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# How to manage your finances in a divorce

Money matters might not be at the forefront of your mind when your marriage breaks down. But given the impact divorce can have on your finances, it's really important to consider the steps you can take now to safeguard your future financial security. From property and pensions to savings and investments, understanding your assets and your options in advance can help make the process less daunting.

Every divorce is unique and it's crucial to seek legal and financial advice that is tailored to your individual circumstances. However, the following information should help you get started.

## Seek advice immediately

The legal and financial decisions involved in a divorce can be highly complex. Your first step should therefore be to seek both legal and financial advice.

A financial adviser can help you draw up a list of joint and individual assets with up-to-date valuations. Some of the assets to include are first or second homes, pension pots, investments, and any businesses you own. You should also note down your income and outgoings – both joint and individual. Drawing up this list will ensure the legal advice you receive is based on accurate information; it can also make the appointment with your solicitor more time and cost effective.

A financial adviser can also demonstrate the impact divorce will have on your finances and give advice on the necessary steps to achieve or reshape your objectives.

## Budget for your future

Your needs and circumstances could be very different once the divorce is complete, so it's important to budget for the future life you want to live. Try to start saving and planning in advance, as what you want financially from the divorce might not be what you get. Obtaining a copy of your credit report is a good start, especially if you're likely to need a new mortgage. A credit report will also highlight any joint lending you might be liable for.

## Think carefully when dividing your home

When it comes to dividing your home, there are several options to consider. For example, you could sell the home, both of you move out, and then use the proceeds towards buying a new home each. Alternatively, one partner could buy out the other partner's share, or you could keep the home and one of you live in it until your children leave school.

You might be keen to hang on to your home but, from a financial point of view, this might not be the best decision. If you have a mortgage, for example, it might be hard to keep up the repayments on your own. A financial adviser can help you decide whether it's better to keep your home or sell up and buy somewhere more affordable.

## Get specialist advice on splitting pensions

The way you split your pension could have a long-lasting impact on your financial security, so it's really important to take the time to understand your options and seek professional advice.

Pension sharing, where you split one or more pensions, is often the favoured way of dividing a pension. Pension sharing achieves a clean break because the pension assets are split immediately. When the pension sharing order is granted, each individual can decide independently what they would like to do with their share.

Pension offsetting is where pension rights are balanced against other assets, such as the home. For example, if one spouse has a pension fund worth £500,000 and the couple jointly own a property worth £500,000, one may keep the property and the other may keep the pension.

## Assess your savings and investments

In addition to your pension, you might have other savings and investments which could form part of the divorce settlement.

Splitting cash savings accounts tends to be straightforward because one partner can simply transfer money from their account to the other partner's account. If you have ISAs, you or your ex-spouse would need to withdraw the money first and then give it to your partner. Bear in mind that the way you split your investments could have tax implications and there may be charges involved, so it's important to get financial advice.

## Consider your CGT liabilities

New rules came into effect on 6 April 2023 which extend the time in which separating partners can transfer assets to one another without incurring capital gains tax (CGT) from one year to three years from the end of the tax year in which they separate. This extension of the 'no gain, no loss treatment' means you have more time and flexibility when deciding how best to divide up your assets. If you divorce before the end of the three-year period, the 'no gain, no loss treatment' will end at the date the divorce is finalised, unless the transfer takes place as part of a formal divorce agreement.

Bear in mind that CGT liabilities could arise at a later date. For example, if you receive an asset from your partner and subsequently sell it, this would count a transaction rather than a transfer, meaning you might have to pay CGT on the profits. Once your divorce is finalised, it's important to regularly review your finances, assess your tax position, and make sure your financial plan still suits your needs.

## Next steps

Managing your finances during and after a divorce can seem overwhelming, but a financial adviser will make the process as easy as possible. Whether it's helping you budget for your new life, setting up new pension and investment arrangements, or simply offering support when times are tough, getting some smart advice can help you feel confident that you're on track for a more secure financial future.

The value of investments, and any income from them, can fall and you may get back less than you invested. This does not constitute tax or legal advice. Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Information is provided only as an example and is not a recommendation to pursue a particular strategy.



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