

Top tips on capital gains tax

Background	Some people may be tempted to leave successful investments untouched and defer any capital gains. However, you could be much better off by actively managing your portfolios and using your capital gains tax (CGT) Annual Exempt Amount (AEA) every year. Your tax-free AEA is lost forever if you do not use it in each tax year. Manage your gains wisely with our top tips and avoid letting capital gains run away.
What is CGT?	CGT is a tax on the profit when you sell, or dispose of, an asset that has increased in value. It is the gain that you make that is taxed, not the amount of money you receive. For example, if you bought an investment for £5,000 and later sold it for £25,000, your gain would be £20,000 and may be subject to CGT.
Gifts may be subject to CGT too	A gift is also classified as a disposal. In the example above if the investment was given away with a market value of £25,000 then there is still a gain of £20,000, even though no money has been received. This may mean that CGT is due on the gift, and this must be budgeted for. This is especially important to consider if making significant gifts as part of estate planning.
The spouse exemption	The spouse exemption is a useful exception to the CGT rules on gifts. This allows assets to be transferred between a husband and wife, or civil partners, without triggering gains or CGT liabilities. In the above example, if one spouse transfers the £25,000 investment to the other no CGT is due. The receiving spouse's basis cost is that of their partner's original purchase price of £5,000. A future sale by the receiving spouse may result in gains that are subject to CGT, but this is postponed, and with careful planning may be reduced or avoided.
What do you pay CGT on?	You pay CGT on gains when you dispose of 'chargeable assets'. This includes property that is not your main home, the majority of investments, as well as most personal possessions worth over £6,000, such as art or wine collections. If you dispose of an asset that you own jointly, you have to pay CGT on your share of the gain.
What gains are not subject to CGT?	You do not have to pay CGT on your main home, which is the largest asset for many people. In addition, pensions and ISAs are also not subject to CGT and this allows for significant planning opportunities. The standard annual allowances for pensions (£60,000) and ISAs (£20,000) give an opportunity to shelter £80,000 a year from CGT, and also income tax. That's up to £160,000 a year (2 × £80,000) for a couple. UK government bonds (gilts), premium bonds, and lottery winnings are also not subject to CGT. Neither are cars, which typically decline in value over time.
CGT Annual Exempt Amount	<p>You only have to pay CGT on gains above your tax-free allowance, which is known as the Annual Exempt Amount. This allowance was cut from £6,000 for the 2023/24 tax year to £3,000 from 6 April 2024.</p> <p>To calculate total taxable gains for the tax year:</p> <ul style="list-style-type: none"> ▪ Work out the gains for each asset you have disposed of ▪ Add these gains together ▪ Deduct any allowable losses ▪ Deduct your tax-free allowance ▪ The balance is your taxable gain <p>Lumin manages this process for clients through 'capital gains harvesting' towards the end of each tax year, in order to ensure all available allowances are used effectively.</p>
Losses can offset gains	Losses can be used to offset gains in the same tax year. Consider a scenario where you dispose of two assets. One has a £20,000 gain, and the other has a loss of £17,500. The loss can be subtracted

from the gain, leaving a chargeable gain of £2,500 (£20,000 minus £17,500). As this amount is less than the tax-free allowance (in the 2024/25 tax year) no tax is due. If losses exceed gains in a given

year, they can be carried forward to offset gains in future tax years. You need to report a loss within four years of the loss occurring.

CGT rates

There are four different CGT rates depending on your income tax rate and the asset being sold:

- Basic rate income taxpayers pay CGT at a rate of 18% on standard chargeable gains, and residential property.
- Higher and additional rate taxpayers pay CGT

at 24% on standard gains and residential property. When calculating the CGT due the gains from the disposal are added to your income. This may mean your gains that year push you up into another tax bracket, resulting in a higher CGT rate applying.

When CGT has to be paid

CGT is due when filing your self-assessment tax return by 31 January, following the end of the tax year. Depending on the date of the disposal, the tax will be due between 9–21 months later.

The disposal of UK residential property is treated differently, and CGT is due 60 days after the sale of the property.

CGT on death

There is no CGT due for gains on assets held on death. Beneficiaries inherit the assets at their probate value. If the beneficiaries then sell the assets at a later date they will only pay CGT on any gains from the probate value rather than the gains from the original purchase price.

Deciding whether or not to dispose of property or investments in later life can be an important aspect of estate planning. There may be important considerations/implications for both CGT and inheritance tax planning.

Top tips

Careful planning can save thousands of pounds in CGT. There are several factors that need to be considered to deliver an optimum strategy as part of a holistic financial plan:

- Taking advantage of pensions, which are not subject to CGT. This may include lump sum and regular contributions
- Using ISAs to provide an additional shelter.

- Deciding how assets are best shared between couples to maximise allowances and minimise the CGT rates applied.
- Managing gains to take full advantage of the Annual Exempt Amount each year.
- Managing any investment losses to offset gains in current and future tax years
- Considering the timing of disposals between tax years.

Financial planning with Lumin

Careful planning can save thousands of pounds. There are a number of factors that need to be considered to deliver an optimum strategy as part of

a comprehensive financial plan. There are other reliefs available, such as Business Asset Disposal Relief, Rollover Relief, and Holdover Relief.

In expert hands with Lumin

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clients' income, assets, tax burden and financial security. Whatever your financial ambitions, you can count on our expertise to provide peace of mind. We are backed by VZ Group, the leading independent financial services provider in Switzerland.



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