Pennymatters
THE MODERN APPROACH TO FINANCIAL ADVICE

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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,

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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.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

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