'How does the 2014 Budget affect me?'

Our expert analysis breaks down the Budget and explains what it all means for you.

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Overview

A NISA budget

Today saw the Chancellor deliver a Budget that he hopes will set the economy on course for the run up to the next election and beyond. He decided that this was the right time to help some particular groups who have hitherto probably felt somewhat unloved.

He described it as a Budget for makers, doers and savers – it was certainly an interesting Budget.

Economy improving

He started out by delivering the normal raft of statistics that tell us that things have been somewhat better than expected – but that our economic problems are not yet behind us. Borrowing would be less than previously predicted and expected to show a small surplus in 2018/19. We were told that growth for the 2013 year at 1.8% was triple the original forecast. Growth for 2014, originally expected to be 1.8%, has been revised upwards to 2.7% although it would then fall slightly before increasing to 2.6% in 2016 and 2017.

Pensions unlocked

The big news from the Budget was without doubt the announcements that will come in to the help pensioners and savers. For pensioners, from April 2015, there will be a radical shake up of the way they access their pensions, with the Government looking to 'trust' them with the money they have saved. These changes will allow them to take the normal 25% tax free lump sum, but then draw unlimited further sums paying tax at their marginal income tax rates. This is expected to make pensions a more popular savings method, with the fund growing tax free during the individual's working life. In the short term, however, it might also mean that some pensioners will take a higher income from their pension pots.

A NISA way to save

For savers there were a number of measures intended to help those reliant on savings that have seen their incomes hit particularly hard over the past few years. Mostly pensioners, this group will see the 10% tax rate on the first tranche of their savings income abolished altogether resulting in a tax refund if the banks have already deducted tax on the income.

The Chancellor increased the usefulness of ISAs (To be called NISAs) by extending the yearly limit to £15000 from 1st July 2014 and simplifying the rules considerably. On top of all of this, the Government will introduce a new pensioners bond that will pay commercially attractive rates of interest on one and three year bonds, giving pensioners what is likely to be a better rate of return on their savings.

Business investment

There was also good news for businesses as he doubled the limit for the Annual Investment Allowance that gives 100% tax relief on capital investment up to £500,000. This relief will also be extended beyond next January (when it was due to be withdrawn) to the end of 2015. He also confirmed some reliefs, previously announced, that will help businesses namely the Business Rates relief worth £1,000 to many small high street businesses and the £2,000 credit against Employers' National Insurance Contributions.

A cheaper flutter

Finally, there was some cheer for bingo lovers everywhere; in a climate of closures of bingo halls across the country, the Chancellor announced that he would halve the duty which will hopefully secure the rest of these for the future.

Graham Poles
Partner and Head of Tax

Capital Allowances

The Chancellor announced that the Annual Investment Allowance (AIA) will be increased from £250,000 to £500,000 with effect from 1 April 2014 for corporation tax and 6 April 2014 for income tax purposes. After 31 December 2015 it will reduce to £25,000, conveniently after the next election. Before the Budget announcement it had been due to return to £25,000 after 31 December 2014. Where an accounting period straddles 1 April 2014 (for corporation tax) or 6 April 2014 (for income tax) it will be necessary to apportion the AIA limits for that accounting period.

The 100% enhanced capital allowances on expenditure on plant and machinery in Enterprise Zones has been extended a further three years, to 31 March 2020. These had been due to expire on 31 March 2017.

Two new technologies have been proposed for the enhanced capital allowances scheme, for energy saving and environmentally beneficial (water efficient) technologies. These schemes give 100% tax relief for qualifying expenditure. The new technologies are active chilled beams and air dryers with energy saving controls. The qualifying criteria will be revised for 12 technologies in the energy efficient scheme. The water efficient scheme will amend the criteria for efficient washing machines, to enable a slightly wider range of businesses to qualify for the scheme.

Given the new £500,000 AIA limit, these schemes will have no impact for most businesses, although they will become much more important again post 31 December 2015 when the AIA returns to £25,000.

Capital Gains Tax

- As previously announced; the Capital Gains Tax annual exemption for the 2014/2015 Tax Year will be £11,000, rising to £11,100 in April 2015. The rates of Capital Gains Tax remain unchanged.

- The Finance Bill 2014 will provide a range of Capital Gains Tax reliefs for individuals investing in qualifying social enterprises. The changes will have effect from 6th April 2014 and draft guidance will be published on 27th March.

- Legislation will be included in Finance Bill 2014 to correct a defect in the 'split year' rules which were introduced in the previous Finance Bill. The rules apply to those assessed under the remittance basis and the amendment ensures that any gains realised in the overseas part of the split year are not taxable.

- Payment entitlements under the new Basic Payment Scheme will be included within the class of qualifying assets for Capital Gains Tax Roll Over Relief. This measure will be retrospective so as to have effect for acquisitions and disposals of such entitlements on or after 20th December 2013.

- As previously announced, legislation will be introduced to charge Capital Gains Tax on future gains made by non-residents on the disposal of UK residential property. A consultation will be released shortly and the changes will have effect from April 2015.

Corporation Tax

There have been no further changes announced to the Corporation Tax (CT) rates in the Budget. The main CT rate had already been announced to drop from 23% to 21% on 1 April 2014 and again to 20% on 1 April 2015. The rate for companies with small profits remains at 20% throughout.

This flat rate of Corporation Tax from 1 April 2015 will mean that the number of associated companies will only be of relevance in group scenarios to establish whether or not the company falls into Payments On Account. There will no longer be a marginal rate of Corporation Tax.

An anti avoidance measure relevant to groups of companies was announced which will apply to payments made on or after 19 March 2014. Where the profits of a group company are transferred to another group company and the main purpose of the arrangements is to secure a tax advantage, then for tax purposes the transfer will be regarded as not having taken place.

The Government intends to introduce a new Corporation Tax relief for theatrical productions and touring theatrical productions and will consult shortly after the Budget 2014 on the design of the relief. Legislation will be introduced in the Finance Bill 2014.

Research & Development Tax Relief

The repayable credit will increase from 11% to 14.5% for loss making claimant companies falling within the SME regime, for costs incurred on or after 1 April 2014. Companies in such a position may wish to defer their qualifying expenditure.

Start up R&D companies that have yet to trade can elect to treat qualifying costs as a loss and receive the credit too.

Employee Taxes/National Insurance

As reported in the 2013 Budget, from April 2014 the Government will introduce an Employment Allowance of £2,000 per year for all businesses and charities, to offset against their employer Class 1 secondary National Insurance Contributions.

In addition, as part of the Governments investment in youth, from 6 April 2015 every employer with employees under the age of 21 will no longer be required to pay Class 1 Employer National Insurance Contributions on earnings up to the upper earnings limit i.e. on any earnings up to £813 per week (using 2015/16 rates).

Company Car Tax

The Budget 2012 and Budget 2013 set out the company car tax rates and bands for 2016-17, including the removal of the 3% diesel supplement. Therefore petrol and diesel cars will be taxed at one rate. The appropriate percentage of the list price subject to tax will be 7% for cars emitting 0-50 gCO2 /km and 11% for cars emitting 51-75 gCO2 /km band in 2016-17. This percentage will increase to 37% for cars emitting over 200 gCO2 /km.

The appropriate percentage of list price subject to tax will increase (on average) by 2% for cars emitting any carbon dioxide per kilometre up to a maximum of 37% for cars emitting over 190 gCO2 /km in2017/18 and over 180 gCO2 /km in 2018/19.

National Insurance for Self Employment

In order to simplify the administrative process for the self employed, the Government have announced that from April 2016 Class 2 National Insurance Contributions will be collected via an individual's Self Assessment Tax Return alongside Income Tax and Class 4 National Insurance Contributions.

Financial Services

A series of announcements have been made which introduce significant measures that affect savers at every stage of their lives.
The most significant changes appear to relate to pensions.

Pensions flexibility

There are several changes being introduced from 27 March 2014. These are:

Trivial Commutation – currently, if an individual's pension savings are less than £18,000 and they are over 60, they can take the full amount in a lump sum. This amount is being increased to £30,000.

Capped Drawdown – this currently allows an income to be drawn from the pension fund, capped at 120% of the Government Actuary's Department limit – effectively the equivalent annuity that could be paid. This is being increased to 150%.

Flexible Drawdown – this arrangement does not limit the amount of income that can be drawn from the fund, provided that a guaranteed income of at least £20,000 per annum can be secured in retirement. This guaranteed income limit is being reduced to £12,000, allowing far more individuals access to Flexible Drawdown.

Small pension pots – regardless of the overall pension wealth an individual has, they can currently take the value of up to two small pension pots worth up to £2,000 each, as a lump sum. This is being increased to three pots, valued up to £10,000 each.

Pension Reform

The most far reaching reform of pensions in almost 100 years has been proposed for introduction in April 2015. The aim is to significantly improve individual flexibility, but perhaps most radically, the compulsion to purchase an annuity is being removed for the majority of people.
Individuals who are members of Defined Contribution pension schemes (for example Personal Pensions, Stakeholder Pensions, Workplace Pensions, Self Invested Personal Pensions, Executive Personal Pensions or Group Personal Pensions) will have the option of:

- Receiving up to 25% of their pension fund free of tax
- Purchasing an annuity
- Using drawdown or other suitable products
- Full pension fund withdrawal, subject to the individual's marginal tax rate

The last two options are the main changes and aim to give individuals more control over the value of their pension savings.

Additionally, from April 2015, each individual who is a member of a Defined Contribution pension scheme will be entitled to receive a free and impartial meeting to receive guidance on the range of options open to them.

The Chancellor of the Exchequer released a consultation paper alongside the Budget 2014 to consider how these changes will be introduced.

NISAs

The New ISA will be introduced on 1 July 2014.

There will be an annual savings limit of £15,000.

This limit applies equally to cash savings and stocks and shares investments.

This increases flexibility and enables unlimited transfers between Cash NISAs and Stocks and Shares NISAs and aims to stimulate competition between NISA providers.

A summary of the new scheme can be found at:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293746/Fact_sheet_ISA_8.pdf

Junior ISAs

The amount that can be saved each year is increased from £3,700 in 2013/14 to £4,000 in 2014/15.

Premium Bonds

The individual investment limit will be raised from £30,000 to £40,000 in June 2014 and to £50,000 in 2015/16.

From August 2014 the frequency of the £1million draw will rise from one per month to two per month.

National Savings for over 65 year olds

Two new National Savings and Income bonds, each with investment limits of £10,000, will be introduced in January 2015; one with a one year term, the other with a three year term. The exact details of these bonds will be announced in Autumn 2014.

Voluntary National Insurance Contributions

This scheme will be open from October 2014 until March 2016 to allow anyone reaching State Pension Age before 6 April 2016 to top up their National Insurance Contribution record before starting to receive their State Pension.

Anti-Avoidance

Anti Avoidance – accelerated payments of tax associated with schemes covered by DOTAS or counteracted by the GAAR

Taxpayers who have sought a tax advantage through the use of a tax avoidance scheme that falls within the Disclosure of Tax Avoidance Schemes (DOTAS) rules or is counteracted under the General Anti-Abuse Rule (GAAR) will be required to pay the disputed tax upfront under legislation which will take effect from the date that Finance Bill 2014 receives Royal Assent. This is likely to be in the summer of 2014.

HMRC will be able to issue a Notice to Pay to taxpayers, which will require payment to be made within 90 days. Penalties will apply for late payment.
Should the taxpayer subsequently demonstrate that no tax, or a lower amount of tax, was payable through the operation of the scheme then the excess tax will be refunded by HMRC with interest.

The new rules will be applicable to all cases where there is an open enquiry or open appeal on or after the day of Royal Assent. HMRC estimates that accelerated payment notices relating to existing avoidance cases currently under dispute will be issued to approximately 33,000 individual taxpayers covering £5.1 billion of tax under dispute.
This represents a substantial measure of retrospective legislation given this significant backlog of cases falling under the DOTAS rules which are still in dispute.

In our view this will prove a significant deterrent to taxpayers looking to use tax avoidance schemes in future although it gives rise to the possibility that scheme promoters will be driven "underground" and future schemes will not be registered under DOTAS.
Anyone who thinks they may be affected by this should seek advice.

Venture Capital Trusts

Legislation is to be introduced which will prevent venture capital trusts (VCTs) returning share capital to investors within three years of the end of the accounting period in which the VCT issued the shares. This will take effect in respect of shares issued on or after 6 April 2014.

The Government is to seek consultation regarding contrived structures which allow investment in low risk structures that benefit from income guarantees via government subsidies. It is therefore considering excluding such investments from qualifying for EIS and VCT relief.

Other measures affecting VCTs include:

- Allowing investors to subscribe for VCT shares via nominees
- Excluding relief in respect of investments in VCTs that are conditionally linked to a share buy back or that have been made within 6 months of a disposal of shares in the same VCT
- Amending legislation to ensure HMRC can withdraw tax relief if VCT shares are disposed of within five years of acquisition.

As part of the anti avoidance measures, the government is introducing new legislation in respect partnerships from April 2014.

Limited Liability Partnerships (LLP) rule changes

Previously there has been an assumption that members of a Limited Liability Partnership are self-employed but in the new legislation there are Salaried Member rules where, from 6 April 2014, some members will be treated as employees. Factors to take into account are 'disguised salary', significant influence and capital contribution.

If you are a member of an LLP it is important that your position is reviewed to make sure these rules do not apply to you or any of the other members of your LLP.

Mixed member partnerships

From 6 April 2014, profits allocated to a company that is a partner in a mixed member partnership must have a commercial basis for the allocation, based on supply of services and interest on capital. Any profits allocated to the company that are deemed to be excessive will be taxed on the individual partners.

This means that many corporate partners will find the profit share which can be allocated to them greatly restricted, which could mean a large increase in tax bills going forward.

These changes could greatly impact upon the tax liabilities of partnerships and LLPs and if you think they may apply to your business it is advisable to undertake a business structure review with one of our tax consultants, as soon as possible, to consider your options.

Direct Recovery of Debts

Legislation will be introduced to allow HMRC to recover tax and tax credit debts of £1,000 or more directly from taxpayer accounts, subject to rigorous safeguards including safeguards to prevent hardship.

Income Tax

SEIS (Seed Enterprise Investment Scheme) to be made permanent

Introduced in April 2012 as a temporary measure to encourage relief in smaller, more risky businesses, this relief is now going to be a permanent 'little sister' to the main Enterprise Investments Scheme (EIS). The tax reliefs offered by SEIS are higher to reflect the greater risk for investors.

For 2012-13 and then 2013-14 an initial Capital Gains Tax relief also exempted chargeable gains of up to £100,000 reinvested into SEIS qualifying investments. This is also now going to be made a permanent 'sweetener' to using the SEIS scheme.

Income tax changes, married couples and childcare support

The personal allowance will increase to £10,000 from 6 April 2014, as announced in the 2013 Budget. The 2014 Budget announced that the personal allowance will be further increased to £10,500 from 6 April 2015. This will bring it in line with the current allowance received by those born between 6 April 1938 and 5 April 1948, thus meaning from 6 April 2015 only those born prior to 5 April 1938 will receive an additional personal allowance due to age, which is frozen at £10,660.

In 2015/16 the increase in personal allowances will also be received by those on middle incomes. The higher rate threshold will be increased from £41,865 in 2014/15 to £42,285 in 2015/16.

The transferable tax allowances for married couples and civil partners will come into force in April 2015, which will be beneficial to couples where one partner does not fully utilise their personal allowance each year. The amount available to transfer between partners is 10% of the personal allowance, meaning up to £1,050 could be transferred in 2015/16, potentially saving up to £210. This will only be available to couples where neither partner is a higher or additional rate taxpayer.

Tax-Free Childcare is due to be introduced in Autumn 2015. Parents will need to decide whether to use this scheme or the current vouchers scheme, as both schemes cannot be used at the same time. The tax-free childcare scheme is available to all working parents whose income is over £50 per week but not more than £150,000 per year, including those who are self-employed.

The 2014 Budget has announced that the tax-free childcare costs cap has been increased from £6,000 to £10,000 per year for each child. Support of 20% will be received, up to £2,000 per year per child – so if the maximum of £8,000 is put into the account, this will be topped up to £10,000.

The scheme will be rolled out to all working parents with children under 12 within the first year.

Inheritance Tax

No changes to the rates of Inheritance tax were announced meaning that Inheritance Tax remains at a main rate of 40% for Estates valued at over £325,000.

A small number of changes were announced or confirmed:

- The IHT exemption currently enjoyed by armed forces personnel who die on active service is to be extended to all emergency service personnel who die in the line of duty, or whose death is hastened by injury incurred in the line of duty. This means their Estates will suffer no Inheritance Tax regardless of the level of their assets.
- Finance Act 2013 introduced legislation which stopped non-domiciled individuals from borrowing money in the UK and as a result creating a deductible debt in their estate for Inheritance Tax purposes but at the same time investing the borrowed money in foreign property which was excluded from the charge to UK Inheritance Tax. Money deposited in a UK bank account but denominated in a currency other than sterling was not included in this legislation and the result was that a non-domiciled individual could achieve a deduction in their Estate for IHT purposes, whilst not including the value of the asset in their UK Estate. This loophole has now been closed and will take effect for any deaths occurring after the date of Royal Assent to the Finance Bill 2014.

Finally, as previously announced, consultations will take place for the simplification of the calculation of IHT trust charges with legislation due to be enacted next year.

International Taxes

The government announced their intention to review the availability of the personal allowance (which will be £10,000 from 6 April 2014) for non-residents. The allowance could be restricted so that it is only available to individuals who are resident in the UK or who have strong economic connections with the UK.

Capital Gains Tax (CGT) is set to change for non-residents who own residential property in the UK. Previously a long term non-resident (someone who has been non-resident for at least five complete tax years) who disposed of UK property was exempt from CGT in the UK. In the Autumn Statement 2013 the Chancellor announced his intention to introduce legislation with effect from April 2015 to charge CGT on gains made in respect of UK property by non-residents. This will be consulted on in due course.

Qualifying non-UK pension schemes are set to undergo a review which will focus on giving these schemes and UK registered pension schemes equal treatment. This is set to be legislated for in Finance Bill 2015 and will remove current inequalities and ensure that they are both treated in the same way for Inheritance Tax purposes.

Non- UK resident sportspeople taking part in the Glasgow Grand Prix 2014 will not be liable to pay UK Income Tax on any income received as a result of their performance. This applies to activities carried out between 5 and 14 July 2014 to the extent that those activities support or promote the Glasgow Grand Prix. Care may still need to be taken for monies earned in relation to Image Rights and Sponsorship Agreements that the sportspeople may have entered into with third parties.

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Property Taxes

The Help to Buy equity loan scheme, which has so far helped over 25,000 households to buy a new-build home, is to be extended to 2020 and a further £6 billion invested in an attempt to help a further 120,000 households.

Every home built under the equity loan scheme is a new-build home and research shows that the scheme currently supports up to 30% of all such homes in England. Extending the scheme is a boost to housing developers as they can invest in building new homes with greater certainty.

The Government has also increased the tax on residential property owned by non-natural persons (such as companies or partnerships with company members). Previously, residential property in the UK held by non-natural persons was subject to Stamp Duty Land Tax ("SDLT") at 15% if the property was purchased for over £2million. The Government is now reducing this threshold to £500,000 so that even more properties will fall within this high SDLT band. This change is effective from 20 March 2014.

Alongside this the Government is introducing two new bands to the Annual Tax on Enveloped Dwellings ("ATED"); which is an annual charge on these residential properties owned by non-natural persons. The ATED charge will eventually apply to properties valued at more than £500,000. The annual charge for properties valued between £1 million and £2 million will be £7,000 from 1 April 2015, and the annual charge for properties with a value of £500,000 to £1 million will be £3,500 from 1 April 2016.

All corporate and other 'envelopes' affected by the new ATED band will also be subject to CGT on disposal of the properties held, at a rate of 28%.

Small Business

Business Rates

As previously announced, the current business rates system has received a lot of criticism in the last couple of years, with small retailers particularly feeling the pinch. A number of measures have been announced:

Retail and food and drink premises will receive a business rates discount of up to £1,000 per annum. This will be introduced for a two year period from 1 April 2014.

- The current Small Business Rate Relief (SBRR) scheme has been extended for another year until March 2015. This benefits buildings with a rateable value (RV) of £12,000 or less.
- Currently SBRR is lost if a business takes on a second business, unless both buildings have a RV of £2,600 or less. This rule is to be relaxed from April 2014 so that SBBR can be retained for one year. This is designed to encourage expansion.
- A new relief – Reoccupation Relief – is to be introduced. A business moving into retail premises which have been empty for at least a year will be eligible for relief equal to 50% of the business rates. The relief is available for businesses moving into empty premises between April 2014 and March 2016.
- Increases in business rates will be capped at 2% for one year from April 2014 rather than increasing in line with current inflation at 3.2%.
- Payment of business rates is to be extended over 12 months rather than the current 10 months.
- The government is to issue a discussion paper in Spring 2014 regarding longer-term reform of business rates.

Employment Allowance

As previously announced, the Employment Allowance, which was announced in the March 2013 Budget, will be introduced from 6 April 2014. This should reduce Employers' NIC bills by up to £2,000.

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VAT

VAT registration limit

From 1 April 2014 the VAT registration threshold will increase from £79,000 to £81,000.
The de-registration threshold will also increase from £77,000 to £79,000.

VAT: prompt payment discounts

HMRC has, up until now, allowed suppliers to account for VAT on the discounted price offered for prompt payment even when that discount is not taken up.
This is being changed to bring the UK treatment in line with the Principal VAT Directive, which requires VAT to be accounted for on the consideration actually received.
This new measure will be introduced initially on 1 May 2014 for supplies of telecommunication and broadcasting services, before having effect for all supplies from 1 April 2015.

Generators of electricity

VAT registered businesses which generate and sell electricity will no longer have to charge output VAT on the electricity they sell. Instead the purchaser will have to account for VAT under the reverse charge rules.
This change will be introduced from a date to be announced following further consultation.
Bingo duty
HMRC have recognised the importance that bingo halls play in bringing local communities together, so in an effort to halt the falling numbers of these halls, they are halving the rate of bingo duty to 10%.

Grants for air ambulance and other voluntary organisations

After a review of the VAT that air ambulance charities incur on fuel, the government are to introduce a 5-year grant of £65,000 per year for air ambulance charities across the UK.
They will also introduce a further 5-year grant of £1 million per year for inland safety boat charities across the UK.
LIBOR fines will continue to go to military and emergency services charities. Additional organisations such as search and rescue, lifeboat services, scouts, guides, cadets and St John's Ambulance can also now apply for funding.

Machine games duty

From 1 March 2015 a new 25 per cent rate of machine games duty on the net takings from gaming machines where the charge payable for playing can exceed £5, will be introduced.
Fuel, alcohol and tobacco duties
Beer duty is to be reduced by 2%, which is approximately 1 penny per pint.
Other alcohol duties are to be frozen.
Tobacco duties are to increase, as planned, by 2% above RPI from 6pm on 19 March 2014.
Similar increases will be introduced in each of the next 6 years.
Road Fuel duty is to remain frozen for the rest of this Parliament.