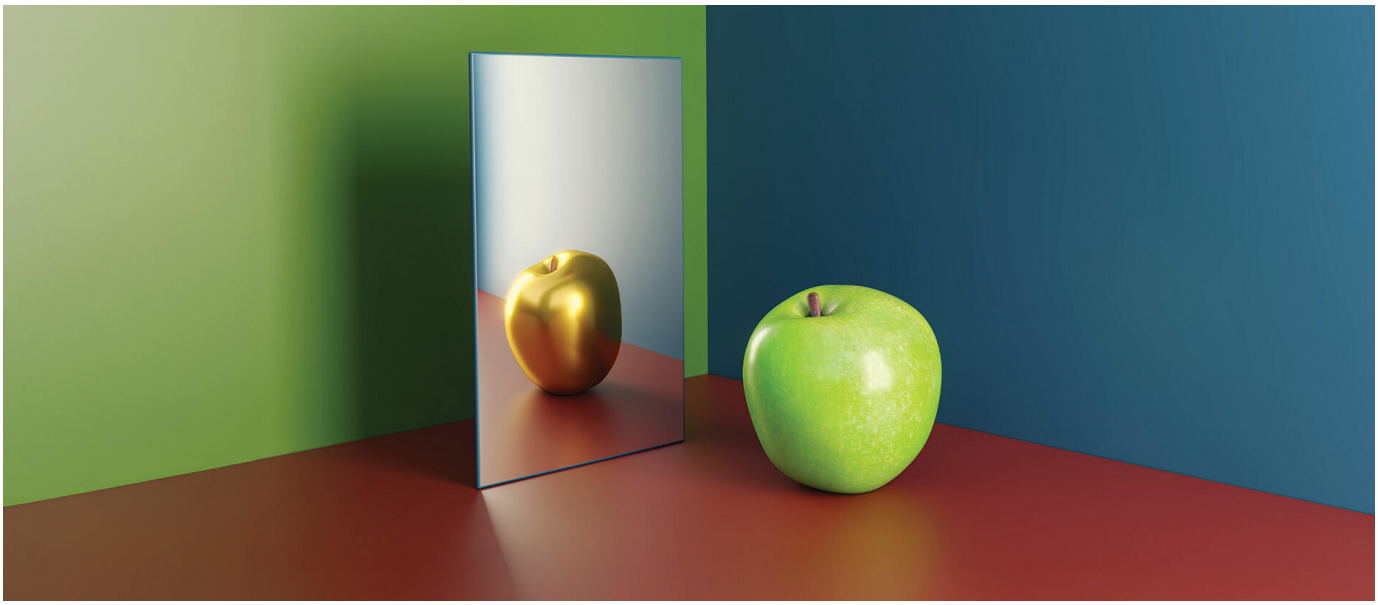
Review of Budgets 2024 and 2025: looking at the two Budgets as one...

General Features



05 January 2026

Taken together, the government’s first two Budgets indicate a careful balance - combining targeted measures with encouraging signs of prioritising stability.

Key Points

What is the issue?

The government’s 2024 and 2025 Budgets should be viewed together, indicating an approach focused on fiscal discipline, targeted measures and a renewed commitment to predictability and stability.

What does it mean to me?

The targeted approach of the combined Budgets is likely to increase the complexity of current tax rules. At the same time, compliance obligations are increasing, noting

in particular the expansion of HMRC's potential powers in relation to advisers.

What can I take away?

Taxpayers and advisers should focus on long-term direction, proactive compliance and engagement with consultations to help shape workable tax policy.

Now that we have had a little time to reflect on this government’s first two Budgets – and to move away from the extensive speculation that surrounded them – it is clear that they need to be seen together. The government itself has tried to signal continuity – first with ‘fixing the foundations to deliver change’ at the 2024 Budget, then with ‘strong foundations, secure future’ at the 2025 Budget. However, the experience for individuals and businesses has been less linear and more layered both in terms of complexity and timescale.

There is an underlying tone to both Budgets which merits acknowledgment. There are definite themes of targeting measures, creating a route towards fiscal headroom combined with a road map for business.

Constraints and complexity

No chancellor starts with a blank sheet of paper. Budgets are necessarily set within an existing complex tax system, constrained by the prevailing fiscal needs and the likely impact of changes, and influenced by wider policy priorities. Tax advisers are experts in the practical impact and operation of our tax system, informed by overseas regimes and the complex interactions that changes can trigger. While the future cannot be predicted, there is value in highlighting how a complex system must develop and be adapted.

The past two Budgets are examples of the balancing act that any chancellor must undertake: small changes to large tax bases to raise meaningful sums; the enactment of some changes that were priorities; a willingness to adjust regimes to make them more targeted (and therefore less costly for the Treasury), rather than recasting them entirely; and utilising the reality that fiscal drag can deliver broad-based tax rises, even as headline rates (which matter internationally) stand still. The opportunity to consider the two Budgets together reveals that, in substance, their combined effect aligns far more closely with the many Budgets that came before

than might initially be assumed.

Recognising these constraints and the approach adopted can be enormously helpful when advising taxpayers, allowing them as far as possible to predict the environment they face and to plan accordingly. This is, of course, always with the twin caveats of the limits of a tax professional's actual knowledge and the necessary unpredictability of global and domestic influences.

One potentially underappreciated aspect of the last few years is the policy latitude that exists outside the EU framework. In a post-Brexit environment, the government is no longer bound by such matters as the VAT Directive or the EU Fundamental Freedoms, although it does retain some tax obligations under the Windsor framework. The government now has greater legislative freedom to impose taxes where it could not before and to tailor reliefs and rates to domestic objectives. However, to date the government has used this freedom relatively sparingly.

A nuanced spread when viewed together

Considered as a pair, the Budgets present a range of measures with careful purposes behind the changes announced. There were positive pro-investment and growth signals, such as permanent full expensing for capital expenditure, wider eligibility and higher limits for the Enterprise Management Incentive scheme, and other changes to enterprise reliefs. There was also a clear move to stabilise public finances through National Insurance changes and targeted tax rises on investors and specific business sectors.

The Business Roadmap was published alongside the 2024 Budget. The roadmap reflects business views that stability and predictability in tax policy underpin long-term investment and growth. Key pledges were to:

- cap corporation tax at 25% for this Parliament;
- keep the small profits rate and marginal relief;
- maintain full expensing and the £1 million annual investment allowance;
- preserve generous R&D reliefs;
- simplify and digitise interactions with HMRC; and
- build a pre-investment certainty process for major projects.

Overall, the roadmap aims to prioritise certainty, while safeguarding UK competitiveness globally.

We have seen further commitment to these pledges in the 2025 Budget. There has been no change in corporation tax rates and full expensing has been maintained – though additional measures have been announced where full expensing does not apply (a reduction in the headline rate of writing down allowances but with enhanced first-year allowances available). Like the proverbial ‘dog that didn’t bark’, the significant point here is what did not change.

There were also indications of a renewed focus on smaller businesses with the striking increase to the Enterprise Management Incentive scheme.

Facilitating compliance

Successive chancellors have promised simplification, but it is hard to deliver in practice and these Budgets are no exception. Complexity in the tax system reflects to an extent the nature of a modern, international and intricate economy. Yet simplification remains a vital aim. A streamlined system reduces ‘administrative drag’ (the cost of compliance and doing business) and helps to ensure that taxpayers get things right first time, freeing up time to concentrate on building value and improving productivity.

Complexity and administrative obligations also have a regressive nature – they can fall proportionately more heavily on those who lack the resources to invest in advice and compliance functions.

Digitalisation sits alongside simplification as another key area. It is an expected feature of modern tax administration, but everything rests on its execution. If implemented robustly – with clear guidance, tested systems and proportionate obligations – digitalisation can lighten the compliance load, as well as sharpening HMRC’s insight. Otherwise, it risks compounding complexity and increasing the cost of compliance.

The right approach should blend better designed digital processes with specific, targeted simplifications, including those that come from listening to feedback and changing tack as and when appropriate. There is clearly an inevitability and much to be gained in productivity in moving fully into the digital tax world.

Engagement with the taxpayer and adviser communities

Improvements to the UK's complex tax system are best achieved through constructive dialogue between policymakers (Treasury and HMRC) and those who see how the rules operate in practice (taxpayers and their advisers).

There must be a willingness to make targeted changes to advance the government's priorities in a targeted and efficient manner. For example, we have seen certain revisions to Budget 2024 measures relating to trusts and inheritance tax, as a response to further consideration.

More significantly, the chancellor highlighted a call for evidence on tax support for entrepreneurs, recognising that the government needs to hear from those at the coal face in this important sector of the economy.

Buried in the detail but no less important, the government took on board practical concerns regarding nominated reporting companies under the Corporate Interest Restriction regime. This will result in legislation that should work better in practice. While not headline grabbing, such adjustments make the system more navigable and, cumulatively, more trusted.

Obligations, disclosure and the direction of travel

As well as hearing from taxpayers and advisers, there has also been a change to the 'direction of travel' – seeking to push more tasks and responsibilities in the tax compliance process 'downstream' to taxpayers and their advisers.

From the Treasury and HMRC's perspective, this is an efficient approach and represents a logical extension of self-assessment. Recent Budgets have increased documentation and reporting requirements, particularly in important areas such as transfer pricing and R&D tax credits. Although not a Budget measure, HMRC's published view of compliance obligations in Guidelines for Compliance 13 (GfC13) is very much part of the same trend.

Notably, the 2025 Budget and subsequent Finance Bill included measures targeted at raising tax adviser standards, which will have wide-ranging implications across the tax profession.

Together, these aspects bring together an unmistakable theme of enhanced responsibility on both taxpayers and advisers. For taxpayers, this means proactively considering disclosure, seeking appropriate advice, and rigorously reviewing and retaining supporting evidence. For advisers, it underscores the continuing need for professional scepticism, thorough fact-finding and disciplined documentation of professional judgement.

Thinking beyond tax

It is easy, in a tax article, to talk only about tax. But the business environment is obviously much wider: employment law reforms, energy costs, trade dynamics, AI and automation, and regional investment to mention just a few aspects.

Each taxpayer will have their own circumstances and considerations. More than ever, the role of the tax adviser is to identify the full range of the taxpayer's concerns and objectives. They must then apply their judgement as to how tax will impact these issues and affect their decision making, ensuring that a holistic and realistic view is taken.

As part of this, it is important to give thought to how any judgemental matter can be agreed with HMRC or, if necessary, through a tribunal.

Three closing reflections

First, there is a temptation to overread any single Budget or to be distracted by the debate surrounding it, instead of analysing its actual detailed content. Tax advisers have a unique and valuable skill in being able to get beneath the surface of headline announcements and assess what the measures will mean in practice.

Second, complexity and responsibility will remain a key feature for taxpayers, advisers and HMRC alike. Helping taxpayers to understand the tax implications of their choices, what it means for their compliance obligations and how they can achieve final certainty in significant, complex or judgemental matters is increasingly important.

Third, taxpayers and advisers have an ongoing role in shaping what comes next. By responding to calls for evidence and other consultations, and by providing feedback

on what is working well and where there are any problems or inefficiencies, outcomes can be improved – even though changes to the tax system necessarily proceed within certain constraints. Those with the most practical experience, whether taxpayers or advisers, have a great deal to offer in this respect.

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