Paraplanning

J09 2024–25 edition

Web update 1: 18 December 2024

As announced in the Autumn Budget 2024 on 30 October 2024:

- The lower main rate of capital gains tax (CGT) will increase to 18% and the higher main rate will rise to 24% for disposals made on or after 30 October 2024.
- From 31 October 2024, the higher rate for additional dwellings stamp duty land tax (SDLT) surcharge will be increased from 3% to 5%. The single rate of SDLT charged on the purchase of dwellings costing more than £500,000 by corporate bodies will also be increased by two percentage points to 17%.

Therefore, the following content should be updated as noted in **bold**.

Chapter 4, section B6, page 4/10:

The CGT position and status of the assets
Prior to 30 October 2024, the CGT on nearly all assets **was** taxed at a flat rate of 10% for gains falling within the basic rate tax band (18% for non-exempt residential property) and at 20% (24% for non-exempt residential property) for gains falling within the higher- and additional-rate bands. **From 30 October 2024, the rates of CGT are 18% and 24% for all gains (regardless of asset type) falling below and above the basic rate threshold, respectively.**

There are valuable exemptions and reliefs, and financial planners need to understand the client position to make the most of them.

Chapter 4, section E3D, page 4/41:

Example 4.8

Sven
Sven has the following chargeable gains and losses in 2024/25:

- a gain of £10,000 on 15 April 2024 taxable at **10%**;

[…]

		£
April 2024 gain	£10,000 × **10%**	**1,000**
January 2025 gain	(£40,000 – £15,000 – £3,000) × 24%	5,280
Total CGT liability		**6,280**

Chapter 4, section E3I, pages 4/43, 4/44 and 4/45

- The tax due on trust gains is now **24% for gains made on or after 30 October 2024 (non-property gains made between 6 April and 29 October 2024 are taxed at 20%)**, subject to any available annual exempt **amount**.

[...]

Tax at **18%** on £12,000 (i.e. £37,700 – £25,700)	**2,160**
Tax at **24%** on £73,000 (i.e. £85,000 – £12,000)	**17,520**
Total tax liability	**19,680**

[...]

As her taxable income is £40,700, £1,000 (i.e. £41,700 – £40,700) of the taxable gains fall within the basic rate band and are taxed at **18%**. The remaining £19,300 are taxed at **24%**.

Susan's CGT liability is therefore:

	£
£1,000 at **18%**	**180**
£19,300 at **24%**	**4,632**
Total tax liability	**4,812**

Chapter 4, section F, pages 4/50 and 4/51:

Capital gains have previously benefited from a relatively high annual exempt amount, but for 2024/25, the exemption is now just £3,000 (it was £12,300 for 2022/23). Even though capital gains tax (CGT) is not payable on death, the reduction to the annual exempt amount is likely to see more people paying this tax. Previously, CGT has been paid by only a small percentage of the population. Despite the change, the rates of tax on gains – **18%** and **24%** are lower than the equivalent rates on income. It is therefore often advantageous from a tax point of view to choose investments that are subject to CGT rather than income tax, but the result may be that the client invests in shares or property that might be unsuitable for their risk profile.

Chapter 4, section F1, page 4/51:

For example, an offshore single premium bond would allow income to be rolled up gross until such time as the bond is paid out, which may be in ten or more years' time. Where CGT is concerned, appropriate tax planning may ensure that a disposal of an asset associated with a business qualifies for business asset disposal relief, with the result that it suffers a **lower tax rate rather than 24%** for a higher- or additional-rate taxpayer.

Chapter 4, section F6, page 4/56:

- Anyone who holds share options should consider the tax position (as well as the investment issues) when deciding whether to exercise them now or in a future tax year. CGT may be at **18%** or at the higher rate of **24%**, depending on whether the gain or part of it falls within the individual's basic rate band in the year of exercise.

Chapter 4, section F9A, page 4/60:

- Pension contributions may also impact on CGT liabilities because they will increase a person's basic rate tax band, and therefore reduce the amount of gains taxed at the higher CGT rates of **24%**.

Chapter 4, section G2, page 4/67:

CGT planning is important especially when gains do not fall within a person's basic rate income tax band and are therefore taxed at **24%**. The reduction of the annual exempt amount from £12,300 (for 2022/23) to £3,000 for 2024/25 will result in more individuals having to pay CGT.

Reinforce

CGT planning should always take account of whether the gain would fall to be taxed at **24%** depending on the client's other income.

Chapter 4, section G2A, page 4/67:

- If capital gains will only be taxed at the lower rate of **18%**, it is important to avoid incurring excessive costs in making use of the annual exempt amount or in realising losses.

Chapter 4, section G2B, pages 4/67 and 4/68:

Gains that do not fall within an individual's basic rate income tax band are taxed at **24%**.

- Tax at **24%** is considerably less than the higher and additional income tax rates of 40% and 45%. For high-income individuals, it may therefore be preferable to choose investments aimed at producing capital growth rather than income.

- The link to an individual's income means that it may be possible for a higher-rate taxpayer to save 20% income tax and 6% NICs, and reduce the CGT rate by **12%**, e.g. when a sole trader buys plant and machinery qualifying for the 100% annual investment allowance.
- An individual may be able to dispose of assets in a year when they have little income so as to avoid the **24%** rate, e.g. if a sole trader has a loss-making year.
- The benefit of holding investments within an ISA is enhanced for higher- and additional- rate taxpayers because they save CGT at the higher rate of **24%**.
- It is more beneficial to defer gains by investing in the EIS, if this saves CGT at the higher **24% rate. Given that the rate of CGT where business asset disposal relief is available is going to increase to 14% from 6 April 2025, and then to 18% from 6 April 2026, it is not beneficial to defer a gain if it will be taxed at the current business asset disposal relief CGT rate of 10%**. Investors and advisers should bear in mind that EIS investment is inherently risky and it might be preferable to pay tax at 10% when that rate is **available**.
- Gains can be exempted by investing in the seed enterprise investment scheme (SEIS), although only 50% of the reinvested gains are exempt. Given the 50% income tax relief available, such an investment will result in total tax relief of 50% + 12% = 62%, if it saves 50% of the CGT at the higher **24% rate**.

Chapter 4, section G2C, page 4/68:

- If one partner has fully used their basic rate income tax band and will therefore pay CGT at the rate of **24%**, the assets could first be transferred to the other partner if they will only pay CGT at the rate of **18%**.

Chapter 4, section G2D, page 4/69:

- The rate of CGT on the disposal of qualifying assets is 10%. However, these gains must be taken into account when calculating the rate of CGT that will apply to non-qualifying disposals. **This rate will increase to 14% from 6 April 2025, and then to 18% from 6 April 2026.**

Chapter 4, section G2E, page 4/69:

Business asset disposal relief is extended to external investors in unlisted trading companies by means of investors' relief. **Investors' relief offers the same 10% tax rate but has its own separate £1m lifetime limit. This limit applies for disposals made on or after 30 October 2024 (prior to 30 October 2024, the lifetime limit was £10m).**

Chapter 4, section G4A, page 4/72:

It is also possible to defer CGT on a gain of any size by reinvesting in EIS shares. The gain must be reinvested in the period that starts one year before and ends three years after the disposal. The investor still has to pay CGT on the deferred gain when they dispose of the EIS shares. It may be possible to defer gains subject to CGT at the higher rate of **24%** until such time as the **18%** rate is available. However, such planning will not work if gains are too large since these are always likely to exceed an individual's basic rate income tax band and therefore be taxable at **24%**. It is important to remember that most EIS shares are high risk and low liquidity investments.

Chapter 4, section G5A, page 4/73:

Gains within life funds

Gains within a UK life fund are subject to tax at up to 20% (with no relief given for inflationary increases arising from January 2018 onwards as a result of the indexation allowance being frozen at December 2017). In contrast, some taxpayers do not pay CGT on their direct holdings of investments because of the annual exempt amount. But other individual investors who hold their investments directly pay **18%** and/or **24%** and are therefore taxed broadly **slightly less** beneficially than a UK life fund.

Chapter 4, section G5D, page 4/75:

- For a higher- or additional-rate taxpayer, the tax position of a qualifying policy is attractive in principle because the income never suffers more than basic rate tax, with no tax payable in the case of UK equity dividends. The CGT position is **beneficial** if the investor is a regular CGT payer at the higher **24% rate**. In other circumstances, it is not advantageous.

Chapter 4, section G5E, page 4/76:

- Gains are not taxed within the fund, but they are ultimately subject to income tax on the investor as part of the chargeable gain on encashment. So, for most taxpayers, the whole of the gains generated within the fund is eventually taxed at 20%, 40% or 45% on encashment (although the personal savings allowance and top-slicing relief can reduce the amount payable). This compares with a personal CGT rate (after the annual exempt amount) of **18%** or **24%**.

Chapter 4, Key points, page 4/96:

- Capital gains tax (CGT) planning is important especially when gains do not fall within a person's basic rate income tax band and are therefore taxed at **24%**.

[…]

- Although offering the same 10% tax rate as business asset disposal relief, investors' relief has its own separate **£1m** lifetime limit.

Chapter 5, section G1, page 5/31:

Example 5.22

Joan
Joan bought 4,000 shares in ABC plc in March 2010 for £5,000. She bought a further 6,000 shares in September 2011 for £26,000. In **September** 2024, she sold 4,000 shares and received proceeds of £30,600. In matching shares disposed of on or after 6 April 2008 with acquisitions, all shares of the same class in the same company acquired before the date of disposal are pooled to form a single asset (s.104 holding).

[...]

A similar calculation would also be required if the client owned a life assurance bond that might need to be encashed. In this instance, it would be an income tax calculation and might allow for top-slicing relief. There is no CGT liability on encashment of a life assurance bond by the original policyholder.

If Joan had sold her shares in November 2024 (instead of September 2024), then due to the changes announced in the Autumn Budget 2024, tax would have been due at 18%, resulting in a tax payment of £2,736 (i.e. £15,200 at 18%).

Chapter 5, section G2, page 5/32:

Example 5.23

Tom (continued)
Following on from our earlier example with Tom:

- Tom holds life assurance bonds containing growth-oriented equities, as well as some fixed-interest securities in collectives. These could be changed to reflect the more advantageous tax treatment of gains made on fixed-interest securities held in bonds and growth-orientated equities held in collectives. The CGT rate on realised gains on the growth-orientated equities held in collectives would be 20% **(24% from 30 October 2024)** at most. In addition, the fixed-interest securities within bonds would be taxed at 20% at most and would not have to be 'grossed up' to calculate the potential higher rate tax that Tom would have to pay on encashment of the bonds. Tom may be able to avoid this higher rate tax altogether if his income tax rate drops to basic rate (including the 'top-sliced' gains on the bonds at the time of encashment).

Chapter 5, Case study: John and Margaret Williams – completed fact-find, Part 6, page 5/60:

- Expected cash from the sale of company shares: £46,840. The acquisition cost of the shares was £31,200. The most CGT due would be £3,160 after the annual exempt amount (£50,000 − £31,200 − £3,000 at 20%). **This figure would increase to £3,792 (i.e. £50,000 − £31,200 − £3,000 at 24%) if the sale took place on or after 30 October 2024.** However, if John becomes a basic-rate taxpayer after retirement, the CGT bill could be less than this.

Chapter 6, section C1E, be aware, page 6/10:

- The majority of BTL and second home purchases in excess of £40,000 attract a surcharge of an additional 3% SDLT **(5% from 31 October 2024**). The impact of this on the purchase of a second property valued at, say, £275,000, is to increase the SDLT payable from £1,250 to £9,500 **(£15,000 from 31 October 2024).**

Chapter 6, Section F4B, page 6/30:

Collectives

Collectives are generally subject to tax on the income they generate but are free of tax on gains until encashment. At that point, CGT may not be paid because of the annual exempt amount or the tax-free uplift on death. The rate of CGT is 10% or 20% **(18% or 24% for gains made on or after 30 October 2024)**, depending on whether the gain falls under or over the investor's basic-rate tax band. Collectives are usually most appropriate for growth-oriented investments.

Notes

- Any change related to the CGT or SDLT will be examined from 30 January 2025.
- This update has been incorporated into the digital copies of the study text, available on RevisionMate.