

Hornbeam's Budget View



by Phil Needham

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In spite of running one of the worst budget deficits ever both in absolute terms and in percentage of GDP, George Osborne has brought in a budget full of pleasant surprises for Hornbeam clients.....

The increase in the personal allowance to £10,000 from 6 April 2014 was well flagged and the further increase to £10,500 for 2015/16 will be welcomed by virtually everyone. Past practice has been for the point at which the 40% band starts to be reduced to ensure that higher rate tax payers get little benefit. However from 6 April 2014 the basic rate band only falls from £32,011 to £31,865, this £144 fall is a lot less than the £560 rise in the personal allowance so middle income earners get most of the benefit at 40%. In 2015/16 the fall in the basic rate band has been restricted to £100 whilst the personal allowance goes up by £500 so again most of the benefit for middle income earners is at 40% (saving for basic rate taxpayers is £100, higher rate taxpayers is £180). The partners at Hornbeam particularly welcome this change in tack.

This was spun as an increase in the starting point for Higher Rate Tax and the more naive of us may have thought we were getting an increase in personal allowances and the basic rate band – not so.

We had been led to believe that the Annual Investment Allowance (100% tax relief for capital investment) was to be reduced from £250,000 to £25,000 this April and whilst this has little impact on most of our clients for a few it is a very bitter pill indeed. Instead the AIA is to be raised to £500,000 for one year and then revert to £250,000 which is a very welcome change for at least one of our clients. However the transitional rules are extremely complex each time there is a change, and a period of stability would be nearly as much use as the increased allowance. Stability was an issue that the Office of Tax Simplification raised, but has not met with much sympathy from the Treasury.

As 99% of businesses were already getting 100% of their capital investment relieved and for big manufacturers £500,000 is a drop in the ocean, I surmise that this much trumpeted allowance will have material benefit to only a very few real businesses, and relatively small cost to the treasury.

The change in Pension scheme rules for people who have unclaimed defined contribution schemes (such as the Hornbeam staff and partners) was, at first, of great interest to me. Basically the change is that in future pensioners will have complete freedom to draw down as much of the scheme fund as they wish, the first 25% being tax free and the balance being taxed at the pensioner's highest marginal rate of tax. Whilst this massive improvement in flexibility is extremely welcome, it is unlikely that many people will take much advantage of this for the following reasons.

Imagine a retiree with a fund of £200,000 and other income of £25,000. As before the usual advice will be to take the £50,000 tax free lump sum and perhaps to draw down a further £15,000 taking the pensioner up to the basic rate band (so the £15,000 is taxed at 20%). But if the remaining fund of £135,000 is drawn, this will be taxed at 40% and 45% and the personal allowances will be lost. It will be relatively rare that this will be an attractive option for most pensioners.



Still a pension contribution of £10,000 by a trading company for a director will save £2,000 corporation tax; £2,500 can still be paid out tax free and the balance of £7,500 can now be accessed more flexibly. We have always been quite enthusiastic about pension saving at Hornbeam and this increased flexibility can only increase that enthusiasm.

As I personally wrote to Gordon Brown recommending a scheme very much like the current R and D tax credits scheme, a couple of years before the actual scheme was introduced, I feel a very strong attachment to the scheme, even though my contribution is entirely unacknowledged. I have found the ability of specialist consultants to get R and D claims agreed by HMRC even when I can see no evidence of R and D, as a pretty appalling abuse of a great idea. I therefore expected the scheme to be quietly discontinued and am frankly amazed that in fact the relief has been improved.

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