

Budget 2014 Briefing Note

19th March 2014

Informed Choice
Independent Financial Advice

About Informed Choice

Informed Choice is a leading firm of Chartered Financial Planners, working with individuals, trustees and business owners to help them to build, manage and protect their wealth.

We were named as **IFA of the Year** at the Money Marketing Financial Services Awards 2010 and we are six times winners of the Gold Standard for Independent Financial Advice. We were named **Best Retirement Adviser** at the Moneyfacts Good Advice Awards 2010.



We are a firm of Chartered Financial Planners. This means we have satisfied rigorous criteria relating to professional qualifications and ethical good practice. It means you can be confident that you are dealing with one of the UK's leading firms that is wholly committed to providing you with the best possible advice, service and support.

To find out more about our advisory and planning services, please visit www.icl-ifa.co.uk or follow us on Twitter @informedchoice.

Introduction

The Chancellor, George Osborne, delivered his Budget to the House of Commons at lunchtime today.

What started as a reasonably mundane and self-congratulatory piece on the state of the economy and reduction in the national debt finished with Osborne dropping bombshells for ISA investors and pension savers.

This Budget will be remembered as one of the most radical ever from a personal finance perspective.



It contained a dramatic series of reforms to pension rules which will see increased flexibility and the effective death of the annuity market, with one specialist annuity provider seeing their share price fall by over 50% in the hours following the Budget announcement.

Within this briefing note we have described the main Budget 2014 announcements as they relate to personal financial planning.

As with every Budget and Autumn Statement, the devil is often in the detail. As more details come to light, we will add blogs on specific planning topics to our website at www.icl-ifa.co.uk.

Do call us on 01483 274566, email hello@icl-ifa.co.uk, or follow us on Twitter @informedchoice if you would like to discuss your own investment, pension or Financial Planning as a result of the Budget or any of the contents within this document.

We would also welcome conversations with other professional advisers who would like to understand the planning opportunities for their own clients.

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Economic environment

With the economy entering a recovery phase, this Budget was an opportunity for the Chancellor to present some positive figures.

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 commodity prices.

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

The UK 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'. Osborne expects 1.5m jobs to be added to the British economy over the next five years.

Informed Choice says:

"The dark days of the global financial crisis are behind us now, although the international risks to a domestic economic recovery should not be understated.

"With a growing economy, George Osborne can afford to be a little more generous in his taxation and spending measures, but not a lot. As expected, he is giving some sweeteners today and holding back on the big vote winners until closer to the General Election next year."

Income and benefits

The personal allowance for income tax is being increased to £10,000 on 6th April 2014 and then to £10,500 on 6th April 2015, removing more people from the tax system. Those earning less than £100,000 a year will benefit from this change.

The higher rate income tax threshold is also on the rise, to £41,865 from £41,450 on 6th April 2014 and then to £42,285 in 2015.

This Budget capped the total welfare budget at £119bn for 2015/16, 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 2018/19.

Informed Choice says:

"There was surprisingly little to say about benefits and welfare in this Budget, other than confirming a previously announced spending cap. The Chancellor looks set to remain committed to his current course of austerity, despite improvements to the state of the UK economy."

Pensions

George Osborne dropped a pension's bombshell towards the end of his Budget this afternoon. What he announced will go down in history as the most radical reform of the pension system since it was introduced, dwarfing the previous attempt at pension simplification implemented on 'A-Day' in 2006.

From 6th April 2015, anyone over the age of 55 will be able to take their entire pension fund as cash. As with the current rules, the first 25% of the pension fund will be available free of tax. The balance will then be taxable as income, at marginal rates of income tax.

Announcing the reforms, Osborne 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."

Some interim measures, being introduced on 27th March 2014, mean flexible income drawdown will be available to those who can satisfy the minimum income requirement of £12,000, down from the current £20,000.

Another interim pensions measure to be introduced later this month means the maximum income limit for capped income drawdown will be based on a GAD limit of 150%, up from the current 120%.

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.

Informed Choice says:

"This is a significant reform of the pension system and will increase the need for advice to ensure people do not run out of money in retirement. Annuity providers are seeing their share prices plummet, despite the fact annuities will still be the best option for the majority."

Savings & Investments

The Budget announced the merger of cash and stocks & shares Individual Savings Accounts (ISAs) on 1st July 2014. The single new ISA 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. From 1st July it will 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.

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 from NS&I 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 Premium Bonds savings limit will increase to £40,000 in June 2014 before rising to £50,000 next year.

Informed Choice says:

"The new ISA rules look much simpler than before and investors will welcome the ability to shelter up to £15,000 each year from tax.

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

Miscellaneous

- The Help to Buy scheme for new-build property was extended until 2020.
- A new twelve-sided £1 coin is being introduced in 2017, to combat counterfeiting.
- Buying a residential property worth £500,000 or more through a holding company will result in a stamp duty charge of 15% from midnight tonight.
- From next September, working parents with income 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.
- Osborne made a pledge that emergency service workers who die in the line of duty will not have inheritance tax applied to their estates.
- An additional £140m was made available for flood defences and £200m to fix potholes.
- Long-haul flights will become subject to the lower rate of air duty currently applied to flights to the US.
- For Bingo fans, the rate of Bingo duty is being halved to 10%.
- A proposed fuel duty rise in September will no longer take place.