Capital Gains Tax

How to steer clear of the CGT trap

Capital Gains Tax (CGT) can be one of the most complex taxes, so it's no wonder people fall into the trap of paying unnecessarily, or end up being fined for not paying when they should.

Here's how you might fall liable for CGT without even realising:

- You were given some free shares in a company as a bonus, which are worth **£5,000**
- Their value rises considerably and they're now worth **£25,000**
- Your 'taxable gain' (ie the profit you have made) if you sell them all at once is **£20,000**
- Until 5 April, the first **£6,000** of the tax rate is tax free, but you must pay tax on the remaining **£14,000**
- If you're a higher-rate taxpayer, the tax charge is **20%** – therefore the tax bill would be **£2,800**

There are several ways of reducing this bill – potentially to zero – including:

1 Holding the shares in an ISA, which makes them exempt from CGT (see page 4).

2 Realising £6,000 of the gains from shares this tax year (by 5 April), which is the 2023/24 tax-free threshold, and the rest over the following years (but be aware of allowance changes – see below for more details).

3 Transferring your assets to your spouse or civil partner so you can both make use of your individual allowances.

Times are changing

From 6 April 2024, the CGT allowance will fall from **£6,000** to **£3,000**.

So if you've not yet used your CGT exemption, you don't have much time before the change comes in. Making sure you're using losses and realising gains at the most appropriate time can make a big difference to the amount of tax you have to pay. This could mean moving assets into different wrappers – pensions and ISAs, for example – to make sure you're not creating gains, or splitting the sale of assets over several tax years.

Your deadline for making the most of your current CGT allowances is 5 April, the end of the current tax year. Get in touch today for a free consultation to discuss this and ensure you don't end up paying too much or too little.

Dividends

Consider holding your shares in an ISA

You usually receive payments from stocks and shares in the form of dividends. If they're not held in an ISA, it can mean you're liable to pay Dividend Tax. The first **£1,000** you receive in dividends is tax free, but after that you'll have to pay tax according to your Income Tax band: **8.75%** if you pay tax at the basic rate, **33.75%** if you pay at the higher rate and **39.35%** if you pay at the additional rate.

Here's how much you'd be taxed if you're a higher-rate taxpayer:

You receive annual dividends to a total value of

£5,000

The amount that is taxable is

£4,000

The amount you'll be taxed this year (at 33.75%) is

£1,350

If you'd held your shares in an ISA, you'd be taxed

£0

Mind your allowances

From the start of the next tax year (6 April) the Dividend Tax allowance will be cut to **£500** – which makes it even more worth your while to ensure your stocks and shares are held in a tax-efficient wrapper, such as an ISA (see page 4) or a pension (see page 10).

Your deadline for making the most of your tax-free allowances is 5 April, the end of the current tax year. Contact us now for a no-obligation consultation to discuss your options.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than you invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.