

Dear Client,

Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter and remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

John Harrison

### THE KEY POINTS FROM BUDGET 2014

The Chancellor's 2014 Budget was clearly aimed at winning the votes of savers, pensioners and those paying for expensive childcare. Increases in ISA limits, a £5,000 zero rate band on savings income, more flexible pension drawdown rules and an increase in the proposed childcare tax relief to £2,000 reflect this goal. There was also good news for businesses with the extension of the Annual Investment Allowance until 31 December 2015 and an increase in the qualifying spend up to £500,000 from April 2014.

### PERSONAL ALLOWANCES

Personal allowances are fixed for 2014/15 at £10,000, the level promised in the Coalition Agreement. However, the Budget announced that there will be a further (above inflation) increase to £10,500 for 2015/16, in line with the allowance currently available to taxpayers aged 65 to 74. Those aged 75 and over will continue to receive a personal allowance of £10,660. Note that if adjusted net income exceeds £100,000, the personal allowance is reduced by £1 for every £2 over £100,000. This gives an effective rate of 60% on income between £100,000 and £120,000 for 2014/15. Contact us for planning advice to avoid this 60% rate.

### INCOME TAX BANDS

The 20% basic rate band is £31,865 for 2014/15 and will be £31,785 for 2015/16. This means that you pay 40% tax if your taxable income exceeds £41,865 for 2014/15 and £42,285 for 2015/16.

The 45% top rate continues to apply to taxable income over £150,000 for 2014/15.

### IMPORTANT CHANGES TO ISAs

In order to encourage savers, the current £11,520 ISA limit is to be significantly increased to £15,000 from 1 July 2014. Furthermore, the current 50% cash ISA limit of £5,760 is to be abolished so that any combination of cash and stocks and shares can be held within the ISA wrapper up to the overall £15,000 limit. These products will be termed "New ISAs" or NISAs. The Junior ISA limit will increase to £4,000 from 1 July 2014.

### MORE GOOD NEWS FOR SAVERS

The 10% starting rate will apply to the first £2,880 of savings income for 2014/15. However, this rate will be abolished and replaced with a zero rate on the first £5,000 of savings income from 2015/16 onwards.

### CAPITAL TAXES

It had already been announced that the CGT annual exempt amount would increase to £11,000 for 2014/15 and £11,100 for 2015/16. With a top CGT rate of 28%, this allowance potentially saves just over £3,000 a year, or £6,000 for a married couple.

There has been no change in the inheritance tax nil rate band, which remains at £325,000 until 2018.

Please contact us if you wish to discuss capital gains tax and inheritance tax planning, as we can help you take advantage of these valuable allowances.

The only significant change to inheritance tax is the proposed extension in the exemption that applies to the military who die on active service to those in the emergency services.

### NEW FLEXIBLE PENSIONS

There are significant changes being proposed which will make it easier to access your pension fund pot if you have a defined contribution (money purchase) pension scheme. As a general rule, 25% of the pension fund can be taken as a tax free lump sum at age 55, although this age will be increased in future to be 10 years before State Pension age (age 57 in 2028). Remember also that the requirement to buy an annuity at age 75 had already been abolished with the introduction of "flexible drawdown" pensions that are currently available.

From 27 March 2014 the Government have increased the maximum amount you can take out each year from a capped drawdown arrangement from 120% to 150% of an equivalent annuity. For example, if the equivalent annuity rate is 6%, then up to 9% of the fund can now be drawn down each year. This is in response to concerns about low annuity rates which are linked to savings rates.

The Government has published a consultation document to consider proposals to make the drawdown rules even more flexible from April 2015. This would allow you to withdraw more than the current 25% of the fund limit, subject to a tax charge. This charge would be at your marginal tax rate instead of the current penal 55% charge on the fund.

The other significant change being consulted on is the proposal to reduce the current limit of £20,000 guaranteed pension income to just £12,000 a year. Those with this level of guaranteed pension income will be able to draw as much or as little as they wish from their pension fund each year without the 150% of equivalent annuity rule applying.

### CORPORATION TAX REDUCTIONS

From 1 April 2014 to 31 March 2015, the main rate of corporation tax is 21% where a company's profits exceed £1,500,000 (divided by companies under common control). The 20% small profits rate continues to apply to companies with profits up to £300,000 (also divided as above). As previously announced, a single corporation tax rate of 20% will apply from April 2015 whatever your level of profits.

### ANNUAL INVESTMENT ALLOWANCE INCREASED TO £500,000

The Annual Investment Allowance (AIA) provides a 100% tax write off for the cost of most plant and machinery acquired by businesses, a notable exception being motor cars. This allowance was temporarily increased to £250,000 on 1 January 2013 and was due to reduce back down to just £25,000 on 1 January 2015. The Chancellor has announced that the allowance will be increased to £500,000 per annum for expenditure incurred between 1 April 2014 and 31 December 2015 (the change takes effect from 6 April 2014 for unincorporated businesses). Remember that the AIA is available for assets bought on hire purchase as well as those bought for cash. It can also be claimed in respect of fixtures and fittings within buildings. Contact us to help you maximise tax relief for capital expenditure, as the timing of expenditure can be critical.

### R&D TAX CREDIT RATE INCREASED

Companies that are small and medium sized enterprises (SMEs) carrying out qualifying research and development can currently claim a corporation tax deduction of 225% of their qualifying spend. This means that £100,000 spend would result in a £225,000 reduction in taxable profits, potentially saving £45,000 corporation tax (at 20%). However, if the company is loss making this benefit may not be received until future years when profits are made. In order to improve the cash flow of these loss-making SMEs, the tax rules allow the company to surrender the loss attributable to the enhanced R&D spend for a tax refund. This has been increased from 11% to 14.5% with effect from 1 April 2014. So the £225,000 (based on £100,000 spend) would result in a refund of £32,625. Contact us if you would like to discuss whether your company could qualify for R&D tax relief.

### NEW TAX-FREE CHILDCARE SCHEME

This new scheme, which starts in Autumn 2015, was originally announced in 2013 as being worth up to £1,200 per child. It has now been announced that the Government support will be even more generous with the limit being increased to £2,000 per child per year. The parents will be required to open a special childcare account. If for example they pay in £8,000, the Government will top this up to £10,000 (like pension contributions and Gift Aid) which can then be used to pay their childcare provider. It is not just parents who will be able to pay into the childcare account but grandparents and other family members will also be able to contribute to the childcare costs. To qualify, both parents will have to be in work, earning just over an average of £50 a week and not more than £150,000 per year.

Unlike the existing employer-provided childcare voucher scheme which is only available to employees and directors, this new scheme will also be available to the self-employed. Those in existing employer provided schemes have the option of staying in their employer scheme (up to £55 a week free of tax and NIC) or switching to the new scheme. To support newly self-employed parents, the government is introducing a 'start-up' period. During this, self-employed parents won't have to earn the £50 a week minimum income.

It was originally proposed that the new scheme would be phased in, initially only applying to children under 5 and gradually extended to those under 12. It is now proposed that children under 12 will be eligible from the outset. If your circumstances change or you no longer want to pay into the account, you'll be able to withdraw the money you have built up. If you do, the Government will withdraw its corresponding contribution.

### VAT REGISTRATION LIMIT £81,000

The VAT registration limit has been increased by £2,000 to £81,000 from 1 April 2014. The de-registration limit also increased by £2,000 to £79,000.

### SEED EIS RELIEF TO BE PERMANENT

Seed EIS was introduced in 2012/13 to provide tax relief for individuals investing in small start-up companies and was originally scheduled to end on 5 April 2017. It was announced in the Budget that the generous tax breaks would now be made permanent:

- A 50% tax reducer on up to £100,000 invested each tax year
- A 50p reduction in capital gains made for every £1 qualifying Seed EIS investment

Contact us if you need advice on these and other tax-efficient investments.

### TAX DIARY OF MAIN EVENTS

<i>Date</i>	<i>What's Due</i>
1 April	Corporation tax for year to 30/6/13
6 April	2014/15 tax year begins
19 April	Final RTI FPS due by this date. Indicate that this is final submission for the tax year and answer Annual Declaration questions - note no P35 this year.
19 April	PAYE & NIC deductions, and CIS return and tax, for month to 5/4/14 (due 22 April if you pay electronically)
1 May	Corporation tax for year to 31/7/13
19 May	PAYE & NIC deductions, and CIS return and tax, for month to 5/5/14 (due 22 May if you pay electronically)

Please contact a member of our Tax Team if you would like to discuss any of the issues raised.