SAUDI BRITISH
JOINT BUSINESS COUNCIL

UK Budget 2026: Implications for UK-Saudi Trade and Investment

Summary

The UK Budget published on 28 October 2026 rejects broad-based tax increases and contains few measures aimed at trade.[1] One of its reforms, however, has a direct effect on Saudi state capital invested in the UK. From 1 January 2029, the uncodified exemption from UK direct tax enjoyed by foreign states and their investment vehicles will be replaced by a statutory sovereign tax status. Under the new regime, income and gains from directly held UK real estate will be taxed for the first time.[2] The Office for Budget Responsibility (OBR) expects the change to raise around 2.6 billion pounds between 2027-28 and 2031-32, although it classes the estimate as highly uncertain.[3]

For Saudi companies already operating in the UK the changes are more modest, since the main rate of corporation tax stays at 25% and capital allowances shift towards new investment.[4] Banks face a doubling of the bank surcharge for 15 months from January 2027, while overseas suppliers of services to UK businesses that are not VAT-registered will have to charge UK VAT from April 2027.[4] On trade, the Treasury has opened a consultation on extending the UK carbon border adjustment mechanism to refinery products.[4] That category includes refined oil, which made up 57.8% of UK goods imports from Saudi Arabia in the year to March 2026.[5] The consultations on the sovereign regime and on refinery products both close on 20 January 2027.[2,4] With the UK-GCC Free Trade Agreement still awaiting formal signature and ratification, SBJBC has a defined period in which to brief members and gather their views.

Economic Context

The Budget was framed around the economic effects of the conflict in the Middle East, which the Treasury treats as the main external shock to the UK in 2026.[1] Following the disruption to transits through the Strait of Hormuz in February, monthly average Brent crude prices had risen by around 60% by October and UK wholesale gas prices by nearly 200%.[1] Consumer price inflation rose from 2.6% in June to 3.5% in September, and the OBR expects it to peak at 3.8% in the first quarter of 2027.[1] The OBR also expects GDP growth to slow from 1.2% in 2026 to 1.0% in 2027.[1] Higher borrowing costs are estimated to add an average of 14 billion pounds a year to debt interest compared with the OBR's March forecast.[1]

The Treasury describes ending the conflict, fully reopening the Strait and repairing damaged energy infrastructure as the single biggest priority for improving the global outlook.[1] The OBR estimates that a lower path for energy prices could raise UK growth by 0.5 percentage points in 2027 and reduce borrowing by 12 billion pounds in 2027-28.[1] On the Treasury's own analysis, the security of Gulf energy

supply sits close to the centre of the UK's fiscal position. The government absorbed most of the shock within its existing fiscal headroom, leaving the headline rates of income tax, National Insurance contributions and VAT unchanged.[1] Its energy support is directed mainly at households and energy-intensive manufacturers, so the measures with a bearing on Saudi exporters and investors are the targeted revenue-raisers discussed below.[1]

The New Sovereign Tax Status

The UK has long exempted foreign states and connected entities from direct tax under a regime that has never been codified and rests on principles of international law applied through HMRC practice.[2] From 1 January 2029 this will be replaced by a statutory sovereign tax status for states, heads of state acting in a sovereign capacity, central banks, sovereign wealth funds, state pension funds and certain wholly state-owned entities.[2] Holders will remain exempt on UK-source interest and on the profits of UK offices managing their own portfolios, and will generally pay no tax on UK dividends.[2] They will, however, become taxable on income from UK land, on gains from disposals of UK land and UK property-rich vehicles, and on UK trading income, although state-operated overseas pension funds will remain exempt on gains.[2]

The Treasury expects the main practical effect to fall on directly held UK real estate, because sovereigns that already invest through UK companies pay corporation tax in the ordinary way.[2] For Saudi state investors with UK property, the tax outcome will therefore depend on how each holding is structured. The first task for any affected entity is to establish which holdings are owned directly, which sit within UK companies and which are held through funds. Two eligibility conditions are likely to matter in the Gulf, the first being that a wholly state-owned entity must be incorporated and resident in the sovereign's home country, which could exclude holding vehicles established in other jurisdictions.[2] The second excludes members of a head of state's household, and a head of state acting in a private rather than sovereign capacity does not benefit from the status.[2]

To limit the effect on investment, sovereigns will be able to control or wholly own a UK REIT through a dedicated UK holding company taxed at 15% on property income distributions.[2] Assets newly brought into charge will be rebased to their market value on 1 January 2029, so that only later gains are taxed.[2] A time-limited relief from Stamp Duty Land Tax will apply to restructurings of property in England and Northern Ireland from 2028 until at least 31 December 2030.[2] The legislation will also remove jurisdictional immunity for the new tax liabilities, so that UK courts and tribunals can enforce them.[2]

The OBR expects the measure to raise around 690 million pounds in 2029-30, the first full year of the regime, and around 2.6 billion pounds between 2027-28 and 2031-32, and rates the costing as highly uncertain.[3] The Treasury argues that the resulting treatment will be comparable to, or more generous than, that of most other countries.[2] Commentators have also pointed out that the United States, Canada and Australia already tax sovereign property income.[6] On that reading the reform moves the UK towards international practice rather than singling out Gulf capital. The REIT route, rebasing and stamp duty relief together reduce the cost for investors prepared to restructure. The greater risk for the corridor is one of perception, since proposals first put forward in 2022 have now been revived.[6] Long-term state investors attach considerable weight to the predictability of the tax regimes in which they commit capital.

The consultation closes on 20 January 2027 and will be followed by technical consultation on draft legislation before the rules are enacted in Finance Bill 2027-28.[2] Among its questions, the Treasury

asks what effect the home-country incorporation requirement will have, and it invites evidence on assets used for a mix of state and private purposes.[2] Saudi stakeholders have particular experience to offer on both points, including the legal and cultural considerations the Treasury says it should take into account.

Saudi Businesses Operating in the UK

For Saudi-owned companies trading in the UK, the Budget preserves the main features of the corporate tax regime.[1] The main rate of corporation tax stays at 25% and the small profits rate at 19% for the financial year beginning in April 2028, in line with the 2024 Corporate Tax Roadmap.[1,4] Capital allowances have also been rebalanced, with the main writing-down allowance falling from 14% to 12% from April 2027.[4,7] Against that, the main rate first-year allowance for new plant and machinery, including assets bought for leasing, rises from 40% to 50% for expenditure from 1 January 2027.[4] Tax Policy Associates estimates that the package leaves relief on new investment slightly more generous than before, but reduces relief on second-hand assets, cars and existing pool balances.[7] The companies most affected will be those with large historic pools rather than those planning new capital spending.

Banks are the principal exception, since the bank corporation tax surcharge will rise from 3% to 6% between 1 January 2027 and 31 March 2028.[8] That takes the combined rate on affected profits to 31% for the period, in a change expected to raise around 1.5 billion pounds.[7] The surcharge applies only to banking profits above an allowance of 100 million pounds, which banking groups share across their members.[8] Gulf banks with modest UK operations are unlikely to be affected, while groups with substantial UK earnings will pay the higher rate for five quarters before it reverts.

Cross-border service providers face a separate change from April 2027, when the VAT reverse charge on services supplied from overseas will apply only where the UK customer is VAT-registered.[4] Saudi firms selling consultancy, digital or other services to unregistered UK businesses will then need to charge and account for UK VAT themselves. UK companies that operate in the Kingdom through branches rather than subsidiaries are also affected, because the foreign permanent establishment exemption becomes mandatory for accounting periods beginning on or after 1 January 2027.[4] Branch profits will be exempt from UK corporation tax, but branch losses can no longer be set against UK profits.[7]

Saudi-based individuals who hold UK rental property in their own names face a further two percentage point rise in property income tax rates, to 24%, 44% and 49% from 6 April 2027.[4] Larger investors may benefit from the reduction from 1 billion pounds to 300 million pounds in the project threshold for the Advance Tax Certainty Service, which takes effect from 4 November 2026.[4] UK universities recruiting in the Kingdom will also need to plan for the International Student Levy of 925 pounds per international student per year from August 2028, which is to be legislated in Finance Bill 2026-27.[4]

Trade: Carbon Pricing and the UK-GCC Agreement

The Budget arrives at a weaker point in bilateral trade, with total UK-Saudi trade in goods and services falling by 15.5% to 13.4 billion pounds in the four quarters to the end of March 2026.[5] Saudi Arabia was the UK's 25th largest trading partner over that period, accounting for 0.7% of total UK trade.[5] Most of the fall came from UK exports, which declined by 24.0% to 9.6 billion pounds.[5] Services accounted for the bulk of it, with exports falling by 35.8% to 5.0 billion pounds, against a more modest 5.0% decline in goods exports to 4.6 billion pounds.[5] The sharpest drop was in other business services, a category covering consultancy, research and technical work, where UK exports fell by 61.1% to 1.8 billion pounds.[5] The official statistics do not attribute a cause, but because most of that period predates

the disruption in the Gulf, SBJBC Research's reading is that the decline reflects changes in Saudi project spending rather than the conflict.

UK imports from the Kingdom moved in the opposite direction, rising by 17.2% to 3.8 billion pounds.[5] Refined oil dominated them at 1.5 billion pounds, equivalent to 57.8% of UK goods imports from Saudi Arabia and 43.1% higher than a year earlier.[5] The Budget's proposed consultation on expanding the UK carbon border adjustment mechanism (CBAM) to include refined products is therefore particularly relevant to Saudi exporters. The existing mechanism is due to take effect on 1 January 2027, covering specified goods in the aluminium, cement, fertiliser, hydrogen, and iron and steel sectors.[9] The proposed expansion could bring additional Saudi industrial exports within its scope, depending on the products ultimately included. The Government also intends to introduce country-specific default emissions values from 2029, potentially affecting how the carbon liabilities associated with Saudi imports are calculated. The government has said it intends to extend it to refinery products such as petrol, diesel and jet fuel, subject to consultation, but has not yet set a timetable.[9,10] An S&P Global analyst has observed that no operating carbon border mechanism yet covers refinery products and that fuels blended through European hubs are difficult to trace back to individual refineries.[10] The way those questions are resolved in the consultation, which closes on 20 January 2027, will largely determine whether the measure becomes a material cost for Saudi refiners.[4]

Trade policy towards the Gulf otherwise sits outside the Budget, and the larger development for the corridor remains the UK-GCC Free Trade Agreement. The UK and the GCC concluded negotiations and signed a joint statement in London on 20 May 2026, but as of mid-November 2026 the treaty is not in force.[11,12] On 20 October the UK trade policy minister told the UK-GCC Strategic Dialogue that the signature process, the legislative process and implementation were still to come.[13] Once fully implemented, the agreement is expected to remove an estimated 580 million pounds a year in duties on UK goods exports to the GCC, based on current trade.[11] Of that sum, 360 million pounds would be removed on the day the agreement enters into force.[11] GCC Secretary General Jasem Al-Budaiwi told the same forum that the agreement could help Gulf exporters expand sales of aluminium, fertilisers and manufactured goods to the UK.[13] For Saudi producers of aluminium and fertilisers, any tariff savings will need to be weighed against carbon border charges on the same goods from January 2027.[9]

Defence Finance, Data Centres and Implications for SBJBC

Alongside the new costs, the Budget creates openings in defence, where the government reaffirmed its commitment to spend 3.5% of GDP on defence by 2035.[1] It also committed the National Wealth Fund and the British Business Bank to deploy up to 5 billion pounds over four years into defence and dual-use sectors.[1] A new Innovative Defence Financing Taskforce, running until the next Spending Review, will seek to maximise the contribution of private and international finance and address barriers to investment.[1,14] Saudi institutional investors and defence-industrial partners are natural participants in that discussion, subject to the UK's national security screening of investment.

A second opening lies in digital infrastructure, where the new Data Centre Covenant sets five tests covering lower electricity bills, investment in local communities, environmental standards, job creation and national security.[15,16] Data centres judged to be strategic will be offered faster grid connections and planning decisions through a new Ministerial Control Centre.[15] At the time of writing, the government has not defined which projects will count as strategic.[16] Saudi investors with an interest in UK data centres will want to follow closely how the criteria are set, particularly the national security test.

The Budget therefore leaves the commercial case for UK-Saudi trade and investment largely intact, while changing the terms on which state capital holds UK property. It also places the carbon content of Saudi exports on the UK policy agenda, and the detail of both changes will be settled through consultations that are open now.

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