Budget Report 2014

Provident Solutions

Wealth Creation & Wealth Management
Financial Lifestyle Planners

Highlights and Commentary

from

Provident Solutions Ltd

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Introduction

George Osborne, Chancellor of the Exchequer, delivered his fifth Budget speech (how time flies!) to the House of Commons at lunchtime yesterday today.

Without hesitation I can confidently say that this was the best budget for; saving, investing and retirement planning in the 26 years that I have been in this profession.

The coalition certainly appears to have listened to the concerns that individuals (and financial services lobby groups) have raised specifically with regards to tax efficient savings and the issues surrounding taking an income from their pension funds at retirement.

The proposed ability to be able to take your entire pension fund as a lump sum at retirement is excellent news for those already retired and should also encourage a whole new generation to save into much-needed pension plans. Whether a significant number of people actually use the facility to withdraw their entire pension fund at retirement remains to be seen, but the mere fact that your pension is accessible is a fantastic step forward and one for which the coalition should be applauded.

The 25% increase in the maximum income people can draw from their pensions from the end of this month made far fewer headlines (given the enormity of full pension fund withdrawal announcement) but will we believe ultimately provide much more benefit to clients already using Pension Income Drawdown to fund their retirement.

With regards to savings, as most of our clients are aware, we have always encouraged maximising your ISA allowances, even when well into retirement, on the basis we had hoped that eventually the option would become available to move from higher risk investments back into cash - whilst retaining the tax efficiency of an ISA wrapper. Therefore the move announced yesterday to allow this, is another great stride in maximising tax efficient savings options. What's more the Chancellor even announced a change to the structure of ISAs to simplify them into one single product (ISAs become NISAs) that can hold both cash and shares and also simultaneously increased the annual limit to £15,000 each.

The 'icing on the cake' comes in the form of the introduction in Pensioner Bonds (and their proposed highly competitive interest rates) together with an increased maximum investment Premium Bonds.

Whilst the changes to ISA allowances seem fairly straightforward, 'the devil is always in the detail' and never more so for the dramatic pension changes that are being proposed. It will probably take many days if not weeks for the small print and the complex details that underpin the proposed changes to become apparent (and these proposals will be consulted on this year), however this all looks very positive indeed.

If you wish to discuss any aspects of the budget and how they relates to you the please call us on **0116 2592371** or email enquiries@providentsolutions.co.uk

Paul Smith APFS Certs CII (MP & ER)
Chartered Financial Planner
Provident Solutions Ltd

Economic Environment

The Office for Budget Responsibility has forecast the UK economy will grow by 2.7% this year, 2.3% in 2015, 2.6% in 2016, 2.6% in 2017 and 2.5% in 2018.

The OBR had previously said it expected GDP growth of 2.4% in 2014 and 2.2% in 2015.

This means that Britain is expected to grow at the fastest rate of any advanced economy, but risks to the recovery remain in place, with the ongoing crisis in the Ukraine specifically mentioned because of its possible impact on Gas & Oil prices.

Despite this faster economic growth, public borrowing for 2014/15 is forecast to be £95bn, down by £1bn from the OBR's previous estimate in November 2013.

UK Plc is expected to record a budget surplus in 2018/19 at which point the national debt will start to reduce.

Earnings are now growing modestly faster than inflation, which should help to improve the current 'cost of living crisis'. The Chancellor anticipates 1.5m jobs to be added to the British economy over the next five years.

The figures above would clearly suggest that the UK Recovery is underway and this is certainly our first-hand experience when talking to clients who run their own businesses.

Income Tax & Benefits

This part of the budget speech was surprisingly short in comparison to previous budgets with the exception of confirming a previously announced 'Spending Cap' that will be enshrined in legislation meaning future Governments would need parliamentary approval before increasing welfare spending.

This Budget capped the total welfare budget at £119bn for 2015/2016, although this excludes state pensions and Jobseeker's Allowance. The cap represents a rise in line with inflation and is forecast to rise to £127bn in 2018/2019.

Mr Osborne looks set to remain committed to his current course of austerity, despite improvements to the state of the UK economy."

The personal allowance for income tax is being increased to £10,000 on 6th April this year and then to £10,500 on 6th April next year, removing more people from the tax system. (Those earning less than £100,000 a year will benefit from this change).

The larger increase to the personal allowance next year means we are very close to rendering the anomaly of the 'age related personal allowance trap' obsolete – a relief to everyone aged 65 or over receiving more than £26,100 of income.

The higher rate income tax threshold will also be increased to £41,865 (from £41,450) on 6th April this year and then to £42,285 in 2015.

Inheritance Tax

Despite continuing speculation, there were no changes announced to the Inheritance Tax system. However there is no doubt, that in the short to medium term, there will be significant changes in this area (once the Office for Tax Simplification finishes its review).

The nil rate band will remain frozen at £325,000 until 2017/2018 and as the tax is applied after the deduction of a nil rate band, this will again raise more money for the exchequer over the next year.

Pensions

We are entering a ‘Brave New World’ and from a retirement planning perspective and probably the only disappointment was the poor quality of the headlines, news stories and facts & figures produced by financial journalists! Most of the early reports ran with the headline 'Compulsory Annuities to be abolished' when in fact it has not been compulsory to purchase an annuity for some years.

That aside the significant reform of the pension system is excellent news <u>(and providing the new flexibility is used wisely)</u> should benefit all those approaching or already in retirement.

A significant surprise was the Chancellor announcing - what will go down in history as one of the most radical reforms of the pensions system - that from 6th April 2015, anyone over the age of 55 will be able to take their entire pension fund as cash.

As per the current rules, the first 25% of the pension fund will be available tax free, with the balance then subject to income tax at an individual’s own ‘marginal rates’.

Announcing the reforms, the Chancellor said: *“Pensioners will have complete freedom to draw down as much or as little of their pension pot as they want, anytime they want. “No caps, No drawdown limits. Let me be clear, no one will have to buy an annuity.”*

There will also be some fairly immediate interim measures, being introduced on 27th March 2014, meaning ‘Flexible Income’ drawdown will be available to those who can satisfy a much lower minimum income requirement (MIR) of just £12,000 per year, a significant reduction from the current £20,000 per year.

A really positive further interim measure to be introduced later this month means anyone currently in ‘Capped Drawdown’ will have their maximum available income increased by 25% (as the GAD limit of 120% will be increased to 150%).

For those with smaller pension pots the trivial commutation limit is being increased from £18,000 to £30,000 later this month, allowing more people with small pension funds to take the entire fund as cash (part tax-free, part taxable) from age 60.

It was a day full of good news for Pension Income Drawdown users with the announcement of a consultation on the 55% tax charge on drawdown lump sum death benefits. With much greater freedom proposed on taking pension benefits, there are plans to cut the rate of tax payable on drawdown death benefits from April 2015 to make it more closely aligned to income tax charges on drawdown.

The only negative (for younger people) is that the earliest date you can take retirement benefits is set to become linked the state pension age. As the state pension age increases to 67 in 2028 the normal minimum pension age will also increase from 55 to 57.

Businesses

Businesses are to be boosted with a doubling of Investment allowances to £500,000 and extending this help to 2015, together with the introduction of a £7 billion package to cut energy bills for British manufacturers. Lending for export finance has been doubled to £3 billion, as it is Mr Osborne's intention to promote "Made in Britain."

The current enhanced capital allowances in enterprise zones and business rate discounts will be extended for another three years.

Infrastructure will benefit from support to build an additional 200,000 new homes, including the development of a new Garden City of 15,000 homes in Ebbsfleet, Kent. The Mersey Gateway Bridge will benefit from a £270 million grant and legislation will be introduced to allow the Welsh Government to raise tax and borrowing powers to allow infrastructure spending, including improvement to the M4 motorway.

Given the dreadful winter we have endured, the Government will be making available an additional £140 million to improve flood defences and a welcome £200 million for local road repairs.

Savings & Investments

This Budget should appeal to savers, particularly older savers who have struggled to supplement their other income in retirement since interest rates have fallen.

The Budget announced the merger of Cash and Stocks & Shares Individual Savings Accounts (ISAs) on 1st July 2014. The single New ISA (NISAs) will have an annual limit of £15,000 in each tax year.

Under current rules, it is possible to transfer Cash ISAs to Stocks & Shares ISAs. However from 1st July it will also become possible to transfer from Stocks & Shares ISAs to Cash ISAs as well.

The annual limit for Junior ISAs and Child Trust Funds will go up to £4,000 in July.

The 10p starting rate of income tax on savings interest will be abolished from 6th April 2015 with a new 0% band of the first £5,000 of savings income for those earning £10,500 or below.

Helping pensioners, who have experienced over five years of low interest rates, the Chancellor announced the launch of new one and three year bonds from National Savings & Investments. These will be available from January 2015, with a maximum subscription of £10,000 per bond.

The one year bond is expected to pay interest of 2.8% and the three year bond is forecast to pay 4% a year. Both will only be available to those over age 65.

Premium Bonds will see their limit increased to £50,000 from the current £30,000, with the reintroduction of a second £1m monthly prize from July. The NS&I Premium Bonds savings limit will increase to £40,000 in June then rising to £50,000 next year.

Miscellaneous

- The fuel duty rise, due in September 2014, will not now take place; betting machines will attract a higher 25% tax and bingo sees its tax liability reduced to 10%.
- The alcohol duty escalator has been scrapped. Duty payable on Scotch whisky and some ciders will be frozen, on beer it will be reduced by 1p a pint but tobacco duty will continue to rise by 2% above inflation.
- From next September working parents with income of up to £150,000 will be able to claim 20% of childcare costs from registered childcare providers up to £2,000 per year per child.
- The Help-to-Buy scheme for new-build property was extended until 2020.
- Buying a residential property worth £500,000 or more through a holding company will result in a stamp duty charge of 15% from midnight yesterday.
- The Chancellor made a pledge that emergency service workers who die in the line of duty will not have inheritance tax applied to their estates.
- Air duty will be reduced to the lower Band B rate (currently only applicable to flights to the USA) for all long-haul flights.

Please note that this briefing note is not an exhaustive description of every measure described in the Budget and you should seek professional independent financial, tax or legal advice where necessary.

Given the “radical” effect of this budget on investments, savings, pensions and annuities, it is important to take individual financial advice before making any decisions.

About Provident Solutions

Provident Solutions was formed in 2003 by Paul Smith APFS, Certs CII (MP & ER) our managing director who is a Chartered Financial Planner. Paul has worked in Financial Services for over 25 years and has a vast amount of experience in advising clients on their financial needs. Paul holds numerous advanced financial planning qualifications and is licensed to advise on all aspects of financial planning from Investments to Pensions to Equity Release.

Provident Solutions are very trusted Independent financial advisers (based in Leicestershire) who have rapidly developed an enviable reputation for delivering high quality financial planning advice. We are recognised as professionals who strife to build long term financial relationships with our clients. Our client testimonials bear witness to the quality of the service we deliver.

How can we help you?
As you would expect as Independent financial advisers we assist our clients in all of the following areas:

- Helping you to define and achieve your financial goals & objectives and to be financially better organised
- Helping you build your capital or increase your income by improving your investment portfolio
- Helping you plan for retirement
- Helping you protect your financial assets and dependants (managing financial risk better)
- Helping you mitigate personal taxation
- Most importantly help you to achieve and maintain your desired future lifestyle without running out of money!

For more information call us on 0116 2592371 or email enquiries@providentsolutions.co.uk
Our web site www.providentsolutions.co.uk also contains more details on the services we provide.