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BUDGET 2014
FACT SHEET

PENSIONS

Designed to give a greater freedom and choice at retirement, a package of fundamental changes for defined contribution schemes has been announced. Currently, those retiring do not have full flexibility when accessing their pension funds: a 55% tax charge applies if they withdraw their full fund, effectively requiring an annuity to be purchased. Annuity rates have fallen significantly in recent years.

From April 2015:

- Draw down of pension funds will be taxed at the pensioner's marginal tax rate (between 0% and 45%, depending on other income), rather than at 55%
- The tax-free lump sum (25%) will still be available
- Pensioners may still purchase an annuity, if they wish

The Government is consulting on these changes.

Currently an individual has five choices with regard to the 75% balance (i.e. after the 25% lump sum):

- If you are aged 60 and over and have pension savings of less than £18,000, you can take it in one lump sum
- A capped drawdown pension allows you to take income from your pension, to a maximum of 120% of an equivalent annuity each year
- Flexible drawdown does not impose a limit on the income that can be drawn each year, provided you have other guaranteed income of £20,000 per year
- An annuity can be purchased
- If you are aged 60 and over, you can take any pension "pot" worth less than £2,000 as a lump sum

From 27 March 2014:

- The level of guaranteed pension income required to allow flexible drawdown will be reduced from £20,000 to £12,000 per year
- The capped drawdown limit will be increased from 120% to 150%
- The size of a small pension fund that can be taken as a lump sum will be increased from £2,000 to £10,000
- The number of pension funds of below £10,000 that can be taken as lump sums will be increased from two to three
- The overall value of pension savings that can be taken as a lump sum will be increased from £18,000 to £30,000

PERSONAL TAX

Income tax

- The tax-free personal allowance will increase to £10,000 for 2014/15 and £10,500 in 2015/16
- The higher rate tax threshold will also increase to £41,865 in 2014/15 and £42,285 in 2015/16
- A transferable personal tax allowance for married couples and civil partners will be introduced from April 2015, allowing couples to transfer up to £1,050 to their spouse. Only basic rate taxpayers will be allowed to do this
- The current 10% starting rate for savings will be reduced to a 0% band in 2015/16 and expanded to cover £5,000 of savings income
- There will be a consultation on limiting the UK personal allowance to UK residents and those living overseas who have strong UK connections – this could mean removing the automatic entitlement to the personal allowance for all UK/EU citizens who are resident overseas
- Income tax relief for interest paid on loans to invest in close companies will be expanded to include all companies resident throughout the European Economic Area (EEA)

Capital gains tax

- The capital gains tax annual exemption will be £11,000 in 2014/15 and £11,100 in 2015/16
- A consultation will commence shortly on making non-residents subject to capital gains tax on selling UK residential property from April 2015.
- The private residence relief final period exemption will be reduced from the last 36 months to the last 18 months for sales (exchange of contracts) on, or after, 6 April 2014

Inheritance tax (IHT)

- There will be no change to the nil rate band of £325,000 until 2017/18
- Estates of emergency service workers who die in the line of duty will be exempt from IHT (in the same way that armed forces personnel are exempt). Subject to a consultation, this will take effect from 2015
- Anti-avoidance measures will be introduced to prevent the use of foreign currency bank accounts in the UK as a deduction from IHT where the funds arise from borrowings against a UK asset

Trusts

- Changes to relevant property trusts will mean income that has not been distributed for more than five years will be treated as capital when calculating the 10 year anniversary charge

Savings and investments

- Cash ISAs and Stock & Shares ISAs will be merged to form a single type of New ISA (NISA) which, from July 2014, will have an annual limit of £15,000
- The limit on cash savings will be removed, so the full amount that can be held in cash and assets can be transferred from cash to stocks and vice versa
- For 2014/15 the Junior ISA and Child Trust Fund limits will be increased to £4,000
- The maximum investment into Premium Bonds will increase to £40,000 from August 2014 and then to £50,000 from 2015/16
- "Pensioner Bonds" will be introduced for the over 65s offering fixed-rate, market-leading investment bonds, paying between 2.8% – 4% gross for one and three year bonds

BUSINESS TAX AND EMPLOYMENT TAXES

Annual Investment Allowance (AIA)

- The AIA is to be increased from £250,000 to £500,000
- The increase in the AIA commences from 1 April 2014 for corporation tax and 6 April 2014 for income tax and will extend to 31 December 2015 after which it will return to £25,000

Tax relief for the creative sector

- A new corporation tax relief for theatrical productions and touring theatrical productions is to be introduced following consultation on the design of the scheme. The legislation is to be introduced as part of Finance Bill 2014
- Amendments are to be made to the video games tax relief to ensure its compliance with EU State Aid approval. The legislation will also clarify that only those games on which relief is claimed are to be treated as separate trades. Similar clarification will be provided with respect to television tax relief

Research and development tax credit

- The rate of research and development payable credit for SMEs is to be increased to 14.5% (from 11%)
- This will increase the rate of cash credit payable to SMEs that conduct qualifying research and development activity but do not have corporation tax liabilities
- The enhanced credit will be available with respect to qualifying expenditure incurred on or after 1 April 2014

Enterprise and Seed Enterprise Investment Scheme (SEIS)

- The relief under the SEIS is to be placed on a permanent basis by removal of the "sunset clause" which would have seen the relief withdrawn from 6 April 2017
- The CGT relief for gains reinvested in shares qualifying under the SEIS is similarly placed on a permanent basis. The extended relief will apply as for 2013/14 to half the qualifying reinvested amount capped at the £100,000 investment limit
- Companies which benefit from DECC Renewable Obligations certificates or Renewable Heat Incentive subsidies are to be excluded from benefiting under the Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Venture Capital Trust Scheme. The change will have effect following Royal Assent to the Finance Bill 2014

Social investment tax relief

- The relief will provide a range of income and capital gains tax reliefs to provide incentives for investment by individuals in qualifying social enterprises. The scheme is modelled upon the Enterprise Investment Scheme
- It has been announced that income tax relief will be available at 30% of the amount invested. The relief is to be available from 6 April 2014

Rollover relief on intangible assets

- To correct an error introduced when legislation was re-written, measures will be brought in to prevent companies claiming rollover relief for chargeable gains on selling tangible fixed assets when the proceeds are reinvested in intangible assets
- Basic Payment Scheme, the replacement for EU agricultural subsidies under the Single Payment Scheme, will be included in the class of assets eligible for business asset rollover relief

Capital allowances

- The enhanced capital allowances (ECAs) available for companies investing in plant or machinery in designated enterprise zones is to be extended for a further three years to 31 March 2020. ECAs in Enterprise Zones were introduced in 2012 for a five year period to 31 March 2017 and provide for a 100% capital allowance for qualifying expenditure
- Legislation is to be introduced in Finance Bill 2014 to clarify the expenditure that qualifies for Business Premises Renovation Allowances. Relief will only be available for the actual cost of construction and building work and for certain specified activities such as architectural and surveying services

National Insurance Contributions (NICs)

- Legislation is to be introduced to collect Class II NICs alongside income tax and Class IV NICs under self-assessment.
- These changes will have effect from April 2016.

Company car tax

- The 2% increase in company car tax is to be extended to 2017/18 and 2018/19, with increased discount for ultra-low emission vehicles.
- The Government is reviewing incentives for ultra-low emission vehicles and further legislation will be introduced next year

PROPERTY TAXES

Annual Tax on Enveloped Dwellings (ATED)

- From 1 April 2015 residential properties owned by non-natural persons (e.g. companies) valued at £1-2million will be liable to an annual charge of £7,000
- From 1 April 2016 this will be expanded to properties valued at £500,000-£1million; those companies will pay £3,500 annually
- Exemptions continue to apply for residential properties let to third parties on commercial terms
- Properties falling within the new ATED bands will also be liable to capital gains tax at 28% when the property is sold
- ATED rates have increased for 2014/15, with the starting rate now £15,400 for properties worth between £2-5million and £35,900 for properties valued between £5-10million. The higher bands have been increased too

Stamp Duty Land Tax (SDLT)

- The 15% SDLT rate on residential properties worth more than £2million acquired by non-natural persons will be expanded to cover all properties valued at more than £500,000
- This applies to contracts entered into on or after 20 March 2014
- The Government is to consult on the SDLT treatment of the seeding of property authorised investment funds and the wider SDLT treatment of co-ownership authorised contractual schemes

Stamp duty reserve tax

- Stamp duty reserve tax is to be abolished on unit trusts and open-ended investment companies. These changes will take effect from 30 March 2014

ANTI-AVOIDANCE

Accelerated payment in tax avoidance cases

- As previously announced legislation is to be introduced in Finance Bill 2014 to require taxpayers who have used avoidance schemes which are defeated in another party's litigation to pay the disputed amount to HMRC on demand
- These provisions are to be broadened to extend accelerated payment of tax to users of schemes disclosed under the Disclosure of Tax Avoidance Schemes (DoTAS) rules and taxpayers involved in schemes subject to counter-action under the General Anti-Abuse Rule (GAAR)

Other anti-avoidance measures

- Measures are to be introduced to prevent companies from obtaining a corporation tax advantage by transferring profits between companies in the same group for tax avoidance purposes. Where the main purpose is to secure a tax advantage then for tax purposes the transfer will be regarded as not having taken place
- The Government is to consult on extensions to the DOTAS "hallmarks" for inclusion in a future Finance Bill

VAT

- The VAT registration limit increases from £79,000 to £81,000, and the de-registration limit rises from £77,000 to £79,000. The changes will take effect on 1 April 2014
- There will be a change to the VAT treatment of prompt payment discounts. At present VAT is accounted for on the discounted price even when the discount is not taken up. In future, VAT will be due on the consideration received. For supplies of telecommunications and broadcasting services where there is no obligation to provide an invoice, the measure will take effect on 1 May 2014
- For all other supplies it will apply to supplies made on or after 1 April 2015, unless a need is identified to bring it forward for certain specified categories of supply
- A reverse charge will apply to the wholesale gas and electricity markets. This is aimed at preventing fraud
- The Government will consult on changes to the zero-rating relief for the supply of motor vehicles adapted for the use of wheelchair users with a view to ensuring that people with lower limb prosthetics can benefit from the relief
- There was a reference in the Chancellor's speech to removing VAT on inshore rescue boats and air ambulances, but this is not referred to in the Budget documentation

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For further information on any of the above details, please contact your usual engagement partner or a member of the haysmacintyre tax team.

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haysmacintyre
26 Red Lion Square
London
WC1R 4AG

T 020 7969 5500 **F** 020 7969 5600
E marketing@haysmacintyre.com
www.haysmacintyre.com
@haysmacintyre

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Independent Legal & Accounting Firms