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Budget Review 2014

Chancellor George Osborne presented the 2014 Budget to the House of Commons on 19 March. This newsletter reports on the key announcements and recent measures most likely to affect your business and personal finances. For further advice, please contact us.

Inside...

Osborne offers a Budget to 'bolster resilience'

Chancellor George Osborne unveiled his fifth Budget amidst signs of growing levels of confidence in the UK's economic condition. Keen to drive home the message that the economy is recovering 'faster than forecast', the Chancellor announced that the Office for Budget Responsibility had revised its economic growth forecast upwards from 2.4% to 2.7% for 2014.

However, warning that 'the job is far from done', the Chancellor announced that further austerity measures would be necessary to tackle ongoing high levels of borrowing and help secure economic 'resilience', and confirmed that 2015 will see the introduction of a five-year structural welfare cap, starting at £119bn.

Central to the speech were business investment, productivity and exports, with another temporary increase in the Annual Investment Allowance to £500,000, coupled with a doubling of export lending to £3bn. British manufacturers will benefit from a £7bn package aimed at reducing spiralling energy costs.

The Chancellor also revealed some significant personal tax measures, with sweeping changes to the taxation of pensions, including granting pensioners the freedom to control their own pension pots. Individual taxpayers are set to benefit from a further increase in the basic income tax personal allowance, which will rise to £10,500 with effect from 2015.

Turning his attention to the plight of UK savers, the Chancellor announced the reduction to zero of the 10p starting rate for savings and outlined a dramatic reform of Individual Savings Accounts (ISAs), through a New ISA (NISA) which will combine the cash and stocks and shares element of the existing ISA.

Confirming that the fuel duty rise for September will not go ahead, the Chancellor went on to announce a freeze in duty on whisky, other spirits and ordinary cider, and a reduction of beer duty by a penny a pint.

Other measures confirmed by the Chancellor include changes to the Tax-Free Childcare scheme worth up to £2,000 for working families, an increase in the National Minimum Wage, an extension of the Help to Buy scheme, and the creation of a new garden city at Ebbsfleet in Kent.

Finally, the Chancellor outlined plans to scrap the £1 coin in favour of a new twelve-sided coin, which will mirror the shape of the historic 'thrupenny bit' while embracing the latest in anti-counterfeiting technology.

Duties

Tobacco and alcohol

The duty on all tobacco products will be increased by 2% above the rate of inflation (based on the RPI) from 6pm on 19 March 2014.

The duty rates on beer will decrease with effect from 24 March 2014.

The duty on spirits will be frozen for 2014/15. The duty escalator for wine, made-wine and high strength sparkling cider will end.

Air Passenger Duty

Rates for the new bands will lower the cost of travelling to many emerging market destinations such as China, India and Brazil.

Bingo

From 30 June 2014, the Government will reduce the rate of bingo duty to 10%.

Business tax and investment incentives

Corporation tax

Financial year to	31 March 2015	31 March 2014
Taxable profits		
First £300,000	20%	20%
Next £1,200,000	21.25%	23.75%
Over £1,500,000	21%	23%

From 1 April 2015 the main rate of corporation tax will be reduced and unified with the small profits rate, giving a new unified rate of 20%.

Annual Investment Allowance (AIA)

The maximum amount of the AIA has been increased from £250,000 to £500,000 for all qualifying expenditure on plant and machinery made from 1 April 2014 for corporation tax and 6 April 2014 for income tax. After 31 December 2015 the limit will be reduced to £25,000. Transitional rules will apply.

Enhanced capital allowance (ECA)

The period in which businesses investing in new plant and machinery in ECA sites in Enterprise Zones can qualify for 100% capital allowances has been extended by three years to 31 March 2020.

Theatre tax relief

A new corporation tax relief for theatrical productions and touring theatrical productions is to be introduced. The Government will consult shortly after the Budget on the design of the relief.

Research and development (R&D)

From 1 April 2014 the rate of R&D payable tax credit for loss making SMEs will be increased from 11% to 14.5%.

Seed Enterprise Investment Scheme (SEIS)

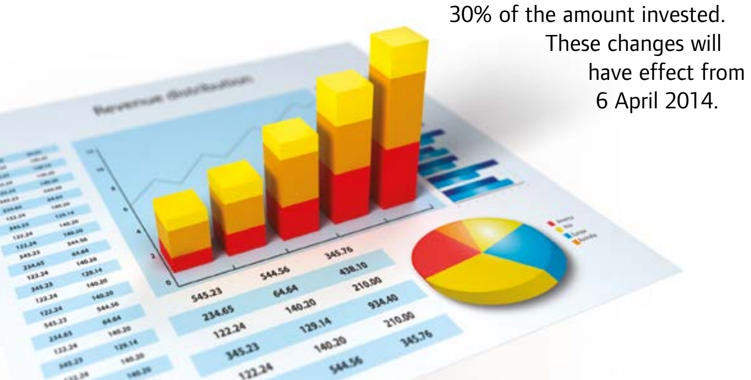
The SEIS and the associated capital gains tax (CGT) relief for re-investing chargeable gains in SEIS shares are to be made permanent.

Venture Capital Trusts (VCTs)

The Government will introduce a measure to prevent VCTs from returning share capital to investors within three years of the end of the accounting period in which the VCT issued the shares. This will have effect in respect of shares issued on or after 6 April 2014. Distributions made from realised profits will not be affected by this change.

Social investment tax relief

Legislation will be introduced to provide a range of income and CGT reliefs, to provide incentives for investment by individuals in qualifying social enterprises. Income tax relief will be available at 30% of the amount invested. These changes will have effect from 6 April 2014.



Pensions and savings

Pensions

The Chancellor announced a series of changes to:

- increase the maximum income that a drawdown pensioner (member or dependant) with a capped drawdown pension fund can choose to receive to 150% of the "basis amount"
- reduce the minimum income threshold for flexible drawdown to £12,000
- allow members over 60, with total pension savings of £30,000 or less to take out all of those savings as one or more trivial commutation lump sums, and
- increase the size of a small pension pot which can be taken as a lump sum from £2,000 to £10,000 and the number of personal pension pots that can be taken as a lump sum under the small pot rules from two to three.

Announcing a period of consultation, the Chancellor also proposed that from April 2015, those in a defined contribution scheme will, from age 55, be able to choose from three options. The access to a tax-free lump sum at retirement will continue, but thereafter the retiree can choose:

- to draw the remainder of the pension pot, which will then be taxed at the marginal rate (0, 20, 40 or 45%) – currently it would be taxed at 55%
- to go into drawdown under the new limits as above, or
- to buy an annuity.

National Savings and Investments (NS&I)

From 1 August 2014 the Premium Bond investment limit will be increased from £30,000 to £40,000 and will offer two £1m monthly prizes instead of one. The limit will be further increased to £50,000 in 2015/16.

The Government will launch in January 2015 a range of fixed-rate, market-leading savings bonds for people aged 65 and over, taxable in line with all other savings income. Interest rates and individual investment limits will be confirmed at Autumn Statement 2014 to take account of prevailing market conditions, but the central assumption made at Budget 2014 is that NS&I will launch a 1-year bond paying 2.8% gross/AER and a 3-year bond paying 4.0% gross/AER with an investment limit of £10,000 per bond.

The New ISA

From 1 July 2014, ISAs will be reformed into the 'New ISA' (NISA). From that date all existing ISAs will become NISAs, and the overall annual subscription limit for these accounts will be increased to £15,000 for 2014/15.

ISA savers will be able to subscribe this full amount to a cash account (currently only 50% of the overall ISA limit can be saved in cash), and will also be able to transfer their investment from a stocks and shares to a cash account and vice versa.

Between 6 April and 1 July 2014, the total amount that can be paid into a Cash ISA is £5,940. For those with a Stocks and Shares ISA, money can still be paid into that account, but the combined amount paid into Cash and Stocks and Shares ISAs must not exceed £11,880. From 1 July 2014, when any ISA will automatically become a NISA, further money can be added to either a Cash or a Stocks and Shares NISA up to the new £15,000 limit.

Capital taxes

Capital gains tax (CGT)

Roll-over relief allows capital gains tax and corporation tax on chargeable gains to be deferred where the proceeds from disposing of certain eligible classes of qualifying asset are reinvested into new qualifying assets.

A new measure announced today will prevent companies claiming chargeable gains roll-over relief on the disposal of tangible assets where the proceeds are reinvested in an intangible fixed asset.

This measure also adjusts the tax cost of the replacement intangible fixed asset for claims made on or after 1 April 2009 and before 19 March 2014, preventing double tax relief being given on any roll-over relief claims already made.

A further measure, affecting farmers, including companies carrying on a farming business, who dispose of or acquire payment entitlements under the new agricultural subsidy Basic Payment Scheme (BPS), will include payment entitlements under the BPS within the classes of assets eligible for business asset roll-over relief.

This measure will be retrospective and have effect in relation to acquisitions and disposals of BPS payment entitlements on and after 20 December 2013 (the date the relevant EU Regulation came into force).

Inheritance tax (IHT)

Aimed at closing a loophole, a measure will amend the new rules introduced in Finance Act 2013 dealing with liabilities so that foreign currency accounts in UK banks are treated in a similar way as excluded property for the purposes of restricting the deduction of a liability.

Residential property

The Government will introduce two new bands for the Annual Tax on Enveloped Dwellings (ATED). Residential properties worth over £1m and up to £2m will be brought into the charge with effect from 1 April 2015. The charge for these properties in 2015/16 will be £7,000. Properties worth over £500,000 and up to £1m will be brought into the charge with effect from 1 April 2016. The charge for these properties in 2016/17 will be £3,500. These charges will be increased in line with the CPI each year.

The Government will also extend the 15% SDLT rate applied to residential properties purchased by certain non-natural persons to properties purchased for over £500,000 with effect from 20 March 2014. It will extend the related CGT charge on disposals of properties liable to ATED for residential properties worth over £1m and up to £2m with effect from 6 April 2015 and for residential properties worth over £500,000 and up to £1m with effect from 6 April 2016. The Government will consult over summer 2014 on possible options to simplify the administration of ATED.

Value Added Tax Rates and Thresholds

From	1 April 2014
Standard Rate	20%
VAT Fraction	1/6
Reduced Rate	5%
Current Turnover Limits	
Registration – last 12 months or next 30 days over	£81,000 from 01/04/14
Deregistration – next 12 months under	£79,000 from 01/04/14
Annual Accounting Scheme	£1,350,000
Cash Accounting Scheme	£1,350,000
Flat Rate Scheme	£150,000

National Insurance Contributions (NICs)

Class 1 – not contracted out	Employer (primary)	Employee (secondary)
Payable on weekly earnings of:		
Below £111 (lower earnings limit)	Nil	–
£111 - £153 (primary threshold)	*0%	–
Below £153 (secondary threshold)	–	Nil
Above £153	–	13.8%
£153.01 - £805 (upper earnings limit)	**12%	–
Above £805	**2%	–

**No NICs are actually payable but a notional Class 1 NIC is deemed to have been paid; this protects contributory benefit entitlement.*

***Over state pension age, the employee contribution is generally nil.*

Employment Allowance up to £2,000 (per year)

Class 1A	On relevant benefits	13.8%
Class 2	Self employed	£2.75 per week
	Limit of net earnings for exception	£5,885 per annum
Class 3	Voluntary	£13.90 per week
Class 4*	Self employed on profits	
	£7,956 - £41,865	9%
	Excess over £41,865	2%

**Exemption applies if state pension age was reached by 6 April 2014.*

Income tax and personal allowances

Income Tax Rates	2014/15	2013/14
Basic rate band – income up to	£31,865	£32,010
Starting rate for savings	*10%	*10%
Basic rate	20%	20%
Dividend ordinary rate	10%	10%
Higher rate – income over	£31,865	£32,010
Higher rate	40%	40%
Dividend upper rate	32.5%	32.5%
Additional rate – income over	£150,000	£150,000
Additional rate	45%	45%
Dividend additional rate	37.5%	37.5%

**Starting rate is for savings income up to the starting rate limit of £2,880 (£2,790) within the basic rate band. The rate applies to any balance of the limit remaining after allocating taxable non-savings income.*

Personal Allowances	2014/15	2013/14
Personal Allowance (PA)		
Born after 5 April 1948	£10,000	£9,440
Born after 5 April 1938 and before 6 April 1948	£10,500	£10,500
Born before 6 April 1938	£10,660	£10,660
Married couple's allowance (MCA)		
Either partner born before 6 April 1935 (relief restricted to 10%)	£8,165	£7,915

Age-related allowances are reduced by £1 for every £2 that adjusted net income exceeds £27,000 (£26,100) to a minimum PA of £10,000 (£9,440) and to a minimum MCA of £3,140 (£3,040). Where adjusted net income exceeds £100,000, PA is reduced in the same way until it is nil regardless of the individual's date of birth.

VED rates from 1 April 2014

Band	CO_2 (g/km)	First Year Rate	Standard Rate	
			Petrol & Diesel	Alternative Fuels
A	Up to 100	£0	£0	£0
B	101 - 110	£0	£20	£10
C	111 - 120	£0	£30	£20
D	121 - 130	£0	£110	£100
E	131 - 140	£130	£130	£120
F	141 - 150	£145	£145	£135
G	151 - 165	£180	£180	£170
H	166 - 175	£290	£205	£195
I	176 - 185	£345	£225	£215
J	186 - 200	£485	£265	£255
K*	201 - 225	£635	£285	£275
L	226 - 255	£860	£485	£475
M	Over 255	£1,090	£500	£490

**includes cars emitting over 225g/km registered before 23 March 2006.*

This Budget Newsletter was prepared immediately after the Chancellor's Budget Statement based on official press releases and supporting documentation. The Budget proposals are subject to amendment before the Finance Act receives Royal Assent. This Newsletter is for guidance only, and professional advice should be obtained before acting on any information contained herein. No responsibility can be accepted by the publishers or the distributors for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication.

Changes to allowances and rate bands

The Chancellor announced that from 6 April 2015:

- the personal allowance for all those born after 5 April 1938 will be £10,500
- the basic rate limit will be reduced to £31,785, and
- the starting rate will be 0% and will apply to a maximum of £5,000 of savings income.

Transferable tax allowance for married couples

An individual will be entitled to transfer £1,050 of their personal allowance to their spouse or civil partner, from 6 April 2015, so long as neither is paying tax at more than the basic rate. From 6 April 2016, the transferable amount will be 10% of the personal allowance.

Company cars

The table shows the VAT chargeable for quarters commencing on or after 1 May 2014 and the benefit in kind percentages. The car fuel multiplier for 2014/15 is £21,700; the van fuel benefit is £581.

CO_2 emissions	Appropriate percentage		Quarterly VAT	
(g/km)	Petrol %	Diesel %	Fuel scale charge £	VAT on charge £
Zero	0	0	156.00	26.00
Up to 75	5	8	156.00	26.00
76 - 94	11	14	156.00	26.00
95 - 99	12	15	156.00	26.00
100 - 104	13	16	156.00	26.00
105 - 109	14	17	156.00	26.00
110 - 114	15	18	156.00	26.00
115 - 119	16	19	156.00	26.00
120 - 124	17	20	156.00	26.00
125 - 129	18	21	234.00	39.00
130 - 134	19	22	251.00	41.83
135 - 139	20	23	266.00	44.33
140 - 144	21	24	282.00	47.00
145 - 149	22	25	297.00	49.50
150 - 154	23	26	313.00	52.17
155 - 159	24	27	328.00	54.67
160 - 164	25	28	345.00	57.50
165 - 169	26	29	360.00	60.00
170 - 174	27	30	376.00	62.67
175 - 179	28	31	391.00	65.17
180 - 184	29	32	408.00	68.00
185 - 189	30	33	423.00	70.50
190 - 194	31	34	439.00	73.17
195 - 199	32		454.00	75.67
200 - 204	33		470.00	78.33
205 - 209	34		485.00	80.83
210 - 214		35	502.00	83.67
215 - 219	35		517.00	86.17
220 - 224			533.00	88.83
225 or more			548.00	91.33