

Autumn Budget 2025

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Introduction

The Chancellor, Rachel Reeves, **delivered** the Government's **Autumn Budget** today. Among several pensions-related developments, rumoured changes to salary sacrifice have been confirmed, but not until 6 April 2029. Whilst available detail of many of the proposals is currently limited, we set out the main headlines below.

Key points

- From 6 April 2029, pensions salary sacrifice contributions will be capped at £2,000.
- From April 2027, “well-funded” DB schemes will be able to make payments out of surplus directly to members who have reached NMPA, provided scheme rules and trustees permit it.
- From January 2027, pre-1997 pensions in the PPF and FAS will benefit from CPI-linked increases, capped at 2.5% a year. This change is designed to help benefits keep pace with inflation, but only where such benefits were provided under the rules of the original scheme in question.
- The Government has provided further practical details on its **proposals** to include most unused pension funds and death benefits in the value of a person’s estate for IHT purposes from 6 April 2027.
- Key announcements in relation to the state pension are as follows:
 - The state pension triple lock will be maintained – with the basic and new state pension being increased by 4.8% from 6 April 2026. Depending on an individual’s entitlement, this will provide pensioners with up to an additional £575 per year. (Earlier in August, the Government also launched the **third independent review of the state pension age**.)
 - Pensioners whose sole income is the basic or new state pension without any increments will not have to pay small amounts of tax via Simple Assessment from 2027-28, if the new or basic state pension exceeds their personal allowance from that point. The Government is exploring how best to achieve this and will set out more detail next year.
 - The Government plans to close loopholes in current “Voluntary NICs” (“VNICs”), including rules that allow those with a limited connection to the UK to build UK state pension entitlement at a cheaper rate whilst overseas. The Government will remove access to the cheapest Class 2 VNICs for individuals abroad and increase the initial residency or contributions requirement for VNICs to 10 years. The

Government is also launching a wider review of VNICs, with a call for evidence to be published in the New Year.

- Other notable pensions-related changes on the cards include:
 - the transfer of the Investment Reserve Fund in the British Coal Staff Superannuation Scheme to the scheme's trustees, to be paid out as an additional pension to the members
 - Stamp Duty Land Tax ("SDLT") rules will be amended, so that property transferred within Local Government Pension Schemes are subject to an SDLT relief. This will be legislated for in the Finance Bill 2026-27
 - in tandem with the Government's policy aims of supporting pensions savers and boosting UK growth, the British Business Bank intends to launch a consultation on "VentureLink", an initiative to help pension funds navigate the UK venture capital market.
- Finally, whilst the headline rates of income tax, NICs and VAT are not being increased, the Government will maintain income tax thresholds and the equivalent NICs thresholds for employees and self-employed individuals at their current levels for a further three years (ie from April 2028 to April 2031). Current inheritance tax thresholds will likewise be maintained until April 2031.

Cap on salary sacrifice

Under a pensions salary sacrifice arrangement, an employee agrees to give up (sacrifice) part of their entitlement to salary or bonus in return for an employer contribution to their pension scheme, resulting in an NIC saving. This is achieved by varying the individual's contractual terms and conditions.

From 6 April 2029, the Government has announced that pensions salary sacrifice contributions will be capped at £2,000 a year. Any contributions exceeding that cap will be made subject to employee and employer NICs, in the same way as other employee workplace pension contributions. Contributions will remain "exempt from Income Tax (subject to the usual limits)", and presumably any other tax charges if they are within the applicable annual allowance.

The changes are intended to "increase fairness, while protecting ordinary workers" as the "costs of relief through salary sacrifice relate disproportionately to pension contributions from those on higher incomes". The Government estimates that 74% of basic rate taxpayers using salary sacrifice to make pension contributions will be unaffected by the change.

The changes will be legislated for through primary and secondary legislation which will be introduced "in due course". However, [initial guidance](#) was published today alongside the Budget, and the Government intends to publish further guidance before April 2029. Although it is currently unclear exactly how the changes will work in practice, the initial guidance suggests the administrative burden will be placed on employers.

Surplus

Under changes being made by the [Pension Schemes Bill](#) ("PSB"), DB scheme trustees will be given power to amend their scheme rules to pay surplus to sponsoring employers (see our [Hot Topic](#)). The Government's original plans for surplus flexibilities (as outlined in its [Options for DB schemes consultation](#)) also considered the possibility of allowing trustees to pay one-off member lump sums, without baking in long-term liabilities. Such payments would currently amount to unauthorised payments under the pensions tax rules.

Also announced as part of today's Budget, from April 2027, the Government has confirmed that "well-funded" DB schemes will be able to pay surplus funds directly to scheme members who have reached NMPA, where scheme rules and trustees permit it. It will be important to see exactly how this new option is framed, including whether a new power to pay surplus in these circumstances will be included in the PSB, or whether changes will solely be made to the pension tax rules.

Pensions and IHT

Having already confirmed its plans to bring most unused pension funds and death benefits in scope of IHT from 6 April 2027, the Government today announced that personal representatives ("PRs") will be able to direct pension scheme administrators to withhold 50% of taxable benefits for up to 15 months and to pay IHT due in certain circumstances. PRs will also be discharged from a liability for payment of IHT on pensions discovered after they have received clearance from HMRC.

These changes will be legislated for in the Finance Bill 2025-26 and will take effect from 6 April 2027.

Next steps

Clearly, much of the detail from today's Budget announcements remains outstanding, and it is not yet clear how certain key pensions changes will work in practice. All eyes will be on the upcoming Finance Bill to see if that helps to fill in some of the gaps.