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Budget Bulletin

2014

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The Budget Background

A year ago, nobody – including Mr Osborne – expected the 2014 Budget to be set against such a relatively benign economic background for the UK. In March 2013 the talk was of a *triple* dip recession, as the country had just recorded a contraction of 0.3% in the final quarter of 2012. Inflation, as measured by the February 2013 Consumer Prices Index (CPI), was running at 2.8% and had been above its 2% target since December 2009. In Europe the latest round of the Eurozone crisis was taking place, with Cyprus becoming the fifth EU member to seek a bailout. All in all, it was not a pleasant economic backdrop against which to present another austerity-as-she-goes Budget that promised a further £100bn+ government deficit for the coming year.

March 2014 presents a very different picture. The triple dip recession never appeared, much to the Chancellor's relief (and Ed Balls' frustration). By summer 2013 the Office for National Statistics had even revised away 2012's double dip recession by adding 0. 1% to an earlier estimate of 2012 first quarter growth. Across 2013 as a whole, the UK grew by 1.8%, more than three times as fast as the Office for Budget Responsibility (OBR) had forecast in its Budget 2013 "Economic and Fiscal Outlook". The OBR is now projecting growth of 2.7%, while the Bank of England has pencilled in 3.4%, well above consensus forecasts.

Inflation has also fallen: the latest CPI figure was 1.9%. The Bank of England now expects inflation to be at or below 2% for the next two years, which could mean that at long last earnings growth starts to outpace price increases. Low inflation will also make it easier for the Bank to hold off from raising interest rates. As for the Eurozone, no fresh major problems have emerged since Cyprus, and Ireland has become the first country to leave the bailout procedure. However, it would be a brave person who claims to be certain no further Eurozone issues will emerge – the Greek tragedy could still be due a re-run and the ramifications of the Crimean situation could cause Cyprus more problems with its Russian investors.

From Mr Osborne's viewpoint, all the good economic news created something of a dilemma. The next General Election is now less than fourteen months away and the pollsters say that the Conservatives are most trusted on managing the economy, even though they are behind Labour in the main polls. Mr Osborne could not therefore risk a "job done" stance, despite the favourable numbers. He therefore laced the good news with a heavy sprinkling of 'we-are-not-out-of-the-woods-yet" warnings.

There is certainly truth in the notion that work remains to be done. The OBR estimates that net government borrowing in 2013/14 was about £108bn, which is close to £50bn more than forecast in 2010. The OBR calculates that by 2018/19 total net government debt will be nearly £1.55trn (£1,550bn), a level that the well-respected Institute for Fiscal Studies (IFS) "will constrain government policy for many years to come."
Those borrowing numbers assume that the government's austerity measures run their course. So far most of these have been in the form of tax increases: there are still many spending cuts to come. Quite how big these will be was highlighted by the IFS, which noted that "public service spending as a share of national income in 2018/19 will be back around the level it was in the late 1990s …and it is far from certain that the current or a future government will have the political will to see state provision of services reduced to this extent."

Alongside all these constraints the Chancellor also had to bear in mind that this was his last full Budget before the Election. Next year's springtime offering will be a simple procedural affair because Parliament is set to shut up shop before the end of March, leaving no time for detailed consideration of the Finance Bill. The real Budget of 2015 will, as in 2010, be the Budget announced *after* the Election.

For this year's Budget, Mr Osborne's fifth, the most interesting points to (re-)emerge were:

- A rise of £560 in the personal allowance to £10,000 for 2014/15 and a further increase to £10,500 in 2015/16.
- A £415 increase in the higher rate threshold for 2014/15, with another £420 increase in 2015/16.
- The reworking of the starting rate band from 2015/16, reducing the starting rate from 10% to 0% and widening the band to £5,000.
- The introduction, on a phased basis from autumn 2015, of a new tax-free childcare regime, worth up to £2,000 per child per year under age 12 by the end of the scheme's first year.
- A new employment allowance of £2,000 per year for all businesses and charities from April 2014 to offset employer Class 1 National Insurance contribution (NIC) costs.
- A doubling of the annual investment allowance to £500,000 and the extension for one year to 31 December 2015 of this higher level.
- Radical reforms to the way in which benefits can be drawn from pension arrangements, encouraging the use of alternatives to the traditional annuity.
- A reform of ISAs, with a new £15,000 contribution limit from July 2014.
- Yet another freezing of an impending fuel duty increase.

In this Bulletin we look at the impact of the main changes on different groups of taxpayers.

Investors and Savers

The Personal Allowance

Last year's Budget revealed that the 2014/15 personal allowance would be £10,000, a long-stated goal of the coalition government and this year's Budget added another £500 to the allowance for 2015/16. However, many people do not even use the current personal allowance (£9,440 in 2013/14), with the IFS estimating that 17% of workers will pay no income tax anyway in the coming tax year. At the other end of the income scale, roughly half a million taxpayers have no personal allowance because their income means it has been tapered to nil.

If you or your partner do not use the personal allowance, you could be paying more tax than necessary. There are several ways to make sure you maximise use of your allowances:

- Choose the right investments: some investments do not allow you to reclaim tax paid while others are designed to give capital gain, not income.
- Couples should consider rebalancing investments so that each has enough income to cover the personal allowance.
- Make sure that in retirement you (and your partner) each have enough pension income. The basic state pension (£113.10 a week in 2014/15) alone is not enough.

Year End Financial Planning: If you don't anticipate using all your personal allowance in 2013/14 think about creating more income by closing deposit accounts before 6 April and crystallising the interest in this tax year. But beware early closure penalties and shutting down accounts with better interest rates than are available now!

Starting Rate Band

The starting rate band only applies to savings income (generally interest) and then only to the extent that the band is not already filled by non-savings income. For 2014/15, the rate is 10% and the band will be £2,880, implying a maximum benefit of £288.To the extent that the starting rate band is used, the available basic rate band is reduced, thereby ensuring the higher rate threshold is fixed.

For 2015/16 the starting rate band will be expanded to £5,000 and the rate reduced to 0%. The maximum net benefit will be £712 and the Treasury estimates that 1.5million taxpayers will gain, many of whom will be on low incomes.

To maximise the benefit of these changes, you may need to rearrange the investments that you hold and, for married couples, their ownership. However, if you personally have earnings and/or pension income exceeding £15,500, the starting rate reforms are irrelevant.

Capital Gains Tax (CGT)

Capital gains are currently taxed as the top slice of income, but the rates are lower than those that apply to income. Gains are taxable at 18% to the extent they fall in the shrinking basic rate band and 28% if they fall into the higher or additional rate bands. For 2014/15, the capital gains tax annual exemption will rise by just £100, as it is due to again in 2015/16. Thereafter, the annual exemption is meant to be inflation-linked. However, that will be a post-election decision and there have already been discussions among some politicians about cutting the exemption to £2,000 and applying full rates of income tax.

For now, the tax rates and annual exemption (per person, not per couple) mean that if you can arrange for your investment returns to be delivered in the form of capital gains rather than income, you should generally pay less tax. Indeed, the annual capital gains exemption often means that there is no tax to pay. While investment decisions should never be made on tax considerations alone, favouring capital gains over income when setting your investment goals will normally be a sensible approach.

Year End Financial Planning: If you do not use your £10,900 annual exemption by 5 April (a Saturday, don't forget)), you will lose it and a possible tax saving of over £3,000.

Individual Savings Accounts (ISAs)

The annual ISA investment limit for 2014/15 will initially rise by £360 to £11,880 (of which up to £5,940 may be in cash).

From 1 July more radical change will occur:

- All existing ISAs will become new ISAs (NISAs), with a total contribution limit of £15,000 in 2014/15, a further increase of £3,120.
- The rule which prevents more than 50% of the total limit being placed in a cash ISA will be scrapped. Thus in 2014/15 100% of the £15,000 NISA contribution can go into cash deposits.
- At the same time the ban on transfers from stocks & shares ISAs to cash ISAs will be removed, thereby introducing full two-way transferability (transfers from cash to stocks & shares have long been possible).
- Investment options will be widened to include, for example, peer-to-peer lending and certain retail bonds with less than five years to maturity.

ISAs have long been one of the simplest ways to save tax, with nothing to report or claim on your tax return. The revisions announced enhance their appeal and make it easier over time to build up substantial sums. Even now, if you had maximised your ISA investment since they first became available in April 1999, you would by now have placed over £120,000 largely out of reach of UK taxes.

In 2013/14 the tax advantages of ISAs were expanded with the inclusion of shares listed on the Alternative Investment Market (AIM) and similar markets to the list of qualifying investments. Inheritance tax business property relief is available for such ISA-held shares, subject to the normal rules (eg a minimum of two years' ownership). From 28 April 2014, there will be the added benefit that stamp duty on AIM share purchases will be scrapped.

Year End Financial Planning: If you invested in a cash ISA a year or more ago, check the rate of interest you will be earning from April. You might find that what was an inflation-beating figure is now 0.5%. Rates for new instant access ISAs have also fallen as competition for retail deposits has reduced.

Estate planners

Nil Rate Band

The nil rate band reached its current level of £325,000 in April 2009. It has been frozen since then and last year's Budget confirmed that the freeze would endure until at least April 2018. Had the nil rate been increased in line with inflation, it would be about £375,000 in the coming tax year.

A frozen nil rate band drags more estates into the IHT net and, if you are already caught, adds to the amount of tax that will be levied. Since April 2009, average UK house prices are up by about 17%, according to Nationwide and UK share prices have almost doubled (March 2009 marked their low point in the wake of the financial crisis).

IHT Yearly Exemptions

The extended nil rate band freeze makes the yearly IHT exemptions all the more important:

- *The £3,000 annual exemption.* Any unused part of this exemption can be carried forward one tax year, but it must then be used *after* the £3,000 exemption for that year. So, for example, if you made a gift of £1,000 covered by the annual exemption in 2012/13, you can make gifts totalling £5,000 covered by the annual exemption in 2013/14 by 5 April 2014.
- *The £250 small gifts exemption.* You can make as many outright gifts of up to £250 per individual per tax year as you wish free of IHT, provided that the recipient does not also receive any part of your £3,000 annual exemption.
- *The normal expenditure exemption.* Any gift that you make is exempt from IHT if:
    - it forms part of your normal expenditure; and
    - taking one year with another it is made out of income; and
    - it leaves you with sufficient income to maintain your usual standard of living.

Year End Financial Planning: If you are making an annual exemption gift by way of a cheque, remember that legally the gift is only made once the cheque is cleared. And April 5 is a Saturday.

Business Owners

Corporation Tax Rates

The mainstream rate of corporation tax falls to 21% from 1 April 2014, although the small profits rate (formerly smaller companies' rate) will stay at 20%. There is scheduled to be a further 1% cut in the main rate to 20% for 2015, bringing about the demise of the small profits rate. However, the Labour Party has said that if it forms the next government it will keep the mainstream rate at 21% and use the extra tax to finance a reduction in business rates for small firms.

It remains the case that incorporation will often be an attractive tax option for business people because of the possibility of drawing income as dividends, free of NICs, and sheltering profits from an immediate 40% or 45% income tax charge.

Capital Allowances

Capital allowances have been subject to a variety of changes in recent years and the Budget added some more, ostensibly to encourage an increase in business investment.
The Annual Investment Allowance (AIA), which gives 100% initial relief for investment in plant and machinery, was increased from £25,000 to £250,000 from January 2013 and had been due to return to £25,000 at the end of this year. The Chancellor has now decided to both extend the higher AIA for another year and to double the limit to £500,000 from April 2014.

> ***Year End Financial Planning:*** The change to the AIA may mean the timing of planned business investment needs to be reviewed. The increase is pro-rated if your financial year does not coincide with the relevant April dates so, for example, a company with a year end of 30 June has an AIA of £312,500 (not £500,000) in its 2013/14 financial year, regardless of when the investment is made during that year.

Pension Changes

Several important pension changes for employers and employees take effect in the next few weeks.

- Auto-enrolment into pension arrangements began to be phased in 18 months ago. During 2013/14 generally it was only employers with at least 250 employees who had to put auto-enrolment in place. From 1 April 2014, the employee size numbers start to shrink significantly and by 1 April 2015 the lower limit will be 50 employees.
- The earnings threshold for auto-enrolment will rise in line with the personal allowance to £10,000 in 2014/15 and probably £10,500 for 2015/16.
- The standard lifetime allowance is reduced from £1.5m to £1.25m on 6 April 2014. In the remaining few days of 2013/14 there is still the opportunity to claim transitional relief in the form of Fixed Protection 2014, which effectively preserves a £1.5m lifetime allowance. Later in the year another transitional protection, Individual Protection 2014,

will become available. You may only apply for this if you have total retirement benefits valued at more than £1.25m on 5 April 2014 and do not already have primary protection.
- From 6 April 2014 the annual allowance is also be cut from £50,000 to £40,000. This will not yet affect the level that can be carried forward from earlier years in carry forward claims.
- Changes to women's state pension age (SPA) will continue to work through the system. By 6 April 2015 women's SPA will be around 62½, on its way to 65 in November 2018. Two years later both men and women will share an SPA of 66.
- The new rules for income drawdown (see Retiree/At Retirement section) start to take effect from 27 March 2014.

Employer's National Insurance Contributions

2014/15 will see the start of the Employment Allowance, originally announced in last year's Budget. This will provide up to £2,000 per year for a business or charity as an offset to Class 1 employer's NICs. In 2014/15 £2,000 will cover the employer's NIC costs for a single contracted-in employee with annual earnings of £22,450. The scheme will operate primarily via HMRC's Real Time Information (RTI) system and will not apply where the employment is related to family or household affairs (eg nannies).

There is a further cut to employer's NICs in 2015/16, which was announced in the Autumn Statement. This will see the end of employer's Class 1 NICs in respect of employees under the age of 21 who earn less than the upper earnings limit (£42,285 in 2015/16).

Dividends or Salary...

Regular changes to National Insurance contributions and tax rates have altered the mathematics of the choice between dividends and salary, with the lowering of the additional rate in 2013/14 the most recent revision to have had an impact. For shareholder/directors able to choose between the two, and not caught by the IR35 personal company rules, a dividend remains the more efficient choice, as the example below shows. However, a pension (within the annual allowance provisions) could avoid all immediate tax and NIC costs.

The introduction of the £2,000 Employment Allowance in 2014/15 generally will not alter the outcome of a choice between dividends and pay, because employee's NICs will still be payable.

Make Mine a Dividend

A director/shareholder has £25,000 of gross profits in his company which he wishes to draw, either as bonus or dividend. Assuming the company pays corporation tax at the 2014 small profits rate of 20% and the director already has annual earnings in excess of £41,865, the choice can be summarised thus:

	Bonus £		**Dividend £**	
	40% tax	**45% tax**	**40% tax**	**45% tax**
Marginal gross profit	25,000	25,000	25,000	25,000
Corporation tax @ 20%	N/A	N/A	(5,000)	(5,000)
Dividend	N/A	N/A	20,000	20,000
Employer's National Insurance Contributions £21,968 @ 13.8%	(3,032)	(3,032)	N/A	N/A
Gross bonus	21,968	21,968	N/A	N/A
Director's NICs £21,968@ 2%	(439)	(439)	N/A	N/A
Income tax *	(8,787)	(9,886)	(5,000)	(6,111)
Net benefit to director	**12,742**	**11,643**	**15,000**	**13, 889**

**After allowing for 10% tax credit on dividends*

….Or nothing at all?

For some business owners, the ultimate way to limit their tax bill is to choose to leave profits in the company rather than draw either a dividend or salary. With the top rate of income tax at 45%, there is an obvious argument for allowing profits to stay within the company, where the maximum marginal tax rate (for the year beginning 1 April 2014) is 21.25% and could be as low as 20%.

This strategy has tax risks in terms of eligibility for CGT entrepreneurs' relief and inheritance tax business property relief. Money left in the company is also money exposed to creditors, so professional advice should be sought before turning a business into a money box.

Employees

Company Cars

The company car benefit scales underwent a significant overhaul in 2012/13, but that has not stopped Mr Osborne setting out and, in part legislating for, changes running through to 2019/20. Precise details for the later years are not yet clear, but we do know most of the picture through to 2016/17:

Tax Year	Changes
2014/15	• A 1% increase in the scale benefit will apply to all cars with CO_2 emissions above 75g/km. • A 5% scale charge applies for cars with emissions of 75g/km or less, but this covers only a handful of hybrid vehicles (electric cars currently have a zero benefit). • The maximum 35% charge will be unchanged and will apply for petrol-engine cars with emissions of 210g/km and above (195 g/km and above for diesels). • The multiplier for calculating car fuel benefit will increase by £600 to £21,700.
2015/16	• The lowest 5% scale benefit band will shrink to covering cars with emissions of no more than 50g/km. • The new 5% band will include electric cars, as the 0% scale charge for nil emission vehicles will be end. • A new 9% charge will be introduced for the 51-75g/km band. • The rate for the 76g/km-94g/km band will rise by 2% to 13%. • Above that 94g/km threshold the rate will be 14% plus 1% for each additional 5g/km. • The maximum charge will rise to 37% and will apply for petrol-engine cars with emissions of 210g/km and above (195 g/km and above for diesels)
2016/17	• The 3% diesel supplement will be scrapped. • 2% will be added to all scale charges (including the 0g/km-50g/km band). • The maximum charge will stay at 37% and will apply for petrol-engine and diesel engine cars with emissions of 200g/km and above.
2017/18	• 2% will be added to all scale charges (including the 0g/km-50g/km band) • The maximum charge will stay at 37% and will apply for petrol-engine and diesel engine cars with emissions of 190g/km and above.

The changes will increase the tax on low emission cars significantly, particularly petrol engined vehicles. For example, the scale benefit charge on a Ford Focus 1.0 Ecoboost with 114g/km emissions would rise from 14% in 2013/14 to 19% in 2016/17, and 21% by 2017/18.

If you are changing your car next year or so, think ahead of what it will cost you in tax terms – or maybe even take cash instead, if you have the option.

Year End Financial Planning: If you currently enjoy 'free fuel' but your private mileage is modest, you could be better off paying your own way in 2014/15, even if your employer does not compensate you for the lost benefit.

Pensions

The pensions landscape has altered dramatically in recent years and will continue to change:

- If you are not a member of a pension scheme offered by your employer, then at some point within the next four years you are likely to find yourself automatically enrolled in a pension arrangement, with contributions deducted from your pay and added to by your employer. The larger your employer, the sooner this will happen. You will be able to opt out, but generally this will only make sense if you have elected with HMRC for some form of transitional protection.
- A new single-tier state pension starts in April 2016, replacing both the basic state pension and the second state pension (S2P). As a result, contracting out of S2P will disappear completely; it was scrapped for personal pensions and money purchase occupational schemes in April 2012. In the long term this reform will create more losers than winners and will mean that if you are currently contracted out, your (and your employer's) National Insurance contributions will rise. Unless you work in the public sector, the benefits of your employer's pension may be adjusted to take account of the increase in those employer's contributions.
- State pension ages (SPAs) are on the rise, with another increase – to 67 between April 2026 and March 2028 – now in the Pensions Bill going through Parliament. The Bill also contains provisions for five yearly reviews of SPA. A rise to 68 is now pencilled in for the mid-2030s.

Year End Financial Planning: The carry forward rules allow unused annual allowance to be carried forward for a maximum of three years. Thus 5 April is your last opportunity to rescue unused relief from 2010/11.

Salary Sacrifice

National Insurance contributions (NICs) can cost up to 25.8% of gross pay – up to13.8% for the employer and 12% for the employee. The corollary is that avoiding NICs can save up to 25.8% of pay. A widely applied example of turning NICs to an advantage is in the use of salary sacrifice to pay pension contributions. Instead of the employee making personal contributions out of their net pay, the employee accepts a lower salary and the employer makes a pension contribution. If the employer passes on all of the NICs savings, the pension contribution could be up to almost 34% higher, as the example shows.

A Worthwhile Sacrifice

	Personal Contribution		Salary Sacrifice Employer Contribution (sacrificed amount + NIC saving)	
Tax Rate	**20%**	**40%**	**20%**	**40%**
	£	**£**	**£**	**£**
Gross Salary	1,000	1,000	Nil	Nil
Employer Pension Contribution	Nil	Nil	1,138	1,138
Employer NI Contribution (13.8%)	138	138	Nil	Nil
Total Employer Outlay	1,138	1,138	1,138	1,138
Employee Salary	1,000	1,000	Nil	Nil
Less Income Tax	(200)	(400)		
Less NI Contributions (12%/2%)	(120)	(20)		
Net Pay = Net Pension Contribution	680	580		
Tax Relief	170	387		
Total Pension Contribution	**850**	**967**	**1,138**	**1,138**

Year End Financial Planning: From 6 April 2014 the standard lifetime allowance, which effectively sets the maximum tax-efficient value of all your pension benefits, falls from £1.5m to £1.25m. If that could affect you, seek advice as soon as possible. Transitional protection options are available, but with strings attached. One of the options must be claimed by 5 April 2014.

Retiree/At Retirement

The Pension Landscape in 2014

There have been many changes to pensions since April 2012, with more about to take effect in the next few years, following Budget announcements. These include:

- A reduction in the standard lifetime allowance from £1.8m to £1.5m from 6 April 2012. This allowance effectively sets a tax-efficient ceiling for the value of pension benefits. A further cut to £1.25m is due from 6 April 2014. There are transitional reliefs, but one of these must be claimed before 6 April 2014 and advice will be vital before any action is taken.
- Revised rules for income drawdown, both capped and flexible, were announced in the Budget. These could transform the way most people convert their retirement fund into a retirement income.
- New rules for small pots and pension commutation will make it easier to turn small pension savings into lump sums, rather than be used to buy a small annuity.
- Further increases to State Pension Age (SPA), both legislated for and planned. For women, SPA is now 62.
- A new single-tier state pension is to be introduced from April 2016. While it will not affect you if you reach SPA before the new regime begins, you may have the opportunity to top up your pre-April 2016 state pension by making new Class 3A National Insurance contributions. This will be a limited time offer for 18 months, starting in October 2015.

Interest Rates: 5 years and counting…

The Bank of England base rate was cut to 0.5% on 5 March 2009 and has remained unchanged for over five years. Since last summer the Bank of England has been providing ‘forward guidance’ about the path of interest rates. Its first round of guidance fell apart when the level of unemployment – the Bank’s key trigger – dropped more rapidly than expected. As a result, the latest guidance, which emerged in February, is much vaguer than its predecessor. The most recent projections in the Bank’s Quarterly Inflation Report are suggesting that the rate will remain at 0.5% until the second quarter of 2015, after which it will start rising gently, reaching 2% in the second half of 2016.

The government’s Funding for Lending Scheme (FLS), designed to stimulate lending to businesses by offering banks cheap money, is continuing to have an effect on deposit rates. The best instant access rates for new accounts are now around 1.5%, with many institutions now paying less than National Savings & Investments on its Income Bonds (1.26% AER). It is a similar story for cash ISA interest rates, where again National Savings & Investments is surprisingly competitive with a 1.5% instant access interest rate.

In the Budget the Chancellor announced two initiatives for National Savings & Investments:

- Raising the Premium Bond investment limit from £30,000 to £40,000, from 1 June, and offering two £1 million monthly prizes instead of one from 1 August 2014, and then further increasing the limit to £50,000 in 2015-16.
- In January 2015, launching a range of fixed-rate, market-leading taxable bonds for people aged 65 and over. Interest rates and investment limits must await the Autumn Statement 2014, but currently the rates would be 2.8% for a 1-year bond and 4.0% for a 3-year bond, with a personal investment limit of £10,000 per bond.

If low interest rates are a concern to you:

- Make sure you are taking maximum advantage of ISAs, which pay interest tax free.
- Check the interest rate on all your deposit accounts. There have been plenty of cuts recently – even though base rate has not changed – and bonus payment periods may have expired. Better you know now that you are earning 0.1% rather than when your next interest statement arrives.
- Think carefully before you lock yourself into long-term fixed deposits in an effort to get a slightly higher interest rate. The best five year fixed rate is around 3.25%: a lot can happen over half a decade.
- Consider investing in corporate bond or equity income funds. You will lose capital security, but your initial income could be usefully higher.

Year End Financial Planning: If you have not yet arranged an ISA or invested up to the 2013/14 maximum, think about doing so by 5 April. If you are unsure where to invest or think the market might fall from current highs, you can always leave your money on deposit, even in a stocks and shares ISA as it exists until July. Just don't expect it to earn much interest.

Pension Annuities

If you are due to start drawing an income from your pension plan, make sure you contact us for advice about your options. Recent research by the Financial Conduct Authority revealed that 80% of those people who bought their annuity from their existing pension provider could have got a better deal had they taken advice.

You may also want to consider whether to delay drawing *any* benefits until the final details of the drawdown reforms become clear.

Income Drawdown

- The rules for income drawdown were revised last year, with the general effect of increasing the maximum capped withdrawal by 20%. More radical change in two stages over the next year was announced in the Budget:

- For pension years starting from 27 March 2014, the maximum capped withdrawal will increase from 120% to 150% of the equivalent annuity. In practice, drawing at the maximum is usually only suitable in special situations, but the added flexibility is welcome.
- The minimum income requirement for flexible withdrawals will fall at the same time from £20,000 to £12,000.
- Subject to consultation, in 2015/16 capped withdrawals will effectively disappear and flexible withdrawals will be available to all, regardless of income. Thus you will be able to draw whatever you wish from your pension pot and pay income tax on that amount to the extent that it is not part of your pension commencement lump sum (tax free cash). The existing 55% tax penalty that could apply in such circumstances will be scrapped.
- The current 55% tax charge on funds remaining at death will be reviewed and may be reduced.

These income withdrawal reforms are viewed by some commentators as the most significant reform in the 2014 Budget, if not for some years. However, this is an area where advice is and will be crucial, a factor that the government has recognised with plans to make a right to advice compulsory from April 2015.

> ***Year End Financial Planning:*** Income drawdown, whether under the current or forthcoming rules, does not mean an end to lifetime allowance tests, which will be triggered by, for example, reaching age 75. If your funds are substantial, you may want to claim one of the transitional protections to limit the impact of the 2014/15 drop in the lifetime allowance. The first deadline for claims is 5 April 2014.

Parents

Child benefit

The High Income Child Benefit Charge – the child benefit tax – came into effect a little under 15 months ago, with the first year's extra tax due by the end of last January. It is estimated around 100,000 people missed that deadline. 2013/14 is the first year in which the full impact of the charge has been felt. If you or your partner has income of £60,000 or more in the current tax year, there will be a tax charge equal to your total child benefit unless you took an early decision to stop benefit payment.

Between £50,000 and £60,000 of income, the tax charge is 1% of benefit for each £100 of income above £50,000. The result can be high marginal rates of tax in the £50,000-£60,000 income band. If you have three children eligible for child benefit, the marginal rate is 64.8%.

Year End Financial Planning: As the child benefit tax charge is based on taxable income, you could reduce the impact of the tax by making a pension contribution.

Tax-free childcare payment

A new payment for working parents was announced just before the 2013 Budget, but will only begin to be phased in from autumn 2015. In the first year the scheme will eventually be available to children under 12 – an increase on the earlier under-5 target. The payment will be 20% of childcare costs up to a £2,000 payment per child, per year - £1,200 had originally been proposed. Over time the system will replace the existing childcare vouchers system. For couples it will only be available if both partners are working. An individual income limit of £150,000 will apply – three times the level at which Child Benefit starts to be removed.

University funding

The (unchanged) £9,000 a year maximum tuition fee for new students in England and Wales is now a fact of student life, if not a popular one. The latest figures from UCAS, the universities admissions service, show that applications for higher education courses in 2014 were 4% higher than last year, even though the 18 year old population declined by 1%.

If you have children likely to go to university, it makes sense to consider your funding options.

Under the current rules some pundits consider that it makes sense to take the student fee loans while at university rather than pay fees from capital. That is because repayment only begins once earnings reach £21,000 and any debt is written off after 30 years from the April after graduation. University debt will add to the difficulties young people face in getting onto the now rapidly rising property ladder. Another reason, maybe, why parents and grandparents might like to consider tax-effective "pre-funding".

Main income tax allowances and reliefs

	2013/14	2014/15
	£	£
Personal allowance – standard	9,440	10,000
- Born between 6 April 1938 and 5 April 1948	10,500	10,500
- Born before 6 April 1938	10,660	10,660
Personal allowance reduced if total income exceeds ∞	100,000	100,000
Married couple's allowance* – minimum amount	3,040	3,140
– maximum amount	7,915	8,165
Maintenance to former spouse *	3,040	3,140
Age-related allowances reduced if total income exceeds ¶	26,100	27,000
Employment termination lump sum limit	30,000	30,000

∞ For 2013/14 and 2014/15 the reduction is £1 for every £2 additional income over £100,000. As a result there is no personal allowance if total income exceeds £120,000 (£118,880 for 2013/14).

* Relief at 10%. Available only if at least one of the couple was born before 6 April 1935.

¶ For 2013/14 and 2014/15 the reduction is £1 for every £2 additional income over the total income threshold. Standard allowance(s) **only** are available if total income exceeds:-

	2013/14	2014/15
	£	£
Taxpayer born between 6 April 1938 and 5 April 1948 [personal allowance]	28,220	28,000
Taxpayer born before 6 April 1938[personal allowance]	28,540	28,320
Taxpayer born before 6 April 1935 [married couple's allowance]	38,290	38,370

Income tax rates

	2013/14	2014/15
	£	**£**
Starting rate on savings income- 10%	1 – 2,790	1 – 2,880
Basic rate	0 - 32,010	0 - 31,865
Maximum tax at basic rate†	6,402	6,373
Higher rate - 40%	32,011-150,000	31,866-150,000
Tax on first £150,000†	53,598	53,627
Additional rate on income over £150,000	45%	45%
Discretionary and accumulation trusts (except dividends) °	45%	45%
Discretionary and accumulation trusts (dividends) °	37.5%	37.5%
Ordinary rate on dividends	10%	10%
Higher rate on dividends	32.5%	32.5%
Additional rate on dividends	37.5%	37.5%
High income child benefit charge	1% of benefit per £100 income between £50,000 and £60,000	

† Assumes 10% band not available. £6,085 on first £31,865 (£6,123 on first £32,010 in 2013/14) and £53,339 (£53,319 in 2013/14) on first £150,000 if full 10% band is available.

° Up to the first £1,000 of gross income is generally taxed at the standard rate, ie. 20% or 10% as appropriate.

Car benefits

The charge is based on a percentage of the car's "price". "Price" for this purpose is the list price at the time the car was first registered plus the price of extras.

For cars first registered after 31 December 1997 the charge, based on the car's "price", is graduated according to the level of the car's approved CO_2 emissions.

For petrol cars with an approved CO_2 emission figure.

CO2 g/km	% of price subject to tax		CO2 g/km	% of price subject to tax		CO2 g/km	% of price subject to tax	
	13-14	**14-15**		**13-14**	**14-15**		**13-14**	**14-15**
75 or less	5	5	130–4	18	19	180–4	28	29
76–94	10	11	135–9	19	20	185–9	29	30
95–99	11	12	140–4	20	21	190–4	30	31
100-4	12	13	145–9	21	22	195–9	31	32
105-9	13	14	150–4	22	23	200–4	32	33
110-4	14	15	155–9	23	24	205–9	33	34
115-9	15	15	160–4	24	25	210–4	34	35
120	15	16	165–9	25	26	215 +	35	35
121-4	16	17	170–4	26	27			
125–9	17	18	175–9	27	28			

Notes

1. The exact CO_2 emissions figure should be rounded down to the nearest 5 g/km for levels of 95g/km or more.
2. For all diesels add 3%, subject to maximum charge of 35%.
3. There is no charge for any car which cannot produce CO_2.

Car fuel benefits

For cars with an approved CO_2 emission figure, the benefit is based on a flat amount of £21,700 (£21,100 for 2013/14). To calculate the amount of the benefit the percentage figure in the above car benefits table (that is from 5% to 35%) is multiplied by £21,700. The percentage figures allow for a diesel fuel surcharge. For example, in 2014/15 a petrol car emitting 142 g/km would give rise to a fuel benefit of 21% of £21,700 = £4,557.

Inheritance tax

	Cumulative chargeable transfers [gross]		**tax rate on death %**	**tax rate in lifetime* %**
	2013/14 £	**2014/15 £**		
Nil rate band†	325,000	325,000	0	0
Excess	No limit	No limit	40∞	20

* Chargeable lifetime transfers only.
† On the death of a surviving spouse on or after 9 October 2007, their personal representatives may claim up to 100% of any unused proportion of the nil rate band of the first spouse to die (regardless of their date of death).
∞ 36% where at least 10% of net estate before deducting the charitable legacy is left to charity.

Capital gains tax
Main exemptions and reliefs

	2013/14 £	**2014/15 £**
Annual exemption	10,900*	11,000*
Principal private residence exemption	No limit	No limit
Chattels exemption	£6,000	£6,000
Entrepreneurs' relief	Lifetime cumulative limit £10,000,000. Gains taxed at 10%	Lifetime cumulative limit £10,000,000. Gains taxed at 10%

* Reduced by at least 50% for most trusts.

Rates of tax

Individuals:
18% on gains within basic rate band, 28%
for gains in higher and additional rate bands

Trustees and personal representatives:
28%

Stamp duty and stamp duty land tax

Residential	Commercial	Rate
£125,000 or less	£150,000 or less	Nil
Over £125,000 up to £250,000	Over £150,000 up to £250,000	1%
Over £250,000 up to £500,000	Over £250,000 up to £500,000	3%
Over £500,000 up to £1,000,000 *	Over £500,000	4%
Over £1,000,000 up to £2,000,000 *	N/A	5%
Over £2,000,000 *	N/A	7%
** 15% for purchases by certain non-natural persons*		
Stamp Duty (including SDRT): stocks and marketable securities (excluding AIM and other growth markets)		0.5%
No stamp duty charge unless the duty exceeds £5		

Corporation tax

	Year Ending 31 March	
	2014	**2015**
Main rate	23%	21%
Small profits rate *	20%	20%
Small profits limit *	£300,000	£300,000
Upper marginal level	£1,500,000	£1,500,000
Effective marginal rate	23.75%	21.25%

* Formerly the small companies' rate/limit

Tax-privileged investments [maximum investment]

	2013/14 £	**2014/15 (from 1/7/14) £**
ISA/NISA		
Overall per tax year:	11,520	15,000
Cash component:	5,760	15,000
Stocks and shares component:	Balance up to 11,520	Balance up to 15,000
Maximum in cash for 16 and 17 year olds	5,760	15,000
Junior ISA	3,720	4,000
ENTERPRISE INVESTMENT SCHEME (30% income tax relief)	1,000,000*	1,000,000*
Maximum carry back to previous tax year for income tax relief	1,000,000	1,000,000
SEED ENTERPRISE INVESTEMENT SCHEME (50% income tax relief)	100,000¶	100,000¶
VENTURE CAPITAL TRUST (30% income tax relief)	200,000	200,000

* No limit for CGT reinvestment relief.
¶ 50% CGT reinvestment exemption

Pensions

	2013/14	**2014/15**
Lifetime allowance*	£1,500,000	£1,250,000
Lifetime allowance charge: Excess drawn as cash Excess drawn as income	 55% of excess 25% of excess	
Annual allowance	£50,000	£40,000
Annual allowance charge	20%-45% of excess	
Max. relievable personal contribution	100% relevant UK earnings *or* £3,600 gross if greater	

* May be increased under 2006, 2012 or 2014 transitional protection provisions

National insurance contributions

Class 1 Employee Not Contracted Out of State Second Pension (S2P)				
	2013/14		**2014/15**	
	Employee	**Employer**	**Employee**	**Employer**
Main NIC rate	12%	13.8%	12%	13.8%
No NICs on first	£149 pw	£148 pw	£153 pw	£153 pw
Main NIC charged up to	£797 pw	No limit	£805 pw	No limit
Additional NIC rate on earnings over	2% £797 pw	N/A	2% £805 pw	N/A
Certain married women	5.85%	13.8%	5.85%	13.8%

Contracted Out Reductions	2013/14		2014/15	
Reduction on	£109.01 – £770 pw		£111.01 – £770 pw	
Salary-related scheme only	3.4.%	1.4%	3.4%	1.4%

Limits and Thresholds	2013/14		2014/15	
	Weekly £	**Yearly £**	**Weekly £**	**Yearly £**
Lower earnings limit	109	5,668	111	5,772
Secondary earnings threshold	148	7,696	153	7,956
Primary earnings threshold	149	7,755	153	7,956
Upper accrual point	770	40,040	770	40,040
Upper earnings limit	797	41,450	805	41,865

Self-employed and non-employed	2013/14	2014/15
Class 2		
Flat rate Small earnings exception	£2.70 pw £5,725 pa	£2.75 pw £5,885 pa
Class 4 (*Unless over state pension age on 6 April)*		
On profits	£7,775 – £41,450 pa: 9% Over £41,450 pa: 2%	£7,956 – £41,865 pa: 9% Over £41,865 pa: 2%
Class 3 (Voluntary)		
Flat rate	£13.55 pw	£13.90 pw

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