

A close-up, high-contrast photograph of a banknote, likely a 100 Euro note, showing the intricate details of the portrait of a woman. The image is in black and white, emphasizing the texture and fine lines of the paper and the engraving.

# A GUIDE TO **BUDGET** **2014**

THE KEY FINANCIAL  
PLANNING IMPACTS

# BUDGET 2014: THE KEY ANNOUNCEMENTS AT A GLANCE

The Chancellor of the Exchequer George Osborne gave his Budget to Parliament on 19 March 2014. These are his key announcements.



## ECONOMY

- Gross Domestic Product (GDP) forecast to grow by 2.7% this year and 2.3% next year, then by 2.6% in 2016 and 2017, and by 2.5% in 2018

## PUBLIC BORROWING/DEFICIT

- Deficit forecast to be 6.6% of GDP this year, 5.5% in 2014/15, then falling to 0.8% by 2017/18 with a surplus of 0.2% in 2018/19
- Borrowing forecast to be £108bn this year and £95bn next year, leading to a surplus of almost £5bn in 2018/19
- A new charter for budget responsibility to be brought in this autumn
- Promises to make permanent £1bn reduction in government department overspends

## BANK OF ENGLAND

- Bank of England's remit to keep inflation at 2% renewed

## TAXATION

- Point at which people start paying income tax will be raised from £10,000 to £10,500 from 6 April 2015
- Threshold for 40p income tax increased from £41,450 to £41,865 from 6 April this year and will increase by a further 1% to £42,285 from 6 April 2015
- Those accused of using a tax avoidance scheme and appealing will have to pay tax up front while they appeal, rather than after

## TWELVE-SIDED

# £1

## COIN TO BE INTRODUCED IN 2017

- Inheritance Tax waived for members of emergency services who give their lives in job
- Tax on homes owned through a company to be extended from residential properties worth more than £2m to those worth more than £500,000

## SAVINGS

- Cash and Stocks & Shares Individual Savings Account (ISA to be merged into a single New ISA (NISA) with an annual tax-efficient savings limit of £15,000 from 1 July this year
- The 10p tax rate for savers abolished
- Cap on Premium Bonds to be lifted from £30,000 to £40,000 in June this year and £50,000 next year

## PENSIONS

- All tax restrictions on pensioners' access to their pension pots to be removed, ending the requirement to buy an annuity
- Taxable part of pension pot taken as cash on retirement to be charged at normal income tax rate, down from 55%
- Increase in total pension savings people can take as a lump sum to £30,000
- New Pensioner Bond, paying 'market-leading' rates, available from January 2015 to over-65s, with possible rates of 2.8% for one-year bond and 4% for three-year bond – up to £10,000 to be saved in each bond



## ALCOHOL AND TOBACCO

- Beer duty cut by 1p a pint
- Duty on spirits and ordinary cider frozen
- Tobacco duty to rise by 2% above inflation, and this escalator to be extended beyond the next general election

## ENERGY AND FUEL

- Fuel duty rise planned for September will not happen
- £7bn package to cut energy bills, including £18 per ton cap on carbon price support, predicted to save medium-sized manufacturers £50,000 and families £15 a year

## COINAGE

- Twelve-sided £1 coin to be introduced in 2017

## WELFARE

- Budget to be capped at £119bn for 2015/16, rising in line with inflation to £127bn in 2018/19. The cap includes child benefit, incapacity benefit, winter fuel payment and income support but does not include State Pension and Jobseeker's Allowance

## BUSINESS

- Annual Investment Allowance for businesses doubled to £500,000 and extended to the end of 2015
- Direct lending from Government to UK businesses to promote exports doubled to £3bn and interest rates on that lending cut by a third

- Business rate discounts and enhanced capital allowances in enterprise zones extended for three years
- Export finance doubled to £3bn and interest rates on lending scheme cut by a third

## ENERGY

- The carbon price floor will be capped as part of a £7bn package to save manufacturers from increasing energy costs

## TRANSPORT

- Air passenger duty reformed: all long-haul flights will carry the same tax rate as current visits to the US
- A £200m pot for councils to repair pot holes

## HOUSING/INFRASTRUCTURE

- Help to Buy equity scheme for new-build homes extended to 2020
- Support for building of more than 200,000 new homes
- £270m guarantee for Mersey Gateway bridge
- Legislation to give Welsh Government tax and borrowing powers to fund infrastructure needs, including improvements to M4
- £140m extra for flood defence repairs and maintenance
- £200m made available to fix potholes

# BUDGET 2014: PENSIONS

## Fundamentally redesigning the UK private pensions system

The Chancellor George Osborne plans to fundamentally redesign the UK private pensions system. He announced in his Budget speech that by removing the effective requirement to buy an annuity which will be introduced from April 2015, people will have greater flexibility in accessing their pensions.

This means 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.

The Government will also explore with interested parties whether those tax rules that prevent individuals aged 75 and over from claiming tax relief on their pension contributions should be amended or abolished.

In the meantime, as a first step towards this reform, the Chancellor announced a number of changes to the current rules that came into effect from 27 March 2014. This will now allow people to have greater freedom and choice over accessing their defined contribution pension savings at retirement. These are:

- Reducing the amount of guaranteed income people need in retirement to access their savings flexibly, from £20,000 to £12,000
- Increasing the amount of total pension savings that can be taken as a lump sum, from £18,000 to £30,000
- Increasing the capped drawdown withdrawal limit from 120% to 150% of an equivalent annuity
- Increasing 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



**THE GOVERNMENT WILL ALSO EXPLORE WITH INTERESTED PARTIES WHETHER THOSE TAX RULES THAT PREVENT INDIVIDUALS AGED 75 AND OVER FROM CLAIMING TAX RELIEF ON THEIR PENSION CONTRIBUTIONS SHOULD BE AMENDED OR ABOLISHED.**

# A NISA WAY TO SAVE OR INVEST

## Supporting savers at every stage of their lives

Alongside the major reforms announced in Budget 2014, further measures will be introduced to support savers at every stage of their lives.

These include reducing taxes for the lowest income savers, radically increasing the flexibility of Individual Savings Accounts (ISAs) and introducing new products to help retired savers achieve a better return on their investment.

### 'NEW ISA' (NISA)

From 1 July 2014, Individual Savings Accounts (ISAs) will be reformed into a simpler product, the 'New ISA' (NISA), with an overall limit of £15,000 per tax year. The Government is also abolishing the rule that says only half can be saved in cash.

This will give savers complete flexibility to save or invest how they wish, and could benefit over six million people previously constrained by the Cash and/or Stocks & Shares ISA limits.

The Government will also raise the limits for Junior ISAs and Child Trust Funds from £3,720 to £4,000.

### NISA LIMITS

From 1 July 2014, the overall NISA limit for 2014/15 will be £15,000, up from the current £11,880.

The NISA will also offer you the option to save your whole NISA allowance of £15,000 in cash, stocks and shares, or any combination of the two.

For example, from 1 July you could choose to save or invest:

- £15,000 to a Cash NISA and nothing to a Stocks & Shares NISA
- £15,000 to a Stocks & Shares NISA and nothing to a Cash NISA
- £5,000 to a Cash NISA and £10,000 to a Stocks & Shares NISA
- £10,000 to a Cash NISA and £5,000 to a Stocks & Shares NISA – under the new rules you will be able to split the NISA allowance as you wish between a New Cash ISA and New Stocks & Shares ISA.

**FROM  
1 JULY  
2014, ANY  
MONEY YOU  
HAVE IN  
A STOCKS  
& SHARES  
NISA CAN BE  
TRANSFERRED  
TO A CASH  
NISA.**

### TRANSFERRING EXISTING SAVINGS FROM A STOCKS & SHARES NISA TO A CASH NISA

From 1 July 2014, any money you have in a Stocks & Shares NISA can be transferred to a Cash NISA. You should not withdraw sums from your Stocks & Shares NISA in order to deposit it into a Cash NISA yourself. If you do, any amount that you pay in will count as a fresh payment against the overall NISA limit of £15,000.

Different transfer rules will apply, depending upon when you paid into your Stocks & Shares account. But if you put money into your Stocks & Shares account between April and July 2014, this sum must be transferred as a whole.

Other amounts from previous years may be transferred as a whole or in parts, as you wish; however, not all ISA providers will allow part transfers.

### DID YOU KNOW?

You are able to open one Cash NISA and one Stocks & Shares NISA each tax year. However, once open, you can transfer your Cash or Stocks & Shares NISA between providers as many times as you wish.

Annual NISA allowances are aligned with the tax year, from 6 April to 5 April.



## TIME TO REVIEW YOUR FINANCIAL PLANS POST-BUDGET 2014?

The areas around pensions and the new tax-efficient NISAs are very significant. If appropriate to your particular situation, you should review your financial plans immediately.

Don't delay. To discuss how the changes announced in Budget 2014 could impact on your financial plans in the future, please contact us for further information. We look forward to hearing from you.

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