Quarterly Update

Spring 2014 Issue

It seems a while since our previous newsletter for which apologies, however, this time of year sees the annual Budget so once again we are using our newsletter to help you keep up with the main changes announced last week by Mr Osborne. In addition there are a few reminders as we approach the end of the tax year.

As ever, if you have any specific queries please contact us on 01932 353165.

Budget

PENSIONS

Mr Osborne took most of us by surprise with his radical changes to the pension legislation. His key phrase and clear intention is increased pension flexibility and he aims to achieve this with a fundamental change in the way individuals can access their pensions.

The Chancellor announced the removal of the effective requirement to buy an annuity meaning that people can choose how they access their defined contribution pension savings; for example they could take all their pension savings as a lump sum, draw them down over time, or buy an annuity.

Alongside this, the government is introducing a new requirement for pension providers to make sure that everyone retiring with a defined contribution pension pot receives free and impartial face-to-face guidance on the choices they face when deciding how to use their retirement savings.

These changes are planned for April 2015 onwards, following a consultation period, but the Chancellor is keen to make initial reforms more or less immediately. From 27 March 2014 the following changes are therefore being made to the current rules.

- a reduction in the amount of guaranteed income people need in retirement to access their savings flexibly, from £20,000 to £12,000
- an increase in the amount of total pension savings that can be taken as a lump sum, from £18,000 to £30,000
- the increase of the capped drawdown withdrawal limit from 120% to 150% of an equivalent annuity
- an increase in the maximum size of a small pension pot which can be taken as a lump sum (regardless of total pension wealth) from £2,000 to £10,000 and increasing the number of personal pots that can be taken under these rules from two to three.

TAX-FREE CHILDCARE

The Budget confirmed a new tax-free childcare scheme to take effect from Autumn 2015 replacing the existing childcare voucher scheme.

The new scheme will apply to parents who are both in work with children under the age of 12, enabling them to recover 20%, per child, on the annual cost of childcare up to an annual limit of £2,000 per child.

The scheme will be open to families where both parents work and earn up to £300,000 between them or to single parents earning less than £150,000. Parents working part-time and earning more than £50 per week; on maternity, paternity or adoption leave; or starting their own business will also be entitled to support in the first year.

Couples where one parent does not work will be excluded from the scheme as indeed will anyone receiving tax credits or universal credit.

Parents will need to apply for the scheme when it starts in 2015 and they will then receive cash into a designated scheme account.

Childcare vouchers scheme

Childcare vouchers will continue for those already in the scheme but will close to new entrants after August 2015. It will be possible to move from vouchers to the new scheme but parents cannot take advantage of both.

RESIDENTIAL PROPERTY VALUED AT MORE THAN £500,000

Last year we reported in detail on a new property tax applying to properties valued at more than £2 million held by certain non-natural persons such as companies, partnerships etc. Whilst not repeating here the detail of the mechanism by which the tax will be charged we would highlight that the annual tax on enveloped dwellings (ATED) is to be progressively extended to cover all properties valued in excess of £500,000 by 1 April 2016.

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2014 Budget (continued)

INCOME TAX

We were already aware that the personal allowance for individuals for 2014-15 would be £10,000 and the Budget confirmed that for 2015-16 this would increase to £10,500.

We also knew that for 2014-15 an individual will be able to earn £41,865 before paying higher rate tax and this will increase to £42,285 for 2015-16.

There have been no changes to the income tax rates.

Transfer of personal allowance

A new initiative announced by Mr Osborne to take effect from 2015-16 allows married couples and civil partners to transfer £1,050 of their income tax personal allowance to their spouse or civil partner. This will only be available to couples where neither partner is a higher or additional rate tax payer. Ongoing the transferable amount will be set at 10% of the personal allowance in each tax year.

Beneficial loans from employers

From April 2014 the threshold for low cost or interest free loans from an employer to be treated as a benefit-in-kind, and therefore taxed as earnings, will increase from £5,000 to £10,000.

Savers

A number of announcements were made by the Chancellor in favour of savers and investors including, from 6 April 2015, reducing the starting rate of tax for savings income from 10% to 0% per cent and increasing the maximum amount of taxable savings income that can be eligible for this starting rate from £2,880 to £5,000.

ISAs: Changes have also been made, effective from 1 July 2014, to rules concerning investment in an ISA. Changes will allow the investor to invest in any combination of cash or shares up to a total of £15,000 which means that for the first time subscribers can use the annual maximum wholly for a cash account.

Premium bonds: From 1 August 2014 the £30,000 maximum holding will be increased to £40,000 and this will be increased again to £50,000 in 2015/16.

Pensioner bonds: Mr Osborne also announced the introduction of a range of fixed rate bonds for those aged 65 and over from January 2015. Further details will be announced in the 2014 Autumn Statement.

INHERITANCE TAX

As we knew from last year's budget, the nil rate band (NRB) for inheritance tax is unchanged at £325,000 and will remain frozen until 2017-18.

CAPITAL GAINS TAX

The annual exemption for capital gains tax will increase to £11,000 for 2014-15 and £11,100 for 2015-16.

Private residence relief

As previously announced in the Autumn Statement the final period of ownership of a private residence which qualifies for relief will be reduced from 36 months to 18 months from 6 April 2014.

This is relevant to those of you who are renting a property that was previously your home. Before April 2014 if you were to sell that property the last three years of ownership would automatically fall under the private residence relief and fall outside of the tax net. As stated above, from April 2014 onwards this period is reduced to just 18 months.

BUSINESS TAX

The Chancellors effort to bring corporation tax to a single rate continues with the main rate reducing to 21% with effect from 1 April 2014 followed by a "final" reduction to 20% at 1 April 2015. The small profits rate, that which affects the majority of our clients, will remain at 20%.

Capital allowances

The Annual Investment Allowance will increase to £500,000 from 1 April 2014 for all qualifying plant and machinery and will remain at this level until 31 December 2015. Thereafter it is intended that it will reduce to £25,000.

VALUE ADDED TAX

With effect from 1 April 2014 the registration and de-registration limits will increase to £81,000 and £79,000 respectively.

As usual, for those of you who apply the fuel scale charges, the annual adjustment in line with current fuel prices will take effect from 1 May 2014.

OTHER MATTERS OF INTEREST

Seed enterprise investment scheme:

The Budget included an announcement that tax relief under the Seed Enterprise Investment Scheme (SEIS), is to be extended now without time limit. It had been expected that it would come to an end in 2015.

New £1 coin:

2017 will see the introduction of a new £1 coin. Promised to be reminiscent of the old "threepenny bit" it is expected to be bi-metallic with twelve sides and help protect against counterfeiting.

Some reminders

Statutory Sick Pay (SSP)

As from 6 April 2014 it will no longer be possible for employers to recover SSP. Currently, under the Percentage Threshold Scheme (PTS), employers are able to recover SSP paid to employees where the total paid exceeds 13% of the Class 1 NICs to be paid by the employer in the same tax month.

The PTS is to be abolished from 2014-15 onwards so SSP will become an unrecoverable cost for all employers.

Year-end payroll returns

We are approaching the first payroll year-end filing date under the new RTI scheme. It is no longer necessary to submit a form P35, summarising deductions made during the tax year, as the Revenue have already received this information on a monthly basis. It is still a requirement however to provide a form P60 to each employee and this must be done no later than 31 May 2014.

Under RTI an employer is required to indicate that they are making the final submission for the tax year and this will then prompt a number of questions similar to those included previously on the P35. This final submission should be made by 5 April but we believe for this year late filing penalties will only apply, as in the past, if all necessary filings have not been made by 19 May. The penalty will remain £100 for each month, or part month, that the final report is overdue.

If we do not maintain your payroll records but you would like some assistance in filing online for the first time then please contact us.

Tax return information

Look out for and keep any information that you receive that is required for your tax return. In particular the banks are now issuing interest summaries and investment managers are preparing annual portfolio information. For those of you in employment you will shortly be receiving your end of year P60 and in the next couple of months form P11D, if one is due.

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