By All Accounts

2014 Budget News

Summary

The traditional "sin taxes" on alcohol and fuel have largely been frozen or even reduced, although tobacco suffers a 2% above inflation tax rise.

Most individuals aged under 67 will feel the benefit of an increase in personal allowance from £10,000 to £10,500 in 2015.

A transferable married couples' allowance of £1,050 will also help basic rate taxpayers from April 2015.

Savers will enjoy higher tax-free limits for ISAs and premium bonds later this year, plus a cut in tax on savings income from 2015.

Businesses are encouraged to invest in equipment by an increase in the annual investment allowance to £500,000 from April 2014 and reliefs for investing in small trading companies and social enterprises are enhanced. Small and medium sized companies who undertake R&D are also given additional tax relief.

Those who use tax avoidance schemes will have to pay the tax avoided up front. Several other tax loopholes used by groups of companies are blocked and the rules for VCT schemes are tightened-up to deter abuse.

This is a summary of some of the key points from the Budget, based on the documents released on 19 March 2014. It is possible that a different position will be shown by the draft legislation which will be published on 27 March 2014. We will keep you informed of any significant developments.

Business Taxes

Corporation Tax

The corporation tax rates for small and large companies will be aligned at 20% from April 2015. This will remove the need for the associated companies rule and the marginal rate of corporation tax will disappear. The rates for the three financial to 31 March 2016 have been announced as:

Year beginning 1 April:	**2013**	**2014**	**2015**
Small profits rate (profits up to £300,000)	20%	20%	20%
Marginal rate (profits in band £300,000 to £1.5 million)	23.75%	21.25%	N/A
Main rate for companies (profits above £1.5 million)	23%	21%	20%

National Insurance

£2,000 Employment Allowance - General description of the measure

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

Policy objective

The allowance aims to reduce the barriers faced by small businesses, charities and CASCs which wish to grow by supporting them with the costs of employment. The measure is expected to have a positive impact on businesses and civil society organisations by reducing their employer NICs bill. Up to 1.25 million employers will benefit, with over 90 per cent of the benefit going to small businesses with fewer than 250 employees. As a result 450,000 small employers will no longer pay Class 1 secondary NICs in 2014-15 and, on average, employers with fewer than ten employees over the course of the year will see their employer NICs bill reduced by 80 per cent.

Background to the measure

In the March 2013 Budget, as part of its strategy to encourage business growth, the Government announced that it will introduce an employment allowance of £2,000 a year for all businesses, charities and CASCs to offset against their liability for Class 1 secondary NICs.

To keep the process as simple as possible for employers, the employment allowance will be delivered through standard payroll software and HMRC’s Real Time Information (RTI) system. HMRC will add a facility to the RTI Employer Payment Summary (EPS) referring to the employment allowance in the form of a “yes/no” indicator and payroll software providers will do the same. HMRC will amend its basic PAYE tools to have an EPS facility to help those employers who do not have such a facility on their software.

To claim the allowance, the employer will have to signify his intention to claim by completing the yes/no indicator just once. The employer will then offset the allowance against each monthly Class 1 secondary NICs payment that is due to be made to HMRC until the allowance is fully claimed or the tax year ends. The following tax year, the allowance will be available as an offset against a Class 1 secondary NICs liability as it arises during the tax year.

For those employers who still submit their returns to HMRC on paper, there will be a paper process which will mirror the IT procedures.

The employment allowance will apply per employer, regardless of how many PAYE schemes that employer chooses to operate, so each employer can only claim for one allowance. It will be up to the employer which PAYE scheme to claim it against.

Employees

The rates and thresholds for National Insurance Contributions for 2014/15 are:

Class:	**Weekly earnings**	**Rate**
Employer's class 1 above primary threshold	Above £153	13.8%
Employee's class 1 not contracted out	From £153 to £805	12%
Employee's additional class 1	Above £805	2%
Married woman's rate*	From £153 to £805	5.85%
Self-employed class 2(per week)	-	£2.75
Share fishermen class 2 (per week)	-	£3.40
Volunteer development workers class 2	-	£5.55
Class 3 (per week)	-	£13.90
	Annual profit thresholds	
Small earnings exemption class 2	£5,885	-
Self-employed class 4	From £7,956 to £41,865	9%
Self-employed class 4 additional rate	Above £41,865	2%

**only available for women who made a valid married woman's election before 11 May 1977.*

Self-employed

From April 2016 class 2 NICs will be collected through self-assessment rather than been paid as a separate direct debit on a monthly or six-monthly basis.

Individuals

Personal Allowances

The standard personal allowance will rise to £10,500 from 6 April 2015. The age related allowances are gradually falling in line with age-related allowances given to taxpayers born since April 1948.

The transferrable allowance will apply from 6 April 2015 to couples (married or civil partners) where neither person pays tax at the 40% or 45% rates. The spouse who cannot use all their personal allowance against their own income will be able to opt to transfer 10% of their personal allowance to their spouse or civil partner.

The personal allowance is tapered away for individuals who have income over £100,000 at the rate of £1 for every £2 of income above that threshold.

The allowances have been announced as follows:

	2013/14	**2014/15**	**2015/16**
	£	**£**	
Born after 5 April 1948	9,440	10,000	10,500
born after 5 April 1938 before 4 April 1948	10,500	10,500	10,500
Born before 6 April 1938	10,660	10,660	10,660
Minimum married couples allowance*	3,040	3,140	TBA
Maximum married couples allowance*	7,915	8,165	TBA
Transferable portion of allowance	N/A	N/A	1,050
Blind person allowance	2,160	3,140	TBA
Income limit for allowances for age related allowances	26,100	27,000	TBA
Income limit for standard allowances	100,000	100,000	100,000
Personal allowance removed completely at:	118,880	120,000	121,000

** given as 10% reduction in tax liability, where one partner was born before 6 April 1935.*

Income Tax Rates and Bands

Income tax rates are to remain the same to 5 April 2016 with the exception of the savings rate. This will be cut to 0% from 6 April 2015. The savings rate only applies if individual's net non-savings taxable income does not exceed the savings rate limit.

The income tax rates and bands have been announced as:

	2013/14	2014/15	2015/16
Savings rate: 10%, 0% from 2015/16	0 - £2,790	0 - £2,880	0 - £5,000
Basic rate: 20%	0 - £32,010	0 - £31,865	0 - £31,785
Higher rate: 40%	£32,011 - £150,000	£31,886- £150,000	£31,785 - £150,000
Additional rate: 45%	Over 150,000	Over 150,000	Over £150,000

When the personal allowance is taken into account an individual will start to pay tax at 40% when their total income exceeds £41,865 in 2014/15 and £42,285 in 2015/16. This is compared to a 40% threshold of £41,450 in 2013/14. This threshold (and the 45% threshold) can be increased if the taxpayer pays personal pension contributions or makes gift aid donations.

Pensions

The following changes will be introduced from 27 March 2014:

- A person who wishes to take their pension as "draw-down" instead of buying an annuity will have to prove they have £12,000 of other income in retirement, rather than £20,000.
- The capped drawdown withdrawal limit will increase from 120% to 150% of an equivalent annuity.
- The total pension savings which can be taken as a lump sum will increase from £18,000 to £30,000.
- The maximum size of a small pension pot which can be taken as a lump sum (regardless of total pension wealth) will increase from £2,000 to £10,000; and
- The number of personal pots that can be taken under these small pot rules will increase from two to three.

In addition the chancellor proposes to change the rules for defined contribution pension schemes from 2015 so that:

- individuals will have complete freedom in how they access their pension savings;
- buying an annuity will not be a requirement on retirement;
- the 55% tax charge on withdrawing too much from a pension fund will be removed; and
- everyone will be offered free and impartial advice on how to best use their pension savings.

Inheritance Tax

The inheritance tax (IHT) nil rate band will remain frozen at £325,000 until 2017/18 and the rates of IHT payable on death remain unchanged at 40% or 36% where at least 10% of the net estate is left to charity.

The government will consult on extending the existing IHT exemption for the estates of members of the armed forces whose death is caused or hastened by injury while on active service to members of the emergency services.

ISAs

The ISA investment limits for 2014/15 were announced in December 2013 as:

	2013/14	**2014/15**
Shares and cash ISA	£11,280	£11,880
Cash only ISA	£5,760	£5,940
Junior ISA and Child Trust Fund	£3,720	£3,840

However this Budget includes the announcement that from 1 July 2014 the ISA rules will be reformed to extend the investment limits to:

From	**1 July 2014**
New ISA - for shares and/ or cash	£15,000
Junior ISA and Child Trust Fund	£4,000

ISAs will also be permitted to hold peer to peer loans as investments and possibly other debt securities.

Premium Bonds

Individuals have been limited to the amount they hold in premium bonds to £30,000 per person since 2003. This cap will now be raised. From 1 June 2014 - £40,000, from 2015/16 - £50,000.

There will also be two tax free prizes at the maximum level of £1 million awarded each month from August 2014.

VAT

The VAT rates and thresholds are as follows:

	1 April 2013	**1 April 2014**
Lower rate	0%	0%
Reduced rate	5%	5%
Standard rate	20%	20%
Registration turnover	£79,000	£81,000
Deregistration turnover	£77,000	£79,000
Acquisitions from EU member states, registration and deregistration threshold	£79,000	£81,000

Changes from 2014

- VAT treatment of prompt payment discounts given by suppliers

Changes from 2015

The Government will consult on changes to the VAT rules in the following areas:

- Zero-rating of work to adapt cars for use by disabled persons
- VAT avoidance scheme disclosures
- Reverse charge for buyers of gas and electricity - not domestic customers

Duties

Stamp Duty Land Tax (SDLT)

This duty applies to the sale of land or buildings in the UK

From 20 March 2014 the residential properties in bands marked * are subject to SDLT at the rate of 15% where the property is acquired by a non-natural person such as a company, partnership or collective investment scheme. For sales in the period: 22 March 2012 to 19 March 2014 the 15% rate of SDLT only applied to properties sold for £2 million or more where the buyer was a non-natural person.

Bingo Duty

The percentage of bingo promotion profits paid in duty is cut from 20% to 10% with effect from 30 June 2014.

Machine Games Duty (MGD)

This duty was introduced from 1 February 2013, and must be collected by the owner of the premises where the game machine is provided for play. MGD applies at two rates:

- 5% when the fee for playing a game is not more than 20p, and
- 20% for other machines.

From 1 March 2015 MGD will apply at 25% for games which may cost £5 or more to play.

Air Passenger Duty (APD)

This duty currently applies at three rates (reduced, standard and higher) over four bands (A, B, C & D), according to the distance travelled.

From 1 April 2015 the bands will be reduced to two:

- journeys up to 2000 miles
- journey over 2000 miles

The rates will also be reduced except for the higher rate which applies to aircraft with fewer than 19 seats - generally luxury jets.