rules designed to identify contractors who would be employees if they were engaged directly, rather than through a company. If a contract falls “inside” IR35, tax and National Insurance must be deducted at source as if you were an employee.

For public sector clients and medium or large private sector clients, the end client determines your IR35 status. For small private sector clients or wholly overseas clients, you remain responsible for making this determination yourself.

Current status

IR35 rules remain unchanged from April 2026.

Key changes:

- No changes to off-payroll working rules.

Planning tip:

Ensure your IR35 status is correctly assessed for each contract. If you disagree with a client’s determination, you may be able to challenge it through their status disagreement process

3.4 VAT

You must register for VAT if your taxable turnover exceeds the registration threshold. Once registered, you charge VAT on your services and can reclaim VAT on business expenses. If your turnover falls below the deregistration threshold, you can apply to deregister.

Current thresholds:

- Registration threshold: £90,000
- Deregistration threshold: £88,000

Status: Unchanged from April 2026.

What this means:

When thresholds remain frozen, rising income can push you into mandatory registration. Monitor your turnover carefully, particularly if you are approaching the threshold.

Planning tip:

Voluntary VAT registration may benefit you if you incur significant vatable business expenses, as you can reclaim VAT on these costs.

3.5 SALARY STRATEGY

Most limited company contractors pay themselves a combination of salary and dividends. The optimum salary level depends on current tax thresholds and your personal circumstances. A salary up to certain thresholds can preserve state pension entitlement while minimising National Insurance.

Current guidance:

With thresholds at their current levels, the optimum salary is typically around £12,570 (the personal allowance threshold) or £6,708 (the lower earnings limit), depending on your circumstances.

Planning tip:

Your Brookson accountant can advise on the best salary and dividend combination for your situation.



SECTION 4: FOR UMBRELLA CONTRACTORS

If you work through an umbrella company, you are employed by the umbrella and receive a salary after deductions. This section covers matters specific to umbrella employment.

4.1 Salary Sacrifice Pensions

Salary sacrifice allows you to exchange part of your salary for employer pension contributions. Because the contribution is made before tax and National Insurance are calculated, you save on both. This makes salary sacrifice one of the most tax-efficient ways for umbrella workers to save for retirement.

Current status:

Unchanged

Key changes:

- From April 2029, salary-sacrificed pension contributions above an annual £2,000 threshold will no longer be exempt from National Insurance. However, tax relief on salary sacrifice will still be in place.

Planning tip:

Currently, salary-sacrificed pension scheme contributions continue to be a tax efficient method for employees to save for retirement, therefore employees should consider taking full advantage of such arrangements before the future planned changes noted above are implemented in April 2029, albeit income tax relief continues to apply post April 2029.



4.2 UMBRELLA COMPLIANCE

The umbrella market has faced increased scrutiny in recent years as HMRC targets non-compliant providers. Working with a compliant umbrella company protects you from unexpected tax liabilities and ensures your employment rights are properly maintained.

Current regulations:

The government continues to address non-compliance in the Umbrella company through the introduction of the new Joint and Several Liability rules in April 2026. Essentially, if an umbrella company doesn't pay the correct PAYE tax or National Insurance, HMRC will be able to recover the full amount from others in the chain like the recruitment agency or end client. Brookson Solutions Limited has been at the forefront of umbrella compliance (being a founder member of the FCSA) and with nearly 20 years' business experience, are proud to provide assurances to our associates of our payroll compliance and financial standing.

What this means:

Choosing a compliant umbrella provider is essential. Look for providers with recognised accreditations and a track record of HMRC compliance.

4.3 TAX AND NATIONAL INSURANCE

As an umbrella employee, income tax and National Insurance are deducted from your pay before you receive it. The same thresholds and rates that apply to all employees apply to you.

Current figures:

- Personal allowance: £12,750
- Basic rate threshold: £37,700
- Employee NIC rate up to the upper earnings limit 8%
- Primary threshold: £12,570

What this means:

Frozen thresholds mean that as pay rates increase, you may find yourself paying more tax over time even if your circumstances have not changed.

SECTION 5: YOUR ACTION CHECKLIST

Here is what to consider following this budget. Not every item will apply to you, but reviewing this list will help ensure you are making the most of your financial position.

For All Contractors

- Review pension contributions and consider whether to adjust;
- Check estate planning arrangements;
- Review mortgage arrangements;
- Confirm you understand how threshold changes affect your take-home pay.

For Limited Company Contractors

- Review profit levels, expenses and asset acquisitions (to benefit from capital allowances) in order to minimise your corporation tax position;
- Confirm salary and dividend strategy with your accountant;
- Monitor turnover against VAT threshold;
- Ensure IR35 status is correctly assessed for all contracts.

For Umbrella Contractors

- Confirm your umbrella provider's compliance status;
- Review salary sacrifice pension contributions;
- Understand how any rule changes affect your pay.



HOW BROOKSON CAN HELP

BROOKSON
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Brookson offers specialist services for UK contractors, bringing together accountancy, payroll, legal, and financial expertise under one roof.

Accountancy

Real-time visibility of your tax position with dedicated accountant support.

Payroll

Hassle-free umbrella employment with same-day setup and weekly payment.

Legal

Specialist IR35 advice and contract reviews from experienced employment lawyers.

Financial

Contractor-specialist mortgages, pensions, and protection from qualified advisers.

Whether you need help understanding how budget changes affect you or want to explore ways to improve your financial position, our team is here to help.

[Contact us today](#)

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Choose one of the following:



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