Nigel Morrow & Co.
Chartered Accountants

2014 BUDGET

"If you're a maker, a doer or a saver: this budget is for you"

The Chancellor, George Osborne, presented the 2014 Budget on 19 March 2014. We take a look at the main changes, and how these will impact on you.

Our summary is split into the following categories:

- Personal tax
- Corporate tax
- Capital allowances
- Pension changes

Personal Tax

The personal allowance will be increased from £10,000 (2014/15) to £10,500 (2015/16), for those aged under 65. Personal allowances will continue to be reduced for those with an adjusted net income of over £118,880 (2014/15) and will cease when adjusted net income exceeds £120,000.

Tax Bands & Rates (2014/15)

Income tax bands remain at 20% and 40%. The threshold where 40% applies will rise from £41,150 to £41,865, and increase further in 2015/16 to £42,285.

Where taxable income exceeds £150,000, 45% tax rate will apply.

Dividend income, (where taxable income is greater than £150,000), will be taxed at 37.5%. No changes were announced to the tax rates applicable to dividend income which falls into the basic rate bank (10%) or the high rate band (32.5%).

Individual Savings Accounts (ISAs)

Effective from 6 April 2014, the overall ISA savings limit will be increased from £11,520 to £11,880, of which £5,940 can be invested in cash. The Junior ISA limit will also increase to £4,000.

New Individual Savings Accounts (NISAs)

From 1 July 2014, ISAs will be reformed into a simpler product, imaginatively called the 'New ISA' (NISA). All existing ISAs will become NISAs, and from their inception, the overall annual subscription limit for these accounts will be increased to £15,000 for 2014/15. Special rules will apply to those investments made between April and July, and the Chancellor confirmed that total investment limit for 2014/15 will be £15,000.

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New Individual Savings Accounts (NISAs) contd.

Significantly, the Chancellor also announced that savers will no longer be restricted in terms of the amount of savings that can be held within a cash NISA (previously 50% of the subscription limit was the maximum that could be put into a cash ISA).

A wider range of securities (e.g. certain retail bonds) can now be held within a NISA, as well as peer to peer investments.

New Tax-Free Childcare scheme

The Chancellor finally addressed a major issue for self-employed individuals, who currently cannot avail of the existing Childcare voucher scheme. Relief up to a maximum of £2,000 per child will be available when the scheme is launched in Autumn 2015, and both employed and self-employed parents can take advantage of this. The scheme will be delivered by HMRC, via an online account with the Taxpayer. To qualify, all parents in the household must:

- Meet a minimum income level (5 hours / week at the minimum wage)
- Each earns less than £150,000 p.a.
- Not already be in receipt of support through Tax Credits or Universal Credit.

The current Childcare voucher scheme will continue to be available for current members, or they can switch to the new scheme.

Transferable tax allowance

Effective from April 2015, married couples/civil partners can transfer up to 10% of their personal allowance (£1,050), but only if both do not pay tax at the higher or additional rate of tax.

The claim will be made online, and despite making the headlines, this announcement will be only worth £210 per couple.

Pensions

Significant measures were announced in the Budget this year, some of which will take almost immediate effect, whilst others will be phased in over the coming tax year.

The immediate measures, coming into effect on 27 March 2014 fall into 4 main areas:

- ***Capped drawdown*** increased from 120% to 150% of the notional annuity rate, this will allow increased monies to be extracted from a pension and treated as income for the relevant year.
- ***Flexible drawdown*** allows the capped drawdown (see above) to be ignored, if the taxpayer can demonstrate pension income (including state pension) of £20,000 or more. This income limit will be reduced to £12,000, and any income tax due will be at the prevailing marginal rate, rather than 55% at present.
- ***Trivial commutation***. Currently those aged 60 or over can withdraw their pension as a lump sum, provided total pension savings are £18,000 or less. This limit will be increased to £30,000.
- ***Small pots***. The limit for small individual pots to be taken as a lump sum (regardless of total pension wealth) will rise from £2,000 to £10,000. The number of small pension pots that can be taken as lump sums will also increase from 2 to 3.

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Pensions contd.
Additional Pension changes have been tabled for introduction from April 2015. These primarily focus on giving the taxpayer greater flexibility when drawing down their pension. However, these are subject to further consultation.

Business Tax

Corporation Tax Rates
The main rate of corporation tax, currently 23%, is due to be reduced to 21% from 1st April 2014. From 1 April 2015, both the main and small profits rate will be 20%.

Annual Investment Allowance (AIA)
The AIA provides 100% tax relief for the cost of most plant and machinery purchased by businesses. The current limit of £250,000 will be doubled to £500,000 from April 2014, but will then drop to a mere £25,000 post 31 December 2015. This provides a welcome window of opportunity for businesses considering significant capital investment in the next 18 months.

Employment Tax

Real Time Information
Late filing penalties, ranging from £100 to £400 will apply to late returns, will become effective from October 2014 onwards. From 2014/15 onwards, HMRC will charge daily interest on all unpaid amounts.

Employer provided cars (Benefit in Kind)
Effective from 6th April 2014, the Benefit in Kind charges will be increased by 1%, subject to a maximum charge of 35% of the list price of the car. From 6th April 2015, this will increase by a further 2%, and the maximum charge rises to 37%.

Employment related loans
Employers will, from 6 April 2014, have the facility to loan employees up to £10,000 without incurring any additional tax charges / creating a P11d benefit in kind. This is a substantial increase from the current threshold of £5,000.

Capital Taxes

Capital Gains Tax (CGT) Rates
The current rates of CGT were left unchanged by the Chancellor – 18% (rising to 28% if a high rate taxpayer).

The CGT annual exemption of £10,900 will rise to £11,000 (2014/15).

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CGT – Principal Private Residency Relief (PPR)

This relief ensures that thousands of taxpayers do not pay CGT when selling their main home. A specific provision exists that allows the relief to be extended by 3 years even if the owner is not living in the property. This deemed period of occupation is to be significantly reduced for disposals on or after 6 April 2014 from 36 months to 18 months.

Inheritance Tax (IHT) Nil Rate Band

The IHT nil rate band will remain at £325,000 until 5th April 2018.

Contact us

If you would like to discuss the contents of our Budget 2014 summary, please contact Nigel Morrow.

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