Dental & Medical Financial Services
1 Market Square, Horsham,
West Sussex RH12 1EU

T: 01403 780 770
F: 01403 780 771
E: info@dentalandmedical.com
W: www.dentalandmedical.com

Taxing times

How will the changes to Capital Gains Tax affect you in the 2024/25 tax year?

Capital Gains Tax (CGT) is a tax levied on the profit earned from selling or disposing of certain assets. This includes but is not limited to, land and property—such as second homes and investment properties—as well as art, antiques, and shares (those held outside of an Individual Savings Account or ISA).

The tax is calculated based on the difference between an item's purchase price and its selling price, accounting for any allowable expenses that can reduce the tax owed. As of 6 April 2024, CGT's Annual Exemption Allowance (AEA) has been reduced to £3,000, marking the threshold before CGT is payable on capital gains.

For higher and additional rate income taxpayers, CGT rates stand at 20% for most assets, while basic rate taxpayers are subject to a 10% rate. Notably, this year's Spring Budget introduced a significant change for residential property gains, with the higher CGT rate being reduced from 28% to 24% for disposals made on or after 6 April 2024. This adjustment comes at a time when asset prices and inflation are on the rise, posing potential challenges for individuals holding investments or assets outside of tax-advantaged accounts.

STRATEGIES FOR MINIMISING CGT

Several strategies can be employed to minimise liability when navigating the CGT landscape. One approach involves strategically disposing of assets to effectively use each year's allowance. Delaying sales to optimise the use of allowances can also be beneficial, though this carries the risk of less favourable terms or a less advantageous tax environment in the future. Additionally, the disposal of assets experiencing losses may offset taxable capital gains, offering another avenue for reducing CGT liability.

Married couples and registered civil partners can utilise two sets of CGT exemptions. By transferring assets to a spouse prior to sale—a process known as 'interspousal transfer'—couples can potentially reduce their CGT liability or even qualify for a lower tax rate. This strategy highlights the importance of maximising Individual Savings Account (ISA) allowances, where gains and income are shielded from tax.

IMPORTANCE OF TAX-EFFICIENT INVESTMENTS

Despite the focus on ISAs and pensions for their tax-efficient benefits, individuals with assets in taxable environments should consider utilising their annual CGT allowances. Doing so can help mitigate the accumulation of future CGT liabilities, often referred to as 'pregnant gains'. With the changes introduced in the 2024/25 tax year, an estimated additional 260,000 individuals and trusts may find themselves liable for CGT, underscoring the need for careful planning and consideration of available tax strategies.

Private Residence Relief (PRR) on main homes remains unaffected by these changes, as do ISAs, which offer a valuable shield against capital gains and income tax. As investors navigate the evolving tax landscape, understanding and applying these principles can be crucial in managing financial assets effectively. ■

REQUIRE FURTHER INFORMATION OR ASSISTANCE IN MANAGING YOUR CGT OBLIGATIONS?

Please contact us if you require further information or assistance in managing your CGT obligations. Our team of experts is ready to provide you with tailored advice and support to ensure your investments are as tax-efficient as possible.