

A shiny new coin, potholes and bingo – the Budget 2014

The big headlines for the 2014 Budget are sweeping changes to pension legislation and good news for savers, particularly the over-65s. The Chancellor's proposed changes to the pension system have already seen the big insurance companies' share price go down by 5% yesterday afternoon.

There have also been some unusual features to this year's Budget with the announcement of the new £1 coin pictured on the front of yesterday's newspapers, the 800th anniversary of the Magna Carta, Alan Turing and not forgetting potholes and bingo.

Mr Osborne stated that "if you are a maker, a doer or a saver, this Budget is for you." This is Russell-Cooke's summary of the 2014 Budget. The Finance Bill is due to be published on 27 March 2014.

The economy

The Budget contained revised growth predictions which are unsurprising to many following the recent increase in economic activity and fall in unemployment. The Office for Budget Responsibility (OBR) forecast growth in 2014 is of 2.7% as against the previous prediction of 1.8%.

Growth for 2015 is revised to 2.3% and then 2.6% for 2016 and 2017 respectively. The OBR predictions for borrowing are £108 billion for this year, £12 billion less than last year's forecast.

Income tax

The personal income tax allowance will be raised to £10,000 from 6 April 2014 and £10,500 from April 2015. The higher-rate threshold will rise for the first time in this Parliament from £41,450 to £41,865 from 6 April 2014. It is proposed that it should rise by a further 1% to £42,285 next year.

Savings

There is encouraging news for savers with a particular focus on the over 65s.

With effect from 1 July 2014 the annual limit for cash and stocks and share Individual Savings Accounts (ISA) will be equalised at £15,000. Restrictions on the transfer of funds between the two types of ISA will be removed. We will have to get used to referring to New Individual Savings Accounts (NISAs), and the Junior ISA and Child Trust Fund limits will also be increased to £4,000.

A new Pensioner Bond has been announced by the Chancellor which will be issued by National Savings & Investments and will be available from January 2015 for those aged 65 or over.

The rates for those bonds will be set in autumn 2014 but it is proposed that these will be 2.8% for a 1 year bond and 4% on a 3 year bond. A maximum of £10,000 can be saved in each bond and £10 billion of bonds will be issued.

The investment limit for Premium Bonds is also being increased from £30,000 to £40,000 in June of this year and to £50,000 next year.

Next year, the starting rate of income tax on the first £5,000 of savings income (10%) will be removed.

Pensions

There have yet again been sweeping changes to the pension legislation. Most surprisingly the requirement to purchase an annuity has been scrapped. That news resulted in a 5% fall in the share price yesterday afternoon of many of the big insurance houses.

The Chancellor announced a number of changes that will take effect from 27 March 2014 in relation to pension schemes. These include:

- cutting the income requirement for flexible draw-down from £20,000 to £12,000;
- raising the capped draw-down limit from 120% to 150% of the “basis amount” (broadly annuity equivalent);
- increasing the size of the lump sum “small pot” to £10,000; and
- increasing total pension savings you can take as a lump sum to £30,000 (“trivial commutation”).

In addition, legislation is going to be introduced to remove all tax restrictions on access to pension funds including the ability to draw down as much or as little from an individual's pension fund. There will be no requirement to buy an annuity.

At present once you reach 55, you can take 25% of your pension fund tax free but beyond that, any capital withdrawn from the fund will be taxed at 55%. That tax charge will be abolished and tax charges will be calculated on marginal rates as with any other income. These changes are proposed to come into force from April 2015 following the introduction of new legislation.

On the other hand, there is now to be a clampdown on arrangements to ‘liberate’ pension funds through fraudulent arrangements, mainly through tightening up on the registration process.

Tax avoidance

This continues to hit the headlines and was also a feature of the Budget. The Chancellor is increasing HMRC's budget to tackle non-compliance with powers to collect debts directly from bank accounts. Companies will be prevented from using tax avoidance arrangements to shift profits within a group, with immediate effect.

High value UK residential property

Most notably from today (20 March 2014) anyone purchasing residential property worth over £500,000 through a company or corporate structure will be required to pay 15% Stamp Duty Land Tax (SDLT). Previously the threshold was £2 million.

In addition, the Annual Tax on Enveloped Dwellings, known as ATED, is to be set at £3,500 on properties valued at between £500,000 and £1 million and at £7,000 for properties valued between £1-£2 million. These new charges will take effect on 1 April 2016 and 1 April 2015 respectively.

Inheritance Tax (IHT)

There are no big announcements in the Budget regarding IHT.

However, the estates of those who lose their lives in the line of duty whilst working for the emergency services will be exempt from IHT.

New measures will amend the rules in the Finance Act 2013 regarding the deduction of liabilities from a deceased's estate. This is aimed at closing a loophole on the deduction for liabilities where the borrowed funds are deposited in a foreign currency account in a UK bank which are disregarded for IHT. This will only apply to deaths after the date of Royal Assent to the Finance Bill 2014 (expected August 2014).

Business

The Chancellor outlined his commitment to the growth in manufacturing and exporting industries. The amount of lending available to exporters will be increased to £3 billion.

Corporation Tax will be reduced to 21%, coming into effect on 6 April 2014, with a further reduction to 20% in 2015.

The Seed Enterprise Investment Scheme (SEIS) and capital gains tax reinvestment relief, designed to help raise finance by offering tax reliefs to individual investors, have been made permanent.

The Annual Investment Allowance will be doubled from £250,000 to £500,000 at the end of December 2015.

Housing

There will be a significant building programme of new homes in Barking Riverside, regeneration of Brent Cross and the first new garden city for almost hundred years at Ebbsfleet.

Duties and other oddities

The fuel duty rise planned from September 2014 will once again be postponed.

All long haul flights will carry the same Air Passenger Duty as that currently paid for flying to the United States.

To encourage the continued cries of "legs eleven" the Chancellor has halved bingo duty from 20% to 10%.

For those of you who constantly face a daily drive and negotiate their way through the obstacle course of potholes, Mr Osborne has offered up £200 million to fix them!

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