

Make the most of your investment tax breaks

Investments held outside tax-efficient wrappers such as ISAs or pensions can still work well for long-term growth. But it's important to understand how dividends and capital gains are taxed so you don't pay more than necessary, and make the most of your available allowances each year.

Alongside your ISA and pension allowances, reviewing your dividend and capital gains tax (CGT) allowances before the tax year ends can make a meaningful difference to your long-term returns.

Dividend allowance

For the 2025/26 tax year, you can receive up to £500 in dividends tax free. Above this, the rate you pay depends on your income tax band:

8.75%	33.75%	39.35%
for basic rate taxpayers	for higher rate taxpayers	for additional rate taxpayers

Dividend income is added to your other taxable income to determine which rate applies. If you hold investments through a company, your tax position may differ, so it's worth reviewing your situation with an adviser.

Capital gains tax (CGT) allowance

The annual CGT allowance for 2025/26 is £3,000. You can make up to this amount in profit from selling investments such as shares before paying any CGT. Gains above this allowance are taxed at:

18%	24%	32%
for basic rate taxpayers*	for higher and additional rate taxpayers	for carried interest

Example

If you and your spouse each hold investments outside an ISA, you can make gains of up to £6,000 in total this tax year without paying CGT.

By transferring assets between you on a no-gain, no-loss basis (which means no tax is triggered on the transfer itself), you can share the allowances and potentially keep both sets of gains below the threshold.

*Where total income and gains fall within the basic rate band.

Ways to reduce your tax bill

There are several ways to make your investments more efficient:

- Use both partners' allowances. Married couples and civil partners can transfer assets between them to make use of two sets of dividend and CGT allowances.
- Plan the timing of disposals. Spreading asset sales over more than one tax year helps you use multiple CGT exemptions.
- Offset losses. If you sell an investment at a loss, report it to HMRC to offset against gains in the same or future tax years.
- Keep good records. Noting purchase and sale prices, fees and reinvested dividends can make it easier to calculate gains accurately later.

If appropriate for your attitude to risk and capacity for loss, you and your adviser may also consider investment options that defer CGT to a later date.

Marriage allowance

If you're married or in a civil partnership, the marriage allowance allows a non-taxpayer to transfer £1,260 of their personal allowance to their partner, saving up to £252 in tax for the year. It's worth checking if you qualify.

Side income and self-assessment

If you earn more than £1,000 from a side business, freelance work or online trading, you may need to complete a self-assessment tax return. Keeping accurate records and getting advice early can help avoid last-minute surprises.

Did you know?

Holding investments inside a Stocks and Shares ISA or pension means you won't pay any tax on dividends or capital gains. Using these wrappers first can make a significant difference to long-term returns.

Professional advice makes a difference

Understanding how allowances interact can be complex, especially if you hold investments across different accounts or with a partner. A financial adviser can help you structure your portfolio to stay within allowances and make the most of every opportunity to save tax.

Talk to your adviser

Speak to your adviser today about making the most of your dividend and capital gains tax allowances and ensuring your investments are structured in the most tax-efficient way for your future.

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

For specialist tax advice, please refer to an accountant or tax specialist.

The Openwork Partnership is a trading style of Openwork Limited which is authorised and regulated by the Financial Conduct Authority.