

INITIAL THOUGHTS ON THE BUDGET 2014

The Chancellor has delivered the penultimate Budget ahead of the next General Election – here are a few comments on the highlights immediately following George's speech. As further consultations are released and detailed legislation becomes available we will be posting further updates.

BUDGET 2014 – THE HEADLINES

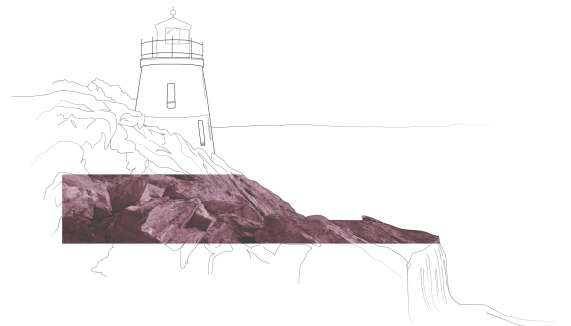
The biggest winners of this Budget are surely Whisky/beer drinking old age pensioners, who have a penchant for Bingo and have a stash of cash; and about time too! Other than that and on a more serious note, the Budget had the air of a penultimate general election Budget, some measures being felt directly in the pockets of voters in 2015.

OVERVIEW OF IMPACT FOR BUSINESSES:

There was little change from measures already announced and published last December in the draft Finance Bill clauses. The main and welcome change was to double the Annual Investment Allowance to £500,000. This will take effect from 1 April 2014, but sadly it will only last until 31 December 2015. From 1 January 2016 it will, without further Budget intervention, revert to £25,000. It is a shame that businesses are not being given a longer-term vision of the ceiling on this valuable allowance; the constant changing does not help businesses in their long-term investment planning.

For small, loss-making businesses extra help was announced with the Research and Development credit payable increasing from 11% to 14.5%. In addition to these measures, manufacturers will be helped by the reductions in the carbon price floor, resulting in reduced energy bills.

The Chancellor also announced that the European Commission has at last given approval for the film production reliefs to be extended. In addition changes to video games tax relief will be made to bring it in line with EU state aid requirements. Furthermore, tax reliefs for certain qualifying theatre and touring productions were announced; further consultation will take place over the next few months.



Finally, there will be a review of the Bank Levy over the next few months, with changes to take effect from 1 January 2015.

OVERVIEW FOR INDIVIDUALS:

Support for savers

A number of measures were announced intended to support savers, including:

- the introduction of a New ISA (NISA!) for cash and stocks and shares (with an increased annual limit of £15,000)
- an increased savings rate income tax band (extending to £5,000), with a reduction of the rate, from 10% to 0%
- the introduction of the new National Savings and Investments 'pensioner bonds'

Death of annuities?

The most fundamental changes announced in this Budget are surely the significant measures looking to provide individuals with greater freedom to access their defined contribution pension savings. Changes introduced from 27 March 2014 will allow more small pots to be taken as a lump sum and give greater flexibility under income drawdown.

The Government is consulting on amending the tax rules to remove the existing constraints over what may be done with savings in a defined contribution pension pot. These changes

are intended to take effect from April 2015, and will give savers over age 55 the choice of whether to purchase an annuity, make a full withdrawal or, alternatively, consider one of the other products available on the market. What's more, the current rate of 55% for full withdrawals will be reduced under the new flexible drawdown plan, and will instead be taxed at the individuals marginal income tax rate. These changes will fundamentally affect how people plan for their retirement and equally have a major impact on the pensions, investment funds and life insurance industries. 2014 will be a transitional year for these changes, with full implementation of the proposal occurring after 6 April 2015.

Clearly there has already been a lot of support for the increased flexibility as it will allow people to take control of their own finances and perhaps break the ever reducing returns on offer in terms of annuities. There are, however, some concerns that the removal of the need to take an annuity at retirement could have an impact on annuity rates, as those in ill-health opt to receive their full pension fund rather than take an annuity; the chancellor believes that those who have saved for their retirement are likely to be sensible with the money they have saved and act responsibly, the jury is still out on that one and we shall just have to wait and see.

A negative on the pension front 'hidden' in the published consultation document are yet further proposals to raise the age at which an individual may take their private pension savings, from 55 to 57 in 2028, with further increases in line with increase in the state pension age!

A few facts & Figures:

The 40% income tax threshold is to rise this year and next; The Chancellor took a penny off the duty in a pint and froze duty on Scottish Whisky; tobacco duty was raised, bingo duty halved and there is no income tax on the first £10,500 of income from next year.