BUDGET ISSUE CONTENTS

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INTRODUCTION

George Osborne's fifth Budget was, for most practical purposes, the last of this Parliament and those who expected the Budget to be a non-event were disappointed.

As usual, many of the important Budget announcements focused on changes that we already knew about from the Autumn Statement and covered issues such as:-

- Income tax rates.
- Personal allowances.
- Changes to business tax.
- Tax avoidance and evasion.

However, the Chancellor also announced some significant new changes as follows:-

- Radical reforms to the way in which benefits can be drawn from pension arrangements, encouraging the use of alternatives to the traditional annuity.
- A reform of ISAs, with a new £15,000 contribution limit from 1 July 2014.
- Further constraints on Venture Capital Trusts and Enterprise Investment Schemes.
- The replacement of the 10% savings rate band by a zero rate band from 6 April 2015.

- A doubling of the annual investment allowance to £500,000 and the extension for one year to 31 December 2015 of this higher level.

In what follows, we cover both the changes we already know about and new changes announced in the Budget.

INCOME TAX

1. Rates of tax 2014/15

(i) The limit for the 10% starting rate for savings income increases to £2,880.

(ii) The basic rate of income tax remains at 20%. The basic rate limit reduces to £31,865 so that the higher rate tax threshold [ie. the basic rate limit (£31,865) plus the basic personal allowance (£10,000)] becomes £41,865.

(iii) The basic rate of tax will apply to income in the band £1 to £31,865. Taxable income in excess of £31,865 will be taxed at 40% or 32.5% (dividends) up to the threshold of £150,000 when the additional rate of tax applies.

(iv) The additional rate of tax (which applies to taxable income in excess of £150,000) is 45% (37.5% for dividends).

(v) Trustees of discretionary trusts are subject to income tax at 45% (37.5% on dividend income) on income above their standard rate band (normally £1,000).

2. Personal allowances 2014/15

- The basic personal allowance increases from £9,440 to £10,000. Where an individual's adjusted net income exceeds £100,000, the level of the basic personal allowance will be reduced by £1 for each £2 over £100,000 until it reaches zero. This means that the basic personal allowance will reduce to zero where adjusted net income is £120,000 or more.

- The age allowance is £10,660 (for those born before 6 April 1938) and £10,500 (for those born after 5 April 1938 but before 6 April 1948). These allowances were frozen in the 2012 Budget.

- The level of income that a person can enjoy before they suffer a reduction in their age-related personal allowance is £27,000, up from £26,100.

- The married couple's allowance (MCA) for those aged 75 and over (provided at least one spouse was born before 6 April 1935) has been increased to £8,165. In calculating the reduction in age allowance when income exceeds £27,000, the increased MCA will not reduce below £3,140 (the "minimum amount").

- Relief in respect of the MCA and maintenance payments continues to be given as a tax credit at the rate of 10%.

Budget announcements

(a) Increase in the income tax personal allowance and basic rate limit for 2015/16

From 2015/16 the personal allowance for those born after 5 April 1948 will be increased to £10,500. This means that only those born before 6 April 1938 will continue to benefit from an increased personal allowance. The basic rate limit will be reduced to £31,785. This is a consequence of the increase in the higher rate tax threshold by 1% to £42,285 which, after the deduction of the increased personal allowance of £10,500, leaves £31,785 as the basic rate limit.

(b) Other changes for 2015/16

- From 6 April 2015 the 10% starting rate band for savings income will be replaced by a 0% starting rate band of £5,000 for savings income.
- From 6 April 2015, spouses and registered civil partners will be entitled to transfer £1,050 of their personal allowance to their spouse or registered civil partner.

CHILDCARE

Budget announcement

As announced on the day before the Budget, and confirmed in the Budget, the tax-free childcare costs cap under the new childcare scheme, scheduled for Autumn 2015, will be increased. The scheme will provide parents with savings worth up to £2,000 per annum per child – compared with the original proposal of £1,200 – by giving basic rate income tax relief on the first £10,000 they spend on childcare (ie. £10,000 x 20% = £2,000). In addition, the scheme will be open to all eligible families with children aged under 12 within the first year of the scheme's operation. Under the original proposals, only children aged under 5 were to be initially eligible for the scheme, rising over time to under age 12. To be entitled, both parents must be working.

NATIONAL INSURANCE CONTRIBUTIONS

The Upper Earnings and Upper Profits Limits (beyond which employee NICs are charged at 2%) for 2014/15 increase from £41,450 to £41,865, in line with the higher rate tax threshold.

The main rates for 2014/15 are as follows:-

- The Employee's Primary Class 1 National Insurance rate is 12% on earnings between the Primary Threshold (£153 per week - £7,956 pa) and Upper Earnings Limit (£805 per week - £41,865 pa).
- Employees, in addition, pay 2% Primary Class 1 National Insurance on all earnings above the Upper Earnings Limit (£41,865 pa).

- The Employer's Secondary Class 1 contribution rate on earnings above the Secondary Threshold (£153 per week - £7,956 pa) is 13.8%. This rate applies also to Class 1A and Class 1B contributions.

- The self-employed Class 4 rate on profits between the Lower Profits Limit (£7,956 pa) and Upper Profits Limit (£41,865 pa) is 9% and 2% above £41,865.

Budget announcement

NICs and the self-employed

Legislation will be introduced, when time permits, to simplify the administrative process for the self-employed by collecting Class 2 NICs alongside income tax and Class 4 NICs. These changes will have effect from April 2016, but customers will start to see the benefits after April 2015.

CAPITAL GAINS TAX

- The annual exempt amount is increased to £11,000 for individuals and to £5,500 for trustees (subject to dilution when the same settlor has created more than one trust).

- The lifetime limit on gains qualifying for capital gains tax (CGT) entrepreneurs' relief remains at £10 million as does the 10% rate of CGT for such gains.

- For individuals, the rate of CGT remains at 18% where total taxable gains and income are less than the basic rate limit (£31,865). The 28% rate applies to gains (or any parts of gains) above this limit. For trustees and personal representatives of deceased persons, the rate of CGT remains at 28%.

Budget announcements

(a) Split year rules

The Finance Bill 2014 will include legislation to correct an oversight in the split year rules introduced as part of the statutory residence test to ensure that capital gains made by a remittance basis -user while they are non-UK resident will not be charged to UK capital gains tax.

(b) Residential properties owned by non-natural persons

The 28% CGT charge on residential property owned by non-natural persons, such as companies, will apply to properties valued at £1,000,001 to £2 million from 6 April 2015 and to properties valued at £500,001 to £1 million from 6 April 2016. See also the changes mentioned in "Property Tax" on page 11.

INHERITANCE TAX

The inheritance tax (IHT) nil rate band will remain at its current level of £325,000 for tax year 2014/15.

Budget announcements

(a) Limiting the deduction for liabilities – anti- avoidance

Deposits in a UK bank account, which are denominated in a foreign currency, are left out of account in determining the value of a person's estate if the depositor is non-UK domiciled and non-UK resident immediately before their death. Technically, the account is not excluded property but is left out of charge to IHT under section 157 IHTA 1984. This creates an opportunity for people to exploit the new rules on the deduction of liabilities introduced last year.

Legislation will be introduced in the Finance Bill 2014 to treat funds held in foreign currency accounts in UK banks in a similar way to excluded property for the purposes of the provisions which restrict how liabilities are deducted from the value of an estate for IHT purposes. This means that if a non-UK domiciled individual borrows funds, which are then deposited in a foreign currency account with a UK bank, the borrowed fund will not be allowed as a deduction from the estate for inheritance tax purposes where death occurs on or after the date of Royal Assent to the Finance Bill 2014.

(b) Armed forces exemption

The Government will consult on extending the existing inheritance tax exemption for members of the armed forces whose death is caused by injury while on active service to members of the emergency services. Draft legislation will be included in Finance Bill 2015.

SAVINGS AND INVESTMENTS

(a) Individual Savings Accounts (ISAs)

For tax year 2014/15 the maximum contribution for all investments into ISAs has been raised to £11,880 (of which up to £5,940 may be in cash).

Budget announcements

Radical reforms to ISAs will be made from 1 July 2014 as follows:

- All existing ISAs will become new ISAs (NISAs), with a total contribution limit of £15,000 in 2014/15, an increase of £3,120 from £11,880.

- The rule which prevents more than 50% of the total contribution limit being placed in a cash ISA will be scrapped. Thus in 2014/15, 100% of the £15,000 NISA contribution can be placed in cash deposits.

- The ban on transfers from stocks & shares ISAs to cash ISAs will be removed, giving full two-way transferability (transfers from cash to stocks & shares have long been possible).

- Investment options will be widened to include, for example, certain retail bonds with less than five years to maturity. There will also be consultation on including peer-to-peer lending as an investment option.

- Those aged 16 or 17 will be able to contribute up to £15,000 into a cash NISA.

- The requirement that cash can only be held with a view to future investments is removed.

(b) JISAs and CTFs

Budget announcement

£4,000 can be contributed to one or the other, as appropriate, in tax year 2014/15, of which up to £3,840 can be contributed before 1 July 2014.

(c) VCTs and EISs

Budget announcements

- Changes to the rules for VCTs will be made by the Finance Bill 2014 and take retrospective effect from 6 April 2014. These will – and indeed already have since last Summer – put an end to enhanced buy-back arrangements where shares are purchased in the same VCT within six months of their disposal.

- The Budget has also closed down a ploy used by some VCTs to make dividend payments out of capital despite generating no profits.

- The Budget also saw the Chancellor put an end to VCT and EIS investment in companies that receive government-funded renewable energy incentives.

(d) Seed Enterprise Investment Schemes (SEISs)

Budget announcements

- The exemption from capital gains tax on half of reinvested gains per tax year is extended indefinitely.

- The SEIS was originally due to expire in April 2017, but has now been made permanent.

BUSINESS TAX

Financial year commencing 1 April 2014

The rates of corporation tax will be as follows:

- The small profits rate of corporation tax for companies with profits of up to £300,000 remains at 20%.
- The main rate of corporation tax for companies with profits of more than £1,500,000 will be reduced to 21%.
- For profits of between £300,001 and £1,500,000 marginal rate relief applies. This operates to increase the overall rate of tax on the profits to somewhere between the small profits rate of 20% and the main rate of 21%. Profits in excess of £300,000 up to £1,500,000 will effectively bear tax at the marginal rate of 21.25%.

Budget announcement

Chargeable gains roll-over relief

Proposals are made in relation to companies making a disposal of tangible assets and using the proceeds to acquire intangible fixed assets. The new provisions 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.
- adjust 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.
- make the tax system fairer and simpler by clarifying the current legislation.

PENSIONS

- The Annual Allowance reduces from £50,000 to £40,000 from tax year 2014/15.
- The carry forward allowances for tax years 2011/12 to 2013/14 remain at £50,000.
- The Lifetime Allowance reduces from £1.5 million to £1.25 million from tax year 2014/15.
- The revised disclosure of information provisions for occupational and personal pension schemes will take effect from 6 April 2014.
- The new rules introducing inflation-adjusted illustrations for personal pensions become mandatory from 6 April 2014 (although these could have been used, where desired, from April 2013).

Budget Announcements

(a) Increased flexibility of retirement benefits from 6 April 2015

With effect from 6 April 2015, members of defined contribution registered pension schemes will, subject to the rules of their scheme permitting, have much greater flexibility in how they access their retirement benefits on or after their normal minimum pension age (currently 55).

Members will be able to draw down on their pension savings whenever and however they wish after the age of 55. Any amount they draw down over and above the tax-free cash entitlement will be treated as income and therefore subject to their marginal rate(s) of income tax in that tax year. The tax-free pension commencement lump sum (usually 25% of an individual's pot) will continue to be available.

The example given in the consultation issued alongside the Budget papers shows that there no longer appears to be a requirement to take the pension commencement lump sum alongside a relevant pension of an appropriate amount. An individual is able to take their maximum tax-free cash of 25% of their pension pot, even though this exceeds 25% of the retirement fund being drawn at that time.

The current pension tax rules apply an automatic 55% tax charge where a lump sum death benefit is paid in respect either of a member taking a drawdown pension or where a member dies aged 75 or over with an uncrystallised fund. The government believes that these death benefit rules need to be reviewed. In particular, it feels 'that a flat 55% rate will be too high in many cases given that everyone with defined contribution pension savings will now have the freedom to enter into drawdown rather than an annuity.'

The government is looking to bring in new legislation so that the normal minimum pension age will in future always be 10 years less than the State Pension Age (SPA). However, this will not be introduced until 2028 when the normal minimum pension age will rise to 57 (10 years less than the then SPA of 67). Thereafter the pension age will increase in line with increases in the SPA.

A new guarantee will be introduced that all individuals approaching retirement with defined contribution (DC) pension benefits will be offered free face-to-face guidance at the point of retirement. A new duty will be introduced for pension providers and trust-based pension schemes, from April 2015, to offer each of their DC members a 'guidance guarantee' at the point of retirement. The guidance will be required to follow a robust set of standards. These standards, and the framework for monitoring compliance with them, will be set by the FCA, in conjunction with the DWP and the Pensions Regulator. The government will provide a development fund of up to £20 million to get this initiative up and running.

Although this new flexibility will only extend to DC benefits, the government is concerned on the effect it may have on defined benefit (DB) schemes. In particular, it is concerned that members of DB schemes may be tempted to transfer their benefits to a DC scheme to take advantage of the new rules. This could be a particular problem for unfunded public sector DB schemes. Accordingly, the government is indicating that it will bring in legislation that will remove the right, other than in exceptional circumstances, for a member of a public sector DB scheme (unfunded or funded) to transfer to a DC scheme. While the government would, in principle, like to continue to permit transfers from private sector DB schemes to DC arrangements, 'it will only consider doing so if the risks and issues around doing so can be shown to be manageable.'

Information as to how hybrid schemes will be affected by these changes is still awaited.

(b) At retirement benefit changes from 27 March 2014

In order to provide greater flexibility in the provision of retirement benefits prior to the introduction of the new rules set out above, current drawdown rules have been changed.

For drawdown years commencing on or after 27 March 2014 the maximum **capped drawdown** income that can be taken in each drawdown year will be increased from 120% to 150% of the relevant annuity. This will mean, for example, that an individual whose current drawdown pension year commenced on 1 December 2013 (the beginning of his new three year review period) would not be able to take advantage of the higher maximum income until 1 December 2014.

The minimum income requirement in respect of any application for **flexible drawdown** made on or after 27 March 2014 will be reduced from £20,000 pa to £12,000 pa. The government has estimated that an additional 85,000 people will be eligible to access flexible drawdown as a result of this change.

It should be remembered that the legislation only sets out the maximum allowable capped drawdown income. It will, however, be for schemes to decide whether to increase the income limit to this new maximum amount. When the maximum drawdown was increased from 100% to 120% of the relevant annuity rate from March last year some providers did not immediately allow the drawdown income to be increased to the maximum (then 120%) level permitted by the legislation.

(c) Triviality payments

The following changes have been made to the triviality provisions:

- The triviality commutation lump sum is increased from £18,000 to £30,000 for all commutation periods starting on or after 27 March 2014. This will continue to only be available from age 60.

- There will no longer be a requirement to apply a revaluation factor to previously crystallised benefits to determine how much of the £30,000 commutation limit has already been used up in respect of those benefits.

- The small personal pension pots triviality limit will be increased from its current £2,000 to £10,000 with effect from 27 March 2014. Up to a total of three (previously two) such payments can be made from an individual's personal pension arrangements. Such payments can be made in addition to the normal £30,000 trivial commutation limit.

- SI 2009/1171 set out a number of other circumstances where trivial commutation payments can be made as authorised payments. The triviality limit in regulation 10 of those regulations has been increased from £18,000 to £30,000, while all of the other triviality limits in Part 2 of these regulations are increased from £2,000 to £10,000. The changes take effect from 27 March 2014.

(d) Individual protection

It has been confirmed that no changes have been made to the individual protection provisions in the Finance Bill 2014.

(e) Pension liberation

A number of promoters have set up schemes intended to allow individuals to access some or all of their pension benefits before age 55. To do this, they normally try to register a new pension scheme or use an existing registered pension scheme which the member is encouraged to transfer their pension fund to before it is passed to the member. In some cases, payments are made to the member after age 55, but because they are in the form of a loan, will be unauthorised payments. This is commonly known as 'pension liberation' and has significant tax consequences for the member and the scheme administrator. In many cases the member is not told of the tax charges that will apply where these payments are made and therefore they are often left with little or no money after any fees have been deducted in addition to the tax charges due.

Legislation will be introduced in Finance Bill 2014, to amend Finance Act 2004, to give HMRC new powers to help prevent pension liberation schemes being registered and make it easier for HMRC to de-register such schemes. These changes include a new requirement that the main purpose of a pension scheme must be to provide authorised benefits and a provision that HMRC may refuse to register a scheme, or de-register an existing scheme if, in HMRC’s opinion, the scheme administrator is not a fit and proper person.

The changes also provide that surrendering pension rights in favour of an employer to fund an authorised surplus payment is subject to tax as an unauthorised payment.

Legislation will also be introduced in the Finance Bill to ensure that regulatory redress, in the form of transfers of sums and assets to registered pension schemes under certain orders by the Pensions Regulator or the Courts, are taxed and relieved; and that independent trustees appointed at the instigation of the Pensions Regulator will not be liable for tax that arose before they were appointed. These changes will have effect from 20 March 2014.

(f) Tax relief on personal contributions

The government will explore with interested parties whether those tax rules that prevent individuals aged 75 and over from claiming tax relief on their pension contributions should be amended or abolished.

(g) QNUPS

The government will consult on ways to give equivalent treatment to Qualifying Non-UK Pension Schemes (QNUPS) and to UK-registered pension schemes, to ensure fairness and remove opportunities to avoid inheritance tax. Legislation will be introduced in Finance Bill 2015.

(h) Dependants’ scheme pension

The government will consult on options to simplify the Dependants’ Scheme Pension rules, to ensure the rules apply fairly, and reduce administrative burdens. Any legislative changes will be in a future Finance Bill.

CAPITAL ALLOWANCES

Budget announcements

(a) Annual investment allowance

The annual investment allowance (AIA), which gives 100% initial relief for investment in plant and machinery, has been increased to £500,000 (from £250,000) from 1 April 2014 (corporation tax) and 6 April 2014 (income tax) until 31 December 2015. From 1 January 2016 the AIA will decrease to £25,000.

Where a business has an accounting period which spans either the 1 April/6 April 2014 dates or 31 December 2015 transitional relief will be available on a time apportionment basis.

(b) Business Premises Renovation Allowance (BPRA)

- A rule will be introduced preventing a claim to BPRA if another form of State aid has been received and the rule, which prevents expenditure on buildings qualifying for relief before they have been unused for a year, will be clarified.

- Where tax relief is claimed immediately it will be withdrawn if the work to which it relates is not completed within 3 years; and the period in which balancing adjustments must be made if certain events occur will be reduced from seven to five years.

(c) Enterprise Zones; enhanced capital allowances

Companies investing in plant or machinery in designated enhanced capital allowance sites in Enterprise Zones will qualify for 100% capital allowances until 31 March 2020.

PROPERTY TAX

Budget announcements

(a) Stamp duty land tax (SDLT)

Before the 2014 Budget, a 15% rate of SDLT was levied on the acquisition by certain non-natural persons, such as companies, of dwellings costing more than £2 million. Legislation will be introduced in Finance Bill 2014 to reduce this threshold to £500,000 for land transactions where the effective date is on or after 20 March 2014. However, the existing £2 million threshold will continue to apply, subject to exceptions, where contracts were entered into before that date.

(b) Annual tax on enveloped dwellings (ATED)

Currently, the ATED is levied on certain non-natural persons owning UK residential property valued at more than £2 million. From 1 April 2015 a new band will come into effect for properties with a value greater than £1 million but not more than £2 million, with an annual charge of £7,000.

From 1 April 2016 a further new band will come into effect for properties with a value greater than £500,000 but not more than £1 million, with an annual charge of £3,500.

TAX AVOIDANCE

Budget announcements

Proposed areas of change to enhance the fairness of the tax system further included:

- New measures to discourage the placing of properties in corporate envelopes to avoid stamp duty land tax.
- The introduction of a requirement for taxpayers to pay disputed tax upfront – so-called "accelerated tax payments.
- The introduction of new rules to allow HMRC to identify and place new obligations and penalties on "high-risk promoters" of tax avoidance schemes.
- Closer working with the G20 and OECD partners to prevent multinational companies engaging in aggressive tax planning.

INCOME WITHDRAWAL RATE FOR APRIL 2014

The appropriate gilt yield, used to determine the 'relevant annuity rate' from HMRC's tables for an adult member commencing income withdrawals (or reaching an income withdrawal review date), in April 2014 is 3.0%.

As usual, the contents of this Bulletin are based solely on the proposals put forward by the Chancellor in his March 2014 Budget and need to be approached with caution as details may change during the passage of the Finance Bill through Parliament.