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What's inside the Chancellor's Red box?

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WELCOME TO OUR ANNUAL BUDGET TOP 10

In his Budget Speech today the Chancellor George Osborne set out the UK government's plans for the economy and public finances for the coming year.

Whilst the news headlines will undoubtedly focus on Booze and Bingo (1p cut in beer duty, and a halving of the gaming duty for Bingo players) there were some highly important measures announced which will be of relevance to businesses and individuals alike.

With the General Election due next May, the question is: Will voters say “Deal” or “No Deal” to what’s inside George’s Red Box?

WHAT’S CONTAINED IN THIS SUMMARY

In this, our 3rd annual Budget Top 10 we focus on the key announcements and what these mean for you (or your clients). For further details of any of the items covered, or to discuss what this year’s Budget means for you, please speak to your usual Forbes Dawson contact.

Without further ado, and in homage to the Chancellor’s new found love of Bingo, eyes down, look in ....

THE RABBIT OUT OF THE HAT
PENSION SCHEMES – REMOVAL OF THE 55% RATE ON LIFETIME WITHDRAWALS

From April 2015, individuals aged over 55 will only pay their marginal rate of tax on pension scheme withdrawals, whatever the size.

Hence the maximum rate on pension scheme withdrawals will be 45%, and individuals will be able to access funds as and when they want.

Our view:

If you're looking for George Osborne's rabbit out of the hat then this is it!

This is a revolutionary relaxation of the increasingly complex rules on pension withdrawals.

It is also likely to boost the personal pensions market and also deter individuals from buying annuities.

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AND FOR HIS NEXT TRICK ...
IMMEDIATE INCREASE IN FLEXIBILITY OF PENSIONS

As a precursor to the 2015 reforms, there is increased flexibility for individuals in both capped drawdown and flexible drawdown. The pension level for those in capped drawdown can now be up to 150% of the "basis amount" (previously 120%) .

Under flexible drawdown, the minimum income threshold has reduced from £20,000 to £12,000.

Our view:

These changes are very much to be welcomed, although one wonders why the Government has not introduced the full reforms immediately.

Individuals should now be making full use of their annual pensions allowance, currently £50,000 but reducing to £40,000 after 6 April 2014.

The two pensions reforms made in this Budget would be even better if there was more flexibility in the contribution limits, but no changes on these have been announced.

CAPITAL BONANZA!
ANNUAL INVESTMENT ALLOWANCE LIMIT INCREASED TO £500,000

In December 2012 the Chancellor made a surprise move in increasing the level of the Annual Investment Allowance – which allows business to get full tax relief on capital expenditure on plant and machinery in the year of purchase – by tenfold to £250,000.

Originally intended to expire at the end of 2014 the Budget extends the period by a further twelve months. Further still, the limit has been doubled to an unprecedented £500,000.

Our view:

This is likely to be very welcome news for businesses, particularly those who are operating in the manufacturing sector, which tend to be more capital-intensive.

As a tax planning tip: businesses who have already used up their £250,000 allowance and who were planning to make purchases this month should consider delaying the expenditure until April to benefit from the increased allowance.

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FROM ISA TO 'NISA'
THE NEW ISA (NISA): INCREASING FLEXIBILITY FOR SAVERS

From 1 July 2014 ISAs will be reformed into a simpler product called the New ISA (NISA).

ISAs provide a tax free environment for savings, up to an annual limit per individual. Currently there are different limits depending on whether the investment is made into cash or stocks and shares.

The new product will give individuals the flexibility to invest in any combination of cash and stocks and shares up to a single limit of £15,000. This is an increase from the current planned limit for 2014/15 of £11,880. Individuals will only be able to invest in one NISA per annum, however.

Any subscriptions made to an ISA from 6 April 2014 will count against NISA subscription limit for 2014/15 but if you have paid into a Cash or Stocks and Shares ISA between 6 April 2014 and 1 July 2014 you will not be able to open a NISA of the same type before 6 April 2015.

Our view:

We welcome the more generous limit and greater flexibility that the new product offers.

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OPENING THE ENVELOPE
FURTHER TAX CHARGES FOR PROPERTIES HELD VIA COMPANIES

The attack on ‘enveloped’ residential properties has been extended to include properties valued at more than £500,000, compared to the previous £2m threshold. These incorporate three possible taxes where the property is held by a non-natural person (‘NNP’):

- SDLT - 15% will apply with immediate effect.
- Annual Tax on Enveloped Dwellings (‘ATED’), and
- Capital Gains Tax at 28% on disposal of the property

The rules for ATED and CGT on these lower values are being phased in over the next three years. Reliefs continue to apply for development properties and properties rented to unconnected parties.

Our view

HMRC are serious in their attempt to stop properties being acquired through corporate structures. Not only will it bring many more properties within the charge to tax but it will invoke onerous reporting responsibilities for many UK and offshore companies, even if they qualify for the exemptions. Restructuring may be possible to avoid these charges but often the structures are required for commercial reasons or to reduce the potential inheritance tax charge.

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PREVENTING THE BOFFINS BECOMING COFFINS
R&D RELIEF – INCREASE IN TAX CREDIT FOR SMEs

Loss-making small and medium enterprises (SMEs) who carry our research and development activities are able to surrender their loss for a payable tax credit.

From 1 April 2014 the payable credit will increase from 11% to 14.5% of the relevant loss.

Our view:

This measure offers further incentive to new start-ups, particularly in the high-tech sectors, who often face large ‘sunk’ costs in developing new products and ideas.

It provides further confirmation of the Government’s aim to reward companies who carry out R&D. We would urge all businesses to look closer at whether they might qualify for R&D relief. Time and time again we come across cases where businesses have been missing out over many years.

For further details on R&D relief for companies and how we can assist speak to your usual FD adviser.

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SEED ENTERPRISE FIRMLY PLANTED WITHIN THE TAX REGIME

The current income tax and capital gains tax relief given to individuals who invest in qualifying Seed Enterprise Investment Scheme (SEIS) companies will be extended without time limit.

SEIS offers the following tax benefits:

1. CGT reinvestment relief - up to 50% of the tax paid on other gains can be re-claimed by reinvesting the proceeds (of up to £100,000) into SEIS.
2. CGT exemption – disposals of shares held for 3 years will be exempt from CGT.
3. Income tax relief - in addition, the individual can claim income tax relief equal to 50% of the investment.

Our view:

These changes continue to encourage investment in small, early stage companies and help maintain the momentum of the current investment relief.

The risk of investing in a start-up company must be weighed up against the effective 14% (i.e. 28% x 50%) capital gains tax relief on a chargeable gain made.

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NIC-E IDEAS
INCENTIVES AROUND NATIONAL INSURANCE CONTRIBUTIONS

The Chancellor has confirmed a number of measures which reduce the amount of National Insurance contributions payable by businesses and also the administrative burden on the self-employed.

From April 2014, every business will be entitled to an annual "employment allowance" of £2,000 to reduce their liability for Class 1 secondary National Insurance Contributions (NICs).

From April 2015 every employer with employees under the age of 21 will no longer be required to pay Class 1 secondary NIC on earnings up to the upper earning limit.

Finally, from April 2016 any Class 2 National insurance contributions will be linked to income tax and Class 4 National Insurance.

Our view:

Together with the reduction in the main corporation tax rate to 21% and grants for employers taking on apprentices aged between 16 to 24 this will be seen as a good news for businesses looking to invest and create jobs. Linking payment of Class 2 NIC with self-assessment, ends an unnecessary administrative burden for the self-employed.

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A 'PERSONAL TAX' PLEDGE
MEASURES AIMED AT HELPING INDIVIDUALS

From 6 April 2015 the starting rate for savings income (which applies to individuals who have little or no taxable earnings) will be reduced from 10% to 0%. The threshold is also being increased to £5,000.

Also from that date, a spouse/civil partner not liable to higher rate tax can transfer up to £1,050 of their personal allowance to the other spouse/civil partner, provided they too are not a higher rate taxpayer. This only provides a benefit where one spouse does not have sufficient income to fully use their personal allowance but where applicable will save tax of up to £210 per annum for each family.

Our view:

The changes to the starting rate for savings are very welcome to assist those on lower incomes to maximise their income without suffering tax on savings.

The transferable allowance is another welcome change. With a little careful planning in advance, this measure should be very useful in helping to maximise the efficiency of tax allowance allocation within the family, where neither spouse is a higher rate taxpayer, but one spouse is near the threshold.

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COUGH UP NOW – ARGUE LATER
UPFRONT TAX CHARGE FOR USERS OF AVOIDANCE SCHEMES

Legislation will be enacted whereby users of ‘tax schemes’ which HMRC perceive to be abusive do not get the benefit of waiting for cases to drag through a court before having to settle liabilities. In this respect we are moving from an ‘argue now, cough up later’ position to a ‘cough up now, argue later’ position.

This legislation will be aimed at companies and individuals who have participated in known schemes or a close variant of schemes where HMRC has previously been successful in litigating against the arrangements . The thinking behind this is that in cases where HMRC’s success is likely they should not have to wait for the resolution of a lengthy court process to get their cash. This acceleration process is expected to yield £4billion in the next 5 years.

Our view:

We are supportive of any measure designed to clamp down on tax avoidance schemes, which are often based on wholly contrived arrangements and narrow interpretations of legislation. Our ethos is that all tax planning should be approached with a commercial rationale.