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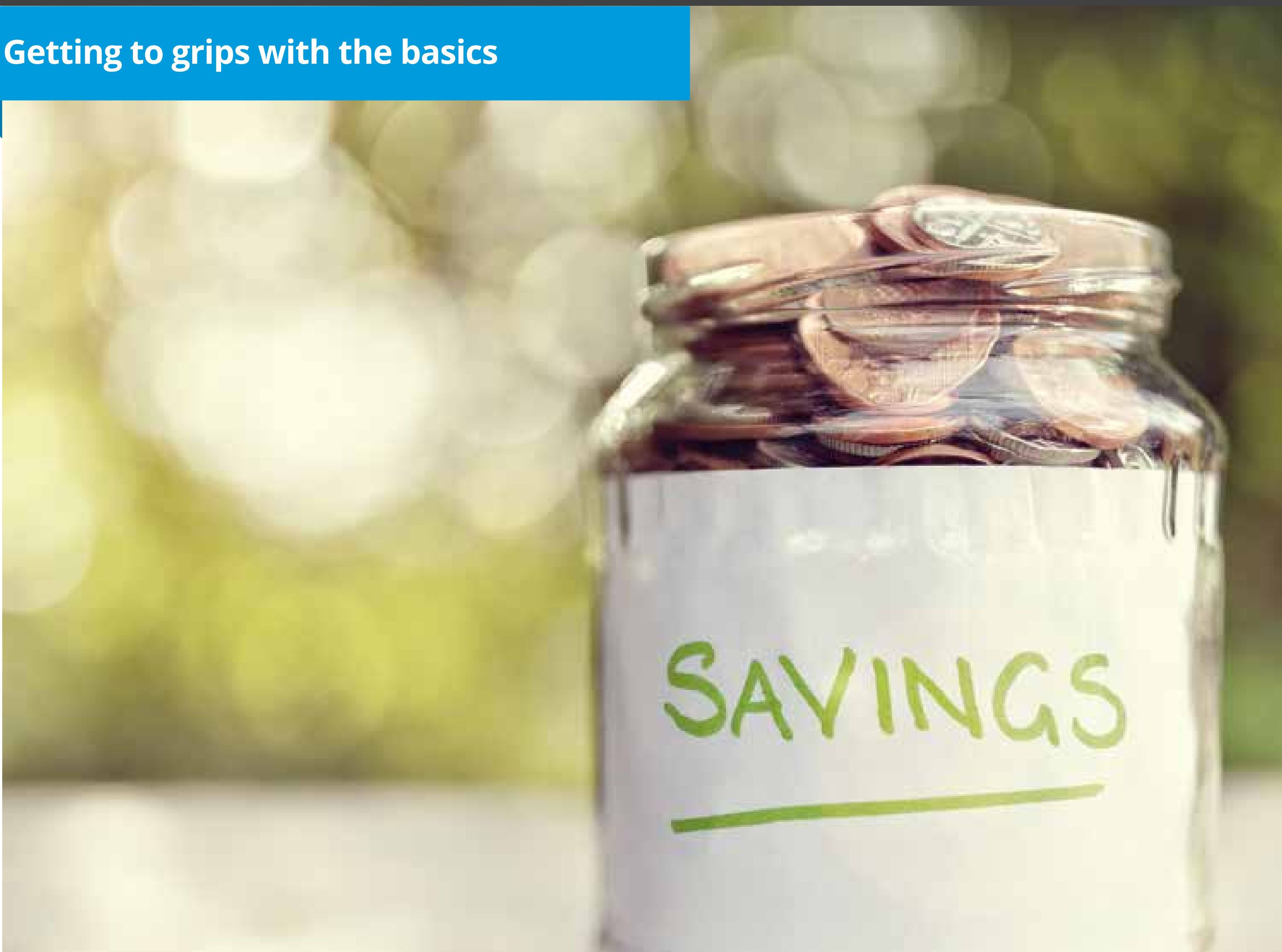
An Introduction to ISAs

Getting to grips with the basics



If you're thinking about saving or investing, it can be difficult to decide on the best place to put your money. There are hundreds of different accounts on offer from banks, building societies and investment companies. So how do you make your choice? For many people, taking out an ISA (Individual Savings Account) can be a good place to begin.

What are ISAs?

An ISA is a simple, tax-efficient way to save or invest. The advantage of these types of account is that you don't pay tax on the interest you earn, or the increase in value of your investments (no Capital Gains Tax to pay) and some deliver a government bonus. There are now several different types of ISA available, designed by the government to encourage people over 16 to save or invest for their or their children's future.

What types are there?

The basic types of ISA are:

- **Cash ISAs**
- **Junior ISAs**
- **Help-to-Buy ISAs**
- **Stocks and Shares ISAs**
- **Lifetime ISAs**

With a **Cash ISA** you never need to pay tax on the interest you earn on your cash.

Junior ISAs are a tax-efficient way to build up savings for a child and can be opened for any child under 18 living in the UK. The money can be held in cash and / or invested in stocks and shares.

Help-to-Buy ISAs are designed for first-time house buyers and are a type of Cash ISA. When the money saved is used to complete a house purchase, the government adds a 25% bonus (up to a maximum bonus of £3,000).

With a **Lifetime ISA (LISA)** you are able to hold your money in cash or invest in stocks and shares. LISAs are designed for those aged 18 to 40 wanting to save for their first home or retirement, with the added attraction that they can save until they are 60 if they wish to. People under the age of 40 are able to contribute up to £4,000 in each tax year. Government bonuses apply up to age 50.

If you choose a **Stocks and Shares ISA,** there is no capital gains tax and no tax on dividend income. ISA dividends have no impact on the dividend allowance.

How much can I save in an ISA?

The ISA allowance is a generous £20,000 for the 2017-18 and 2018-19 tax years. You can put all the £20,000 into a Cash ISA, or invest the whole amount into a Stocks and Shares ISA or innovative finance ISA. You can also mix and match, putting some into cash, some into stocks and shares and the rest into innovative finance if you wish. However, the combined amount can't exceed your annual ISA savings allowance (£20,000 in tax years 2017-18 and 2018-19).

In the 2017-18 tax year, £4,128 can be saved in a **Junior ISA.** In 2018-19, the JISA allowance will be uprated in line with CPI to £4,260.

With a **Help to Buy ISA** savers aged 16 or over can open their ISA with an initial deposit of £1,200, which qualifies for a government bonus of £250. Savers can then contribute a maximum of £200 each month, with the government contributing a bonus of up to £50 on top. In order to claim the maximum bonus of £3,000, they need to save £12,000. The Help to Buy ISA bonus is paid once it is certain the property transaction will proceed. In most cases the bonus is claimed between exchange and completion. In some situations the bonus may be required to make up the deposit on exchange, your conveyancer may be able to agree a smaller deposit on exchange and guarantee the bonus to follow.

Help to Buy
Backed by HM Government

With a **Lifetime ISA,** if you are aged between 18 and 40, you will be able to save up to £4,000 each year. The government will then

provide a 25% bonus on these contributions at the end of the tax year. This means that people who save the maximum each year will receive a £1,000 bonus each year from the government. Savers will be able to make Lifetime ISA contributions and receive a bonus from the age of 18 up to the age of 50. Savers need to be aware of the risks associated with a LISA, early withdrawal charges, restrictions and accessibility.

We can help you make the right choice of ISA based on your age, the length of time you want to save for and your plans for the future. We can save you time and make recommendations that are right for your personal financial circumstances.

Should I opt for cash or shares?

Cash is solid and reliable, and with a Cash ISA you are guaranteed to get back all the money you have put in – but with interest rates continuing to remain low, there is a risk that inflation will erode the value of the money saved over time.

If you are able to lock your money away for a reasonable amount of time – a minimum of five years for example – it is often better to invest in stocks and shares which historically have offered a better return. Unlike cash savings, money invested in stocks and shares rises and falls in line with what is happening in financial markets. So the value of your investment can go up and down.

Given that you can put your money into both Cash and Stocks and Shares in an ISA, people often find this a tricky decision to make. This is where we can offer practical help and guidance based on your attitude to risk, and the length of time you have to save or invest.

Can I have more than one ISA?

You can have multiple ISAs, but you can only open and subscribe to one Cash ISA and one Stocks and Shares ISA per tax year. However, you can't exceed the combined allowance, which for tax years 2017-18 and 2018-19 is £20,000. You can continue to hold ISAs set up in previous years.

Do I lose the tax benefits if I take money out?

ISAs can be flexible, which means that if the account terms allow, you can take cash out and put it back during the same tax year without reducing your current year's allowance and without losing the tax benefits.

Do I include my ISA on my tax return?

No, there is no requirement to do this under current tax rules. You don't need to declare income and capital gains from ISA savings or investments on your tax return.

The value of investments and income from them can go down. You may not get back the original amount invested. 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.

Past performance is not a reliable indicator of future performance. A pension is a long term investment, the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

We're here to help

We're only a phone call away, so if you have queries or would like to discuss the different types of ISAs and consider what would work best for you or your family, please do get in touch.

Top Tips

Remember, cash is not risk free

With interest rates currently low, there is a risk that over time inflation will erode the buying-power of your savings. You can hold a wide variety of assets in an ISA. We'll explain these options to you.

Think about your time horizons

If you intend to save or invest into an ISA over the longer term, say five to ten years, then you may want to consider investing rather than saving in cash, giving your money more time and scope for growth.

Consider investing monthly

If you're thinking of putting your ISA subscription into the stock market, but are worried about the current volatility that stocks and shares can sometimes have, then you can always choose to make regular contributions. By making regular contributions, returns are smoothed over the longer term, with the objective of hedging the risk of a falling market over time. This simple concept is known as 'pound-cost-averaging' and is based on the principle that when markets are low, your set amount buys more shares or units, and when markets are high it buys fewer.This investment philosophy offers the opportunity to make inevitable market fluctuations work in your favour; by gradually drip feeding money into the market over a longer term, you can reduce the impact of market timing and volatility on purchase prices.

Don't forget your pension

Both ISAs and pensions are forms of tax wrapper that offer valuable tax concessions. One of the key differences between ISAs and pensions is that contributions to ISAs are made from taxed income, while those made to pensions are not. Savers contributing to a pension within HMRC annual and lifetime allowances receive tax relief at the same rate they pay income tax. With a pension, you can't generally access your money before you are 55. For many people, contributing to an ISA and a pension makes good financial sense.

Get good advice

ISAs have an important part to play in organising your money in a tax-efficient way and making provision for the future. We can offer advice about the type of ISA that would work best for you, whether you're investing for a child through a Junior ISA, looking to buy a property using a Help-to-Buy ISA or a Lifetime ISA, or accumulating funds for future goals such as a comfortable retirement.