



Welcome to our March 2014 Budget tax newsletter. This is a short summary of key, but not all points

We hope you enjoy reading the newsletter, please contact us if you need further information on any of the topics covered.

Best wishes

Peter Burke

KEY POINTS FROM BUDGET 2014

The Chancellor's 2014 budget was aimed at winning votes with:

- An **increase in ISA limits to £15,000** from 1 July 2014
- A **£5,000 zero rate tax on savings income** from April 2015,
- more flexible pension drawdown rules and
- an increase in the proposed childcare tax relief to £2,000.

There was good news for businesses with the extension of **the Annual Investment Allowance period until 31 December 2015 and the increase in the qualifying spend up to £500,000 from April 2014.**

PERSONAL ALLOWANCES

This is fixed for 2014/15 at **£10,000** with a further increase to **£10,500** for 2015/16 (the allowance currently available to taxpayers aged 65 to 74).

Taxpayers aged 75 and over will continue to receive a personal allowance of **£10,660**.

If a taxpayer's adjusted net income exceeds £100,000 his/her personal allowance is reduced by £1 for every £2 over £100,000 which gives an effective rate of 60% on income between £100,000 and £120,000. **Contact us for advice on planning to avoid this 60% rate.**

INCOME TAX BANDS

The 20% basic rate band is **£31,865 for 2014/15** and will be £31,785 for 2015/16. This means that you **pay 40% tax if your taxable income exceeds £41,865 for 2014/15** and £42,285 for 2015/16.

The 45% top rate continues to apply to taxable income over £150,000 for 2014/15.

CHANGES TO ISAs

The current £11,520 ISA limit continues to 30 June 2014 and then increases to £15,000 on 1 July 2014.

The **current 50% cash ISA limit of £5,760 will be abolished** so that any combination of cash and stocks and shares can be held within the ISA wrapper up to the £15,000 limit. These products will be termed "New ISAs" or NISAs.

The Junior ISA limit increases to £4,000 from 1 July 2014.

MORE GOOD NEWS FOR SAVERS

The current 10% starting rate will apply to the first £2,880 of savings income for 2014/15, when it will be abolished and replaced with a zero rate on the first £5,000 of savings income for 2015/16 onwards.

CAPITAL TAXES

The CGT annual exempt amount will increase to **£11,000 for 2014/15** and £11,100 for 2015/16. With a top CGT rate of 28% this allowance potentially saves just over £3,000 per year, or £6,000 for a married couple.

The inheritance tax nil rate band which remains at £325,000 until 2018.

Please contact us if you wish to discuss capital gains tax and inheritance tax planning to help you take advantage of these valuable allowances.

The only significant change to inheritance tax is the proposed extension in the exemption that applies to the military who die on active service to include those in the emergency services.



NEW FLEXIBLE PENSIONS

Significant changes are proposed to make it easier for taxpayers to access their pension fund pot where they have a defined contribution/money purchase pension scheme. **As a general rule 25% of the pension fund can be taken as a tax free lump sum at age 55**, (this age will be increased in future to be 10 years before State Pension age (Age 57 in 2028)).

The requirement to buy an annuity at age 75 was already abolished with the introduction of "flexible drawdown" pensions that are currently available.

From 27 March 2014 the maximum amount a taxpayer can withdraw each year from a capped drawdown arrangement increases from 120% to 150% of an equivalent annuity, so if the equivalent annuity rate is say 6% then up to 9% of the fund can now be drawn down each year

Consultations are in progress to consider proposals to make pension drawdowns more flexible from April 2015 and to allow withdrawals of more than 25% of the fund limit, subject to a tax charge. The tax charge would be at a taxpayer's marginal tax rate instead of the current penal 55% charge on the fund.

Another consultation is about a proposal to reduce the limit of £20,000 guaranteed pension income to just £12,000/year. Those with this level of guaranteed pension income will be able to draw as much or as little as they wish from their pension fund each year without the 150% of equivalent annuity rule applying.

CORPORATION TAX REDUCTIONS

From 1 April 2014 to 31 March 2015 the main rate of corporation tax is 21% for a company's profits exceed £1,500,000 (divided by companies under common control).

The 20% small company profits rate continues for companies with profits up to £300,000 (also divided as above).

A single corporation tax rate of 20% will apply from April 2015 whatever the level of company profits.

ANNUAL INVESTMENT ALLOWANCE INCREASE TO £500,000

The Annual Investment Allowance (AIA) gives a 100% tax relief for the cost of most plant and machinery (with an exception being motor cars). The current allowance at £250,000 was due to fall back to £25,000 on 1 January 2015.

The allowance will increase to £500,000 per annum for companies with expenditure incurred between 1 April 2014 and 31 December 2015 (the change takes effect from 6 April 2014 for unincorporated businesses).

The AIA is available for assets bought on hire purchase as well as those bought for cash. It can also be claimed in respect of fixtures and fittings within buildings. Contact us if you want help to maximise your tax relief for capital expenditure because the timing of expenditure can be critical.

R&D TAX CREDIT RATE INCREASE

Companies that are Small/Medium sized Enterprises (SMEs) carrying out qualifying Research and Development can currently claim a corporation tax deduction of 225% of their qualifying spend. This means that £100,000 of spend would result in a £225,000 reduction in taxable profits, potentially saving £45,000 of corporation tax (at 20%). However, if the company is loss making the benefit may not be received until future years when profits are made.

To improve the cash flow of loss making SMEs the tax rules allow the company to surrender the loss attributable to the enhanced R&D spend for a tax refund. This is increased from 11% to 14.5% with effect from 1 April 2014. So the £225,000 reduction will result in a refund of £32,625. Contact us if you would like to discuss whether your company could qualify for R&D tax relief.



NEW TAX-FREE CHILDCARE SCHEME

This new scheme will start in autumn 2015 when the Government support will be set at £2,000 per child per year. Parents will be required to open a special childcare account and if they pay in say £8,000 the Government will top this up to £10,000 (like pension contributions and Gift Aid) which can then be used to pay their childcare provider. It is not just parents who will be able to pay into the childcare account but grandparents and other family members will also be able to contribute to the childcare costs.

To qualify, both parents will have to be in work, earning just over an average of £50 a week but not more than £150,000 per year.

Unlike the existing employer provided childcare voucher scheme which is only available to employees and directors **the new scheme will be available to the self-employed as well.** Those in existing employer provided schemes have the option of staying in their employer scheme (up to £55 a week free of tax and NIC) or switching to the new scheme.

To support newly self-employed parents, the government is introducing a 'start-up' period. During this period, self-employed parents won't have to earn the £50 a week minimum income.

It is proposed that the relief will be available for children under the age of 12..

If your circumstances change or you no longer want to pay into the account, then you'll be able to withdraw the money you have built up. If you do, the Government will withdraw its corresponding contribution.

VAT REGISTRATION LIMIT £81,000

The VAT registration limit has been increased to £81,000 from 1 April 2014. The de-registration limit has also increased to £79,000.

SEED EIS RELIEF TO BE PERMANENT

Seed Enterprise Investment Schemes were introduced in 2012/13 to provide tax relief for individuals investing in small start-up companies; it was scheduled to end on 5 April 2017, but will be made permanent and provide:

- A 50% tax reducer on up to £100,000 invested each tax year
- A 50p reduction in capital gains made for every £1 qualifying Seed EIS investment

Contact us if you need advice on these and other tax-efficient investments.

TAX DIARY OF MAIN EVENTS

<i>Date</i>	<i>What's Due</i>
1 April	Corporation tax for year to 30/6/13
6 April	2014/15 Tax year begins
19 April	Final RTI FPS due by this date. Indicate that this is Final Submission for the Tax Year and answer Annual Declaration questions – note no P35 this year.
19 April	PAYE & NIC deductions, and CIS return and tax, for month to 5/4/14 (due 22 April if you pay electronically)
1 May	Corporation tax for year to 31/7/13
19 May	PAYE & NIC deductions, and CIS return and tax, for month to 5/5/14 (due 22 May if you pay electronically)

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Please contact a member of our team if you would like to discuss any of these topics.