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How to plan for possible CGT changes in the Budget

We discuss the importance of a tax-efficient portfolio ahead of potential changes to capital-gains tax (CGT) in the upcoming Autumn Budget.

As we approach the Autumn Budget on 30 October, there is speculation that the Chancellor could announce changes to capital gains tax (CGT).

This is important for investors because taxes can eat into your potential profits.

We won't know if, how or when CGT will change until the day and it's generally wise not to base your investment decisions on rumoured tax changes. Your adviser will regularly review your portfolio to ensure you're investing as tax-efficiently as possible.

What is CGT and how could it change?

CGT is a tax on the profit you make when selling certain assets that have increased in value. This includes investments like individual shares, certain types of bonds[1] and funds.

Currently, you can make profits of up to £3,000 in the 2024-25 tax year without paying CGT. This is known as your CGT allowance. Any profit you make over and above this level when selling your investments may be subject to CGT (this doesn't apply to UK government bonds or 'qualifying corporate bonds'[2], which are exempt from CGT). The tax rate is set at 10% or 20% of the total gain[3], depending on your income tax band.

Some of the rumoured changes to CGT are that the rate could increase or the allowance could be cut. Such changes could increase your tax bill when you sell investments in the future and affect your overall returns.

1 Bonds are a type of loan issued by governments or companies, which typically pay a fixed amount of interest and return the capital at the end of the term.

2 A qualifying corporate bond is a type of loan issued by a company that meets certain criteria, making it eligible for specific tax treatments.

3 For more information on CGT rates see HMRC's website.

How to reduce your CGT exposure

As mentioned above, it is rarely a good idea to alter your investments based on speculation. However, your adviser will be considering ways to improve the tax-efficiency of your portfolio regardless of what is or isn't announced at the Budget.

Some of the ways to reduce or even eliminate your CGT exposure include:

Invest through tax-efficient wrappers

Investing through an individual savings account (ISA) or pension is a simple way to limit your potential CGT bill. Both ISAs and pensions shield your investments from CGT (as well as other types of tax). They differ from a general account, where you pay tax on any profits, dividends or interest that exceed your tax-free allowances.

Under current rules, you can invest up to £20,000 in ISAs in the 2024-25 tax year. You can also invest up to the lower of £60,000 or 100% of your gross relevant earnings in pensions[4].

Consider 'bed and ISA' or 'bed and pension' strategies

'Bed and ISA' or 'bed and pension' are when you move investments from your general account to a more tax-efficient ISA or pension.

You do this by selling holdings in your general account and then buying back the same holdings within your ISA or pension. You end up with the same portfolio as before, but your investments are housed in a more tax-efficient account.

When you initially sell holdings in your general account, you'll be liable to tax on profits that exceed your CGT allowance. However, once your investments are inside your ISA or pension, you won't have to pay tax on any future profits[5].

Realise your gains early

If you're planning to sell some of your investments in the near future, selling them before any potential changes come into effect would enable you to benefit from the current CGT rate and allowance.

However, you'll need to balance the risk of any possible tax changes with the risk of being out of the market for longer than you initially planned and missing out on potential further gains. As mentioned before, it isn't wise to base such decisions on speculated changes alone.

The importance of long-term planning

When it comes to investing, it's important to plan ahead. Strategies like bed and pension, for example, can take time to complete. By planning ahead, you have the flexibility to make adjustments to your portfolio without the pressure of a looming deadline.

Overall, however, any changes to your investments should be based on what's right for you, rather than rumoured tax changes. By tuning out the noise and focusing on the long term, you can keep progressing towards your goals.

Please note that the tax rates and allowances mentioned in this article are based on information as of September 2024.

4 For more on what counts as 'relevant earnings' that can earn tax relief when used to fund a pension, see the HMRC Pensions Tax Manual. Your annual allowance might be lower than £60,000 if you have a high income or you've already flexibly accessed your pension pot. To work out if you have a reduced (tapered) annual allowance, see HMRC's website.

5 Although there is no tax to pay on money inside a pension, investors may pay income tax when they eventually withdraw money from their pension.

Investment risk information

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

The eligibility to invest in either ISA or Junior ISA depends on individual circumstances and all tax rules may change in future.

Any tax reliefs referred to are those available under current legislation, which may change, and their availability and value will depend on your individual circumstances. If you have questions relating to your specific tax situation, please contact your tax adviser.

Important information

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