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Budget Statement 19 March 2014

George Osborne has presented his 5th Budget and we have summarised below some of the more impactful changes. As ever, he was caught between the need to rebalance UK plc's books and meet the demands of industry to stimulate investment.

Our summary of the main tax changes and other fiscal incentives follows:

Personal Tax, Stamp Duty Land Tax and miscellaneous matters

Personal Tax allowance

The personal allowance for those born after 5 April 1948 will be:

- For 2014-15 - £10,000
- For 2015-16 - £10,500

Income Tax rate bands

There was significant press commentary prior to the Budget announcements lobbying for an increase in the threshold at which tax payers are liable to the 40% Income Tax rate. The declared higher rate thresholds are:

- For 2014-15 - £41,865
- For 2015-16 - £42,285

If your income before allowances exceeds these amounts you will be paying 40% Income Tax on the excess (this assumes that you are only entitled to the basic personal allowance).

The threshold at which the 45% rate starts is unchanged at £150,000.

There were no changes to the basic Income Tax rate (20%), the higher rate (40%) and the additional rate (45%).

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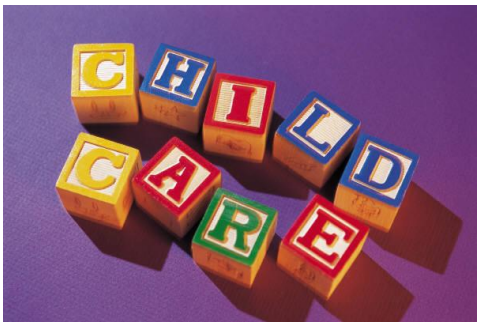
Transfer between spouses

As previously disclosed, from April 2015, a spouse or civil partner will be able to transfer part of their Personal Tax allowance. This inter-spouse transfer will only be allowed if both spouses/partners do not pay tax at the higher rates of income tax. Any transfer of allowance will, therefore, only benefit the receiving person at the basic rate of tax. Originally, the amount that could be transferred was to be limited at £1,000. In the Budget announcements this was increased to £1,050.

Tax-free childcare

The Budget 2014 confirms that the Tax-free childcare costs cap, against which parents can claim 20% support, will be increased to £10,000 per year for each child. This will mean that eligible parents can now benefit from greater support, worth up to £2,000 per child each year. At the same time the Government is rolling out Tax-free childcare more quickly than previously announced. From autumn 2015, the scheme will be rolled out to all eligible families with children under 12 within the first year of the scheme's operation.



Failed avoidance schemes

HMRC is to be given the power to give notice to taxpayers who have used avoidance schemes, and which are defeated in another party's litigation, that they should amend their returns or settle their disputes with HMRC accordingly. Taxpayers who decide not to settle their case will risk a penalty. This change will have effect from Royal Assent to Finance Bill 2014.

In a further twist, legislation will be introduced in Finance Bill 2014 to extend accelerated payment of tax to users of schemes disclosed under the Disclosure of Tax Avoidance Schemes (DOTAS) rules, and to taxpayers involved in schemes subject to counteraction under the General Anti-Abuse Rule (GAAR), so that the amount in dispute is held by HMRC while the dispute is resolved. Again, these changes will take effect from Royal Assent to Finance Bill 2014.

Debt recovery powers

The Government intends to modernise and strengthen HMRC's debt collection powers to recover financial assets from the bank accounts of taxpayers who owe more than £1,000 of tax or tax credit debts, have the financial means to pay, and have been contacted multiple times by HMRC to pay.

A minimum of £5,000 will be left in taxpayers' bank accounts.

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This brings the UK in line with many other tax authorities which already have the power to recover debts directly from an individual's bank account, such as France and the US.

Stamp Duty Land Tax (SDLT) change

At present acquisitions of residential property, costing more than £2m, by certain "non-natural" persons are subject to an SDLT charge of 15% - these are transactions using so-called "corporate envelopes".

The £2m threshold is being reduced to £500,000 for transactions where the effective date is on or after 20 March 2014. The present limit will continue to apply, subject to certain exceptions, where contracts were entered into before that date.

Annual Tax on Enveloped Dwellings (ATED)

At present ATED applies to acquisitions of residential property using "corporate envelope" arrangements and with a cost exceeding £2m. Changes to the scope of this tax are to be proposed in the Finance Bill 2014. The changes are:

- From 1 April 2015 a new band will be introduced to include properties with a cost exceeding £1m but not more than £2m. The ATED in this band will be £7,000.
- From 1 April 2016 a further band will be introduced to include properties with a cost exceeding £500,000 but not more than £1m. The ATED in this band will be £3,500.

Accordingly, from 1 April 2016, all affected properties with a cost exceeding £500,000 will be brought into this tax.

Help to Buy scheme extended

The Help to Buy: Equity Loan Scheme is expected to help at least 74,000 households buy a new-build home by March 2016. To help a further 120,000 households purchase a home and to continue to support house building as the market improves, the Government will extend the equity loan scheme to March 2020.

The Help to Buy: Mortgage Guarantee Scheme will continue to support access to high loan to value mortgages until the scheme ends on 31 December 2016.

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Right to Build scheme

For people who want to build their own home, the Government will consult on creating a new 'Right to Build', giving custom builders a right to a plot from councils, and a £150 million repayable fund to help provide up to 10,000 serviced plots for custom build.

The Government will also look to make the Help to Buy: Equity Loan Scheme available for custom build projects.

Tobacco duty

Duties will increase by 2% above the rate of inflation from 6pm, 19 March 2014. This will add:

- 24p to the price of 20 cigarettes,
- 8p to the price of a pack of five small cigars,
- 23p to the price of a 25g pouch of hand-rolling tobacco, and
- 13p to the price of a 25g pouch of pipe tobacco.

Alcohol duty

The rates of beer duty will be reduced by the following amounts from 24 March 2014:

- 6% for low strength beer (less than 2.8% alcohol by volume (abv));
- 2% for the standard rate of beer duty (between 2.8% and 7.5% abv); and
- 0.75% overall for high strength beer (above 7.5% abv).

These changes will reduce the price of a typical pint (at each strength) by 1p.

The legislation will increase the duty rates for wine and made wine and sparkling cider of a strength exceeding 5.5% by the rate of inflation (based on RPI). This will add 8p to the price of higher strength sparkling cider and 6p to the price of a bottle of wine.

Bingo duty

The rate of Bingo duty is to be reduced from 20% to 10%. The rate reduction will have effect for Bingo duty accounting periods beginning on or after 30 June 2014.

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Business Tax

UK Export Finance

In an effort to support businesses expanding into export markets UK Export Finance's (UKEF) lending capacity is to be doubled from £1.5bn to £3bn. The Chancellor also announced that the interest rates applied to this lending will be reduced by one third.

Annual Investment Allowance (AIA)

In response to lobbying by numerous employer and business organisations, the Chancellor has agreed to extend the temporary increase in the AIA from 31 December 2014 to 31 December 2015.

In a welcome move he has also doubled the amount that can be invested in qualifying assets from £250,000 to £500,000. The increase will apply from 6 April 2014 for unincorporated businesses and 1 April 2014 for companies.

Partnerships

It has been confirmed that the Finance Bill 2014 will include legislation to counter the abuse of three aspects of partnership taxation:

1. The disguising of employment relationships, and consequential reduction in employment taxes, in relation to salaried members of Limited Liability Partnerships (LLPs).
2. The tax-motivated allocation of business profits or losses in all partnerships where the partners include individuals and companies.
3. The tax-motivated disposal of assets through partnerships.

The changes will take effect from 6 April 2014.

Certain minor amendments have been made to the previously published draft legislation, but the details will not be made available until the Finance Bill 2014 is published together with revised guidance.

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VAT registration thresholds

The registration and deregistration thresholds will be changed as follows from 1 April 2014:

- The taxable turnover threshold, which determines whether a person must be registered for VAT, will be increased from £79,000 to £81,000;
- The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £77,000 to £79,000; and
- The registration and deregistration threshold for relevant acquisitions from other EU Member States will also be increased from £79,000 to £81,000.

The simplified reporting requirement (three line accounts) for the Income Tax Self-Assessment return will continue to be aligned with the VAT registration threshold. From 2013-14, small businesses are able to use the simpler Income Tax cash basis that simplifies the way in which small businesses can calculate their trade profits. The eligibility conditions for the cash basis are linked to the VAT registration threshold in place at the end of the relevant tax year.

Employee share schemes

As announced in the Autumn Statement 2013, legislation is to be included in the Finance Bill 2014 to increase the maximum value of shares that can be acquired under all-employee Share Incentive Plans (SIP). From 6 April 2014 the individual limits under SIP will be increased to:

- £3,600 on the “free” shares companies can award to employees, and
- £1,800 on the “partnership” shares employees can purchase.

The Government are also adopting a number of changes recommended by the Office of Tax Simplification to simplify the tax rules and administrative processes for employee share schemes.

Fuel Benefit Charge and Van Benefit Charge

The multipliers that affect the amount of benefit in kind charges levied for private use of fuel in cars and vans, and private use of a van, will be increased in line with inflation for 2015-16. The increase will be based on the September 2014 RPI figure.

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Business Premises Renovation Allowance (BPRA)

As announced in the Autumn Statement 2013, legislation will be introduced in Finance Bill 2014 to clarify the scope of BPRA and ensure that it is limited to building and renovation works and associated services.

Following consultation, the legislation has been revised to extend the time in which the works must be carried out to 36 months, and the proposal to limit qualifying plant and machinery to integral features has been widened to cover additional listed items. In addition a rule will be introduced preventing claims to BPRA being made if another form of State Aid has or will be received.

These changes will have effect from 6 April 2014 for Income Tax, and 1 April 2014 for Corporation Tax.

R & D tax credit for loss makings SMEs

The rate of R&D payable credit for loss-making SMEs is being increased to 14.5% from 11% for qualifying expenditure incurred on or after 1 April 2014. This will increase the rate of the cash credit payable to SMEs that conduct R&D, but do not have Corporation Tax liabilities.

Enterprise Zones: Enhanced Capital Allowances (ECAs)

The period in which 100% ECAs are available in Enterprise Zones is to be increased by three years until 31 March 2020.

Theatre Tax Relief

The Government is to consult on the creation of a new tax relief for theatrical productions and touring theatrical productions.

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Savers and investors

0% Income Tax band

From 6 April 2015 the maximum amount of an investor's savings that can qualify for the starting rate of tax for savings will be increased to £5,000 (the limit set for 2014-15 is £2,880). In a surprising announcement the Chancellor also advised that the starting rate of Income Tax is to be reduced from 10% to 0%.

This will be a welcome change for individuals who rely on savings income to make up their disposable income.

Pensions flexibility

Legislation will be included in the Finance Bill 2014 that will make the following changes, all effective from 27 March 2014:

- reduce the minimum income requirement for accessing flexible drawdown to £12,000;
- increase the capped drawdown limit to 150% of an equivalent annuity;
- increase the total pension wealth that people can have before they are no longer entitled to receive lump sums under trivial commutation rules to £30,000;
- increase the small pots limit, raising the size of a pension pot that can be taken as a lump sum regardless of total pension wealth, to £10,000;
- increase the number of pension pots of below £10,000 that can be taken as a lump sum from two to three.

Access to defined contribution pension savings

From April 2015, the Government will change the tax rules to allow people to access their defined contribution pension savings as they wish from the point of retirement.

Drawdown of pension income under the new, more flexible, arrangements will be taxed at marginal Income Tax rates rather than the current rate of 55% for full withdrawals. The tax-free pension lump sum will continue to be available. Those who continue to want the security of an annuity will be able to purchase one. Equally, those who want greater control over their finances in the short term will be able to extract all their pension savings in a lump sum.

Those who do not want to purchase an annuity or withdraw their money in one go will be able to keep their pension invested and access it over time.

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NISAs, ISAs, Junior ISAs and CTFs

A New Individual Savings Account (NISA) is to be made available from 1 July 2014. They will incorporate a number of changes:

- The annual subscription limit for cash and stocks and share ISAs will be equalised at £15,000.
- Restrictions on the movement of funds between stocks and shares and cash accounts to be removed.
- Certain rules that determine the types of securities and other investments that can be held in an ISA are to be changed.

From the same date, 1 July 2014, the annual subscription limits for the Junior ISA and the Child Trust Fund (CTF) are to be increased to:

- Junior ISA - £4,000
- CTF - £4,000

Pensioner savings bonds

National Savings and Investments (NS&I) will launch a choice of fixed-rate, market-leading savings bonds for people aged 65 or over, available from January 2015. These will provide certainty and a good return for those who have saved all their lives and now mostly rely on their savings for income. Interest on the bonds will be taxed in line with all other savings income, at the individual's marginal rate, meaning that pensioners who do not pay savings tax will be eligible to receive the interest tax-free.

For the purposes of costing this measure, the central assumption made is that NS&I will launch a 1-year bond paying 2.8% gross/annual equivalent rate (AER) and a 3-year bond paying 4.0% gross/AER, with an investment limit of £10,000 per bond.

Premium Bond changes

Premium Bonds are one of the oldest and best known savings products, held by over 21 million people. Changes have been announced to the amount that can be invested and the prize structure. The main changes are:

- the cap on investments in Premium Bonds will be lifted for the first time since 2003, from £30,000 to £40,000, from 1 June 2014. It will then be lifted again to £50,000 in 2015-16.
- NS&I will also now offer two £1 million prizes per month, rather than one, starting from the prize draw in August this year.

These changes will increase savers' chances of winning the largest prize and allow people who want to save more through Premium Bonds to do so.

Social Investment tax relief

As announced at Budget 2013, legislation will be introduced in Finance Bill 2014 to provide a range of Income Tax and Capital Gains Tax 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.

Get In Touch

If you have questions about any of the changes in the Annual Budget or how they may affect, you then do not hesitate to contact us on:

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