



FEATURE ARTICLE

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The Pre-Election Budget 2015 – A Revolution for Savers?

With the general election on his calendar George Osborne produced a Budget which he said showed Britain was "The Comeback Country" and included other pre-election sound bites such as "A tenner off a tank [of petrol] with the Tories". But what did he actually announce? Here are what I believe are the key measures of interest to retail clients...it must be remembered however that not all these changes will necessarily actually happen as a new Government could decide to change policies. I was interested to note that in an interview on the Today programme on Radio 4 the shadow Chancellor, Ed Balls did say that there was nothing in the Budget that he would repeal – although I am of course conscious that as with George Osborne he is a politician.

ISA 'freedom'

The government is to allow savers the "complete freedom" to take money out of a Cash ISA and put it back in later in the year. The reform means that, instead of being able to put up to £15,240 in the 2015-2016 tax year into an ISA in total, savers can take out their money and put it back in within the same tax year, without losing their ISA tax entitlement. The only condition is that the repayment is made in the same financial year as the withdrawal and only applies to the current tax year ISA allowance. It is important to note that at present it appears the rules make no provision for these freedoms to apply to Stocks & Shares ISAs, but the exact details will be subject to a consultation, with more details available in the autumn.

Help to Buy - for ISAs!

Similar to its 'Help to Buy' programme for homebuyers, the government has announced that savers will be able to open an ISA to save for their first home, and the government will boost it by 25%. The maximum initial deposit will be £1,000 and the maximum monthly savings thereafter will be £200. The maximum bonus will be £3,000 on £12,000 of savings. Savers will have access to their own money and will be able to withdraw funds from their account if they need them for another purpose but the



government bonus will only be payable for home purchase. The government bonus is available on homes up to £450,000 in London and up to £250,000 outside London.

Personal allowance

Much-mooted in the build-up to the Budget, George Osborne said the tax free personal allowance will increase to £10,600 from April 2015, £10,800 in 2016/17 and £11,000 in 2017/18. He also announced that the higher rate threshold will increase. The basic and higher rate tax bands will change as follows:

	Basic rate tax band	Higher rate tax threshold
2014/15	£31,865	£41,865
2015/16	£31,785	£42,385
2016/17	£31,900	£42,700
2017/18	£32,300	£43,300

The chancellor also announced plans to introduce a “Personal Savings Allowance” from April 2016. For basic rate taxpayers the first £1,000 of savings interest will be tax free and the first £500 for higher rate taxpayers. (Additional rate taxpayers will not benefit.). As part of these reforms, the Chancellor announced that the automatic deduction of 20% income tax by banks and building societies on non-ISA interest paying savings will cease from April 2016.

Pension extension to current annuities

The government is to extend the pension “freedoms” announced at last year's Budget to existing annuity holders. The change means up to five million pensioners will be given the freedom to sell their annuity for a cash lump sum. The facility will not be available for annuities bought by the trustees of occupational pension schemes. In the hands of any purchaser of the annuity, the income will be taxable as trading income or miscellaneous income. The proceeds of the sale could be taken directly or drawn down over a number of years and will be taxed at their marginal rate, in the same way as those taking their pension after April 2015 (not including the pension commencement lump sum). Importantly income can only be sold to a third party with the agreement of the annuity provider.

Lifetime allowance for pension tax relief reduced to £1m from 1.25m

The lifetime allowance for pensions will be reduced from £1.25m to £1m from 6 April 2016. Transitional protection for pension rights already over £1m will be introduced alongside this change to ensure the change is not retrospective. The limit will be indexed to inflation (CPI) from 2018 so should have less of an impact on those currently still working and saving into a pension.

Premium Bonds

The planned increase to the NS&I Premium Bond investment limit to £50,000 will take place on 1st June 2015.



Conclusion:

An interesting set of new proposals such as the Help to Buy ISA, the new “Personal Savings Allowance” and further changes to the pensions regime but as I highlighted at the beginning of this article please do remember that all these proposals will only become law if and when the relevant Finance Act is passed by Parliament and a new Government after May might decide to alter some of these proposals before they come into force.

The last Budget was seen as the “Pension Budget” and there is no doubt that the Chancellor wanted this Budget to be seen as the “Savers Budget”.

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