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GUIDE TO

INDIVIDUAL SAVINGS ACCOUNTS

THE LITTLE ALLOWANCE WITH BIG POTENTIAL

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The little allowance with big potential

Individual Savings Accounts (ISAs) are an incredibly effective means of shielding your money from both Capital Gains Tax and Income Tax. Using your tax-free allowances every year should be a standard part of your financial planning.

Each tax year, we are each given an annual Individual Savings Account (ISA) allowance. This can build up quickly, letting you accumulate a substantial tax-efficient gain in the long term. The ISA limit for 2018/19 is £20,000, and anyone wishing to utilise their allowance should do so before the deadline at midnight on Friday 5 April 2019, which marks the end of the 2018/19 tax year.

It is a 'use it or lose it' allowance, meaning that if you don't use all or part of it in one tax year, you cannot take that allowance over to the next year. Utilising your ISA allowance to invest tax-efficiently could lead to significant savings in Capital Gains Tax and even improve your potential returns.

We've answered some typical questions we get asked about how to best use the ISA allowance to help make the most of the opportunities as this tax year draws to a close.

Q: What is an ISA?

A: An ISA is a 'tax-efficient wrapper' designed to go around an investment. Types of ISA include a Cash ISA and Stocks & Shares ISA. A Cash ISA is like a normal deposit account, except that you pay no tax on the interest you earn. Stock & Shares ISAs allow you to invest in equities, bonds or commercial property without paying personal tax on your proceeds.

Q: Can I have more than one ISA?

A: You have a total tax-efficient allowance of £20,000 for this tax year. This means that the sum of money you invest across all your ISAs this tax year (Cash or Stocks & Shares) cannot exceed £20,000. However, it's important to bear in mind that you have the flexibility to split your tax-free allowance across as many ISAs and ISA types as you wish. For example, you may invest £10,000 in a Stocks & Shares ISA and the remaining £10,000 in a Cash ISA. This is a useful option for those who want to use their investment for different purposes and over varying periods of time.

Q: When will I be able to access the money I save in an ISA?

A: Some ISAs do tie your money up for a significant period of time. However, others are pretty flexible. If you're after flexibility, variable rate Cash ISAs don't tend to have a minimum commitment. This means you can keep your money in one of these ISAs for as long – or as short a time – as you like. This type of ISA also allows you to take some of the money out of the ISA and put it back in without affecting its tax-efficient status.

> 'Put your 2018/19 ISA allowance of £20,000 into an ISA by 5 April and don't pay tax on the money your ISA makes'

On the other hand, fixed-rate Cash ISAs will typically require you to tie your money up for a set amount of time. If you decide to cut the term short, you usually have to pay a penalty. But ISAs that tie your money up for longer do tend to have higher interest rates.

Stocks & Shares ISAs don't usually have a minimum commitment, which means you can take your money out at any point. That said, your money has to be converted back into cash before it can be withdrawn.

Q: What is a Help to Buy ISA?

A: A Help to Buy ISA is an ISA designed to help first-time buyers save up a deposit for their home. The Government will add 25% to the savings, up to a maximum of £3,000 on savings of £12,000. If you pay into a Help to Buy ISA in the current tax year, you cannot also pay into another Cash ISA.

Q: Could I take advantage of a Lifetime ISA?
A: You must be 18 or over but under 40 to open a Lifetime ISA. You can use a Lifetime ISA to buy your first home or save for later life. You can put in up to £4,000 each year until you're 50. The Government will add a 25% bonus to your savings, up to a maximum of £1,000 per year.

Q: What is an Innovative Finance ISA?
A: An Innovative Finance ISA allows individuals to use some or all of their annual ISA allowance to lend funds through the Peer to Peer lending market. Peer to Peer lending allows individuals and companies to borrow money directly from lenders. Your capital and interest may be at risk in an Innovative Finance ISA and your investment is not covered under the Financial Services Compensation Scheme.

Q: Is tax payable on ISA dividend income?
A: No tax is payable on dividend income. You don't pay tax on any dividends paid inside your ISA. Outside of an ISA, you currently receive a £2,000 dividend income allowance.

Q: Is Capital Gains Tax (CGT) payable on my ISA investment gains?
A: You don't have to pay any CGT on profits. You make a profit when you sell an investment for more than you purchased it for. If you invest outside an ISA, excluding residential property, any profits made above the annual CGT allowance for individuals (£11,700 in 2018/19 tax year) would be subject to CGT. For basic rate taxpayers, CGT is 10% or more. For higher and additional rate taxpayers, CGT is 20%.

Q: I already have ISAs with several different providers. Can I consolidate them?
A: Yes you can, and you won't lose the tax-efficient 'wrapper' status. Many previously attractive savings accounts cease to have a good rate of interest, and naturally some Stocks & Shares ISAs don't perform as well as investors would have hoped. Consolidating your ISAs may also substantially reduce your paperwork. We'll be happy to talk you through the advantages and disadvantages of doing it.

Q: Can I transfer my existing ISA?
A: Yes, you can transfer an existing ISA from one provider to another at any time as long as the product terms and conditions allow it. If you want to transfer money you've invested in an ISA during the current tax year, you must transfer all of it. For money you invested in previous years, you can choose to transfer all or part of your savings.

Q: What happens to my ISA if die prematurely?
A: The rules on ISA death benefits allow for an extra ISA allowance to the deceased's spouse or registered civil partner. ■

LOOKING FOR WAYS TO MAKE YOUR MONEY WORK HARDER?

The ISA season is a great time of year to do a spring-clean of your finances and explore new ways to give your savings a tax-efficient boost. Whether you're new to investing or an experienced investor, we can help you consider the options available. To discuss your requirements, please contact us.

WANT TO MAKE YOUR ISA WORK HARDER?

If you're looking for ways to grow the value of your wealth for the longer term, investing through an appropriate ISA provides the potential to do this and has the added benefit of protecting the gains you make from both Income Tax and Capital Gains Tax.

If you would like to review your situation or discuss the options available, please contact us for further information – we look forward to hearing from you.

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