The financial planning magazine from Fairstone

IntelligentWealth

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PROTECTING FAMILY WEALTH

START PLANNING YOUR LEGACY TO MITIGATE OR REDUCE INHERITANCE TAX

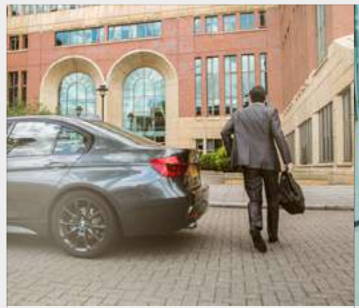
CREATING WEALTH FOR CHILDREN
Investing isn't just a luxury reserved for adults

REAPPRAISAL OF URBAN LIVING
Three million people in the UK aged over 50 considering relocating

WEALTH PRESERVATION
How to minimise a Capital Gains Tax bill

Fairstone is a full-service wealth management house delivering intelligent solutions for your lifetime financial journey.

Incorporating one of the UK's largest Chartered financial planning firms, our team of financial advisers offer independent financial advice, investment management and estate planning services.



Wealth management

Tailored wealth management advice to help you achieve your life goals

Portfolio construction

Helping you to plan for your future with a tailored investment plan

Retirement planning

Helping you plan your finances to achieve the lifestyle you deserve

Protection planning

Helping you plan for the unexpected

Property finance

Helping you to buy the house of your dreams - mortgage advice that's tailored to you

Estate planning

Protecting the financial future of the ones you love - estate and inheritance planning that gives you financial control

Corporate financial advice

Helping you plan for the financial future of your business

Fairstone offer all new clients a **no cost, no obligation, initial consultation.**

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Speak to the team on

0800 029 1110

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INSIDE **THIS ISSUE**

Welcome to our latest edition of *Intelligent Wealth*.

If you've worked hard throughout your lifetime to grow your wealth, you will want to ensure that it will help to safeguard the financial security of your loved ones after you've gone. There is a perception by some people that Inheritance Tax only affects the rich, which is untrue.

Without careful planning in your lifetime, you could leave your loved ones with less than expected after the Inheritance Tax bill is paid. On page 06 we look at how proper planning can help you pass on as much as possible to the people you choose by avoiding additional unnecessary tax charges.

Saving for a child today is a wonderful gift for their future as well as being a great way to teach them about money. The earlier you can start investing money for your children or grandchildren, the more chance it has to grow before they need it as an adult. On page 09 we take a look at some of the options you might want to consider to start you on this pathway.

The rules around Capital Gains Tax (CGT) are complex and they differ depending on your financial situation. It's a complicated tax and, as a result, some people mayget confused about how much they should expect to pay. Capital Gains Tax is a tax payable on the profits (or 'capital gains') you make from selling certain assets. On page 10 we look at ways to minimise a potential Capital Gains Tax bill.

A full list of the articles featured in this issue appears opposite. I hope you enjoy reading Intelligent Wealth.

PUTTING YOU AT THE CENTRE OF EVERYTHING WE DO

At Fairstone we are dedicated to delivering the best outcomes for each individual client and their unique situation. Our expert advisers will provide detailed recommendations to create and implement your financial plan. To discuss how Fairstone can help you, please contact us. We look forward to hearing from you.

Lee Hartley
CEO Fairstone

PENSION BOOST

ARE YOU CLAIMING ALL OF THE GENEROUS TAX RELIEF YOU'RE ENTITLED TO?

The unique combination of tax breaks and flexible access available to pensions make them a compelling choice when saving for retirement. One of the key benefits of saving into a pension rather than another type of savings or investment vehicle is the generous tax relief you're entitled to receive.

Making the most of pension saving involves maximising tax relief and allowances which could substantially boost your retirement savings.

WHAT IS THE PENSION ANNUAL ALLOWANCE?

All UK taxpayers are entitled to claim tax relief on contributions they make to their pension. Tax relief is on pension contributions of up to 100% of relevant UK earnings (£3,600 p.a. if more). But there is a cap on how much you can contribute while claiming tax relief, which is called your annual allowance.

The current pension annual allowance in the tax year 2021/22 is £40,000, but in some cases, yours could be lower. If your taxable income is less than £40,000, your personal tax relievable contributions are limited to 100% of earnings (£3,600 p.a. if more). If your total taxable income (adjusted income) exceeds £240,000, your annual allowance may be tapered.

WHAT IS THE TAPERED ANNUAL ALLOWANCE?

The tapering rules are complex but, put simply, for every £2 of adjusted income you receive above £240,000, your annual allowance reduces by £1. The minimum annual allowance is £4,000, for those with an income above £312,000.

WHAT HAPPENS IF YOU DON'T USE ALL OF YOUR PENSION ANNUAL ALLOWANCE?

If you don't use all of your pension annual allowance, you could be missing out on tax relief that you are able to claim.

Of course, you may not be able to afford to contribute the maximum in every tax year. So, it's helpful to know that you can carry forward unused annual allowance to use in the future.

WHAT IS PENSION CARRY FORWARD?

Pension carry forward allows you to use unused annual allowance from up to three previous years as long as you had a pension plan in those years.

So, for example, if you're a UK taxpayer with a salary of £100,000, and you have only used £20,000 of your pension annual allowance in each of the last three tax years, you have £20,000 of unused annual allowance from each year, totalling £60,000.

This year, the maximum you could potentially contribute towards your pension is £100,000 – £40,000 from this year's annual allowance, plus the £60,000 from your previously unused annual allowance.

WHEN IS CARRY FORWARD USEFUL?

Usually, when you're self-employed and your income changes drastically from year to year; you've received a windfall in this tax year that you'd like to pay into your pension; you have your own limited company and have additional profits to utilise or, you've become a high earner with a tapered annual allowance.

HOW DO YOU CLAIM PENSION CARRY FORWARD?

When planning to make large pension contributions, spreading them across tax years can mean higher rate relief is available on the full contribution. You can utilise pension carry forward by making additional contributions to your pension and you don't need to notify HM Revenue & Customs to do this.

However, if you accidentally exceed the annual allowance (including any carry forward), you could be penalised. So, it's important to check your past pension statements to see how much unused pension annual allowance you have and keep records to prove that you're eligible to carry forward.

This is a complex calculation, so to be sure you're following the rules exactly, it's sensible to obtain professional financial advice. ■

PLAN FOR A SUCCESSFUL RETIREMENT

Saving into a pension is one of the most tax-efficient ways to save for your retirement. Not only do pensions enable you to grow your retirement savings largely free of tax, but they also provide tax relief on the contributions you make. To discuss your retirement plans or any concerns you may have, please contact us.

REAPPRAISAL OF URBAN LIVING

THREE MILLION PEOPLE IN THE UK AGED OVER 50 CONSIDERING RELOCATING

The coronavirus (COVID-19) pandemic has led to a reappraisal of urban living, with increasing numbers fleeing city confines in search of green space.

Three million people aged over 50 (12%) now plan to relocate in retirement, as a direct result of the pandemic. A year of lockdowns has motivated these over-50s to want to move closer to family and friends, pursue a better quality of life or even move abroad.

RETIREMENT MIGRATION HOTSPOTS

In 2020, the Office for National Statistics[2] revealed that people of retirement age in England were already leaving major urban areas and instead moving to rural areas, locations by the coast or to Areas of Outstanding Natural Beauty (AONBs).

The data demonstrated that Dorset, Shropshire and Wiltshire were 'retirement migration hotspots', while England's largest cities saw net outflows of retirement age residents, with London, Birmingham and Bristol seeing the largest number of exits.

Nearly a year on, the research has found that the pandemic has influenced some over-50s to plan a move after a year of lockdowns. Over-50s want to relocate to somewhere that offers a better quality of life (7%), to move close to friends and family (4%) or to live abroad (3%).

FREEING UP PROPERTY WEALTH

When planning a move, many over-50s consider how the value of their current home plays a role in their long-term plans. 1.3 million pre-retirees over 50 (9%) see themselves as more likely to turn to their property wealth to fund their lifestyle than before the pandemic. In instances where people are relocating, they may downsize to free up property wealth.

When considering relocating to a new area, make sure your new home is as future proof as possible. It's important to think carefully about the type of property you choose and whether it will suit you for the long term. Is it accessible or could it be easily renovated to meet your needs in the future?

CHALLENGES OF THE PANDEMIC

Understand how a new area might impact on your living costs – consider any difference in living costs between areas and whether, overall, you are likely to spend more money, or save money, in your new location.

Relocating in retirement was already a well-observed trend, with older people reprioritising their needs as they enter the next stage of their life. As with many aspects of our lives, the challenges of the pandemic seem to have led many people to take stock of their current living situation.

BETTER QUALITY OF LIFE

There can be many benefits to relocation, whether it is a better quality of life, more space or the opportunity to be closer to loved ones.

One thing that is clear is that many people will also see their decision informed by how their property wealth factors into their long-term financial planning. ■

LOOKING TO MAKE A LIFE-CHANGING DECISION?

As with any big, life-changing decision, it's important to spend time reflecting on the reason (or reasons) you want to move right now and the impact on your finances and future plans. Let us provide our insights into such a move – to discuss your requirements, please contact us.

Source data: [1] Opinium Research for Legal & General ran a series of online interviews among a nationally representative panel of 2,009 over-50s from 19- 23 February 2021. 242 over-50s plan to relocate out of 2,009 UK over-50s – 242 / 2,009 25,197,069 over-50s = 3,035,187 or 3 million.

[2] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglongertrendsinsubnationalageingacrosstheuk/2020-07-20#migration-of-older-people-is-driven-by-movement-away-from-major-cities-to-rural-and-coastal-areas

PROTECTING FAMILY **WEALTH**

START PLANNING YOUR LEGACY TO MITIGATE OR REDUCE INHERITANCE TAX

If you've worked hard throughout your lifetime to grow your wealth, you may hope it will help to safeguard the financial security of your loved ones after you've gone. But without careful planning in your lifetime, you could leave them with less than expected after the Inheritance Tax bill is paid.

Proper planning can help you pass on as much as possible to the people you choose by avoiding additional unnecessary tax charges. But there is a perception by some people that Inheritance Tax only affects the rich, which is untrue.

CURRENT AND FUTURE NEEDS OF YOUR LOVED ONES

When you're getting on with life, it's not easy to stop and think about what will happen to your estate (such as your property, possessions, investments and cash) when you're no longer around. That's why it's important to make sure that any assets you've built up over your lifetime aren't subject to Inheritance Tax unnecessarily after your death, and that your loved ones, and any organisations close to your heart, benefit from your estate as you intended.

By reviewing your wealth and obtaining professional financial advice, you will be able to consider the current and future needs of your loved ones and how you can benefit them whilst preserving your assets.

INHERITANCE TAX FACTS

Every individual has an Inheritance Tax 'nil-rate band' of £325,000 in the current 2021/22 tax year (the UK tax year starts on 6 April each year and ends on 5 April the following year). This means that you can pass on up to £325,000 worth of property, money and other assets with no Inheritance Tax to pay.

Above this threshold, Inheritance Tax is normally levied at 40%. So, as a simple example, if you were to pass on wealth of £425,000, the first £325,000 would be tax-free, and the remaining £100,000 would be taxed at 40%, creating a tax liability of £40,000 for your personal representatives to pay out of your estate, therefore leaving less for the recipients of your estate. However, there are many tax reliefs and rules that can minimise the amount of Inheritance Tax due. You can leave your entire estate to a surviving spouse or registered civil partner with no Inheritance Tax due. But there are many other, lesser-known rules and reliefs that can also apply.

The current Inheritance Tax nil-rate bands will remain at existing levels until April 2026.

HOW INHERITANCE TAX PLANNING WORKS

Inheritance Tax planning is a way of arranging your wealth with the various tax reliefs in mind so that your loved ones don't pay more tax than they legally need to.

It works best when the process is started many years in advance. Certain transfers of capital may only become free from Inheritance Tax if you survive for seven years after they are made, so Inheritance Tax planning cannot be rushed.

Of course, Inheritance Tax is not the only consideration when it comes to arranging your finances – you also need to ensure that your wealth works for you in your lifetime. So, this planning must work in harmony with other areas of financial planning. It's a precise and personal process.

THREE STEPS TO MITIGATE OR REDUCE INHERITANCE TAX

The rules and reliefs that are most beneficial to you depend on your personal and financial situation. The advice you receive will be different based on whether you're single or married, if you have children or grandchildren, if you own your own business, or on many other factors.

That said, here are three tips that many people could benefit from.

1. THE RESIDENCE NIL-RATE BAND (RNRB)

As well as the Inheritance Tax nil-rate band mentioned earlier, there is an additional nil-rate band that applies when passing on a property that was your main residence in your lifetime. This is an additional Inheritance Tax-free allowance for 'qualifying' home owners with estates worth less than £2.35 million (where one residence nil-rate band is available) or £2.7 million (where two residence nil-rate bands are available), that can result in you being able to pass on up to £500,000 when you die before Inheritance Tax has to be paid using the nil-rate band and residence nil-rate band.

If you leave a property that has been your main residence at some point, to a direct descendant (which includes a child, adopted child, stepchild, foster child, grandchild or great-grandchild), you'll qualify for the residence nil-rate band, which is currently £175,000. So, by using both nil-rate bands, the total tax-free portion of your estate will be £500,000.

If you are a surviving spouse who inherited the total estate of your deceased partner, you also inherit their nil-rate bands. So, in this scenario, you would be able to pass on up to £1,000,000 free of Inheritance Tax (including £350,000 of property using the RNRB capped at the property value if less) and a further £650,000 of your combined estate). This assumes the estate on both first and second deaths wasn't over £2 million.

2. LIFETIME GIFTS

One way to minimise your Inheritance Tax bill is by gifting money or assets during your lifetime rather than waiting to pass on your wealth until after your death. However, in some situations, a gift can create an Inheritance Tax liability.

To be sure that yours doesn't, follow these rules:

- Small gifts (up to £250) to different individuals are typically free from Inheritance Tax. This rule is intended to cover any birthday gifts, Christmas gifts, etc.
- Larger gifts are free from Inheritance Tax up to a total of £3,000 in each tax year. If you don't use your total allowance in one tax year, you can carry it forward to the next year as long as you also use up the current year allowance.
- Wedding (or registered civil partnership) gifts are free from Inheritance Tax up to a certain value, which depends on your relationship to the recipient. If you are their parent, the limit is £5,000. If you are a grandparent or great-grandparent, the limit is £2,500. In any other case, the limit is £1,000.
- Regular gifts out of income – unlimited amounts as long as made regularly out of surplus income such that standard of living isn't affected.

> ONE WAY TO MINIMISE YOUR INHERITANCE TAX BILL IS BY GIFTING MONEY OR ASSETS DURING YOUR LIFETIME RATHER THAN WAITING TO PASS ON YOUR WEALTH UNTIL AFTER YOUR DEATH.

3. A DEED OF VARIATION

In some cases, you might have carefully arranged your wealth for Inheritance Tax purposes, but you then inherit money or other assets in someone's Will that would result in your estate exceeding your available nil-rate bands.

Rather than accepting this inheritance (which you may not need and would likely leave to a loved one later), you could execute a Deed of Variation so that it is passed directly to that loved one immediately. It will not be counted as part of your estate. ■

WHAT WILL YOUR LEGACY LOOK LIKE?

To learn more about Inheritance Tax planning and find out which rules and reliefs could benefit you, we would be pleased to discuss your circumstances and make recommendations based on your needs. If you would like to discuss your situation, please contact us for more information.

MIND THE DIVORCE GAP

WOMEN SEE INCOMES FALL BY 33% FOLLOWING DIVORCE, COMPARED TO JUST 18% FOR MEN

Divorce is an emotionally charged event – and can be an expensive one. The financial impact of divorce can also last for decades and carry on into older age. Women are also often impacted harder financially by divorce, new research highlights.

Many women are likely to see their household incomes fall by a third (33%) in the year following their divorce, almost twice as much as men (18%) and are significantly more likely to waive rights to a partner's pension as part of a divorce (28% women versus 19% men)[1].

FINANCIAL STRUGGLE POST-DIVORCE

Women are more likely to face a financial struggle post-divorce (31% women versus 21% men) and worry about the impact on their retirement (16% women versus 10% men).

Office for National Statistics (ONS) data shows, on average, women already have a significantly smaller pension pot than men. There are many reasons driving this disparity, one being that women are typically paid less, while men who divorce are far more likely to have been the primary breadwinner in the relationship (74% men versus 18% women).

GREATER DEGREE OF FINANCIAL BURDEN

This is why women will likely feel a greater degree of financial burden if transitioning to a single-income household and are likely to face financial struggles following a divorce from their partner (31% women versus 21% men).

This is particularly true for older women who divorce. One in four divorces occur after the age of 50 and women are significantly more likely to worry about the impact of their divorce on their retirement (16% women versus 10% men).

RIGHTS TO A KEY FINANCIAL ASSET

While there is only a slight difference in the number of men and women who feel that the division of their finances at the point of divorce was fair and equitable (54% men and 49% women), the research found that many women may be signing over their rights to a key financial asset.

Women are significantly more likely to waive their rights to a partner's pension as part of their divorce (28% women versus 19% men). This could have a significant long-term impact, particularly as women tend to have less personal pension wealth, according to the most recent findings from the ONS[2]. ■

PLAN TO PROTECT YOUR FINANCIAL FUTURE

In most families, the two largest assets are the family home and a pension fund. If you've made the decision to file for divorce, it's time to gather as much information as you can and figure out the plan to protect your financial future. Please get in touch to find out how we can help you – we look forward to hearing from you.

Source data: [1] Opinium Research for Legal & General ran a series of online interviews among a nationally representative panel of 2,008 UK adults aged 50+ who are divorced from 19-23 September 2020.

[2] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/pensionwealthingreatbritain/april2016tomarch2018.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

CREATING WEALTH FOR CHILDREN

INVESTING ISN'T JUST A LUXURY RESERVED FOR ADULTS

Saving for a child today is a wonderful gift for their future. Whether you want to help them buy their first car, contribute to their first home or even set them up for a comfortable retirement, there is little more fulfilling than providing financial security for your children or grandchildren.

It's worrying to think about the expenses they will face as adults. So, the earlier you can start investing money for your children, the more chance it has to grow before they need it as an adult.

But, to ensure that the value of their money isn't eroded by inflation, taxes and fees, you'll need to choose the right investment approach. Here are some of the options you may wish to discuss with us.

JUNIOR ISAS

A Junior Individual Savings Account (JISA) is the children's equivalent of a regular Individual Savings Account (ISA) and works in much the same way, protecting the capital within it, and any capital growth, from Income Tax and Capital Gains Tax. You can choose between a Junior Cash ISA and a Junior Stocks & Shares ISA, or a child can have one of each.

Only a parent or guardian can open a Junior ISA on a child's behalf, but anyone can pay into it, up to a limit of £9,000 in the current tax year (that limit may change in future tax years). The UK tax year starts on 6 April each year and ends on 5 April the following year. Once a child turns 16, they gain control of their ISA, but they cannot make withdrawals until they turn 18.

JUNIOR SIPPS

A Junior Self-Invested Personal Pension (Junior SIPP) is a type of pension you can open on behalf of someone who is under 18. While we often think of a pension as a product for adult workers, opening one for a child has many benefits.

Investments in a Junior SIPP have more years to grow before the pension holder retires, and so can benefit greatly from compounding returns. If appropriate, due to the very long-term nature of the investment, it's possible to take a higher-risk approach than with shorter-term investments, which has the potential to yield greater rewards.

As with an adult pension, all growth is protected from Income Tax and Capital Gains Tax. So, it could take away some of the burden of retirement planning as an adult. For a child with no earnings or earnings below £3,600pa, contributions are currently capped at £2,880 a year, totalling £3,600 after tax relief is applied, in the current 2021/22 tax year.

TRUSTS

Trusts are a legal agreement where you – the 'settlor' – place assets into a trust and nominate a trustee to manage those assets (whether it's money, buildings, land or investments) on behalf of your child or children, known as the 'beneficiaries'.

BARE TRUSTS

A bare trust is an investment vehicle that allows you to invest capital on behalf of a child while retaining full control of the investments until the child turns 18, or 16 in Scotland.

Along with the initial capital, any return generated by a bare trust will belong to the child. It will therefore be taxed as such, usually meaning that there is less tax to pay than if the investments were held by the adult, since a child has their own personal allowances for income and capital gains. Under parental settlement rules for income tax, if the income exceeds £100 each year then the whole amount will be taxed as the parent's.

There is no upper limit on how much can be invested each year in a bare trust.

DISCRETIONARY TRUSTS

The main difference between a bare trust and a discretionary trust is that a bare trust is held on behalf of a specific, named individual or individuals, while a discretionary trust is held on behalf of any number of eligible individuals.

For example, a grandparent may open a discretionary trust that any of their grandchildren or future grandchildren can benefit from. Who benefits from the trust will ultimately be decided by the trustees.

The tax treatment of a discretionary trust can vary depending on your specific financial situation, so you should seek professional financial advice before opening one. ■

WANT TO FIND OUT MORE ABOUT HOW TO GET STARTED?

When it comes to investing in your child's or grandchild's future, putting aside just a small amount of money on a regular basis can really add up. Each option comes with specific advantages and risks. If you'd like to find out more about how to get started, please get in touch with us today – we look forward to hearing from you.

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THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAXATION & TRUST ADVICE.

WEALTH PRESERVATION

HOW TO MINIMISE A CAPITAL GAINS TAX BILL

The rules around Capital Gains Tax (CGT) are complex and they differ depending on your financial situation. It's a complicated tax and, as a result, some people may get confused about how much they should expect to pay.

WHAT IS CAPITAL GAINS TAX?

Capital Gains Tax is a tax payable on the profits (or 'capital gains') you make from selling certain assets. These assets include some property, items of value such as art, jewellery or collectables, company shares or other investments, and businesses or business assets.

HOW MUCH IS CAPITAL GAINS TAX?

The rate of CGT you pay can vary, which sometimes catches people out.

Firstly, you have a CGT tax-free allowance (of £12,300 in the current tax year, though this can change). The UK tax year starts on 6 April each year and ends on 5 April the following year. If you make more than this in capital gains, you'll be charged a different rate depending on the asset that you sold and your Income Tax band.

Higher rate and additional rate taxpayers pay 20% CGT, or an increased 28% when selling residential property (other than a main residence, the home that you live in).

Basic rate taxpayers pay 10% CGT, increasing to 18% for residential property, unless their total capital gains (minus the 2021/22 personal allowance of £12,570), when added to their taxable income, would place them in a higher tax bracket. If this is the case, they will pay the rates above.

HOW CAN YOU PROTECT YOUR ASSETS FROM CAPITAL GAINS TAX?

Some assets can be sold free from CGT, including your main residence (in most cases, though CGT can sometimes apply), and personal belongings worth less than £6,000.

In some cases, you can protect your assets from CGT by keeping them within an Individual Savings Account (ISA) wrapper. Assets that can be held in an ISA include bonds, company shares and investment funds. Any returns generated by these investments are free from Income Tax and CGT as long as they are held in an ISA.

However, you can only contribute up to £20,000 into an ISA each tax year, and once you have used your ISA allowance any further investments will not be protected.

HOW ELSE CAN YOU MINIMISE YOUR CAPITAL GAINS TAX BILL?

For assets that can't be sold free from CGT and can't be held within an ISA, there are other methods you could potentially use to minimise your CGT bill.

USE YOUR FULL TAX-FREE CAPITAL GAINS TAX ALLOWANCE

If you have any unused tax-free CGT allowance in one tax year (£12,300 per tax year 2021/22 until 2025/26), it might be a good opportunity for you to realise some investment gains. If you can spread your gains over several years, you could choose to take only up to the tax-free CGT allowance in each year. The CGT allowance is reset every year and cannot be carried forward.

TRANSFER ASSETS TO YOUR PARTNER

If appropriate, you could transfer assets to a spouse or registered civil partner without paying CGT and share assets between the two of you to take advantage of both of your CGT allowances. If you have exceeded both allowances, it might make sense for any partner who is in the lower tax bracket to realise further gains, as the rate of CGT they pay may be lower. Any transfers must be genuine and outright gifts for this to be effective.

OFFSET LOSSES

If you have sold any assets at a loss in the current tax year, you can offset this loss against other gains you have made. As long as you register a loss with HM Revenue & Customs, within the following four tax years, you can continue to offset it against any future gains indefinitely.

SELL AND BUY BACK WITHOUT WAITING 30 DAYS

You could sell an asset and then your spouse immediately buys it back, which is known as the 'bed and spouse' technique. You could sell the assets, before immediately buying them back within an ISA and protecting them in an ISA (the 'bed and ISA' technique). There is also the 'bed and SIPP' method. This method sees people saving for retirement sell their assets, before buying them back within their Self-Invested Personal Pension (SIPP). These are ways of making use of your CGT exemption – if you wanted to sell and repurchase the same asset yourself in order to realise the gain there has to be a gap of 30 days between sale and repurchase.

DEDUCT COSTS

Any costs that you have incurred in the process of buying or selling an asset can be deducted from the profit you have made when calculating the CGT due. This could include auction fees, solicitor's fees, stamp duty, et cetera.

REDUCE YOUR TAXABLE INCOME

Your rate of Capital Gains Tax is based on your income. This means that you could lower your bill by lowering the Income Tax that you're liable to pay. You could contribute more of your income into your pension pot, helping to avoid this money being taxed, or by making charitable donations.

USE TAX-EFFICIENT INVESTMENT VEHICLES

We've already discussed Stocks & Shares ISAs, but another investment vehicle you could use to protect your wealth from CGT is a pension. Other investment vehicles are also available to help you manage Income Tax, CGT and Inheritance Tax. However, due to the complex rules and variety of options available, you should always obtain professional financial advice before investing. ■

LET'S TALK TAX

If you'd like to explore or have any questions about how to reduce a potential CGT bill, please get in touch to discuss your specific circumstances and review the options available to you.

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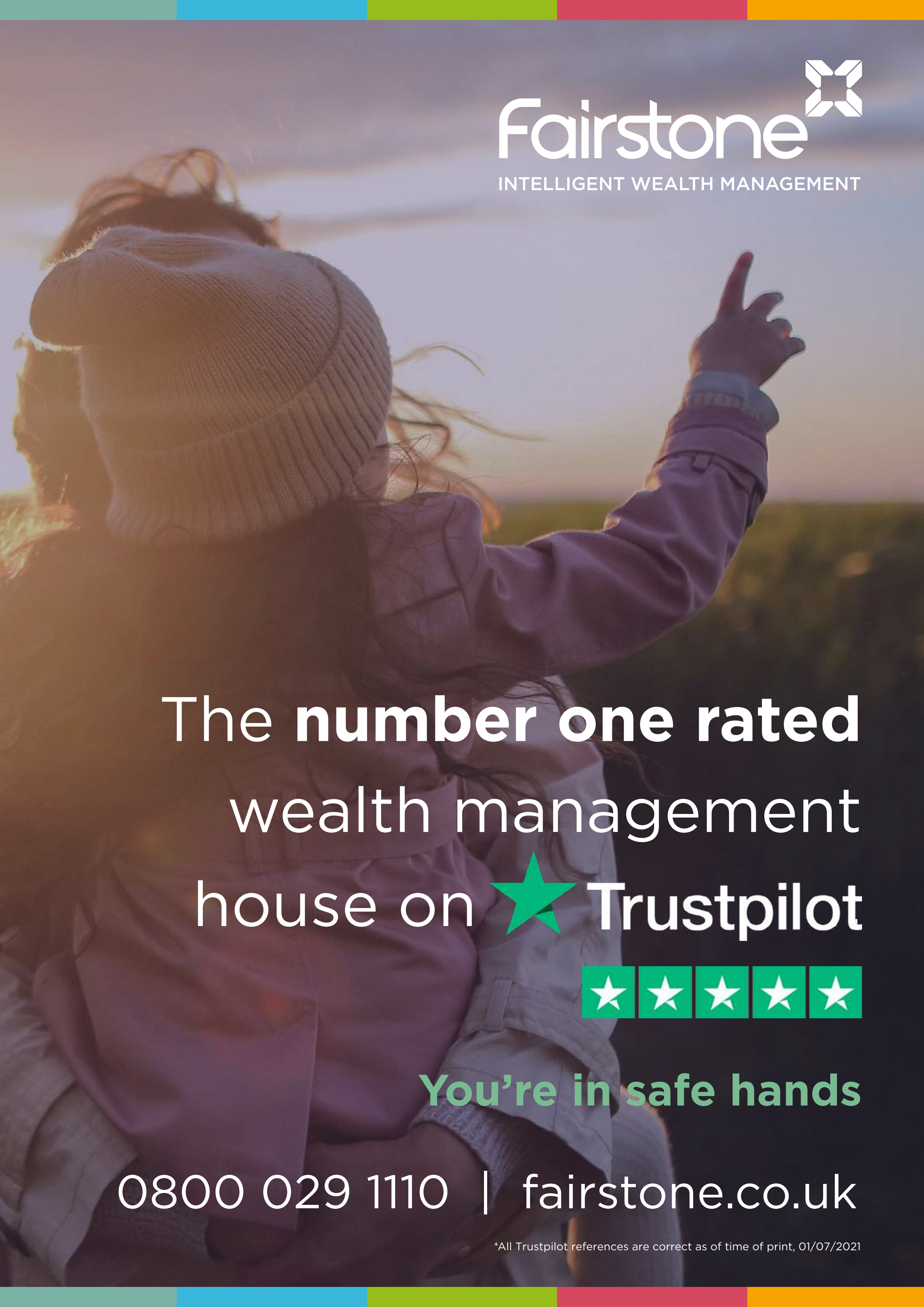
YOU CAN ONLY CONTRIBUTE UP TO £20,000 INTO AN ISA EACH TAX YEAR, AND ONCE YOU HAVE USED YOUR ISA ALLOWANCE ANY FURTHER INVESTMENTS WILL NOT BE PROTECTED.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