UK Budget 2026 for business: bank surcharge doubled, 50% first-year allowance and Pillar Two changes

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The UK Budget on 28 October 2026 keeps Corporation Tax at 25% and 19% for 2028, doubles the Bank Corporation Tax Surcharge to 6% for 15 months and raises the main first-year allowance to 50% from 1 January 2027. It also legislates the Pillar Two side-by-side package.

Country reference

- **Country:** United Kingdom
- **Authorities:** HM Treasury; HM Revenue and Customs (HMRC)
- **Topic:** Budget 2026 - business and international tax
- **Key date:** Budget published 28 October 2026; most measures from 1 January or April 2027
- **Law:** Measures to be legislated in the next Finance Bill (Budget 2026 Overview of Tax Legislation and Rates)

What was announced

Our 7 October note listed what was already known before the Budget. The Budget documents now confirm the detail. The headline Corporation Tax rates stay the same, but banks pay more and the capital allowance rules change.

Corporation Tax and banks

- **Rates:** the main rate stays at 25% and the small profits rate at 19% for the financial year starting 1 April 2028.
- **Bank surcharge:** the Bank Corporation Tax Surcharge rises from 3% to 6% for 15 months, from 1 January 2027 to 31 March 2028. The government expects it to raise £1.5 billion.
- **Capital allowances:** the main rate first-year allowance rises to 50% for spending on or after 1 January 2027. The main writing-down allowance falls to 12% from 1 April 2027 for Corporation Tax (6 April 2027 for Income Tax).

International tax and certainty

- **Pillar Two:** the OECD side-by-side package applies for accounting periods starting on or after 1 January 2026, with most technical amendments taking effect from 31 December 2026.
- **Foreign branches:** the foreign permanent establishment exemption becomes mandatory for accounting periods starting on or after 1 January 2027.
- **Advance Tax Certainty Service:** the entry threshold falls from £1 billion to £300 million, so more groups can seek certainty on major projects.
- **Owners:** the Business Asset Disposal Relief lifetime limit falls from £1,000,000 to £500,000 from 6 April 2027. A new Founders' Relief at 10% on up to £10 million of lifetime gains is proposed; the consultation closes 30

November 2026.

What to do now

- Banks and bank groups: re-forecast UK tax charges and deferred tax for 2027 and early 2028.
- Review the 2027 capital spending plan: timing now changes the first-year relief and the pool rate.
- Groups with UK companies holding foreign branches: model the mandatory exemption, including loss relief.
- Pillar Two groups: update 2026 calculations for the side-by-side rules.
- Founders planning an exit: take advice before 6 April 2027.

Our take

For Gulf groups with UK subsidiaries, stable rates are good news, but the capital allowance shift rewards early planning. UK-regulated banks with Gulf parents face a sharp, temporary rise in tax. The Finance Bill text should be checked before acting.

Sources

- UK government: Budget 2026 - Overview of tax legislation and rates (OOTLAR) (28 October 2026)
- HM Treasury: Budget 2026: Breathing space for today, hope for the future (28 October 2026)
- HM Treasury: Budget 2026 (HTML) (28 October 2026)

Important. This summary is for general information and is not tax, legal or financial advice. It is based on public UK government publications and may be incomplete or out of date. The official legislation and guidance prevail; check the official text before acting.

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