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Legal Update

November 2025

United Kingdom: Autumn budget 2025 — Key business tax highlights

In brief

On 26 November 2025, the Chancellor, Rachel Reeves MP, delivered the UK Budget saying that it makes the "fair and necessary choices" to deliver on the government's promises. We highlight below some of the key business tax announcements made in the Autumn Budget, including changes to the UK capital allowances regime, reform of transfer pricing, permanent establishment and the diverted profits tax rules and new advance tax clearance services.

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In more detail

Capital allowances

The Chancellor announced two changes to the UK capital allowances regime for plant and machinery in the Budget. First, the main rate of writing down allowances will be reduced from 18% to 14% per year on a reducing balance basis. This will take effect from 1 April 2026 for corporation tax and 6 April 2026 for income tax purposes, with hybrid rates for straddling periods.

Second, a new permanent first-year allowance (FYA) of 40% will be available for qualifying main rate expenditure incurred from 1 January 2026. Unlike existing FYAs, this relief will apply to unincorporated businesses and assets used for leasing, which are currently excluded from full expensing. Cars, second-hand assets and overseas leasing are excluded. The measure aims to incentivise investment where the current GBP 1 million Annual Investment Allowance or full expensing cannot be used, while reducing restrictions compared to other FYAs.

Reform of UK transfer pricing, permanent establishment and Diverted Profits Tax rules

Following the second consultation on this topic held in the Spring (see our previous client alert here), the government has decided to move forward with the reform of UK law in relation to transfer pricing, permanent establishment, and Diverted Profits Tax (DPT), with some amendments and promises of further guidance. Legislation relating to these reforms will be included in the Finance Bill and guidance will be provided in HMRC's International Manual in due course. In general, these changes will take effect for chargeable periods beginning on or after 1 January 2026.

Transfer Pricing

Following consultation on reforming the UK's transfer pricing rules, the government has sought address stakeholder concerns and highlighted the following in its summary of responses:

- The participation condition has been clarified: the concept of common management has been narrowed to target structures with a legal arrangement, unified senior management, and shared economic outcomes, with guidance to follow. HMRC will retain the power to issue transfer pricing notices where there would be participation under Article 9 of the OECD Model Tax Convention, but legislation will confirm these apply from the chargeable period of issuance and subsequent periods. The anti-avoidance rule remains, with further detail in guidance.
- UK-to-UK transfer pricing will be repealed to reduce compliance burdens, though HMRC's power to issue notices to disapply the exemption have been clarified.

- The rules for intangibles will be simplified by adopting a single market value for all domestic transactions, with the arm's length standard being mandatory for cross-border transactions related to intangibles. The "one-way street" rule preventing double non-taxation for licence grants is retained for cross-border licensing arrangements.
- The rules for financial guarantees will align with OECD guidelines, with HMRC issuing guidance on practical application and interactions with related provisions.
- Further amendments address clarifying the definition of "acting together", simplifying the terminology and framing of the legislation on foreign exchange hedging, and relaxations of the "one-way street", with HMRC guidance promised.

Permanent Establishment

As previously announced, the government is updating UK permanent establishment (PE) rules to align with the OECD Model Tax Convention and Commentary. Draft legislation now replicates OECD wording for profit attribution and HMRC will publish guidance on new terms such as "almost exclusively" and "plays the principal role."

Changes to the Investment Manager Exemption (IME) are being made ensure broader access by correcting unintended restrictions and extending coverage to investment advisors as well as managers. Updates to Statement of Practice 01/01 will address the independence test, how the IME applies in relation to carried interest, and how asset attribution works in relation to CGT.

Diverted Profits Tax

The government will replace DPT with the Unassessed Transfer Pricing Profits (UTPP) regime, bringing it within the scope of the UK's tax treaty network and enabling access to the Mutual Agreement Procedure (MAP) to resolve double taxation. The intention is for UTPP to retain the scope of DPT and apply to similar arrangements in an equivalent way. HMRC will provide guidance on how businesses subject to UTPP will be able to make a MAP claim and, recognising the benefits of the Profit Diversion Compliance Facility (PDCF), will update the existing guidance following the introduction of the UTPP.

Transfer Pricing: International Controlled Transaction Schedule

In addition to the transfer pricing reform referred to above, the government has also confirmed that it plans to introduce a requirement for in-scope multinationals to submit an International Controlled Transaction Schedule (ICTS). The ICTS will be used to report information annually on cross-border related party transactions. The information reported in the ICTS is intended to be used by HMRC for automatic risk assessment prior to an enquiry being opened and to enable HMRC to target enquiries to higher-risk cases. This is intended to take effect for accounting periods beginning on or after 1 January 2027 and a technical consultation on its design will take place in Spring 2026.

Following consultation, the government has also decided that all SMEs will continue to benefit from an exemption from transfer pricing and is no longer seeking to bring medium-sized enterprises within the scope of the rules.

Further amendments to UK Pillar Two legislation

The Multinational Top-up Tax and Domestic Top-up Tax legislation will be amended as previously announced in July 2025, in particular making amendments to how pre-regime deferred tax assets should be treated, adjustments to the election to exclude intra-group transactions to prevent a corresponding reduction in a group's covered tax balance, , changes to the rules allowing the profits of a flow-through ultimate parent entity to be reduced, recognition of payments for group relief as a covered tax for Domestic Top-up Tax purposes and providing for simplified calculations for non-material members. These amendments are intended to ensure that the UK legislation is brought into line with the January 2025 OECD Administrative Guidance, as well as reflects amendments identified from stakeholder consultation or otherwise necessary to ensure the UK's legislation remains consistent with the OECD commentary and Administrative Guidance.

Most of the provisions are stated to take effect for accounting periods beginning on or after 31 December 2025 (although they will also be permitted to take effect from an earlier date at the election of affected taxpayers). However, the changes to the treatment of pre-regime deferred tax assets will take effect for accounting periods ending on or after 21 July 2025 (when draft legislation to give effect to these changes was first published).

Digital Services Tax review

The UK's digital services tax (DST) was introduced in April 2020 as an interim measure to address tax challenges arising from the digitalisation of the economy pending agreement on a solution at OECD level. The DST imposes a 2% tax on revenues from

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social media platforms, search engines and online marketplaces with GBP 500 million global and GBP 25 million UK revenues thresholds.

The implementing legislation mandates a review of the DST after five years and a report has been published as part of the Budget for this purpose focused on its performance and administration. The report notes that the DST has exceeded initial revenue forecasts and in 2024-25 raised GBP 808 million. HMRC's approach to the DST has been praised for responsiveness, clear guidance and pragmatic approach and notes that, although there were initial setup and ongoing reporting costs for taxpayers, the administrative burden has been reduced by only requiring a single annual return per group. However, it emphasises that the UK's position remains to remove the DST once an "appropriate global solution" is in place. Meanwhile, the government remains open to stakeholder feedback on sector-specific concerns.

Capital Gains - revised anti-avoidance rules for share exchanges and reorganisations

The government is strengthening anti-avoidance rules in the capital gains tax legislation relating to share exchanges and company reconstructions. Currently, the legislation enables CGT or corporation tax to be deferred in relation to these transactions (where relevant conditions are met), provided they are for bona fide commercial reasons and do not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of liability to CGT or corporation tax.

With effect from 26 November 2025, the rules in section 137 of the Taxation of Chargeable Gains Act 1992 will be amended to apply if the main purpose, or one of the main purposes, of the arrangements is to reduce or avoid liability to CGT or corporation tax (removing the reference to bona fide commercial reasons). Similar amendments will be made to the reconstruction provisions relating to business transfers and collective investment schemes. If this anti-avoidance rule applies, the relevant reorganisation rule will not apply. The intention is that the anti-avoidance rule will now better target cases where, as part of a commercial exchange or company reconstruction, additional arrangements have been put in place to obtain a tax advantage.

As mentioned above, the amendment applies with effect from the date of the Budget, but transitional relief applies for clearance applications received by HMRC before 26 November 2025 and the shares and debentures are issued either within 60 days of announcement or, if later, within 60 days of the clearance decision.

UK listing relief from Stamp Duty Reserve Tax

In order to encourage trading of shares of newly listed companies in the secondary market, the government is introducing a relief from Stamp Duty Reserve Tax (SDRT) with effect from from 27 November 2025. This will apply to agreements to transfer securities of a company whose shares are newly listed on a UK regulated market will be exempt from the 0.5% SDRT charge for three years from listing. The exemption will apply to all of the company's securities, including depositary interests over a company's securities, but will not apply to the 1.5% SDRT charge (for transfers to depositary receipt systems or unelected clearance services) or where the transfer forms part of a merger or takeover where there is a change of control. It is hoped that this measure will incentivise companies to list (or dual list) in the UK.

Research and Development tax relief advance clearances

A targeted advance assurance service will be piloted in Spring 2026, enabling SMEs to gain clarity on key aspects of their R&D tax relief claims before submitting them to HMRC. Taxpayers will be able to seek assurance on the following issues during the pilot:

- Whether the project meets the definition of R&D for tax purposes.
- Whether overseas expenditure qualifies for relief.
- Which party is able to claim relief for contracted-out expenditure.
- Whether the company qualifies for exemption from the PAYE/NICs cap.

This is in addition to the recent establishment of the R&D Expert Advisory Panel, which will be advising HMRC on guidance and providing insights into cutting edge R&D to improve HMRC's understanding of innovation and development and help improve engagement with taxpayers.

Advance tax certainty service for major projects

Following consultation earlier in the year, a new HMRC service will be launched in July 2026 to provide major investment projects with advance tax certainty. The service will be open to both UK resident and non-UK resident entities investing in a "major project" exceeding a financial threshold of GBP 1 billion. The service will cover corporation tax, VAT, stamp taxes, PAYE and the

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Construction Indsutry Scheme, but will not provides clearances on transfer pricing, valuation of assets, purpose tests (including the unallowable purpose rules – although it has said that it will issue guidance on offering applicants a view that there is a low risk of a compliance intervention relating to the unallowable purposes rules where appropriate) or hypothetical scenarios. The government will be encouraging early engagement with HMRC by taxpayers and intends to target a 90 day turnaround per application. Clearances will be issued for an initial period of 5 years, but will consider renewing clearances for projects extending beyond this period. Technical guidance is due to be released shortly alongside the Finance Bill.

Further consultations expected in 2026

The government has also announced that it will announce further changes to simplify and improve tax and customs administration in a tax update event to be held in early 2026, and has signposted several consultations for the spring including on improving the notification regime for uncertain tax treatments; and introducing a new requirement to report transactions to HMRC between close companies and their shareholders as well as the development of a roadmap for the implementation of e-invoicing for VAT to apply from April 2029.

Please contact us, or your regular Baker & McKenzie contact, should you have any questions or want to discuss further.

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