FINANCIAL FOCUS

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# How to navigate the Capital Gains Tax changes

## Ensure your hard-earned investments work efficiently for your future

Cuts to the Capital Gains Tax (CGT) exemption mean it is now more critical than ever to arrange your investments tax-efficiently. For the tax year 2024/25, the CGT allowance has been reduced to £3,000, allowing you to make tax-free gains up to this amount. However, any gains above this limit may be subject to CGT.

For higher and additional rate taxpayers, the rate stands at 24%. By comparison, basic rate taxpayers face an 18% CGT liability if their gains and taxable income stay within the basic rate Income Tax limit. Any gains on top of taxable income that fall above the basic rate band threshold will also be taxed at 24%.

Appropriate planning is essential to ensure your hard-earned investments work efficiently for your future. CGT is complex, and with our professional financial advice, we can help you avoid unnecessary tax payments. Below, we explore practical strategies to reduce a potential CGT liability.

### Make use of your annual allowance

Every individual benefits from an annual CGT exemption, which permits tax-free gains of up to £3,000 in the 2024/25 tax year. Importantly, this allowance cannot be carried forward, meaning it's lost if you don't use it within the tax year. With the exemption now less generous, it may be prudent to maximise it annually to minimise potential CGT liabilities in the future.

### Offset gains with losses

These may reduce your CGT liability if you've incurred investment losses. Gains and losses realised within the same tax year are offset against each other, reducing the taxable gain. Furthermore, unused losses from previous years can be carried forward to offset future gains, provided they've been reported to HM Revenue & Customs (HMRC) within four years of the tax year in which the loss occurred. Carefully tracking historic losses and using them effectively is valuable in cutting your CGT bill.

### Leveraging tax reliefs through partnerships

One of the simplest yet often overlooked strategies is asset transfers between spouses or registered civil partners. Such transfers are entirely exempt from CGT, allowing couples to utilise both partners' annual CGT exemptions. This effectively doubles the tax-free allowance to £6,000 for couples, reducing overall liability. However, for the transfer to qualify, it must be an outright gift with no strings attached. Spouses and registered civil partners should ensure their financial arrangements adhere to HMRC rules to take full advantage of this relief.

### Use Your ISA allowance

Investments held within an Individual Savings Account (ISA) benefit from being entirely exempt from CGT. For the 2024/25 tax year, you can shelter up to £20,000 – rising to £40,000 for married couples or registered civil partners – under your annual ISA allowance. This tax-efficient wrapper enables long-term tax savings, particularly for higher and additional rate taxpayers. The 'Bed and ISA' strategy also allows investors to sell assets to realise a capital gain and immediately repurchase them within an ISA wrapper. While this ensures future gains on the investment are fully tax-exempt, be mindful of repurchasing costs such as stamp duty and potential short-term market risks.

### Expand your tax relief options

Contributing to a pension can help mitigate CGT exposure. Pension contributions extend the taxable income threshold for the basic Income Tax rate, ensuring gains within this extended band are taxed at just 18%, rather than 24%. This approach can also optimise your long-term financial security via retirement savings. Gifts to a registered charity present another compelling relief option. Donations of land, property or qualifying shares not only provide valuable charitable aid but may also attract both Income Tax and CGT relief for the donor. This dual benefit underscores the role philanthropy can play in tax planning.

### Considering hold-over relief and chattels exemptions

If you're transferring certain business assets or selling them at a discounted rate to assist the buyer – for example, to a family member – gift hold-over relief may apply. This defers CGT liability until the recipient disposes of the asset, provided specific eligibility criteria are met. Importantly, strict regulations govern eligibility, so seeking professional advice is essential to avoid pitfalls. Furthermore, gains from personal possessions referred to as 'chattels' can also escape CGT. Items such as antiques and jewellery are generally exempt, provided sale proceeds are £6,000 or under. Understanding the exemption criteria for such assets can prevent unnecessary tax charges.

### The value of expert advice

CGT is a multifaceted area of tax, and the consequences of non-compliance or unclaimed reliefs can be costly. Professional advice tailored to your individual circumstances can identify hidden opportunities and ensure you understand allowances, reliefs and options available to you. We can provide not only guidance but also peace of mind in an increasingly complex tax landscape. Future-proofing your financial plan requires considered action today, freeing you to focus on your goals without worrying about potential tax liabilities. ■

### TIME TO TAKE CONTROL OF YOUR FINANCIAL FUTURE?

Navigating the intricacies of CGT doesn't have to be daunting. With so many strategies to reduce your tax liability, we can provide the professional advice that makes all the difference. Please contact us if you want to learn more about tax-efficient planning or need personalised support. Our experienced team is here to assist you in making confident, informed choices, ensuring your wealth works harder for you.

# Pensioners set for income boost, but watch out for the tax trap

## Could you lose out on tax-free allowances for other income?

Many pensioners will enjoy another uplift in their State Pension income next financial year. From 6 April 2025, the State Pension is due to rise by 4.1%, on the back of an 8.5% increase in April 2023. This growth adheres to the government's 'triple lock' policy, which ensures that the State Pension increases annually by the highest of wage growth, inflation or 2.5%. However, this rise also brings potential complications for some retirees.

The increase will elevate the full new State Pension from £11,502 in the 2024/25 tax year to £11,976 in 2025/26. While this rise will be welcome for many, the frozen Income Tax personal allowance, held steady at £12,570 until April 2028, could be a pitfall for pensioners with additional income sources. It could result in losing out on tax-free allowances for other income, like savings or rental profits, and create unexpected tax liabilities.

### How rising pensions affect taxable income

For those who rely solely on their State Pension, no tax is payable if their income stays within the personal allowance. However, pensioners with extra income, such as private pensions, annuities or rental income, will need to monitor their earnings closely. Once the total exceeds the £12,570 threshold, any income above this limit becomes taxable.

The scenario could worsen in years to come. If the State Pension increases by two annual 2.5% hikes after 2025, it could surpass the Income Tax personal allowance within the 2027/28 tax year. As a result, many retirees may find themselves paying Income Tax on their entire State Pension sooner than expected.

### Tax bands and the impact on retirement income

The basic tax rate for 2024/25 is set at 20% for income above the personal allowance, up to £50,270. Any income beyond that is taxed at the higher rate of 40%, while earnings above £125,140 incur an additional rate of 45%. These thresholds apply to most parts of the UK, though Scottish taxpayers face different tax rates and bands.

Fortunately, there are strategies to help retirees manage their tax liabilities. For instance, basic rate taxpayers benefit from a personal savings allowance of up to £1,000 in 2024/25, while higher rate taxpayers have a reduced allowance of £500. The 'starting rate' band for savings income also allows those with low overall taxable income to earn up to £5,000 in savings Income Tax-free.

### Maximising tax-free allowances

Even modest tax savings can make a significant difference over the long term. Dividend income, for example, enjoys its own allowance, which lets investors receive £500 tax-free in 2024/25. Although this figure has been reduced from £1,000 in the previous tax year, it still provides an opportunity to shelter some earnings.

Tax-efficient vehicles, such as Individual Savings Accounts (ISAs), can also play a critical role in retirement planning. By investing in a Cash ISA or a Stocks & Shares ISA, pensioners can enjoy income and capital gains free from taxation, allowing their savings to grow unrestricted. National Savings and Investments (NS&I) also offers tax-free products like Premium Bonds, which combine strong security with the potential for large, tax-free cash prizes.

### Managing pension income and withdrawal strategy

Accessing private pensions requires careful planning to avoid unnecessary tax burdens. Retirees can withdraw 25% of their pension pot tax-free, but it's wise to spread taxable income over multiple years to remain in a lower tax band. For example, withdrawing smaller amounts across several tax years can prevent triggering higher tax rates.

Stocks & Shares ISAs remain a valuable tool for income supplementation. Unlike pensions, withdrawing money from an ISA doesn't incur additional tax, making it a highly flexible option for retirees looking to bridge income gaps or support long-term needs.

### Deferring the State Pension for long-term gain

Deciding when to claim the State Pension is another critical choice. Deferring receipt can increase the eventual payout, which may be especially beneficial for those still working or expecting reduced income later in life. However, the decision depends on factors like life expectancy and projected financial needs.

For those in a marital or registered civil partnership, income-splitting can be a smart move. Allocating assets or investments to the lower-earning partner can reduce overall tax liability. Additionally, matching asset types to accounts – such as using ISAs for dividend-yielding investments – can maximise tax efficiency in retirement.

### Planning for a tax-efficient retirement

Effective financial planning can help pensioners fully to utilise their allowances and options. Proactive steps, such as reducing taxable income with ISAs or leveraging allowances for savings and dividends, can make a substantial difference. Understanding your situation and adjusting your strategy regularly is essential for avoiding potential tax pitfalls.

### IS IT TIME TO DISCUSS TAKING A TAILORED ADVICE APPROACH TO YOUR RETIREMENT?

Navigating the complexities of retirement income and tax planning isn't always straightforward. If you require further information on managing your finances or assistance with specific queries, don't hesitate to contact us. We'll provide tailored financial advice to ensure you get the most from your retirement and minimise your tax liabilities.



To arrange a complimentary consultation or review, please contact our Independent Financial Advisers on 01803 224888.

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