



## Clauses 1-8, Schedules 1 and 2

### Income Tax – changes to tax rates for property, savings and dividend income

#### Executive Summary

- **Clauses 1-8 set income tax rates for 2026/27, including increases to tax rates for property, savings and dividend income in 2026/27 and 2027/28.**
- **While CIOT does not take a view on the rates at which income tax should be set, we are concerned that the new rates add significant complexity to an already complex income tax system and will add further to HMRC's workload.**

#### 1. Overview and background

- 1.1. Clause 1 enables the government to collect income tax, an annually renewed tax.
- 1.2. Clause 2 sets the main rates for 2026-27 (unchanged at 20%, 40% and 45%), which will apply to non-savings, non-dividend income of taxpayers in England, Wales and Northern Ireland. Income tax rates and thresholds on non-savings, non-dividend income for Scottish taxpayers are set by the Scottish Parliament. The UK rates are reduced by 10 pence in £1 for Welsh taxpayers, and the Welsh rates of income tax for non-savings, non-dividend income are set by the Welsh Parliament and added to the UK rates.
- 1.3. Clause 3 sets the rates which will apply to savings income of all UK taxpayers.
- 1.4. Clauses 4-7 and Schedule 1 provide for:
  - new rates of income tax on property income – increasing the existing rates on property income by 2 percentage points;
  - a new hierarchy to determine the order in which different types of income are taxed so that property income will be treated as the highest part of a person's income (so more potentially within the higher rates) except for where they have savings and/or dividend income. The new order is therefore: non-savings income (including salary, pension and trading income), property income, savings income, dividend income.
  - increases in the rates of tax on savings income and dividend income, again by 2 percentage points, except for the dividend additional rate which remains at the current level of 39.35%;
  - a new order for the way in which the personal allowance and general reliefs are set off against income. These deductions must be used first against non-savings income. Any unutilised deductions are then offset against property income, savings income and dividend income as the taxpayer chooses;
  - multiple consequential amendments arising from the new rates including, for example, to provide that the new property basic rate of 22% will apply to distributions from real estate

investment trusts and that the savings basic rate will set the rate for withholding tax on yearly interest.

- 1.5. These changes take effect from April 2027 except for the increase in the tax rates for dividend income that applies from April 2026.
- 1.6. Clause 8 and Schedule 2 make provision for the devolved governments of Scotland and Wales to set their own property income tax rates in line with their current income tax powers in their fiscal frameworks.<sup>1</sup>
- 1.7. The government's policy rationale for the increase in rates is stated to be:  
*"Those with property, savings or dividend income pay less tax than those whose income comes from employment or self-employment as they do not pay National Insurance. The government is increasing taxes on property, savings and dividend income, to narrow this gap between tax paid on work and tax paid on income from assets."*<sup>2</sup>

## **2. CIOT comments**

### ***Complexity***

- 2.1. The CIOT does not take a view on what specific rates income tax should be set at, regarding this as a political judgement for government. However, we do comment on the effect of rate changes on the tax system and potential consequences for taxpayers and HMRC.
- 2.2. Our central concern with these changes is the added complexity. The new property rates add 5 new rates to the existing income tax rates. These are: the property basic rate of 22%, the property higher rate of 42%, the property additional rate of 47%, the property trust rate of 47% and savings trust rate of 47%. The number of consequential legislative changes required to effect the changes to the rates for property income, savings income and dividend income is indicative of the complexity.
- 2.3. A Scottish or Welsh taxpayer is also a UK taxpayer and potentially interacts with UK tax rates as well as Scottish/Welsh tax rates (and bands in Scotland) depending on their sources of income<sup>3</sup> - an additional layer of complexity to navigate.
- 2.4. In terms of administration, the changes will require additions to, and elements of re-design of, parts of the self-assessment return, tax calculators for quarterly and end of year submissions within Making Tax Digital for income tax, new forms and, most importantly, timely updated guidance to allow taxpayers to understand the changes and the consequences for their tax position. The Budget confirmed that HMRC will receive extra resources to reduce the 'tax gap', which is welcome, but it also needs additional funding to implement the changes to rates as the added complexity brought by these changes will add to the tax authority's workload and to demand for customer support.
- 2.5. Specifying the order of set off for the personal allowance and general reliefs is to some extent a simplification because some of the confusion around the tax calculation arises currently from the ability to allocate deductions in the most beneficial way for all forms of income.

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<sup>1</sup> These powers will only take effect from a date to be set by HM Treasury by regulation (Clause 8).

<sup>2</sup> <https://www.gov.uk/government/publications/changes-to-tax-rates-for-property-savings-and-dividend-income>

<sup>3</sup> [Income Tax in Scotland: Current rates - GOV.UK](https://www.gov.uk/government/publications/income-tax-in-scotland-current-rates)

- 2.6. The new savings rates apply to ‘savings income’ as defined<sup>4</sup>. They will not apply to investment income included in the category of “miscellaneous income”<sup>5</sup> that will remain subject to the existing income tax rates. While this may reflect the policy intent, different rates applying to investment returns is a source of complexity for taxpayers.
- 2.7. The complexity around these new rates is also demonstrated by the fact that the proposals for the increase in the savings rate did not highlight the impact upon life policies and insurers on Budget Day. Although the insurance industry was able to confirm with HMRC’s insurance policy team on the Budget afternoon that life policies would be in scope, insurance was not mentioned in the government’s Tax Information and Impact Note (TIIN), and it was not officially confirmed by HMT/HMRC until the Finance Bill was released.
- 2.8. We observe that the policy paper and technical note simply state that there is no change to the dividend additional rate without providing any explanation. It may be that the gap that the rate increases are intended to address (the ‘gap between tax paid on work and tax paid on income from assets’) is already narrow taking into account both corporation tax and income tax on dividend income for an additional rate taxpayer. However, it would be both helpful, and consistent with the government’s commitment to ensuring that tax policy making is open and transparent<sup>6</sup>, for the government to put on record the reason why the basic and upper dividend rates were changed but not the additional dividend rate.

***Interaction with taxpayers in Scotland and Wales***

- 2.9. Included within the consequential legislative changes are amendments to tax reducers and reliefs. One example is a change to the basic rate income tax reducer for rental property finance costs, such as mortgage interest. Currently, a taxpayer may claim an income tax reduction at a rate of 20% (which equates to the current main UK basic rate) for mortgage interest on rental properties. The amendment changes the rate of relief to be equal to the new property basic rate of 22% (the rate set by Westminster for UK taxpayers).
- 2.10. A mismatch exists between the mortgage interest income tax reducer rate of 22% and the rates of tax paid by Scottish taxpayers, who currently pay income tax on their property income at rates of 19%, 20% or 21%, before paying higher rate tax. This mismatch already exists with the current reducer rate of 20% and Scottish income tax rates of 19% and 21%. This will come into further focus if separate rates of tax on property income are introduced in Scotland and Wales.
- 2.11. The operation and interaction of tax reliefs and reducers depend on the underlying policy intention. Some aim to provide relief at the taxpayer’s marginal rate of relief, such as gift aid relief or relief for pension contributions. The drafting of the legislation for those reliefs enables a Scottish taxpayer to receive tax relief at their marginal rate of Scottish income tax. Others such as marriage allowance set a single rate of relief (in this case basic rate income tax relief) that applies to all taxpayers across the UK, including Welsh and Scottish taxpayers, regardless of their marginal rate of income tax.
- 2.12. The complex interaction of rate setting for devolved tax administrations with other areas of the income tax system is not new. In [2012](#) and [2014](#) HMRC published technical

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<sup>4</sup> Income Tax Act 2007 section 18

<sup>5</sup> Income Tax Act 2007 section 1016

<sup>6</sup> <https://www.gov.uk/government/publications/tax-policy-making-principles/tax-policy-making-principles>

notes<sup>7</sup>, following consultation, clarifying the scope of the Scottish rate of income tax across several areas. These notes helpfully set out the government's policy intentions in areas where the devolved rate setting powers interact with other areas of the income tax system. A similar consultation exercise and statement of the policy intent in relation to this interaction would help to ensure that the legislative provisions operate as intended.

***Behavioural impact***

- 2.13. Individuals who are commercial or residential property landlords will be subject to the increased property income rate from 2027/28. The economic effect of the increase is largely outside our remit, however we observe that some landlords may respond by passing on the tax charge through higher rents or may decide to sell their properties. Some individual landlords may decide to incorporate reflecting the wider differential between higher and additional income tax rates and the lower corporation tax rate of 25%.
- 2.14. For business owners, the increase in rates on dividend income may alter the cost/benefit analysis of taking dividends rather than salary.

**3. The Chartered Institute of Taxation**

- 3.1. The CIOT is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 3.2. The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.
- 3.3. The CIOT's 20,000 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA' and 'CTA(Fellow)', to represent the leading tax qualification.

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The Chartered Institute of Taxation  
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<sup>7</sup><https://webarchive.nationalarchives.gov.uk/ukgwa/20140603114240/http://www.hmrc.gov.uk/news/technote-scot-taxrate.pdf> and  
[https://assets.publishing.service.gov.uk/media/5a7d8e6640f0b65084e75e77/SRIT\\_Consequential\\_TechNote\\_vFinal.pdf](https://assets.publishing.service.gov.uk/media/5a7d8e6640f0b65084e75e77/SRIT_Consequential_TechNote_vFinal.pdf)