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FACTSHEET

Individual Savings Accounts

Taking control over where your money is invested tax-efficiently

A new tax year is nearly upon us – and that means, for all diligent savers and investors, you should make sure that you take full advantage of your current Individual Savings Account (ISA) tax-efficient allowance.

An ISA is a tax-efficient investment wrapper in which you can hold a range of investments, including bonds, equities, property, multi-asset funds and even cash, giving you control over where your money is invested. It is important to remember that an ISA is just a way of sheltering your money from tax – it's not an investment in its own right.

You don't even have to declare any investments held in ISAs on your tax return. This may not seem like much, but if you have to file an annual tax return, you'll know that any way of simplifying your financial administration can be very helpful.

ISA LIMITS

This tax year, you can invest up to £20,000 in ISAs. The 2017/18 tax year runs from 6 April 2017 to 5 April 2018. The ISA allowance can be split as desired between a Stocks & Shares ISA, a Cash ISA, a Lifetime ISA (maximum £4,000) and an Innovative Finance ISA, providing you stay within the overall £20,000 limit.

The annual ISA allowance is per individual and is the maximum amount every person can save into any type of ISA over the course of the tax year. This means you and your spouse or registered civil partner can put up to £40,000 between you into ISAs this tax year.

PROTECTED FROM THE TAXMAN

When you invest through an ISA, your money is protected from the taxman, so you don't have to pay personal Income Tax on any interest or dividends you receive from your investments. While the UK Government has introduced the Personal Savings Allowance and Dividend Allowance, holding your investment through an ISA will save you from monitoring and managing a potential tax burden.

The tax-efficient nature of an ISA is particularly useful in retirement, as it means you can hold your money in bond funds and generate a tax-efficient income on top of the payments you receive from your pension. It is also very beneficial if you want to generate long-term capital growth from your funds but prefer to take a cautious approach to investing.

ANNUAL EXEMPTION THRESHOLD

When your investments are held in ISAs, you don't have to pay any Capital Gains Tax (CGT) on their growth. Of course, this may seem like a minimal benefit if your profits are well within the annual exemption threshold for CGT, but it's worth remembering that stocks and shares investments are for the long term. If your funds perform particularly well for several years, holding them in ISAs will mean you have full access to your money at all times without having to worry about managing a potential tax burden.

CONSOLIDATE YOUR INVESTMENTS

If you feel that your existing ISA provider is no longer appropriate for your needs, or you are looking to consolidate your investments under one roof, with an ISA you are free to transfer your investment between providers to suit your individual needs.

However, your current provider may apply a charge when you transfer your investment. While your investment is being transferred, it may be out of the market for a short period of time and will not lose or gain in value.

CONTROL OVER RETIREMENT INCOME

ISAs can give you control over your retirement income, as you can take as much money out as you like, whenever you want. Savings in an ISA and withdrawals from an ISA are free from personal taxation.

In contrast, if you are a pension saver, you can generally also take out as much money as you like, whenever you want, from age 55. However,

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while 25% of the pension pot can be withdrawn tax-free, remaining withdrawals are taxed at the applicable marginal rate of Income Tax.

INHERITING AN ISA ALLOWANCE

The spouse or registered civil partner of ISA holders who have died have the ability to inherit their ISA allowance. The Inheritance ISA or 'Additional Permitted Subscription' (APS) rules allow you to use your partner's ISA allowance for up to three years from the date of their death, or 180 days after the completion of the administration of the estate if longer. The spouse or registered civil partner can then inherit their ISA allowance, which will be equal to the amount held by the spouse or registered civil partner in their ISAs.

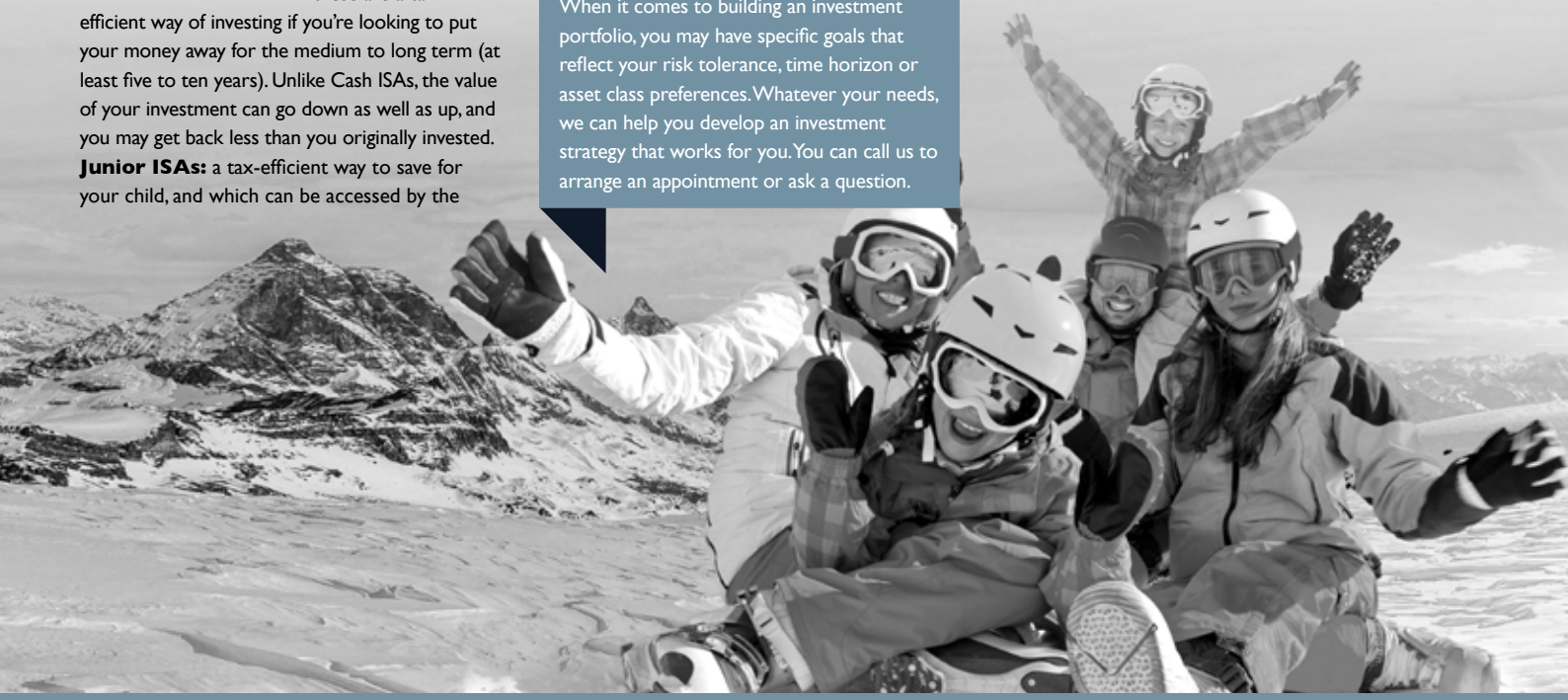
ISA OPTIONS:

Cash ISAs: with a Cash ISA you can either choose easy access with no charge for withdrawals but with a variable interest rate that could go up and down, or fixed interest with no withdrawals allowed but which can be closed early or transferred to another ISA subject to loss of interest. First-time buyers can opt to save up to £200 a month in a Help to Buy: ISA instead.
Stocks & Shares ISAs: these are a tax-efficient way of investing if you're looking to put your money away for the medium to long term (at least five to ten years). Unlike Cash ISAs, the value of your investment can go down as well as up, and you may get back less than you originally invested.
Junior ISAs: a tax-efficient way to save for your child, and which can be accessed by the child when they reach 18 years of age. The annual Junior ISA allowance for the 2017/18 tax year is £4,128 and can be invested in a Junior Cash ISA, a Junior Stocks & Shares ISA or a combination of both, providing you don't exceed the annual limit.
Innovative Finance ISAs: a tax-efficient way of participating in peer-to-peer lending, using your savings without paying any personal tax on the income received. The value of your investment can go down as well as up, and you may get back less than you originally invested. These are generally considered higher-risk investments and may not be considered suitable for all types of investors.
Lifetime ISAs: you can use a Lifetime ISA to buy your first home or save for later life. You must be 18 or over but under 40 to open a Lifetime ISA. Up to £4,000 can be put in 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. ■

HELPING YOU GROW YOUR WEALTH

We are committed to helping you build a goal-based financial plan that reflects what's most important to you and your future plans. When it comes to building an investment portfolio, you may have specific goals that reflect your risk tolerance, time horizon or asset class preferences. Whatever your needs, we can help you develop an investment strategy that works for you. You can call us to arrange an appointment or ask a question.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE. TAX TREATMENT IS BASED ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. ALTHOUGH ENDEAVOURS HAVE BEEN MADE TO PROVIDE ACCURATE AND TIMELY INFORMATION, WE CANNOT GUARANTEE THAT SUCH INFORMATION IS ACCURATE AS OF THE DATE IT IS RECEIVED OR THAT IT WILL CONTINUE TO BE ACCURATE IN THE FUTURE. NO INDIVIDUAL OR COMPANY SHOULD ACT UPON SUCH INFORMATION WITHOUT RECEIVING APPROPRIATE PROFESSIONAL ADVICE AFTER A THOROUGH REVIEW OF THEIR PARTICULAR SITUATION. WE CANNOT ACCEPT RESPONSIBILITY FOR ANY LOSS AS A RESULT OF ACTS OR OMISSIONS.



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