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BUSINESS REVIEW

**Spotlight on issues
affecting business**

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DECEMBER 2025

BUSINESS REVIEW

QUIRKY QUOTE:

"A lovely thing about Christmas is that it's compulsory, like a thunderstorm, and we all go through it together"

— Garrison Keillor

Budget fails to boost business sentiment

Research from the Institute of Directors (IoD) suggests business leader optimism remained at a historically low level both before and immediately after the Autumn Budget.

Fieldwork for last month's IoD Directors' Economic Confidence Index took place in the run-up to the Chancellor's Statement on 26 November and directly after Ms Reeves delivered her fiscal update. The IoD said its survey showed that, in the weeks leading up to the Budget, *'persistent speculation over tax rises'* kept confidence subdued with November's headline index staying at a near record low figure of -73.

With a snap IoD poll revealing that four out of five business leaders viewed the Budget negatively, it is perhaps unsurprising that confidence failed to rise significantly after the Chancellor's announcements. Indeed, while the data did show a slight improvement, the one point rise to -72 still left the index languishing around record lows.

The IoD also noted that some of the survey's underlying indicators declined significantly after the Budget, with revenue expectations falling to their lowest level since September 2020 and headcount expectations dropping to the third lowest reading ever. IoD Chief Economist Anna Leach concluded, *"The message from this Budget is that work remains to be done to lift the UK's growth prospects."*

Dividend Tax changes from April 2026

Among the different policy measures unveiled in last month's Budget, the hike in Dividend Tax rates was a particularly significant announcement for many business owners.

During her Budget speech, the Chancellor revealed that from 2026/27 onwards, the basic and higher rates of Income Tax on dividends will be increased by two percentage points. As a result, the basic rate will rise from 8.75% to 10.75%, while the higher rate will move up to 35.75% from 33.75%.

Industry experts reacted negatively to the decision, with Lizzie Murray, Head of Private Wealth at Saffery, describing the move as *"another unwelcome change"* that will *"weigh very heavily on owner-managed businesses."* Ms Murray did stress that businesses could consider short-term measures to bring forward dividends ahead of the change, she also stressed that the long-term impact would be *"a significant tightening of the tax screw on entrepreneurs."*

Industry experts have expressed concerns about the potential impact on small business owners. Jason Hollands, Managing Director at wealth management firm Evelyn Partners said that entrepreneurs will see the move *"as a kick in the teeth"* and suggested many business owners will feel *"despondent about the increasingly hostile tax environment."*

Day-one unfair dismissal rights shelved

Business groups have welcomed a government decision to drop its long-standing manifesto commitment to provide all workers with the right to claim unfair dismissal from their first day in a job.

The Department for Business and Trade said that, following a series of constructive conversations between trade unions and business representatives, the government had concluded that reducing the qualifying period for unfair dismissal from 24 months to six months – while maintaining existing day-one protection against discrimination and automatically unfair grounds for dismissal – was a *'workable package.'*

A joint statement released by the six business groups involved in the discussions said businesses would be *'relieved'* the government had agreed to this key amendment, which keeps a qualifying period that is *'simple, meaningful and understood within existing legislation.'*

The business groups' statement also suggested the opportunity to hold *'meaningful dialogue'* along with the *'constructive nature'* of discussions could be a template for resolving future issues. It did, however, make it clear that the business community still have concerns about many of the powers contained in the Employment Rights Bill, including those relating to guaranteed hours contracts, seasonal and temporary workers and thresholds for industrial action.

The FCA does not regulate certain areas (e.g. employment law, HR advice).



Supporting creative spirit in the UK

A new research paper published by the Federation of Small Businesses (FSB) suggests small firms in the creative sector are ready to drive growth if given better support and a system that reflects the realities of modern work.

The paper – *Creating Change* – proposes a number of ideas to help creatives and support those worried about how artificial intelligence (AI) might reshape their work. Research from the paper shows that, although 75% of small creative businesses see potential benefits from AI, 30% are concerned about abuse of intellectual property rights and 17% fear its impact on the long-term viability of their business.

To protect originality, the FSB is calling for small creators to be given greater control over how their work is used, the introduction of visible watermarks for AI-generated content to prevent it being passed off as human-made and protection against deepfakes.

FSB Policy Chair Tina McKenzie commented, *“The UK’s creative spirit has always been one of our greatest strengths, but that spirit can’t thrive on talent alone. It needs a system that recognises the realities of modern creative work. AI offers incredible opportunities, but it’s moving faster than the rules that protect the people behind the ideas. Creators are right to want clear safeguards around their work, their voices and their images.”*

UK performing well on workplace inclusivity

Data from the O.C. Tanner Institute’s 2026 Global Culture Report shows that UK employees are more likely to feel part of an ‘inclusive team’ than workers based in other parts of the world.

The study, which gathered insights from over 38,000 employees in 24 different countries, found that more than three-quarters of UK employees believe their team is inclusive. This was significantly higher than the global average, with less than a third of workers worldwide saying they felt part of an inclusive team.

Commenting on the report, O.C. Tanner’s European MD Robert Ordever acknowledged that the findings were *“encouraging”* for employers in the UK, clearly showing they were doing better than many countries when it comes to helping workers feel *“appreciated, respected and included.”*

However, he also stressed the importance of not celebrating too soon, adding *“much still needs to be done to ensure all employees feel they can be their authentic selves at work.”* In addition, he noted that fostering an inclusive workforce was *“an ongoing effort,”* and said leaders needed to keep driving inclusion at the team level in order to ensure feeling valued becomes part of everyday working life.

OTHER NEWS

New statutory payment rates for 2026/27

The government recently confirmed proposed increases to statutory payment rates. Statutory maternity, paternity, adoption, shared parental, neonatal care and parental bereavement pay will all go up from their current rate of £187.18 to £194.32 a week, while statutory sick pay (SSP) will rise from £118.75 to £123.25 per week. The new rates are due to take effect in April 2026.

Firms fear day-one sick pay changes

A poll of over 600 business owners conducted by The HR Dept suggests three-quarters of UK firms are concerned about the financial impact of upcoming SSP changes. The survey, however, also revealed that almost half of respondents acknowledge their business has not yet taken steps to adequately prepare for the new legislation, which will abolish the current three-day SSP waiting period leaving employees eligible for sick pay from the first day of absence rather than day four.

AI expected to shrink workforce

Research released by the Chartered Institute of Personnel and Development (CIPD) suggests one in six employers believe headcount will reduce over the next 12 months due to AI, with clerical, junior managerial, professional and administrative roles the most likely to be lost. The CIPD is calling for urgent government action in order to support people whose roles are most exposed to AI-driven change.

Budget 2025 – key business measures and reaction

- **Business rates** – in England to be updated from April 2026, including permanently lower multipliers for retail, hospitality and leisure
- **Income Tax and National Insurance thresholds** – the Income Tax Personal Allowance, the higher-rate threshold and additional-rate thresholds are frozen until April 2031. National Insurance thresholds will also be frozen
- **Dividend and property tax** – there will be a two percentage points increase to the basic and higher rates of tax on dividends from April 2026. Separate tax rates will be created for property income. From April 2027, the property basic rate will be 22%, the property higher rate will be 42%, and the property additional rate will be 47%
- **Salary-sacrifice pensions** – contributions above the £2,000 threshold will not be exempt from National Insurance from April 2029
- **Corporation Tax** – main rates will remain at 19% and 25%, but the main writing down allowance has been reduced, meaning that it will take businesses longer to deduct the cost of equipment and machinery from their taxable profits. The penalty for taxpayers submitting a Corporation Tax return late will double from 1 April 2026
- **Funding for small businesses** – the British Business Bank's (BBB's) new five-year plan will invest at least £5bn in growth-stage funds and scale-up companies. The BBB will launch VentureLink to help pension funds invest in venture capital
- **Wage increases** – the government will increase the National Living Wage by 4.1% for individuals to £12.71 an hour. The National Minimum Wage for 18 to 20-year-olds will also increase by 8.5% to £10.85 per hour and for 16 to 17-year-olds and apprentices by 6.0% to £8.00 per hour
- **Full expensing and Annual Investment Allowance** – to be retained but a permanent 40% First Year Allowance for main rate assets has also been introduced for expenditure incurred from 1 January 2026
- **Reduced CGT relief on disposal of Employee Ownership Trusts** – available on Employee Ownership Trusts from 100 per cent of the gain to 50 per cent. This took effect from November 26
- **Fuel duty** – frozen at the current rate until September 2026, after which the 5p cut first introduced in 2022 will be reversed through a staggered approach. From April 2027, the fuel duty rates will be updated annually by RPI
- **Changes to taxation of electric vehicles** – including a new Electric Vehicle Excise Duty (eVED) of 3p per mile for electric cars and 1.5p per mile for plug-in hybrid cars, with effect from April 2028
- **A new UK Listing Relief** – will provide a three-year exemption from Stamp Duty Reserve Tax for companies listing in the UK
- **Visa reforms** – to help UK businesses access global talent
- **Company eligibility limits for the Enterprise Management Incentives scheme** – will rise, giving more scale-ups the chance to join tax-advantaged share schemes
- **Supporting entrepreneurs** – Call for Evidence (to close on 28 Feb 2026) seeking views on how the UK can provide better support to entrepreneurs
- **More than £1.5bn invested through the Youth Guarantee and Growth and Skills Levy** – to strengthen the pipeline of skilled labour, including fully funded SME apprenticeships for under-25s.

BUSINESS REACTION

"We need the government to follow this Budget through with serious, pro-growth measures that restore the confidence small businesses need to grow, invest and hire."

Tina McKenzie, Policy Chair at the FSB

"The government should be commended for protecting capital spending, boosting innovation, sticking with the corporate tax roadmap and hiring the planning officers business asked for, but business will still rue a missed opportunity to be bold and press on with much needed tax reform, simplification and alignment of incentives to catalyse business investment and job creation."

Rain Newton-Smith, Chief Executive of the CBI

All details are correct at the time of writing (10 December 2025)

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