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VIEWPOINT

PINK FINANCIAL CONSULTANCY

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.

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Capital gains tax and shares

If you sell shares, funds, or other financial products, you might need to pay capital gains tax on your profits. It's good to be aware of how your investments are taxed when it comes to selling them, and make sure you arrange your investments in the best way to avoid paying more tax than you need to.

Several assets are exempt from capital gains tax (CGT), such as your home and any personal belongings worth less than £6,000 (like a car for personal use). However, when selling investments

such as shares, funds, investment trusts or other financial products you will be charged CGT if you go over your annual CGT allowance depending on your tax band.

What is CGT?

CGT is a tax on the profits earned from selling an asset. You only have to pay CGT on your overall gains above your tax-free allowance – known as the annual exempt amount – and the amount depends on your tax band.

In the 2021/22 tax year you can make £12,300 in capital gains before you pay any tax. Couples can double this by pooling their allowances. The tax-free allowance for trusts is £6,150.

If you're a UK resident, you may be liable to CGT on disposals of assets located anywhere in the world, not just those based here.

Do I need to pay CGT on shares?

If you make a profit when selling shares, you may have to pay CGT. Any profit made on selling shares taxed at 10% if you're a basic rate taxpayer and 20% if you're a higher rate taxpayer. You don't usually have to pay CGT on shares if you give them as a gift to your husband, wife civil partner or a charity. You also won't have to pay CGT when you dispose of:

- shares you've put into an ISA or PEP
- shares in employer share incentive plans (SIPs)
- UK government gilts
- NS&I Premium Bonds
- qualifying corporate bonds
- employee shareholder shares (depending on when you got them)

How much CGT will you have to pay?

So, you've bought some shares and managed to sell them for a profit, but how much CGT will you have to pay? Imagine you've spent £5,000 on shares and sold them for £30,000, giving you a £25,000 profit.

You don't pay CGT on the first £12,300 of the gains made, which leaves a taxable amount of £12,700. The shares are charged a CGT at 10% or 20%, depending on your tax band. A basic rate taxpayer who has to pay CGT of 10% would pay £1,270. A higher rate taxpayer who pays 20% CGT would have to pay £2,540. If you make a loss on your shares, the amount can be off set/deducted from any gains you made in that tax year. If you have shares from your employer, it's worth checking on the rules around CGT and those shares, as they can be different.

How are dividends taxed?

A dividend is a share of a company's profits distributed to its shareholders, usually paid out quarterly. If you receive a dividend payment you may have to pay tax on that income. The good news is that it's possible to receive some dividend payments each year without having to pay any tax.

All taxpayers get an annual tax-free dividend allowance of £2,000, which is the amount you can earn each year without having to pay any tax. Anything above this level is taxed according to your income.

Basic rate taxpayers are taxed at 7.5%, while higher rate taxpayers are taxed at 32.5%, and additional rate taxpayers at 38.1%. These rates will increase by 1.25 from April 2022 to help support the NHS and social care reforms.

Benefits of pensions and ISAs

If you want to avoid paying CGT or tax on dividend earnings unnecessarily you could consider investing your shares in a tax-free wrapper like an ISA or a pension. Shares held in an ISA account can grow free from tax, meaning you don't pay tax on capital gains, dividends or income made on any gains from your investments. A self-invested personal pension (SIPP) is a wrapper that allows you to control the specific investments you make, and just like ISAs, with a SIPP your investments can grow free from capital gains, dividend, and income tax.

While working out how much tax you're going to pay when you make a profit on an asset might seem complicated, it doesn't have to be. Our financial advisers can help you arrange your investments in the best way to make the most of their potential, including when you sell them.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Feel more secure with income protection

When it comes to insurance, we're more likely to protect our pets than our income. Here's why it's important to have some income protection in place.

What is income protection?

Income protection pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. It gives you a buffer between finding yourself without an income, paying the bills and protecting your family's security. Building an emergency fund (which covers around three months' worth of bills and essentials) is a good start to give you some financial back-up, but income protection insurance can also provide peace of mind.

How does income protection work?

Income protection is an insurance policy, so you pay a monthly or annual premium for it like any other type of insurance. If you can't work because of sickness, disability or other reasons (depending on your policy criteria), you will receive a regular income until you either return to paid work, retire, pass away or the policy term comes to an end. We can help you determine how much coverage you'll need.

How much does income protection pay?

It could be anything from 60% to 65% of your pre-tax income, and the regular payments (which are tax free) will start after a pre-agreed waiting period, which could be weeks or months. You'll pay more in premiums if the waiting period is shorter and the percentage of your income is larger. This type of protection is different to life insurance or critical illness cover, both of which do not pay regular amounts but instead provide one-off lump sums in the event of your death or the diagnosis of a critical illness.

Do you need income protection?

With the rise in the cost of living and cost of borrowing right now, many people are worried about paying the bills should anything happen that leaves them unable to work. Recent surveys have shown that the average UK family doesn't have enough in savings to be financially secure for long if they're no longer receiving an income.

That's where income protection can give you some financial resilience, especially if your workplace does not provide statutory sick pay (or only starts to pay out after a period of several months). Your adviser can help you navigate the income protection policies that could best suit you and your needs, weighing up how much your premiums might be with the amount of cover you're after.

As with any insurance policy to do with your life and health, things like your age, health, occupation and other factors (like how much of your income you would like to receive, and how soon you would like payments to start) will be considered when your premium is calculated.

We can guide you through what type of policy works best for you, helping you find value for money as well as some peace of mind knowing your income is protected.

Your adviser is best placed to help you find an income protection policy to suit your needs and provide some security for you and your family.

Peace of mind for the self-employed

Sarah is self-employed and she approached her financial adviser for some advice. As a single mum, she worried that her emergency savings fund wouldn't be enough to cover the rent or bills if she found herself unable to work. Sarah's financial adviser found her an income protection plan with an affordable monthly premium that covers 65% of her earnings.

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How does a remortgage work?

A remortgage could help you save money if you weigh up the fees involved with the savings you could make. Here's how it works.

A remortgage is the process of moving your home's existing mortgage to one with a new lender.

People remortgage for many different reasons, including:

- Finding a better deal elsewhere – you might be on a standard variable rate (SVR) and want to move to a fixed-term rate.
- Coming to the end of a fixed-term deal on your current mortgage and wanting to lock in a lower rate with a new lender.
- The loan-to-value on the home is lower (as more of the mortgage has been repaid).
- Wanting to get ahead of a rise in interest rates, which would affect mortgage rates.

How a remortgage could help you save

One of the big reasons people remortgage is to save money on their monthly payments. If you're on a standard variable rate that is higher than the fixed-rate deals currently available, you could save by switching – either to a fixed-rate mortgage or one that 'tracks' the Bank of England's base rate.

If your home has gone up in value and you've paid off enough of your mortgage to give you a lower loan-to-value, it means you own more of your home and have less to pay off. Remortgaging could result in lower monthly mortgage payments because you're paying off less of a loan amount (and in turn, less interest on it too).

How long does the remortgage application take?

The process can take between four to eight weeks from the time you apply so it's good to start planning early. If you're coming to the end of a fixed-rate or tracker term, your lender should tell you that your mortgage will move onto their standard variable rate[1]. This could be an ideal time to move if you find a better deal elsewhere, or you may even find an attractive deal with the same lender and go through a 'product transfer' (see box).

How much does a remortgage cost?

Existing lender fees
Your existing lender could charge you a fee if you're leaving them early into a fixed period in your mortgage. This is known as an 'early repayment charge' and could be in the range of 1% to 5% of your outstanding mortgage balance. They will also charge you an 'exit' fee of around £50 to £100 to cover their administration costs.

***New lender* fees**
Your new lender could charge you a range of fees, so before you commit it's important to check what you will pay. This will help you calculate whether a move is financially beneficial overall.

Their fees could include:

- **Application fee** to set up your new mortgage. Could also be called an 'arrangement', 'product' or 'booking' fee. This could be around £1,000.
- **Valuation and conveyancing fees.** Some providers won't charge for these, but it's worth checking if you are moving to a new lender.
- **Solicitor's fee** covering the legal paperwork to do with managing the transfer of your mortgage.

Is a remortgage right for you?

Whether or not you remortgage all depends on your situation and the type of mortgage plan you're currently on. You may want a mortgage that lets you make overpayments, or you could be coming to the end of your current deal's fixed term and think the lender's SVR will be too high. One of the most important things you can do before you decide is gather your current mortgage paperwork, look at the fees and get some expert advice on your next steps.

What about product transfers?

If your mortgage is coming to its maturity date but you'd prefer to stay with your current lender, you could consider a product transfer. Switching to a new mortgage product with the same lender could save you money and time. Our financial advisers can help guide you through choosing the right product to make it worthwhile and explain the logistics of transferring your mortgage product.

Our advisers can help you work out the pros and cons of a remortgage, and what could work best for you.

[1] www.investorcoms.com

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE