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"Never worry about numbers.
Help one person at a time,
and always start with
the person nearest you."

Newsletter

The Budget

2014/15

At Seven Financial we are very pleased to provide you with information from the March 2014 Budget

Rates, bands and allowances

Income Tax Rates and Taxable Bands

2013/14	£ a year	2014/15	£ a year
Starting rate (10%)	0 - 2,790	**Starting rate (10%)**	**0 - 2,880**
Basic (20%)	0 - 32,010	**Basic (20%)**	**0 - 31,865**
Higher (40%)	32,011 - 150,000	**Higher (40%)**	**31,866 - 150,000**
Additional rate (45%)	Over 150,000	**Additional rate (45%)**	**Over 150,000**

The starting rate of tax only applies to savings income in certain circumstances.The rates available for dividends for 2013/14 are the 10% dividend ordinary rate, 32.5% dividend upper rate and the 37.5% dividend additional rate. For the tax year 2014/15, 10% dividend ordinary rate, 32.5% dividend upper rate and the 37.5% dividend additional rate are available.

From 6 April 2015, the starting rate for savings income will be reduced to 0% and the maximum amount of an individual's income that can qualify for this starting rate will increase to £5,000.

In 2015/16, the basic rate band will increase to £31,785. The £150,000 band will remain unchanged

Personal allowance	2013/14	2014/15	2015/16
	£	**£**	**£**
Born after 5 April 1948	9,440	**10,000**	**10,500**
Born after 5 April 1938 but before 6 April 1948	10,500	**10,500**	**10,500**
Born before 6 April 1938	10,660	**10,660**	**10,660**
Income limit for personal allowance	100,000	**100,000**	**100,000**
Income limit (born before 6/4/48)	26,100	**27,000**	**TBA**
Married couples' allowance - maximum	7,915	**8,165**	**TBA**
Married couples' allowance - minimum	3,040	**3,140**	**TBA**
Blind person's allowance	2,160	**2,230**	**TBA**

The pattern of the higher rate threshold is as follows:
2012/13 - £42,475   2013/14 - £41,450   2014/15 - £41,865   2015/16 - £42,285

Up to and including 2012/13 the amount of an individual's personal allowance depends on age and income in the tax year. From 2013/14, the amount depends on date of birth and income in the tax year.

Married couples' allowance is available to people born before 6 April 1935. Tax relief is restricted to 10%.

From April 2015 married couples and civil partners will be eligible for a new transferable tax allowance. This will enable spouses and civil partners to transfer a fixed amount of their personal allowance to their spouse. The option to transfer will be available to couples where neither partner is a higher rate taxpayer.

For a couple choosing to use the Transferable Tax Allowance, one individual will be able to transfer £1,050 of their personal allowance to their spouse or civil partner. It will mean that the higher earner will be able to earn £1,050 more before they start paying income tax. This will benefit couples where one is a basic rate taxpayer (earns below £42,285 in 2015/16) and one has unused personal allowance.

Couples will be entitled to the full benefit in their first year of marriage.

For those couples where one person does not use all of their personal allowance at the moment the benefit will be up to £210.

For 2016/17, the transferable amount will be 10% of the personal allowance for those born after 5 April 1948.

National Insurance Contributions

£ per week	2013/14	2014/15
Lower Earnings Limit (LEL), primary Class 1	£109	£111
Upper Earnings Limit (UEL), primary Class 1	£797	£805
Upper accrual point	£770	£770
Primary Threshold (PT)	£149	£153
Secondary Threshold (ST)	£148	£153
Employees' primary Class 1 rate between PT and UEL	12%	12%
Employees' primary Class 1 rate above UEL	2%	2%
Class 1A rate on employer provided benefits	13.8%	13.8%
Employees' contracted out rebate	1.4%	1.4%
Married women's reduced rate between PT and UEL	5.85%	5.85%
Married women's rate above UEL	2%	2%
Employers' secondary Class 1 rate above ST	13.8%	13.8%
Employers' contracted out rebate, salary related schemes	3.4%	3.4%
Class 2 rate	£2.70	£2.75
Class 2 small earnings exception	£5,725 per year	£5,885 per year
Class 3 rate	£13.55	£13.90

National Insurance Contributions

£ per week	2013/14	2014/15
Class 4 lower profits limit	£7,755 per year	£7,956 per year
Class 4 upper profits limit	£41,450 per year	£41,865 per year
Class 4 rate between lower and upper profits limit	9%	9%
Class 4 rate above upper profits limit	2%	2%
Additional primary Class 1% rate - deferred employments	2%	2%
Additional Class 4 % rate where deferment granted	2%	2%

From 6 April 2014, every business, charity and Community Amateur Sports Club (CASC) will be entitled to an annual "employment allowance" of £2,000 to reduce their liability for Class 1 secondary NICs.

From 6 April 2015 employers will no longer be required to pay class 1 secondary NICs on earnings paid up to the Upper Earnings Limit (UEL) to any employee under the age of 21.

From October 2015 a new class of voluntary NICs (Class 3A) will be introduced that gives those who reach state pension age before 6 April 2016 an opportunity to boost their additional state pension.

Individual Savings Accounts (ISAs) & NEW ISAs (NISAs)

	2013/14	6 April 2014 - 30 June 2014	1 July 2014 - 5 April 2015
	£	**£**	**£**
Overall limit	11,520	**11,880**	**15,000**
Of which cash	5,760	**5,940**	**N/A**
Of which stocks and shares	11,520	**11,880**	**N/A**

Company shares traded on any market of a recognised stock exchange in the EEA may be included within a stocks and shares ISA from 5 August 2013. Company shares which became newly eligible for ISA inclusion as a result of this change remain eligible for the Enterprise Investment Scheme (EIS), the Venture Capital Trust (VCT) scheme, and Inheritance Tax Business Property Relief (BPR). If an investor sells an investment that currently qualifies for BPR, and his/her ISA manager uses the proceeds to purchase a replacement holding of the same shares for investment in an ISA, the effect would be that, for BPR, there would be two ownership periods, one for the original holding and one for the 'new' holding in the ISA wrapper. Provided the combined ownership period was more than two years, BPR would be available on the replacement holding.

Junior ISAs (JISAs)

	2013/2014	6 April 2014 - 30 June 2014	1 July 2014 - 5 April 2015
Overall limit	£3,720	**£3,840**	**£4,000**

Corporation Tax

Rates for financial years starting on 1 April

Corporation tax on profits	2013/14	2014/15	2015/16
£0 - £300,000	20%	**20%**	**20%**
£300,001 - £1,500,000	Marginal Rate	**Marginal Rate**	**N/A**
£1,500,001 or more	23%	**21%**	**20%**

The Government will increase the Annual Investment Allowance from £25,000 to £500,000 for qualifying investment in plant and machinery. This is designed to encourage and incentivise business investment in plant and machinery, particularly among SMEs.

	April 2013/14	April 2014/15
Special rate for unit trusts and open ended investment companies	20%	**20%**

Inheritance Tax (IHT)

The Government announced in Budget 2010 that the threshold below which estates are not liable for IHT, the nil-rate band (NRB), would be frozen at £325,000 until April 2015.

The Government subsequently announced on 11 February 2013 that the IHT NRB would remain frozen until April 2018. That superseded previous announcements on the level of the threshold.

Capital Gains Tax

Annual Exempt Amounts

	2013/14	2014/15
Individuals, personal representatives and trustees for disabled people	£10,900	**£11,000**
Other trustees	£5,450	**£5,500**

2013/14 and 2014/15

The following CGT rates apply:

- 18% and 28% tax rates for individuals (the tax rate depends on the total amount of taxable income)
- 28% for trustees or for personal representatives of someone who has died
- 10% for gains qualifying for Entrepreneurs' Relief (lifetime limit of gains - £10m)
- The annual exempt amount for 2015/16 will be £11,100 (£5,550 for trustees)

Inheritance Tax (IHT)

What was announced?

Nil rate band

The nil rate band will be kept at £325,000 until 5 April 2018.

"Killed in war" exemption

The chillingly named "killed in war" exemption provides complete exemption from IHT on the death estate of a member of the armed forces or certain associated services whose death was caused by injury or disease received or aggravated while he or she was on active service.

This relief will be extended to members of the emergency services.

Relevant property trusts

The IHT treatment of relevant property trusts is currently under review. Although some aspects have been concluded there are some outstanding matters and the review will therefore continue.

Foreign currency accounts

Funds held in foreign currency accounts in UK banks will be treated in a similar way to excluded property for the purposes of the restricted liability rules.

What does this mean?

The three changes announced are of limited application in the field of IHT planning.

The Office of Budget Responsibility estimates an IHT yield of £5.8 billion for 2018-19 (contrasted with £3.5 billion for the current year).

IHT planning remains of paramount importance.

Capital Gains Tax (CGT)

What was announced?

Annual Exempt Amount

The annual exempt amounts for the next two years have been confirmed as:

2014-15	£11,000
2015-16	£11,100

Non –residents

As from April 2015 CGT will be levied on gains made by non-UK residents who have disposed of UK situated property. A consultation on the mechanics of this extension of the CGT regime will be issued shortly.

Main residence relief

As announced at Autumn Statement 2013, the final period exemption is being reduced (in most cases) from 36 months to 18 months. This change will take effect from 6 April 2014.

What does this mean?

The increases in the annual exempt amounts are relatively modest (1% per annum). Despite that, it is still important to use the annual exempt amount where possible to manage CGT exposure. Techniques such as "bed and breakfasting", "bed and spousing" and "bed and ISAing" are still valid.

The changes to the CGT exposure for non-UK residents will create a discussion point for those advisers with affected clients.

HMRC has become increasingly "interested in" main resident relief. A number of cases on the availability of this relief have come before the Tax Tribunal. The relief deems certain periods of absence from the property as periods of occupation thus reducing (or eliminating) the CGT charge. The reduction of the final period of deemed occupation from 36 months to 18 months will prevent abuse. The relief was intended to cover situations where the owner had difficulty in selling the property. The recovery in the housing market means that an 18 month period will be enough in most cases.

The new ISA and changes to Junior ISA and the Child Trust Fund (CTF)

What was announced?

From 1 July 2014 ISAs will be reformed into a simpler product, the 'New ISA' (NISA) and all existing ISAs will become NISA. From 1 July the overall annual subscription limit for these accounts will be increased to £15,000 for 2014/15.

ISA savers will also be able to subscribe this full amount to a cash account (currently only 50% of the overall ISA limit can be saved in cash). Under the NISA, investors will also have new rights to transfer their investments from a stocks and shares to a cash account. 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.

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

What does it mean?

These measures will increase the choice and flexibility available to savers.

ISA regulations will need to be amended to reflect the rules that will apply for NISAs. For example:

- The overall ISA subscription limit will need increased to £15,000
- The rule that only 50% of this overall limit may be invested in a cash ISA, will be removed
- The tests that are designed to prevent the holding of 'cash like' investments in a stocks and shares ISA will be removed
- The regulations will be amended to allow transfers to be made from a stocks and shares NISA to a cash NISA
- The flat rate charge representing tax at the basic rate on any interest arising on uninvested cash held in a stocks and shares ISA, will also be removed

Tackling marketed tax avoidance

What was announced?

Background

Around 65,000 individuals and businesses have used marketed tax avoidance schemes that, in the view of HMRC, need to be investigated and litigated.

Scheme	Users Under Investigation
Employee Benefit Trusts	6,300
Contractor Avoidance	16,000
Partnership Losses	12,000
SDLT	8,500

Employee Benefit Trusts

Diversion of "remuneration" through a trust to avoid the application of "pay as you earn" and national insurance contributions.

Contractor Avoidance

Use of offshore intermediaries (including Employee Benefit Trusts) to funnel loans instead of remuneration hoping to avoid or defer income tax and national insurance contributions.

Partnership Losses

An individual borrows to invest in a partnership and claims loss relief on the investment.

Stamp Duty Land Tax

Exploitation of rules designed to avoid a double charge.

HMRC action

It is obvious that this backlog needs to be tackled. Taxpayers have a right to have their tax affairs kept up to date; government has a right to collect the correct amount of tax.

HMRC usually investigates a representative case and takes it to litigation (Tax Tribunal) if necessary. Other users of similar schemes have no incentive to “settle” on the basis of such a representative case.

Finance Bill 2014 will contain provisions giving HMRC the power to issue a notice to a taxpayer to the effect that a previously decided case also covers that taxpayer’s dispute (a "Follower Notice"). The Follower Notice will suggest that the taxpayer amend a self assessment return (or otherwise settle an appeal) in line with the judicial decision. HMRC will also be able to issue a "Notice to Pay" requiring the taxpayer to pay the tax in dispute within 90 days pending any further litigation.

It is intended that this regime apply from the date Finance Bill 2014 receives Royal Assent (July 2014).

What does this mean?

This proposal, which has been the subject of a short consultation, has been widely criticised as upsetting the balance of rights between HMRC and the taxpayer.

It will certainly mean that those individuals who have used marketed tax avoidance scheme will have some awkward decisions to make.

A similar "Notice To Pay" approach will be adopted in respect of cases notifies under Disclosure of Tax Avoidance Schemes (DOTAS) or schemes counteracted under the General Anti-Abuse Rule (GAAR).

Starting rate for Savings Income

What was announced?

From 6 April 2015, the maximum amount of an eligible individual's savings income that can qualify for the starting rate of tax for savings will be increased to £5,000, and this starting rate will be reduced from 10% to nil.

What does it mean?

This will increase the number of savers who are not required to pay tax on savings income, such as bank or building society interest.

Remember that if an individual's taxable non-savings income in a year exceeds the starting rate limit for savings, the starting rate for savings will not apply. However, should taxable non-savings income in a year be less than the starting rate limit, this savings income will be taxable at the starting rate, up to the starting rate limit.

Example 2015/16

Joe who is 40 has earned income of £20,000 and savings income of £4,000.

His taxable earned income is £20,000 less £10,500 (personal allowance) = £9,500.

The starting rate limit for savings does not apply.

Example 2015/16

Joanna who is 45 has zero income. She realises a gain on an offshore bond of £20,000.

Her taxable non savings income is zero. The bond gain is taxed as follows:

£10,500 personal allowance at 0%
£5,000 starting rate for savings at 0%
£4,500 @ 20% = **£900**

Venture Capital Trusts, Enterprise Investment Scheme and Seed Enterprise Investment Scheme

Venture capital trusts

What was announced?

Investors will be prevented in certain circumstances, refreshing income tax relief on investments into VCTs by disposing of VCT shares and reinvesting the proceeds in new shares. Relief is restricted where there is a "linked sale".

A sale is "linked" if an individual has sold shares in the same VCT as the VCT in which the investor has subscribed for shares, or in a VCT which is treated as a successor or predecessor of that VCT, and either the subscription for shares is in any way conditionally linked with the share sale, or the subscription and sale are within 6 months of each other.

In addition, the legislation will also be changed to allow individuals to subscribe for shares in a VCT via a nominee.

Also, measures are 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.

The VCT legislation is also being amended to ensure that from 6 April 2014, notwithstanding the general time limits for making assessments to recover the tax, HMRC can withdraw tax relief if VCT shares are disposed of within 5 years of acquisition.

How income tax relief works

It is available to individuals only, who subscribe in cash for newly issued ordinary shares in a qualifying company. There are maximum investment limits on which relief can be obtained.

For shares issued from 6 April 2011 the relief has been 30% of the cost of the shares, to be set against the individual's income tax liability for the year of assessment in which the shares are issued.

Linked sales

Finance Bill 2014

- The amount subscribed on which income tax relief may be claimed will be reduced by the amount of consideration the investor receives for a sale of shares "linked" to the subscription.

A sale is linked where the individual sold shares in the same VCT as the VCT subscribed, or in a "successor" or "predecessor" VCT, and either the subscription is in any way conditionally linked, or the subscription and sale are within 6 months of each other. "Successor" and "predecessor" VCTs are defined in new section 264A(7) ITA 2007.

The measure will not affect subscriptions for shares where the monies being subscribed represent dividends which the investor has elected to reinvest.

The restrictions will affect claims to relief for investment in VCT shares, by reference to shares issued on or after 6 April 2014.

Nominees

An individual will qualify for income tax relief if the subscription is made on the individual's behalf by a nominee. This will apply in respect of shares issued on or after the date that Finance Bill 2014 receives Royal Assent.

Seed Enterprise Investment Scheme (SEIS)

What was announced?

The SEIS is to be made permanent. In addition, the associated capital gains tax reinvestment relief will be made a permanent feature of SEIS providing relief on half the qualifying gains that individuals reinvest in SEIS qualifying companies in 2014/15 or subsequent years.

EIS and VCTs consultation

What was announced?

The government is concerned about the growing use of contrived structures to allow investment in low-risk activities that benefit from income guarantees via government subsidies and will therefore explore a more general change to exclude investment into these activities. The government is also interested in exploring options for venture capital reliefs to apply where investments are in the form of convertible loans, and will be considering this as part of a wider consultation and evidence gathering exercise over summer 2014.

What does it mean?

Investors and their advisers will need to keep up to date with these changes!

Simplifying Charges on Trusts

What was announced?

Following consultation announced at Budget 2013, the government will simplify filing and payment dates for IHT relevant property trust charges. It will also treat income arising in such trusts which remains undistributed for more than 5 years as part of the trust capital when calculating the 10-year anniversary charge. The government will consult further on proposals to split the Inheritance Tax (IHT) nil rate band (NRB) available to trusts with a view to delivering this change alongside simplification of the trust calculations. Legislation will be introduced in Finance Bill 2015.

What does it mean?

From an advice perspective, attention is primarily focused on the proposals to split the NRB.

Its common knowledge that discretionary trusts are potentially subject to IHT on each 10th anniversary. Without such a regime, funds inside a discretionary trust would fall into a black hole as far as IHT is concerned given that none of the potential beneficiaries will have trust funds inside their estate - at least until such time as the trustees decide to advance funds in their favour which could be many years down the line.

The current rules - calculating tax due at the 10th anniversary

The trustees take the value of the trust fund, add in the value of chargeable lifetime transfers (CLTs) made by the settlor during the 7 years before the trust was created and deduct the NRB. Any excess is then taxable at a maximum of 6%.

If there are any "related" trusts then they get added in to the mix. Trusts are "related" if set up by they same settlor on the same day.

The trustees must therefore establish:

- The historic value of any property in any other trusts that the settlor set up on the same date as the trust concerned, and
- The historic value of any CLTs that the settlor made in the seven years before this trust was set up

The government acknowledged that this regime can be complex, onerous and often disproportionate to the tax at stake (there are additional complexities to tax capital exiting the trust between 10 year anniversaries).

With the above in mind, HMRC proposed that the settlor's previous lifetime transfers could be ignored by the trustees and instead the NRB would simply be split by the number of discretionary trusts which the settlor has made and in existence at any time between the date the trust commenced and the time of the charge. In other words, trusts already established using "Rysaffe" planning principles may be affected. If this particular proposal is enacted, the "related" trusts rule would no longer be necessary. It would also mean that it would no longer be advantageous for a settlor to create multiple trusts.

The Rysaffe case

http://www.bailii.org/cgi-bin/markup.cgi?doc=/ew/cases/EWCA/Civ/2003/356.html&query=title+(+Rysaffe+)&method=boolean

Richard & John Utley were brothers who owned shares in a private company, Richard Utley Limited. In February and March 1984, each brother set up five separate discretionary trusts with £10 in each. Each trust was virtually identical but dated differently. Each brother then transferred 6,900 shares in the company into each trust so that in total they had each transferred 34,500 shares into trust. In all cases, the trustees were the Rysaffe trustee Company who were non UK resident.

The case considered the first 10th anniversary charge in 1994.

HMRC (back then, the Inland Revenue) argued that each brother's 5 trusts should be aggregated to calculate the 10 yearly charge meaning that only one NRB would be available per brother. The taxpayers argued that there were 5 separate and distinct trusts each with its own NRB

Although the Special Commissioners found in favour of The Revenue, the Court of Appeal sided with the taxpayers.

Implications of Rysaffe
On the surface, this seemed great news- clients can set up different discretionary trusts on different days and enjoy multiple NRBs. Why then was this ruling not overly exploited?

A simple example explains why:

Example

Client A who has made no previous gifts transfers £300,000 into a discretionary trust. The client will have no lifetime tax due but the trustees must calculate the 10th anniversary charge. Assume the trust fund at that time is £550,000 and the NRB is £400,000. The 10th anniversary charge is

- £500,000 less £400,000 = £150,000 x 6% = £9,000.

Client B, with Rysaffe in mind gifts £150,000 into Trust One on day one and £150,000 into Trust Two on day two. At the 10th anniversary the combined trust fund is again £550,000 though clearly split £275,000 into each trust.

Trust One

£275,000 less £400,000 - no 10th anniversary charge in Trust One

Trust Two

Similar calculation but the trustees need to add in the value of chargeable transfers made by Client B prior to Trust Two coming into existence (that will include the £150,000 settled into Trust One. The calculation is therefore

£275,000 plus £150,000 less £400,000 = £25,000 x 6% = £1,500.

A saving of £7,500 has been achieved but extra administration cost might reduce the saving. More importantly, if Client B wanted to set up Trust Three on day three for another £150,000 then B would be then be subject to lifetime IHT since cumulative CLTs of £450,000 would exceed the NRB. It is this aspect which constrains the use the Rysaffe principle.

Examples of using Rysaffe in practice

- Where initial transfers to a discretionary trust are low with the expectation of significant funds in the future. For example rather than setting up one regular premium life policy with a sum assured of £1m and placing that into a discretionary trust, then a client might set up 3 policies each with a sum assured of £333,333 and place into 3 separate discretionary trusts on different days.

- Where there is the potential for (say) a £1m lump sum death benefit to be payable from a pension scheme, then a client might instead of setting up one pilot trust for £10, set up three pilot trusts each for £10 and request that the lump sum be distributed between the three trusts.

- Client gifts £325,000 into a discretionary trust, and after 7 years have elapsed wishes to make another lump sum gift into discretionary trust. From a 10th anniversary charge perspective, the client may wish to set up a new discretionary trust rather than adding to that existing trust.

In the majority of cases where lump sum IHT planning is being undertaken then the removal of the Rysaffe principle may have little effect due to the inherent necessity of keeping cumulative CLTs within the NRB to avoid lifetime IHT. Advisers should also bear the following in mind

- The new rules are simpler - it's no bad thing that the trustees will not now have the complexity of having to ascertain the settlor' cumulative total at the time of setting up the trust

- A 10th anniversary charge is not the end of the world! Consider two trusts with £375,000 in each, and both entitled to a NRB of £162,500. Each trust will pay 6% tax on the excess amounting to £12,750 x 2 = £25,500. That's not a bad price to pay for the flexibility and efficiency of having £750,000 in trust. Contrast that with the potential exposure, tax or otherwise of 2 individuals each owning £375,000 outright.

- Discretionary trusts are not just subject to IHT, remember that income tax and capital gains tax needs to be considered for trustee investments. Income is taxed at 45% for sums over £1,000 (37.5% dividends) and capital gains are taxed at 28% (exemption limited to £5,450). Insurance bonds are however non income producing and not subject to capital gains tax, and therefore subject to the chargeable event regime. Therefore:

- No income tax until a chargeable event occurs

- 5% withdrawals available

- Transferrable without a chargeable event

These advantages combined with using trusts can deliver effective IHT planning strategies

- If the client sets up a discretionary loan trust then it is not the bond value subject to a 10th anniversary charge but instead the bond value less the outstanding loan. In other words, the growth would need to be huge before any charges would arise.

- If the client sets up a discretionary Discounted Gift Trust (DGT) then the 10th anniversary charge is based on the value of the bond less the value of the rights retained by the settlor. Accordingly there is a further discount calculation. Strictly that could entail establishing the health of the investor at year 10 which would be a burden on the trustees. HMRC have however recently agreed to accept the settlor's rated age at inception plus ten years for each ten year anniversary. This minimises the administrative burden on trustees and product providers.

- If the client is setting up more than one discretionary trust then it will not be efficient to have a trust with a small trust fund using up a proportion of the NRB. For example client sets up a discretionary trust for lump sum IHT planning purposes, and a "pilot" spousal by pass trust for pension death benefits. That second trust might comprise just £10 until the client dies, but will utilise 50% of the NRB. A better solution might be to use the lump sum IHT planning trust as the intended recipient of the death benefits.

Example

Client sets up a discretionary loan trust for £500,000. In lifetime, the client has full access to the loan and the growth accrues outside the client's estate so achieving lifetime IHT planning. The client can then express a wish that the pension death benefits are paid across to the trustees of the loan trust. The trustees can then exercise their discretion to benefit the surviving spouse, partner etc. as appropriate so achieving IHT planning on death.

- Establishing multiple trusts might not necessarily be 'Rysaffe' planning as such. An individual placing an investment into a discretionary trust could be disadvantaged under the proposals if he/she had previously set up separate trusts for various life policies. We will need to see whether there are any exclusions for life policy trusts.

Miscellaneous anti-avoidance provisions

Annual Tax on Enveloped Dwellings (ATED)

Finance Act 2013 introduced the ATED on certain non-natural persons owning UK residential property valued at more than £2 million. This threshold will be reduced to £500,000 with effect from 1 April 2016.

The charges and thresholds for 2014-15 are;

Property value	Charge for 2014-15
Less than £2m	Nil
£2m - £5m	£15,400
£5m - £10m	£35,900
£10m - £20m	£71,850
More than £20m	£143,750

Offshore employment intermediaries

Legislation will be introduced in Finance Bill 2014 to strengthen obligations to ensure the correct income tax and National Insurance contributions are paid by offshore employment intermediaries. These changes will have effect from 6 April 2014.

Onshore Employment Intermediaries: False self-employment

Legislation will be included in Finance Bill 2014 to prevent employment intermediaries being used to avoid employment taxes by disguising employment as self-employment. Again these changes will have effect from 6 April 2014.

Partnership

Partnership arrangements (and particularly the use of “fixed share” and “salaried” partners) have been used to:

(a) disguise employment relationships (and consequential reduction of employment taxes) in relation to salaried members of Limited Liability Partnerships (LLPs);

(b) promote tax-motivated allocations of business profits or losses in partnerships (not just LLPs) where the partners include both individuals and companies (mixed membership partnerships); and

(c) facilitate tax-motivated disposals of assets through partnerships.

On 19 March 2014, a resolution was made providing for the operation, from 6 April 2014, of PAYE in respect of income tax payable on behalf of salaried members. The National Insurance contributions (NICs) Act 2014 and associated regulations provide for the changes to NICs legislation that will take effect from 6 April 2014.

Artificial use of dual contracts by non-domiciles

High earning non-domiciled individuals have been able to avoid UK tax by artificially dividing the duties of a single employment between a UK and an overseas contract. Overseas employment income will be taxed on the arising basis where tax is not payable on the overseas contract at a rate broadly comparable to UK tax rates. These changes will have effect from 6 April 2014.

Social Investment Tax Relief

The Chancellor announced the introduction of a new tax relief for investment in "social enterprises".

What was announced?

Background

In last year's Budget the Government announced that it would consult on the introduction of a new tax relief to encourage investment in social enterprises. The idea behind this new relief is that granting income tax and capital gains tax reliefs for investors in social enterprises will encourage capital raising from both individual investors an commercial lenders.

Outline of Relief

Income tax relief will be available at 30% of the amount invested. This relief will be given as a "tax reducer" - it will be deducted from the investor's tax liability for the year in which the investment is made.

Capital gains on social enterprise investments will be free of capital gains tax providing certain conditions are met.

Capital gains tax on other assets may be deferred where there is an investment in a social enterprise.

The investment can be made in the equity of the enterprise (i.e. shares) or by lending to the company (i.e. loan stock).

Anti-avoidance

As would be expected the Government is concerned that the new relief is not "abused" and is confined to "genuine" social investments. The draft legislation extends to 43 pages and contains the full panoply of anti-avoidance provisions associated with an investment relief.

Effective Date

Income tax relief will be available for "qualifying investments" made on or after 6 April 2014.

Capital gains tax reliefs will apply to gains arising on or after 6 April 2014.

An investment is made when the enterprise issues shares or loan stock.

What is a "social enterprise"?

A social enterprise is defined as:

- a community interest company
- a community benefit society (to be defined in the Co-operative and Community Benefits Societies Acts currently being consolidated.)
- a charity

Limits

There will be an upper limit (yet to be announced) on the amount on which relief is available. It will be possible to invest in excess of that limit - but without the benefit of tax relief on the excess.

An individual can elect to have some (or all) of the investment treated as if it was made in the preceding tax year with relief given accordingly.

Eligibility

Eligibility conditions attach to:

- investors
- the investment
- the investee enterprise

Some of these conditions have to be met for a specified continuous period of time; some of these time periods start before the investment is made. Two time periods are defined:

Shorter applicable period - begins with the date on which the investment is made and ends three years thereafter.

Longer applicable period - begins on the date the enterprise is incorporated (or twelve months before the investment is made if later) and ends three years after the date of the investment.

Investors cannot get relief if they (or their associates) are employees, partners, remunerated directors or trustees of the enterprise. Investors who control the enterprise directly or indirectly, (during the longer applicable period) can't get relief.

The **investment**, if in shares, must not have any right to a fixed dividend or whose rate is determined other than by the enterprise's financial success. If the investment is by way of loan the interest payable may not exceed a "reasonable commercial rate". There must be no arrangements in place which would protect the investment; nor must the investment have a guaranteed exit. The shares/loan stock must not be "listed" when the investment is made.

The investee enterprise must have fewer than 500 full-time equivalent employees.

Eligible organisations will be able to receive up to €344,827 of tax advantaged investment over a three year period.

The primary purpose of the enterprise must to carry on a trade (on a commercial basis and with the aim of making a profit) but certain trades will be excluded including:

- dealing in certain types of assets and commodities
- property development
- certain financial activities
- agricultural activities
- road freight transport

This trading requirement must be met throughout the shorter applicable period.

What does it mean?

This new tax relief is an offshoot of David Cameron's "Big Society" project. Although not all of the details of the scheme are as yet available it seems clear that it will follow the Enterprise Investment Scheme model.

All clients will be interested in the generous tax reliefs available and those of with ethical leanings will appreciate the opportunity to be rewarded for following a "green" agenda.

Those clients who have holdings in ethical OEICs might be particularly keen to explore this alternative investment.

Further details will be published on 27 March 2014.

Other Sundry

What was announced?

National Savings & Investments (NS&I)

The government will increase the Premium Bond investment limit from £30,000 to £40,000 and offer two £1 million monthly prizes instead of one from 1 August 2014, and then further increasing the limit to £50,000 in 2015/16.

In addition, the government will launch in January 2015 a range of fixed-rate, savings bonds for people aged 65 and over, taxable in line with all other savings income. Interest rates and individual investment limits will be confirmed at Autumn Statement 2014 to take account of prevailing market conditions but the central assumption currently is that NS&I will launch a 1-year bond paying 2.8% gross/AER and a 3-year bond paying 4.0% gross/AER, with an investment limit of £10,000 per bond.

The UK personal allowance and people who are not resident in the UK

The government intends to consult on whether and how the allowance could berestricted to UK residents and those living overseas who have strong economic connections in the UK, as is the case in many other countries, including most of the EU.

Share incentive plans and save as you earn

The government will increase the Share Incentive Plans annual limits to £3,600 per year for free shares and to £1,800 per year for partnership shares. The maximum monthly amount that an employee can contribute to Save As You Earn (SAYE) savings arrangements will increase from £250 to £500. These changes will take effect from April 2014.

Rise in trivial commutation and small pots

Rise in Trivial Commutation Limit

What was announced?

The Budget stated that there would be an increase in the trivial commutation limit from £18,000 to £30,000 from 27 March 2014. A trivial commutation amount can be paid when the member is 60 or over and the total value of their pension rights under all registered pension schemes is less than the commutation limit. This then extinguishes all rights the member has under the scheme. The first 25% is paid tax-free and the remaining 75% is taxed at the member's marginal rate of tax.

Finance Act 2004 and Regulation 10 of the Registered Pension Schemes (Authorised Payments) Regulations 2009 (SI2009/1171) will be amended to read £30,000 instead of £18,000.

What does it mean?

The Government has published a consultation on fundamental changes which are planned for April 2015. If the proposed changes take place then trivial commutation will become obsolete.

However, in the interim period, this change allows those members whose pots were more than £18,000 but less than £30,000 to take the full pot without having to purchase an annuity. Care will have to be taken to make sure that the member continues to have sustainable income throughout retirement.

Rise in Small Pots Limit

What was announced?

The Budget stated that there would be an increase in the amount which can be taken as a taxed lump sum from small pension pots and the number of small pots which can be taken from 27th March 2014. Small lump sums are currently paid irrespective of the member's total pension savings. The total that can be taken is £2,000 twice.

The Registered Pension Schemes (Authorised Payments) Regulations 2009 (SI2009/1171) will be amended to state that the limit for small pots being commuted into an authorised lump sum is £10,000. There may now be three small lump sum payments from schemes which are not occupational or public service pensions. Article 23C will also be amended to allows members with transitionally protected rights to receive PCLS of more than 25%, and then receive the balance of the fund to be paid as a taxed lump sum if it is less than £10,000.

<u>What does it mean?</u>

The Government has published a consultation on fundamental changes which are planned for April 2015. If the proposed changes take place then small pots will become obsolete.

However, in the interim period, this change allows those members who have a few different small pots to take a maximum of three pots under £10,000 as a lump sum. This is most beneficial to those members who have one large fund and other smaller amounts of pension savings. It may also mean that members can take smaller pots now and await any changes in legislation.

In addition, it will be possible for a member with three arrangements under £10,000 and a fourth arrangement under £30,000 to take all of these arrangements in the next year which would potentially be almost £60,000. However, to do this the small lump sums must be taken first.

Drawdown changes

What was announced?

The Budget announced that with effect from 27 March 2014 the maximum income from capped drawdown will increase from 120% of GAD to 150%. This follows the earlier increase to 120% of GAD from 100% last year.

The Finance Act 2004 (FA04) details payments that a registered pension scheme is allowed to make to or in respect of its members. Pension Rule 5 in section 165 limits the amount of income from a capped drawdown plan that may be taken within a drawdown pension year to 120% of the 'basis amount'. **This limit will now be 150% of the basis amount**. This is an increase of 25% in the maximum available income.

A recalculation of the basis amount does not result in the new limits applying e.g. on additional designation, partial annuitisation, divorce or member request. The new limit will apply for drawdown pension years starting on or after 27 March 2014.

For those who have an income large enough to fulfil the Minimum Income Requirement (MIR) there is no such cap and as much or as little as desired can be taken, subject to tax at the member's marginal rate. Currently a relevant income of £20,000 is required, as defined in FA04 schedule 28 paragraph 14A. **The MIR will reduce to £12,000**. This is will also apply to dependants flexible drawdown (paragraph 24C).

What does it mean?

Income amounts should not be the key driver in choosing the correct retirement income vehicle so the impact will depend on the reasons for choosing the drawdown route, either capped or flexible.

People may consider delaying entering new drawdown arrangements until after the effective date or else they would have to wait one complete year for the new 150% limit to apply.

<u>Capped Drawdown</u>

With one exception, there is no action available which will bring forward the move to the 150% limit on capped drawdown as there is no provision in legislation which would bring forward the start of a drawdown pension year. The exception to this would be for pension years starting after age 75 with multiple arrangements. In that situation, it may be possible to have one or more drawdown pension

years aligned. Those members recycling their drawdown income to maximise their tax free cash and death benefits may choose to increase their contributions to maximise efficiency.

Flexible Drawdown

For members now eligible to enter flexible drawdown it is important that a review of their tax position is carried out. As no further pension contributions can be made in the tax year a member enters flexible drawdown so the benefit of additional income should be weighed against losing the ability to reduce adjusted net income with pension contributions. The second tax consideration is that, as with current drawdown income, the amount will be taxed at the members marginal rate making timing important.

Conclusion

Clearly, where incomes are increased the investment portfolios underpinning the drawdown contract may need assessed to gauge the impact of the extra withdrawals.

Pension Flexibility Future Changes

Pensions Flexibility

What was announced?

The Budget stated that the government want to legislate to allow those with a defined contribution scheme the choice about how this might be taken. The accompanying consultation document **"Freedom and choice in pensions"** explains the government's proposed approach to achieve this flexibility. The main proposal stated is that tax rules will be changed to allow individuals access to all pension savings. After a tax free lump sum of 25%, the rest of the fund will be taxed at marginal rate.

The consultation mentions that currently those with small and very large pension pots have a flexibility but that these changes would give all individuals the same choices; full withdrawal, annuity purchase or drawdown.

It is anticipated that the increased flexibility would start in April 2015.

<u>What does it mean?</u>

This is a consultation document and there will be no changes before April 2015. However, the proposals could have an impact on planning during the next year and clients may delay making decisions. It may also mean that many clients want to increase pension contributions.

According to the consultation an annuity may still be suitable for most individuals as they will need income for the rest of their life. The planning considerations will still be the same - what element of risk is the client willing to take? What retirement outcome is the most suitable?

New 3A NICs

What was announced?

Further detail has been provided on the new Voluntary National Insurance Contribution announced in the Autumn Statement last year. It is available to those reaching State Retirement Age before 6 April 2016 and will be available from October 2015. The application window will be open for 18 months although earlier comments from HMRC indicate they expect the majority of applications to be early.

The premise is simple: a client can buy an additional £1 per week of state pension at an 'actuarially fair rate'. The maximum that can be purchased will be £25 per week of additional pension. Given it is state pension this should increase over time, currently by the Triple Lock guarantee: the highest of average earnings, 2.5% or RPI.

The government expect this will be of particular interest to woman and those who have been self-employed as these groups tend to have low Additional Pension entitlement.

What does it mean?

As an increase to the Additional Pension this should provide valuable benefits such as protection from inflation and spouses benefits.

Until details of the cost are available it is difficult to assess how beneficial it will be. If nothing else, it's another planning consideration for those clients who will be retiring before April 2016.

Other Pension Matters

Abolish age 75 Rule

What was announced?

The government intends to consult with stakeholders on those tax rules which prevent individuals aged 75 and over from claiming tax relief on their pension contributions. The consultation will seek to establish if these rules should be amended or abolished.

What does it mean?

For now: very little.

Should the rules be abolished then it provides those aged over 75 with the same planning opportunities as younger individuals. In particular, IHT planning with pensions could become available to the over 75s.

As discussed below, separate consultations regarding tax on death and dependents benefits are also being carried out and may have connected consequences.

Increase in Retirement Age

What was announced?

The government will consult on raising the age at which an individual can take their private pension savings from 55 to 57 in 2028 (the point that the State Pension age increases to 67).

This will have no impact on schemes offering retirement ages earlier than this to people with severe health problems.

The consultation welcomes comments concerning the age at which private pensions can be accessed increasing in line with state retirement age.

What does it mean?

Those individuals who are intending to retire at age 55 beyond 2028 should review their retirement strategy. For some, it may be possible to retire by utilising alternative savings for these two years. However redirecting savings to a vehicle allowing this will likely mean foregoing the potential tax benefits of a pension.

Free Financial Guidance

What was announced?

The government has said it will ensure that from April 2015 all individuals with a defined contribution pension will be offered free and impartial face-to-face guidance at the point of retirement. The budget details that £20 million will be made available over the next two years to develop this initiative.

The FCA has been asked to work with consumer groups to ensure this guidance meets robust standards.

What does it mean?

Once up and running, all clients will have access to free guidance at the point of retirement. There are no details yet on what this guidance will include but as it is labelled as guidance and not advice there may still be a need for at retirement advice.

Public Sector Transfers

What was announced?

The government intends to introduce legislation to remove the option for public sector pension members to transfer their pension to defined contribution plans, except in very limited circumstances. This is in response to other intended changes announced for defined contribution pensions.

What does it mean?

Public sector workers will be unable to move potentially large, unfunded pension pots to defined contribution pensions. This will prevent those workers from taking advantage of alternative income options to extract these funds.

Dependants' Pension Scheme

What was announced?

The government will consult on options to simplify the Dependent's pension scheme rules to ensure the rules apply fairly.

What does it mean?

Any legislative changes will be in a future Finance Bill. Given a review of tax on death within pensions has been announced, it makes sense to review dependants pensions so that there is consistency.

Pension Liberation

What was announced?

HMRC is to be given broader powers to prevent pension liberation. This will be done through greater control over the registration and de-registration of pension schemes. These changes are effective from 20 March 2014.

What does it mean?

There continues to be a focus on reducing pension liberation schemes. However, the proposed changes to flexible drawdown may remove some of the attraction of this route.

Tax on Death

What was announced?

The government believes that the current 55% charge will be too high in many cases in the future. The government will engage with stakeholders to review these rules to ensure the current tax rules that apply to certain pensions on death continue to be appropriate.

What does it mean?

Until the consultation is released with details of the changes intended it is difficult to say what the consequences will be. The impact will be connected with the proposed changes to flexible drawdown.

At Seven Financial we are here to help.

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