

2014 Budget Report

Please note that this report represents our initial understanding and professional opinion on the March 2014 Budget and should not be construed as personal advice regarding any of the matters covered. If you would like personal advice on the implications of the Budget for your individual circumstances please feel free to contact us.

Retirement income – a revolution on the way?

Radical changes proposed in the Budget could see the biggest shake-up to UK pensions ever, possibly as soon as 2015.

These proposals would give many pension savers more freedom, choice and flexibility than ever before over how they access their pension savings.

- If the changes go ahead, anyone of pension age would be able to draw as much (or as little) from their Defined Contribution (e.g. Personal or Stakeholder) pension pot as they choose at any time.
- 25% would still be tax free. The balance would be taxed as income in the year it's taken.

The detail is yet to be finalised. But this signals a clear Government desire to give savers more control, and responsibility, over their destiny in life after work. However it is likely to increase the need for advice to solve an increasingly complicated retirement equation.

These proposals will be consulted on this year, but in recognising the need for flexibility there is a boost for drawdown users almost immediately.

The chancellor has announced two changes to income drawdown rules from 27 March:

- **Capped income drawdown - limit up 25%:** The maximum yearly income allowed under the pension capped drawdown rules will increase by 25%, from 120% to 150% of the GAD basis amount, for income years starting after 26 March 2014.
- **Flexible income drawdown – Minimum Income Requirement cut to £12k:** The yearly secured income needed to meet the 'minimum income requirement' to access flexible drawdown will be cut from £20,000 to £12,000 for those applying to start flexible drawdown after 26 March.

Taken together, these changes give pension drawdown users even more flexibility to move income up or down to adapt to changing circumstances.

Pension triviality limits increased

The Chancellor has announced additional changes to the pension triviality rules from 27 March 2014:

- **Triviality limit up to £30k:** Individuals over age 60, with total pension savings of £30,000, or less can take it all as a trivial commutation lump sum - the current limit is just £18,000;
- **Stranded pot rules relaxed:** Small stranded pension pots of up to £10,000 can be taken as a lump sum - a significant increase from the current £2,000. And the number of small stranded personal pension pots that can be taken as a lump sum is increased from two to three.

These changes improve choice for more consumers who may otherwise have been forced to receive very small regular pensions for life, with limited ability to shop around for the best annuity. In both cases, up to 25% of the lump sum can be paid tax-free with the balance taxed as income.

55% Drawdown death benefits charge set to be cut

There was also good news for 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.

Having a rate of tax on death which is greater than the income tax on withdrawing income could see the tax tail wagging the retirement income dog. The Government have recognised the need to have a tax system where pension savers are not penalised by only taking what they need from their pension fund.

This should see the ability to pass on pension death benefits to loved ones given a further boost and make the use of bypass trusts even more appealing.

More in the pipeline for pensions...

- **Minimum pension age going up?**

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. From then on it will remain 10 years below the state pension age.

This won't impact those retiring early due to ill-health. But we await the detail on how this will affect those who have early protected pension ages such as professional sportsmen and women.

- **Tax breaks on contributions after 75?**

The over 75s may be able to continue making tax relieviable pension contributions. Consultation is set to begin on removing the age 75 cap on pension funding.

Big changes for ISAs too

In a major simplification for savers, the annual subscription limit will be increased to £15,000 (from £11,520 in 2013/4), and there will no longer be a lower cap on the amount saved into a cash account. So it is possible to save any combination of amounts up to £15,000 overall between their cash and stocks and shares ISA.

The simplified product will be known as a NISA (New ISA), and all existing ISAs will become NISAs. Savers may also transfer their stocks and share ISA to cash. This measure is intended to give greater choice and flexibility for savers but, in the current climate of low interest rates, clients should be carefully advised about switching fully to cash.

The annual subscription limit for Junior ISA and Child Trust Fund (CTF) will also be increased from £3,840 to £4,000.

All of these changes will have effect from 1 July 2014.

Tax allowances and thresholds

Income tax:

- The personal allowance, set at £10,000 for 2014/15, will rise to £10,500 in 2015/16 for those born after 5 April 1948. At the same time, the level at which income tax becomes payable at higher rates will rise by 1% to £42,285, meaning that higher rate taxpayers with incomes below £100,000 will also be better off by £184 - a little less pressure on the 'squeezed middle'.
- From the 2015/16 tax year, a spouse or civil partner who doesn't have income to fully use up their personal allowance, will be able to transfer up to £1,050 to their partner, provided that partner is a basic rate taxpayer.

Capital gains tax - The annual exemption will rise to £11,000 in 2014/15, and to £11,100 in 2015/16.

Inheritance Tax - The nil rate band will remain frozen at £325,000 until 2017/18.