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Forrester Boyd
CHARTERED ACCOUNTANTS

SAVINGS

Sweet and sour mix for savers



The October Budget was a mixed bag for savers. On the one hand, the £20,000 cash ISA limit has been retained, but on the other, tax rates on savings income will now rise by four percentage points from 6 April 2027, rather than the previously announced two.

Cash ISA and savings

The government had intended to restrict the cash ISA investment limit to £12,000 for those aged under 65, but this change will not now go ahead. The change means that all savers aged 18 or over will be able to continue to invest up to £20,000 each tax year into cash ISAs.

> *There will be no penalty for withdrawing funds from a FTB ISA; any unauthorised withdrawal from a LISA is subject to a 25% charge.*

From 6 April 2027, the tax rates on savings income will be 24% (basic rate), 44% (higher rate) and 49% (additional rate). Given the increased tax cost of savings income, it is a good time to check that funds are being invested on the most beneficial basis.

First time buyer (FTB) ISA

The FTB ISA, to be introduced in April 2029, is aimed at first-time property purchasers buying a home worth up to £450,000, with the only requirement being that a saver is 18 or over. The FTB ISA will provide a 25% government bonus up to a maximum bonus of £20,000.

Advantage: There will be no penalty for withdrawing funds from a FTB ISA; any unauthorised withdrawal from a LISA is subject to a 25% charge.

Disadvantage: LISA investors receive their government bonus every month, so a saver benefits from interest or investment growth on the bonus payments. However, the FTB ISA bonus will only be paid when a property is purchased, giving the LISA a distinct advantage.

There is no downside to opening a LISA now, and LISAs will continue to operate alongside the FTB ISA when this new ISA is eventually introduced.

EMPLOYMENT

Cracking down on workplace harassment

New employment legislation has strengthened the protection of employees against harassment and discrimination in the workplace. From 30 October 2026, employers must take "all reasonable steps" to prevent sexual harassment of employees rather than only "reasonable steps".

Employers will also be liable for harassment suffered by employees in the course of their employment from a wide range of third parties – clients, customers, suppliers and members of the public – in relation to any relevant protected characteristic under the Equality Act 2010. Depending on the nature of the business and workplace, this may be an onerous requirement because employers have little or no control over the actions of third parties.

To avoid liability, employers must take all reasonable steps to prevent such harassment. Liability can be triggered by a single incident and employers need not have had prior knowledge of the harassment.

Employers should review and update their anti-harassment and whistle-blowing policies to include the wider protections. Definitions must be clear, and policies must state how employees can report concerns and how complaints will be resolved. Policies must be readily available, communicated proactively and regularly reviewed.

You should also promote an anti-discrimination and anti-harassment culture and ensure managers know how to intervene if they see inappropriate behaviour. Tailored staff training should be given. Documentation of risks and steps taken to address them will be important in demonstrating compliance with the enhanced duties.

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Making Tax Digital shifts to automatic

HMRC has started automatically bringing into Making Tax Digital (MTD) individuals who are self-employed or are landlords who it believes should have registered but have not done so.

Those with an annual turnover over £50,000 based on their 2024/25 tax return were required to join MTD from 6 April 2026 but by mid-August nearly 300,000 had not yet done so.

The delay in sign-ups may be the result of the absence of any penalties for late quarterly updates, the first of which was due on 7 August 2026. However, each late submission from 7 August 2027 will attract a penalty point, and four points will result in a £200 penalty. Thereafter a further £200 penalty will be charged for each late submission.

Automatic sign-up may cause difficulties for people who do not have to join MTD despite



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annual turnover over £50,000. They include people who have ceased a trade or letting after 5 April 2025 or are exempt.

People for whom it is not practical to use electronic communications or keep digital records can request exemption. For 2026/27 you should do so as soon as possible. HMRC is now also accepting applications from taxpayers with turnover above £30,000, who will have to join MTD from 6 April 2027.

If you have been automatically signed up for MTD you must now acquire MTD-compatible software suitable for your business, start keeping digital records backdated to 6 April 2026, and submit quarterly updates. Those who have to join MTD in April 2027, including those whose entry to MTD was delayed, should also now be preparing to keep digital records.

The MTD for income tax requirements may encourage some sole traders to incorporate their business or even give up trading and seek employment. Limited companies do not have to use MTD, except for those registered for VAT, but there are many other factors that must be considered in deciding whether to incorporate. The decision is not at all straightforward and it is essential to get good professional advice.

PENSIONS


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Coming soon: the pension saving trap

Families could face combined tax of up to 91% (93% in Scotland) on inherited pensions from April 2027 when pensions are brought into inheritance tax (IHT). The triple charge will hit some estates valued at over £2 million where the deceased was over 75 years old. There are things you can do to mitigate the impact, but this is a complex area and professional advice is essential.

In a worst case scenario, pension savings in an estate will be subject to IHT at 40%, adding on further IHT of 20% in the band where the residence nil rate band (RNRB) is being tapered away. Beneficiaries who inherit the pension will find it treated as income by HMRC and taxable at up to 45%, or 48% in Scotland.

What can you do?

There are some mitigating strategies:

- If possible, take the tax-free lump sum before you are 75 to avoid any income tax.
- Reduce the value of the pension in your estate by drawing income.
- Make lifetime gifts to your beneficiaries. You can use your annual exemption of £3,000, but larger gifts will escape IHT provided you survive seven years after the gift. If you survive between three and seven years, IHT will be tapered.
- You could set up a trust for your beneficiaries. However, trusts may themselves be liable to some IHT and there will be setting up costs and perhaps ongoing administrative costs.
- Gifts to charities are exempt from IHT and reduce the value of your estate. If you leave at least 10% of your taxable estate to charity, IHT on the rest will fall to 36%. If the donation brings your RNIRB back into play, the IHT saving could be up to 60%.

Furthermore, two technical notes issued by HMRC giving details of how pensions will be taxed indicate that executors of estates and pension schemes will face a heavy administrative burden.

PENSIONS

Filling in national insurance gaps

HMRC is allowing self-employed people to fill gaps in their national insurance contributions (NICs) record right back to 2015/16 to qualify for a state pension. But check you really need to first.

Since 2024/25 self-employed individuals have not had to pay class 2 NICs. If you earn above the small profits threshold, currently £7,105, each year is automatically a qualifying year for state pension entitlement. However, HMRC's tax and NIC systems were not fully linked and for this or other reasons there may be gaps in your NIC record. Normally you can only pay NICs for the previous six tax years, but HMRC has now extended that opportunity back to the introduction of the new state pension.

You need 35 years of NICs for a state pension, so before making any payments you should check your NIC record via your personal tax account. You might already have, or know you will have, enough years.


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