Budget 2014

It was hailed as a Budget for "Makers, Doers and Savers" by the Chancellor so now that the dust has settled a bit, what does it mean for Family Businesses?

Here are some key points for Family Businesses announced in the Budget:

- Doubling of the Annual Investment Allowance to £500,000
- Increase in the rate of R&D tax relief for loss making SMEs to 14.5%
- A package aimed at cutting energy bills for British manufacturers
- Fuel duty rise planned for September will not happen
- Enhanced export finance package to help target overseas markets
- Increase in personal tax allowance to £10,500 from April 2015
- Cash and shares ISA to be merged into single ISA
- Major and radical changes to accessing pension savings

Makers

The most obvious measure for the 'makers' is the doubling of the Annual Investment Allowance to £500,000. This applies to capital investment incurred on plant and machinery between 1 April 2014 and 31 December 2015 and provides immediate tax relief on capital investment. This is subject to transitional rules therefore careful consideration should be given to the timing of investments planned close to the adoption and cessation dates.

This is a welcome measure and will encourage many businesses to review their investment plans. Of course this expenditure has to be financed and while many Family Businesses have the resources to back this it is also an opportunity for the banks to assist with innovative lending.

There is also an increase in the rate of the payable R&D tax credit for SMEs to 14.5% which will be available to loss making businesses, ensuring they will be able to claim back more cash where they are undertaking R&D. The Chancellor has also announced a welcome package of measures to reduce energy bills for British manufacturers, and the fuel duty rise planned for September will not now happen.

Doers

There are lots of opportunities for ambitious Family Businesses and the Government is keen to see more firms grow through exports and targeting the fast-growing emerging markets. The Chancellor has consequently announced an enhanced Export Finance package, with lending and support backed by Government where there is an inability to access this from the usual market sources. The Government scheme is to double to £3bn and interest rates on that lending cut by a third. This could make all the difference to those Family Businesses looking to expand overseas but wary of the increased financial risk involved. Certainly, the Government's case studies show how keen they are to promote the new expanded scheme.

The Chancellor also increased the personal tax allowance to £10,500, delivering an effective tax reduction to the vast majority of employees, albeit this does not come into effect until April 2015 – the Government always seem keen on trailing good news well in advance!

Savers

The Chancellor announced a radical overhaul of the pension regime and a substantial increase in the amount that can be saved in ISAs (£15,000). The pension regime changes are the most significant the industry has seen in decades, and will alter financial planning objectives for business owners and employees alike. The changes to how people can access income from their pension pot are far-reaching but it is worth noting that at the moment they are merely proposals. The Government is consulting on the changes which will be introduced from April 2015, but there are some transitional measures which take effect from 27 March of this year and it is safe to say that reform is on its way.

Looking forward there will be a range of retirement options available to all who are members of Defined Contribution schemes (there will be a later announcement on Defined Benefit schemes) which will give much greater freedom on how and when to take income from the pension pot. This could be good news for many as the need to buy an annuity will disappear, something that is welcome but unexpected as can be seen from the stock market reaction to insurers shares. The need to plan carefully to enjoy a financially secure retirement will be essential however, not only when saving but also on a regular basis when drawing income and it will be interesting to see how the financial services industry reacts to this changed landscape. Certainly the reaction from many business owners I have spoken to is very positive. There will be a requirement that all reaching retirement age will be guaranteed free retirement planning advice. Someone will have to pay for this however, and it will be interesting to see if the burden falls on employers or the financial services industry.

Summary

From a tax perspective the detailed announcements we all pore over were thinner than in previous years. Having said this, the overhaul of the pensions regime makes this one of the most radical (and possibly memorable) Budgets of recent times. Many Family Businesses will welcome the increased tax allowances for expenditure on plant & machinery, and of course the previously announced reductions in the corporation tax rate (21% from April 2014 and 20% from April 2015) mean more can be reinvested for future business growth – where Family Businesses have a strong track record.

The pensions changes will mean that family members will have greater flexibility in planning their financial futures and this is to be welcomed. So on balance I would judge this to be a positive Budget for Family Businesses, but more for its long term affects than short term benefits. But long term focus is where Family Business excel.

Further information

For more detail including a budget calculator, webinar recording and detailed commentary please visit KPMG's dedicated Budget website or email your query to KPMG's Head of Family Business, and Tax Partner, Gary Deans on gary.deans@kpmg.co.uk.

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