Budget Summary 2014

Pensions

In the most fundamental change to how people can access their pension in nearly a century, the Chancellor has announced a number of changes to the drawdown, trivial commutation and small pots limits. The intention is to make the tax system fairer by providing a greater number of people with flexibility to access their pension savings.

These changes will clearly offer increased flexibility and added opportunities for DC pension scheme members and will widen eligibility for trivial and small pension pot payments as well as flexible drawdown. The changes will make high quality financial advice more important than ever as greater choice in terms of retirement income and pension decumulation makes these decisions even more difficult. Just because a particular course of action has now become available to a member doesn't of course mean it's suitable for them. For the majority of people the right choice for retirement income is likely to remain annuity purchase (hopefully with improved products) – bear in mind that there has been no requirement to purchase an annuity at any age since 6th April 2011 yet annuity purchase is still by far the most popular choice (although not to say necessarily the best one in some cases).

Although some changes take place more or less immediately, the remainder won't take effect until April 2015 and a number of issues are being consulted on so it is possible that changes will be made before they become law.

Retirement Options

The following changes take effect from **27th March** (which is the date that the Finance Bill 2014 is published):

- The Minimum Income Requirement (MIR) for flexible drawdown is reducing from £20,000 pa to £12,000pa - applies to all individuals who apply for flexible access to their drawdown pension on or after 27th March 2014.
- Capped drawdown maximum income is increasing to 150% from 120% - applies for all drawdown pension years starting on or after 27th March 2014.
- The triviality limit is increasing from £18,000 to £30,000 - applies to all commutation periods starting on or after 27th March 2014.
- The maximum size of a small pension pot which can be taken as a lump sum (regardless of total pension wealth) is increasing from £2,000 to £10,000 and the number of personal pots that can be taken under these rules is increasing from two to three - applies to all payments made on or after 27th March 2014.

These changes, as they apply to DC pension savings, will be in place **until April 2015**, when the government plans to introduce the more radical reforms set out below.

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April 2015

Following on from the above, and subject to consultation the Government proposes to change the tax rules to allow people to access their DC pension savings as they wish at the point of retirement, subject to their marginal rate of income tax (rather than the current 55% charge for full withdrawal).

The 25% tax free lump sum will continue to be available. The government is gathering views on its proposals and, once the consultation closes on 11th June, it will publish a 'summary of responses' which will set out how the government intends to proceed.

The government's priority is to change the way that people in retirement can access their pension savings as the current system effectively forces the majority of individuals with DC pensions to buy an annuity. As the nature of retirement changes, annuities are no longer the right product for everyone. People are living longer and their needs are becoming more varied. The reforms to the State Pension and the triple lock guarantee are intended to give people certainty regarding what they will receive from the state and the introduction of Automatic Enrolment will dramatically increase the amount of pension savings. The landscape has completely changed. Moreover, the annuities market is currently not working in the best interests of all consumers. It is neither competitive nor innovative and some consumers are getting a poor deal. It is time for a bold, modern and progressive reform.

The government will guarantee that individuals approaching retirement will receive free and impartial face-to-face guidance to help them make the choices that best suit their needs. The government will introduce a new duty on pension providers and trust-based pension schemes to deliver this 'guidance guarantee' and this will take effect by April 2015. The FCA has been asked to make sure this guidance meets robust standards, working closely with consumer groups and the government will make available a £20 million development fund to get the initiative up and running.

New products will need to be developed and markets will need to adjust. Everybody's circumstances are unique and it should not be for the State to dictate how someone should have to spend their savings.

Those who want the security of an annuity will still be able to purchase one. Equally, those who want greater control over their finances in the short term will be able to extract all their pension savings in a lump sum. And those who do not want to purchase an annuity or withdraw their money in one go, but would prefer to keep it invested and access it over time, will be able to purchase a drawdown product.

Currently the choice for consumers is constrained and it is therefore unsurprising that many people's default choice is to use their full pot (minus their lump sum) to purchase an annuity from their pension provider.

The FCA's findings point towards the importance of stimulating competition within the annuities market, and also the need to stimulate innovation and the development of new products that better suit people's changing needs.

The introduction of the single tier pension will also significantly change the state support on offer to pensioners, providing greater certainty of their income and lifting a significant number above the level at which they are eligible for means-tested benefits.

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The shape of the market will therefore be driven by the choices consumers make, placing power back into the hands of savers. The government expects this to stimulate innovation and new competition in the retirement income market, with providers creating new products to satisfy individual consumer needs and meet new social challenges such as funding care later in life. It will also expand the market to allow further development of existing products, such as deferred annuities.

Under the new system, those who have already purchased an annuity will remain bound by the contract they have made with their annuity provider. However, those who are currently in drawdown should be able to benefit from these reforms, both in the short term through the immediate increase in the capped drawdown limit, but also in the longer term through the new, more flexible tax system.

The government recognises that increasing the flexibility and choice available to those with DC pension savings may increase the risk that people fall back on means-tested benefits later in life. There will be some commentators who believe that people cannot be trusted and that individuals will spend their money early in their retirement and fall back on state support, either as a conscious choice or because they underestimate how long they will live.

Public Service Defined Benefit Schemes

More people transferring their rights from unfunded public service defined benefit schemes to DC schemes, to take advantage of the new tax rules, would therefore expose the Exchequer to significantly higher costs. Having considered these issues, the government intends to introduce legislation to remove the option to transfer from a public service defined benefit scheme to a DC scheme, except in very limited circumstances. The government does not intend to change the rules affecting transfers from public service defined benefit schemes to other defined benefit schemes (or vice versa).

Members of defined benefit schemes will still be able to benefit from the increased trivial commutation limit which will remain in place once the new tax framework for DC pensions is introduced. This will allow those with total pension wealth of £30,000 or less to take their defined benefit pension wealth as a lump sum.

Private Sector Defined Benefit Schemes

For most people, retained membership of an existing defined benefit scheme is likely to remain the most appropriate option even after these reforms. Nevertheless, the government believes in maximising freedom of investment options for retirement savings, wherever it is potentially feasible to do so. The question is whether it is possible to extend the kind of freedoms being granted to DC schemes to members of private sector defined benefit pension schemes. In principle, the government would like to find a way to do so. However, in practice this decision is finely balanced and the government intends to proceed with caution. Specifically, the government is concerned that a large scale transfer (or anticipated transfer) of members of private sector defined benefit schemes to DC schemes could have a detrimental impact on the wider economy. The government is therefore consulting on the associated issues and risks and will advise further on this in due course.

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Minimum age for taking pension benefits

The consultation also includes a proposal to raise the age at which an individual can take their private pension savings under the tax rules from 55 to 57 in 2028, at the point that the State Pension age increases to 67. The intention is that the minimum age will then increase as State Pension age increases – it is suggested that the minimum age remains 10 years below State Pension age although the consultation asks for views on whether a 5 year differential might be more appropriate.

The deadline for responses to the consultation is Wednesday 11th June 2014.

Freedom and choice in pensions consultation and fact sheet

Qualifying non-UK pension schemes

The Government will consult on ways to give equivalent treatment to Qualifying non-UK Pension Schemes (QNUPS) and to UK-registered pension schemes, to ensure fairness and remove opportunities to avoid inheritance tax. Legislation will be introduced in Finance Bill 2015.

Pensions tax relief: abolish the age 75 rule

The Government will 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.

Dependants' Scheme Pension

The Government will consult on options to simplify the Dependants' Scheme Pension rules, to ensure the rules apply fairly, and reduce administrative burdens. Any legislative changes will be in a future finance bill.

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Investments

ISA/NISA

From 1st July 2014 ISAs will be reformed into a simpler product, the 'New ISA' (NISA), and all existing ISAs will become NISAs. From that date the overall annual subscription limit for these accounts will be increased to £15,000 for 2014/15. For the first time, ISA savers will be able to subscribe this full amount to a cash NISA (currently only 50% of the overall ISA limit can be saved in cash). Investors are able to open one Cash NISA and one Stocks and Shares NISA each tax-year. However, once open, the Cash or Stocks and Shares NISA can be transferred between providers unlimited times.

Under the NISA, investors will also have new rights to transfer their investments from a stocks and shares to a cash account (currently only the opposite is possible). There will be consequential changes to the rules on the investments that can be held in a NISA, so that a wider range of securities (including certain retail bonds with less than five years before maturity) can be invested. In addition, Core Capital Deferred Shares issued by building societies will become eligible to be held in a NISA, Junior ISA or CTF.

Between 6th April and 1st July 2014, the total amount that can be paid into a Cash ISA is £5,940 and the combined amount paid into Cash and Stocks and Shares ISAs must not exceed £11,880. From 1st July 2014, existing ISAs will automatically become NISAs, with a higher limit and more flexibility. Thereafter an investor can add further money to either their Cash or Stocks and Shares NISA, up to the new £15,000 limit. From 1st July 2014, any money held in a Stocks and Shares NISA can be transferred to a Cash NISA.

Different transfer rules will apply depending when funds were paid into the Stocks and Shares account. If money is invested 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, if the provider permits.

The New ISA - fact sheet

Child trust Fund / Junior ISA

The amount that can be subscribed to a child's Junior ISA or CTF in 2014/15 will also be increased to £4,000.

New NS&I Pensioner Bond

Available from January 2015 to those aged 65 plus. Rates will be set in the Autumn but estimated to be 2.8% (1 year) and 4% (3 year). Maximum investment £10,000 per person.

Premium Bond

Cap increasing from £30,000 to £40,000 in June with a further increase to £50,000 planned.

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These changes are part of the government's broader package of measures to support savers. In particular they will increase the choice and flexibility available to savers in tax advantaged products such as NISA, Junior ISA and CTF. Although there are currently 25 million ISA investors the number currently investing the maximum amount allowable will be a far smaller number. The increase to the ISA investment limit will therefore be irrelevant to many savers. It is of course very welcome to those who are able to contribute in excess of the current maximum. The increased flexibility of the NISA should increase its attraction.

Seed EIS

The Seed Enterprise Investment Scheme (SEIS) and the associated capital gains tax (CGT) relief for re-investing chargeable gains in SEIS shares have been made permanent.

SEIS, which came into effect from 6th April 2012, is designed to help small, early-stage companies raise equity finance by offering a range of tax reliefs to individual investors who subscribe for shares and have a stake of no more than 30% in these companies. It complements the Enterprise Investment Scheme (EIS), which also offers tax reliefs to investors in higher-risk small companies. SEIS recognises the particular difficulties that very early-stage companies face in attracting investment, by offering tax relief at a higher rate than that offered by EIS.

To help kick-start the scheme and encourage investment in SEIS, CGT relief was given to chargeable gains accruing to an investor in 2012/13 where the gain is re-invested in shares that qualify for SEIS income tax relief. The amount re-invested was exempt from CGT. This was subject to a £100,000 investment limit (which matches a similar cap on SEIS-related income tax relief). In 2013 the CGT relief was extended to chargeable gains accruing in 2013/14. The extended relief was given to half the qualifying re-invested amount.

From the date that Finance Bill 2014 receives Royal Assent, the permanent extension of the SEIS scheme and CGT re-investment relief at 50% of the qualifying reinvested amount will have effect in relation to re-invested gains accruing to individuals in 2014/15 and subsequent years.

Venture capital trusts return of capital

A measure is being introduced to prevent VCTs from returning share capital to investors within three years of the end of the accounting period in which the VCT issued the shares. Distributions made from realised profits will not be affected by this change.

The Government signalled in Budget 2013 that it was concerned that particular forms of share buy-back and reinvestment arrangements offered by VCTs were not in keeping with the intention of the legislation.

This measure will have effect in respect of shares issued on or after 6th April 2014.

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Taxation

Income Tax

The Personal Allowance will increase to £10,500 in 2015/16 (it increases to £10,000 from 6th April 2014 as we already know).

The threshold for 40p income tax rises from £41,450 to £41,865 next month and by a further 1% to £42,285 in 2015/16.

Starting Rate for Savings from 6th April 2015

From 6th April 2015 the starting rate of tax for savings income (such as bank or building society interest) will be reduced from 10% to nil, and the maximum amount of taxable savings income that can be eligible for this starting rate will be increased from £2,880 to £5,000.

One of the effects of this change, when combined with changes to the tax-free personal allowance, is that savers will not be liable for tax on any interest they receive if their total taxable income for 2015/16 is less than £15,500. This figure will be £15,660 for people born before 6th April 1938. It may also be higher for people entitled to the Married Couple's Allowance (for those born before 6th April 1935) and people entitled to the Blind Person's Allowance. In addition, a different figure may be relevant where married couples and civil partners transfer part of their personal allowance. Further details of how these will affect eligibility for the starting rate will be published nearer 6th April 2015, when this change comes into effect.

The eligibility rules for completing a form R85 will also change from 6th April 2015, to enable more savers to register to receive interest payments without tax deducted. Currently an R85 can be completed by a saver whose total taxable income for the tax year will be below their tax-free personal allowance. From 6th April 2015, a saver who is unlikely to be liable to tax on any of their savings income in the tax year can complete an R85 and register to receive interest without tax deducted – even if they pay tax on other (non-savings) income.

In practice, this means if a saver's total taxable income will be below the total of their tax-free personal allowance plus the £5,000 starting rate limit for savings, from 6th April 2015 they can register to have interest paid on their accounts without tax deducted, using form R85.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293961/8073_The_starting_rate_of_tax_on_savings_Budget_2014_Final_v1.0.pdf

Abolishing the 10% rate of tax on savings income - a fact sheet

Inheritance Tax (IHT): Simplification of trust charges and the division of the nil-rate band

The Government will consult on revised proposals for simplifying the calculation of the IHT trust charges and dividing the nil-rate band available to trusts created by the same settlor. Legislation will be introduced in Finance Bill 2015.

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Inheritance tax (IHT) exemptions

The Government will consult on options to extend the IHT exemption for armed forces personnel who die on active service to all emergency service personnel who die in the line of duty, or whose death is hastened by injury incurred in the line of duty. Legislation will be in Finance Bill 2015.

Inheritance Tax: liabilities and foreign currency bank accounts

This will close a loophole that would otherwise allow the new rules to be sidestepped and a deduction for a liability to be allowed where the borrowed funds are deposited in a foreign currency account in a UK bank which is disregarded for Inheritance Tax purposes. The measure supports the government's anti-avoidance strategy and fairness agenda.

Transferable tax allowances for married couples and civil partners

From 2015/16 this allows a spouse or civil partner who is not liable to income tax above the basic rate to transfer £1,050 of their personal allowance to their spouse/civil partner, provided that the recipient of the transfer is not liable to income tax above the basic rate.

Changes to the taxation of high value UK residential property held by certain non-natural persons (NNPs)

This is an extension to the package of taxes that affect residential properties held by NNPs, other than genuine commercial businesses and other limited categories, to properties worth more than £500,000 up to £2 million (previously only applied to properties worth over £2m).

These taxes are:

- Stamp duty land tax (SDLT) at 15 per cent on acquisition of a residential property;
- An annual tax on enveloped dwellings (ATED); and
- Capital gains tax (CGT) at 28 per cent on any gain on disposal.

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