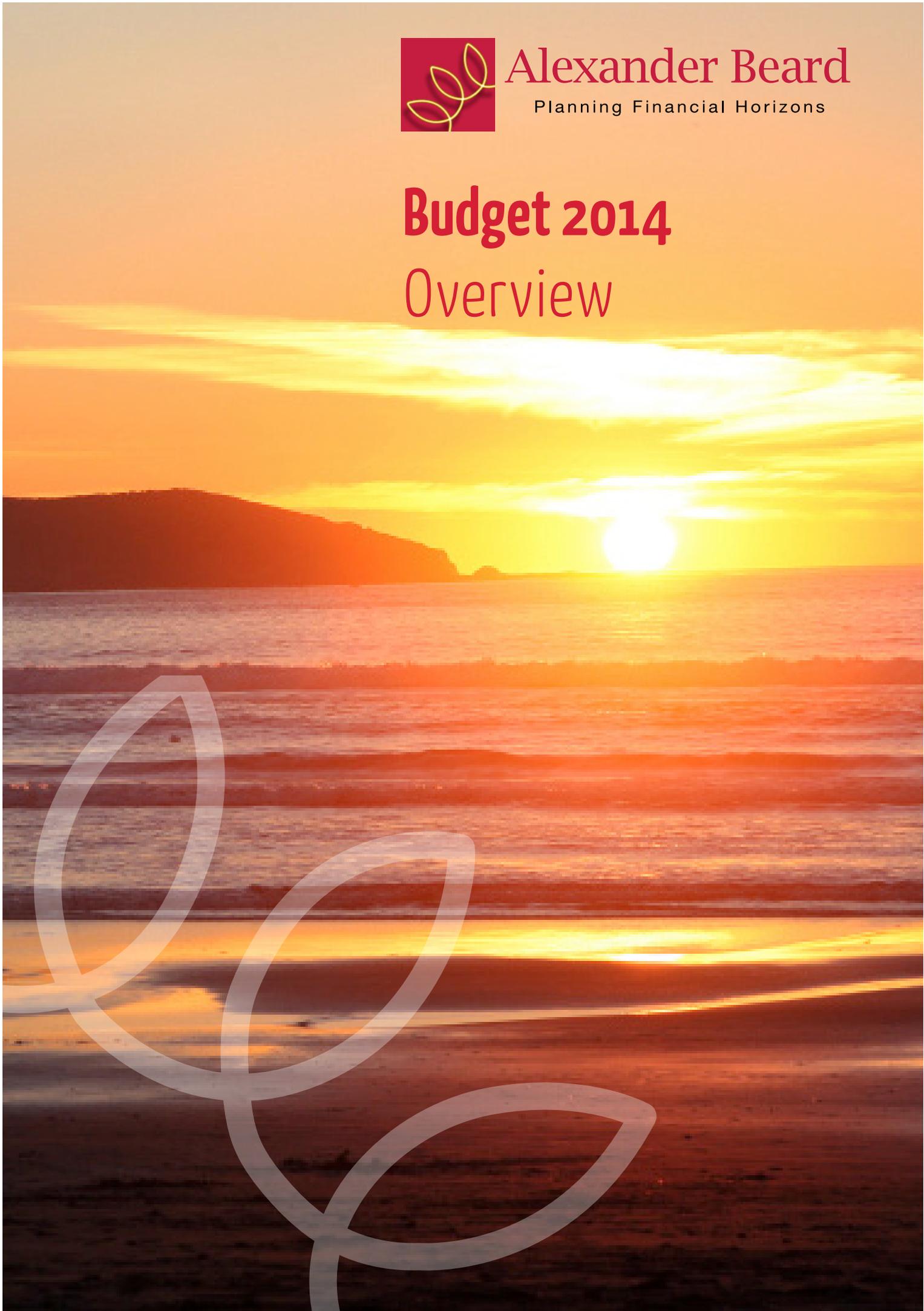




Alexander Beard

Planning Financial Horizons

Budget 2014 Overview



“A Budget for makers, doers and savers.”

Introduction

A year on from the Budget 2013 and the outlook for UK plc looks considerably brighter. Growth has returned since last year and the forecasts for 2014 and 2015 are being continually revised upwards. In George Osborne's 2013 Autumn Statement, the Office for Budget Responsibility (OBR) predicted growth of 2.4% for this year: at the start of his Budget for 2014, only a little more than three months on, he was confirming the new OBR forecast of 2.7%.

In March 2013, the UK was teetering on the brink of a triple-dip recession: now the economy is growing faster than virtually all of the UK's competitors and Osborne was keen to build on this in his speech. Speaking a month before standing in front of Parliament, he said, “I want to deliver a Budget that supports a Britain that invests and that exports.” A welcome sign perhaps, that the Government realises the economic health of the UK cannot be based on a housing boom in the South East.

Wanting to press home what he will have seen as an advantage, the Chancellor used the 2014 Budget to announce a range of ‘surprise’ reforms to the pension and savings industry. As he noted in his introduction, this was a Budget intended to appeal to ‘makers, doers and savers’, many of whom have had lean times over recent years.

The Chancellor was boosted before his speech by the news that unemployment had fallen by 63,000 in the three months to January, with unemployment now at 7.2% and a record 30.19m now in work.

That's not to say there are no dissenting voices. The Financial Times was rather less optimistic, publishing a report in the week before the Budget – and using the same model as the OBR – which suggested the Chancellor faced a ‘£20bn black hole,’ and that austerity would need to continue until 2020, with further cuts in public spending required in addition to the £25bn in 2016/17 and 2017/18 that the Chancellor is already committed to.

And as Harold Macmillan always remarked, there continue to be “events, dear boy, events.” Twelve months ago, Cyprus had just rejected the terms of an EU bailout and North Korea was rumoured to have launched a cyber-attack on South Korea. On the morning of the 2014 Budget, Vladimir Putin announced the annexation of Crimea and pro-Russian forces had entered the Ukrainian naval base in Sevastopol. The OBR says this will not impact on Britain's recovery. Let's hope they're right.

The UK Political Background

2014 will see elections for the European parliament and this was the Chancellor's penultimate Budget before the general election. The Conservatives are trailing UKIP in the European polls and Labour in the general election polls. However, George Osborne was keen to avoid rash giveaways, believing he can win on the issue of 'economic competence.'

Significant Budget giveaways would also put pressure on the Bank of England to raise interest rates, something which the Chancellor would not like to see brought forward from the expected date of early 2015.

That's not to say the pundits weren't anticipating some headline-grabbing measures, especially on personal taxation. George Osborne's coalition partners had already pressed him to raise the nil-rate band, while his backbenchers wanted to see more people taken out of the 40% tax bracket. Business wanted the annual £250,000 capital allowance extending beyond January 2015, whilst potential house-buyers wanted to see the £250,000 threshold for 3% stamp duty increased.

So it was that the Chancellor took a sip of water and rose to his feet at 12:33 pm...

The Chancellor's Opening Remarks

George Osborne started confidently and declared that Britain was recovering, and recovering more quickly than forecast. "If you are a maker, a doer or a saver," he said, "this is a Budget for you. We back businesses that manufacture and businesses that export."

In the past, British people had borrowed too much and saved too little: this Budget would see "hard working people" (a perennial favourite phrase of the Chancellor) keep more of what they earn.

As expected, he quickly confirmed the increase in the OBR forecasts for growth – up from the original 2.4% to match the City consensus at 2.7% for 2014. The UK is shortly expected to finally recover to pre-recession levels and is now growing faster than Germany, the US and Japan. "No major economy in the developed world is growing faster than Britain," the Chancellor claimed.

The Budget Deficit

The Chancellor announced that the Budget deficit this year would be 6.6% of GDP and that it would gradually fall to 0.8% in 2017/18 before moving to a small surplus in 2018/19.

Inevitably, though, this “securing the economic future” would mean “more hard decisions and more cuts.” This year, the Government expected to borrow €108bn, falling to €95bn in 2014/2015 and obviously with no borrowing at all in 2018/2019. The reduction in borrowing would save the country €42bn in interest payments, claimed the Chancellor.

The key thing, he stressed, was to bring down the National Debt and to run a surplus in good years. In a phrase Mrs Thatcher would have been proud of, Osborne declared that the country should “fix the roof when the sun is shining.” More prosaically that translates as cuts in this parliament and cuts in the next parliament, but clearly the figures are moving in the right direction.

Part and parcel of reducing the Budget deficit is clearly going to be continuing pay restraint in the public sector and the Chancellor also stated that he would bring a bill before parliament to cap welfare spending at €119bn for 2015/2016, with future increases linked only to inflation. The cap includes child benefit, incapacity benefit, winter fuel payment and income support but does not include the state pension and jobseeker’s allowance. “Never again,” said the Chancellor, “will it pay not to work.”

Tax Avoidance

The Chancellor was keen to stress that the Government was continuing to clamp down on tax avoidance schemes, with the number of registered tax avoidance schemes having fallen by half. The tax on residential properties bought by companies will be extended from €2m to all properties from €500,000 upwards. This will take effect immediately.

HMRC was also given increased resources to tackle non-compliance and the power to collect directly from a bank account.

The Chancellor also declared his intention to continue to wage war on those who had rigged the LIBOR market, with the fines continuing to go to military charities and also now organisations such as the scouts, the guides, air sea rescue and St John’s Ambulance Service.

The Threepenny Bit Pound

What

The introduction of a new pound coin

When

From 2017 but tbc

Comments

The current pound coin is apparently easy to forge, with some estimates putting the number of forged coins in circulation at 1 in 30. From 2017, a new pound coin will be introduced based on the design of the old threepenny bit. It was, the Chancellor declared, “a more resilient pound for a more resilient economy.”

Pensions

The Chancellor announced the “most radical change to the taxation of pensions since 1921,” declaring that he was prepared to trust people with their pensions. The move is predicted to bring in extra revenue for the Government, as people gain the ability to withdraw money from their pension funds on a more flexible basis and consequently contribute more through income tax. However, the reforms are a good thing for savers and there is little doubt that these changes will have a significant impact on the way people manage their pension income and plan for retirement.

The pension reforms announced by the Chancellor will be introduced in two stages and relate to those with defined contribution pension schemes. Some aspects will commence almost immediately, from March 27th this year, whilst others will require legislation and are intended to come into force from April 2015.

What

Trivial commutation pension limits to rise from £2,000 to £10,000

When

From 27th March

Comments

This move was anticipated, increasing the amount that can be taken as a lump sum where an individual has only a small pension pot. Not a welcome move for the troubled annuity industry but certainly welcomed by those it will benefit.

What

There will be an increase in the total pension savings that can be taken as a lump sum from £18,000 to £30,000

When

From 27th March

Comments

This was another significant move to change the pensions industry, increasing the flexibility and access to savings for those with lower levels of pension savings.

What

The amount of pension needed to access flexible drawdown will be reduced from £20,000 to £12,000

When

From 27th March

Comments

This increases the availability of flexible pension income for many, where previously they may have only had limited options at retirement. A welcome move for those wanting more flexibility over their retirement income.

What

The capped drawdown limit has been increased to 150%

When

From 27th March

Comments

Previously set at 120% of GAD, this will allow retirees to take an increased level of income from their pension funds during retirement.

The Chancellor was quick to realise, though, that people would need advice and announced that he was consulting with consumer groups and with the industry to provide people with “free, impartial, face to face advice”, ahead of further changes to come into force in April 2015.

What

Pensioners will be able to access their savings as and when they want to

When

From April 2015

Comments

Pensioners will be able to take their entire pension savings as cash upon their retirement, subject to the standard rate of income tax on anything over 25% of the entire fund. This will completely eradicate the need to buy an annuity and open up pensioners to many more options. This is an extremely significant announcement which will fundamentally change the way people manage their income throughout retirement.

Also announced during the Budget on pensions, were the following details:

What

Further details were revealed of a new scheme of Voluntary National Insurance Contributions (VNICs) to allow pensioners to top up their Additional State Pension

When

The Scheme will be open for 18 months from October 2015

Comments

A positive move aimed at everyone reaching State Pension age before 6 April 2016.

Savings

What

The ISA allowance will rise to £15,000, Cash ISAs and Stocks & Shares ISAs will merge into a New ISA

When

From 1st July

Comments

This was one of the two blockbuster announcements of the Budget, with Cash and Stocks & Shares ISAs being merged and the limit on how much can be saved in a year dramatically increased. This was the Chancellor really helping savers who have been hit by low interest rates and delivering on his promise to encourage saving.

What

Junior ISA and Child Trust Fund contribution limits increased to €4,000 p.a.

When

July 1st 2014

Comments

A positive move for encouraging saving.

What

The 10% 'starting rate' on savings income will be abolished

When

From April 2015

Comments

The 10% 'starting rate' for savings income will be abolished from April 2015 and replaced with a new 0% band. This new, low band will also cover a new limit: instead of €2,880 (which the 10% rate applied to), up to €5,000 will be protected.

What

A pensioner bond "with market leading rates" will be introduced

When

From January 2015

Comments

Another move designed to encourage more people to save: early suggestions were that the rate would be 2.8% for the one year bond and 4% for the three year bond, with pensioners able to save €10,000 in each of these National Savings bonds.



What

The limit on premium bonds was increased

When

From June this year

Comments

In the first change to the amount that could be saved in premium bonds for some time, the Chancellor increased the limit from £30,000 to £40,000 this year and to £50,000 from 2015. He also promised to double the number of £1m prizes.

Personal Taxation

What

The personal allowance will rise to £10,500

When

April 2015

Comments

With the allowance set to rise to £10,000 in three weeks' time, this was the move the Liberal Democrats had been pushing for.

What

The threshold for 40% tax will rise from £41,450 to £41,865

When

From next month

Comments

Conversely, Tory backbenchers may have been slightly disappointed with this relatively small rise although with public sector pay rises capped at 1% it was really impossible for the Chancellor to do more. There will be a further 1% rise to £42,285 from next year.

What

The transferable tax allowance for married couples and civil partners, announced in the Autumn Statement 2013, will be set at 10% of the personal allowance. This will be £1,050 in 2015-2016

When

From 2015-2016

Comments

A favourable move for married couples and those in civil partnerships.

What

Inheritance Tax waived for emergency services workers killed in the course of duty

When

TBC

Comments

Whilst this was seen as a very popular announcement by the Chancellor, some observers questioned how many people this would impact.

Families

What

New tax-free childcare scheme to be increased to up to £2,000 per child and extended to all children under 12 within the first year

When

The scheme will be introduced far more quickly than previously announced so that all working parents with children under 12 will be covered within the first year from Autumn 2015

Comments

The Government will provide 20% support on childcare costs up to £10,000 per child, for each child. The limit has previously been set at £6,000. This now means support of up to £2,000 per child, per year.

Business and Business Taxation

What

Investment allowances for business were doubled to £500,000 and extended to the end of 2015 at a cost of £2bn

When

Immediately

Comments

The Chancellor declared that he wanted the UK to have the most competitive business taxation in the world and this move certainly answered pleas to have the investment allowance extended. There were also moves to support Britain's creative industries, extending film tax credit to the theatre. The Chancellor also announced a £7bn package to cut energy bills as he sought to cut the cost of manufacturing in the UK, particularly for energy-intensive manufacturers.

What

The adult National Minimum Wage will increase by 3% to £6.50

When

From October 2014

Comments

This represents the largest cash increase since 2008 and the first real terms increase since 2007.

What

Following the Office of Tax Simplification (OTS) recommendations, the Government will simplify National Insurance Contributions (NICs) for the self-employed by collecting class 2 NICs through Self Assessment.

When

From April 2016

Comments

The OTS continue to make some headway in simplifying the UK's tax system. Recommendations to simplify the taxation of employee benefits and expenses, employee share schemes and partnerships will also be implemented.

What

The Government will raise the rate of R&D tax credit payable to loss-making small and medium sized companies from 11% to 14.5%

When

From April 2014

Comments

Another move which reinforces the Chancellor's *'Britain has to up its game with exports'* statement.

What

The Budget announced a package of reforms to radically reduce the costs of energy policy for businesses, particularly in manufacturing.

What

Availability of business rate discounts and Enhanced Capital Allowances will each be extended by 3 years as an incentive for new and expanding businesses to locate in Enterprise Zones

When

Ongoing

Comments

A positive move by the Chancellor to encourage businesses to thrive in the current climate.

What

Introduction of Theatre Tax Relief. This relief will support the production of plays, musicals, opera, ballet and dance at a rate of 25% for touring productions and 20% for other theatre productions.

When

From September 2014 and a consultation on relief will be launched shortly

Comments

A big boost for the arts.

What

The Government will introduce a tax exemption for amounts of up to €500 paid by employers for medical treatment for employees

When

The tax exemption is expected to become available with the rollout of the Health and Work Service in October 2014

Comments

An incentive in the favour of both employers and employees.

What

The Chancellor announced plans to double the number of apprenticeships

When

From this year

Comments

George Osborne announced that he wanted Britain to “outcompete, outdo and outsmart the rest of the world.” Consequently, he announced plans to extend grants to support 100,000 more apprenticeships and to introduce degree-level apprenticeships.

Housebuilding and Infrastructure

What

The Help to Buy scheme is extended

When

Immediately

Comments

As had been widely trailed, the Chancellor extended the Help to Buy scheme “until the end of the decade” in a move which he said would lead to the building of 200,000 new homes.

In further housing news, the Chancellor also announced the creation of the “first garden city for a hundred years” at Ebbsfleet and future consultation on more garden cities. There were new tax and borrowing powers for the Welsh Government to fund infrastructure projects and €140m was allocated to repair damaged flood defences. Thanks to the lobbying of the MP for Northampton North, the Government has set aside €200m for the repair of potholes across the country.

Fuel and Spending taxes

What

Fuel duty tax will not change. Fuel duty remains frozen for the remainder of this parliament

When

With immediate effect

Comments

Good news but prices at the pumps remain high.

What

All long-haul flights to carry same rate of air duty as flights to the US

When

From next year

Comments

A move that has already seen airlines welcome the reform.

What

The Government will reform air passenger duty (APD) by abolishing bands C and D

When

From April 1st 2015

Comments

A positive step that some commentators have recognised as a potentially economically damaging tax.

What

An increase in the duty on Fixed Odds Betting Terminals (FOBTs) and a reduction in the Bingo Duty

When

From this year

Comments

The duty on FOBTs will increase to 25% and that on bingo will fall from 20% to 10% in a move which should raise revenue for the Government. With the relaxation on the rules regarding betting shops, FOBTs now proliferate on the UK high street and increasing the duty on them was seen as inevitable.

What

Tobacco duty will be increased by 2% above inflation and the escalator will continue for the life of the next parliament

When

With immediate effect

Comments

This move was not a surprise, with the Chancellor commenting that there were no medical grounds to cease the continuing increase.

What

The escalator on alcohol duty was removed and it will now rise with inflation

When

With immediate effect

Comments

Along with this move, the duty on Scotch whisky was frozen due to its successful export performance, further backing the Chancellor's promise that this was a budget in favour of growing our overseas trade. The duty was also frozen on West Country cider to help manufacturers who had been hard hit by the floods. Beer duty was cut by a penny: "Pubs saved and jobs created," claimed the Chancellor.



The Chancellor's Closing Remarks

George Osborne spoke for a little under an hour, finishing by repeating his claim that he had presented a Budget for “makers, doers and savers.”

What is certain is that he has presented a Budget with wide ranging implications for everyone's financial planning and anyone approaching retirement will need to consider the changes he has made very carefully. Over the coming days, we will be studying the small print of the Budget and looking at how the announcements will impact upon our clients. Please don't hesitate to get in touch with us if you would like to discuss how this Budget might impact you.

Contact us

For more detailed information on the services we offer please visit our website:

www.abg.net

Chester (Head Office):

Alexander Beard Group PLC
14-16 Rossmore Business Village
Inward Way
Ellesmere Port
Cheshire
CH65 3EY

Tel: +44 (0) 844 678 0078

Fax: +44 (0) 151 357 3545

Email: info@abg.net

