A guide to **ISAs**

Your questions answered

Marketing material

Introduction

WHEN WE SAVE FOR THE FUTURE WE WANT OUR MONEY TO GROW AS MUCH AS POSSIBLE. SO WHY PAY MORE TAX THAN YOU NEED TO?

One of the easiest ways to maximise returns is to invest your money via an individual savings account, or ISA.

Why should I put money into an ISA?

An ISA can do two very important things:

1. Boost returns

If you invest or save money outside of a tax-efficient scheme such as an ISA or a pension, sooner or later you may have to pay tax on your returns. Tax could be due on interest or dividends you receive or on gains when you come to sell an investment. When you receive interest or dividends from savings or investments held in an ISA, or you sell investments held in an ISA, your return will be higher by the amount of tax you would otherwise have had to pay.

2. Keep life simple

Streamlining your paperwork is the other big benefit that ISAs can bring. Filling in a tax return can be complex and time-consuming. An ISA does away with all of that. Once money is in an ISA you do not have to report it for tax purposes. The gains you make do not have to be declared to HMRC and those gains won’t risk pushing you into a higher tax band once other income or gains are taken into account.

HOW MUCH TAX CAN AN ISA SAVE ME?

This will depend on your overall tax position. The top rate of tax on income for the highest earners is currently 45% but those who earn less than £12,570 in total do not have to pay tax.

When it comes to capital gains, individuals have an annual capital gains tax (CGT) allowance of £6,000 in 2023/24 (it will decrease to £3,000 in 2024/25). Higher rate taxpayers pay tax of 20% on gains above that amount. Basic rate taxpayers pay 10%, provided that the gain is above the CGT allowance, when added to their taxable income, and does not push them into the higher rate tax bracket.

How do I start to save in an ISA?

It's a simple process. First, check you're eligible. You must be resident in the UK (not the Channel Islands or the Isle of Man) and must not already have made the maximum contribution to an ISA in the current tax year, which is currently £20,0000. You'll need your National Insurance number to hand.

Utilising your ISA allowance to maximise tax relief should form part of a wider financial plan. Speak to your adviser, who will be able to find the right solution for your circumstances and goals.

What are the key ISA choices I need to make?

The first choice is between the various types of ISA

1. The big ISA question: cash or stocks and shares

When you open an ISA, you'll need to decide whether to save in cash (a "cash ISA") or to invest in shares or other riskier assets (a "stocks and shares ISA").

If you're planning to spend the money in less than five years, it is generally sensible to select a cash ISA. Other investments such as shares can be subject to unpredictable rises and falls as they are linked to global markets, and although prices normally recover, this can take time.

However, if you're saving for long-term goals – such as to fund retirement – a stocks and shares ISA may be the better choice. Riskier assets such as shares have the potential to increase your spending power over the long term by delivering a positive return, once you have taken account of inflation. Inflation, which is currently at its highest level for some time, can erode the real value of your savings far faster than the interest paid on cash can increase its value. Please remember that past performance is not a guide to future performance and may not be repeated.

2. The Lifetime ISA (for under 40s)

If you are under 40 you also have the option of saving up to £4,000 a year in a Lifetime ISA. This is designed to help with funding the purchase of a first home or for funding retirement. The advantage of saving in a Lifetime ISA is that the Government will top up the amount you put in by 25% up to a maximum of £1,000 a year. The potential drawback is that withdrawals made before the age of 60, unless for a first house purchase or in the event of terminal illness, will attract a penalty that more than negates the benefit of all the government bonuses received.

If you choose a Lifetime ISA you'll still need to decide whether to invest the money in cash or in riskier assets such as shares.

You can open more than one ISA (for example, a cash ISA and a stocks and shares ISA), as long as your total contributions do not exceed £20,000 in any one tax year.

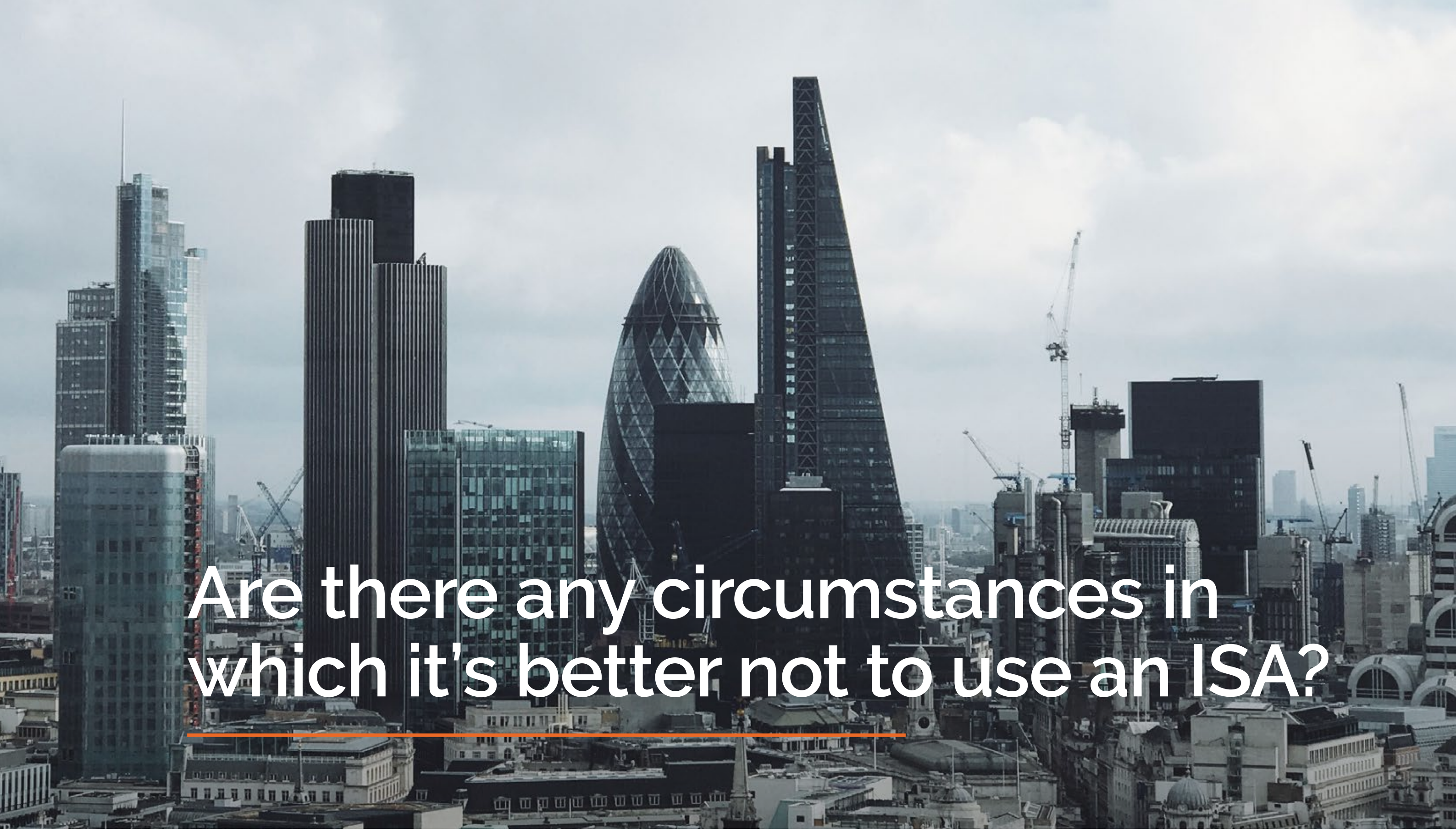
How often do I need to look at my ISA after it's set up?

You can make contributions every year or pay on a monthly basis. It may be worth setting a reminder to pay into an ISA on the first day of the tax year every year (6th April) or setting up a monthly direct debit.

Your existing ISA or ISAs also need some monitoring. If you hold a cash ISA, check that you are receiving a competitive rate of interest. If not, it's easy to switch but important to do it in a particular way so that the tax benefits are not lost. The right way is to choose a new cash ISA provider and then ask them to contact the old provider and they will arrange the transfer directly. Your adviser will be able to help you with this.

Different considerations apply if you have invested in a stocks and shares ISA. Here, the performance of the investments that you hold within the ISA is paramount, so check regularly that your investments are still on track to meet your goals.

Over time, it may be necessary to consider switching the funds or other investments you hold within your ISA. This doesn't always mean transferring to another ISA provider, and your adviser will also help you review your investments.



Are there any circumstances in which it's better not to use an ISA?

You can open more than one ISA (for example, a cash ISA and a stocks and shares ISA), as long as your total contributions do not exceed £20,000 in any one tax year.

1. Why wouldn't I have a cash ISA?

With a cash ISA, the interest rates are typically – at the moment at least – lower than those offered on non-ISA accounts. If you don't pay tax on your savings anyway (perhaps because your income doesn't reach the threshold) you might not benefit from using an ISA.

Savers who pay the basic rate of income tax can receive up to £1,000 a year in interest from savings and not pay tax, while those who pay the higher rate (40%) have a £500 annual allowance. Additional-rate income taxpayers have no allowance. If you don't expect to exceed these allowances and want the highest possible interest rate on your savings, a non-ISA account may be better for you.

2. Why wouldn't I have a stocks-and-shares ISA?

Some investment companies charge annual or monthly fees for ISAs but offer conventional, non-ISA accounts (those that come with no tax breaks) for less. If your capital gains are modest you may find that you will pay no tax even in a non-ISA account and so could possibly avoid higher fees. Your adviser will be able to help you make the right choice for you.

THE LONG-TERM BENEFITS OF SETTING UP A STOCKS-AND-SHARES ISA TODAY

Over the long term, there is a case to be made that it is usually beneficial to put as much money into ISAs as possible, irrespective of any potential short-term disadvantage. Changes in your own income or circumstances, or in tax laws, may render the other tax allowances less useful. In comparison, ISAs offer clarity and simplicity about your protection from tax in the future.

As you continue to accumulate wealth you may find yourself with large enough savings that you can no longer benefit from the various personal allowances and capital gains tax allowances. If you have opened an ISA in each tax year, however, the full amount in your ISAs will be protected from tax, no matter how large a sum it grows to.

ISAs form an important part of your overall financial plan, so speak to your adviser today to discuss the right solution for you.

ISAs could offer you a simpler way of life if you have to fill out a tax return. **Speak to your adviser to find out more.**

What happens if I break the ISA rules by mistake?

It depends. HMRC will know if you have exceeded your allowance at the end of the tax year. If it's the first time and you have exceeded the annual allowance relatively modestly, they may not take any action.

But they could decide to tell your ISA company to take the amount invested in excess of the allowance out of the ISA, which would make it taxable.

If you realise that you have broken the ISA rules, call HMRC's ISA helpline on 0300 200 3312 for advice, or speak to your adviser.

The other important rule to remember concerns transfers. Don't withdraw the money from one ISA to invest it in another, as this may have an impact on your tax-free allowance.

Instead your adviser will ask your new provider to request the funds directly from the old one. This ensures that your investment retains its tax-free status.

If in doubt, speak to your adviser before taking any action.

What happens to the money in my ISA after I pass away?

It’s easy to think of ISAs as a shelter from all taxes, but the exception is inheritance tax. All the money in your ISAs, of all types, will form part of your estate when you pass away.

However, if you are married or in a civil partnership your spouse can in effect inherit your ISA; they will be given an increased ISA allowance equal to the amount in your ISA when you passed away.

WHAT CAN I DO IF I HAVE MORE QUESTIONS?

Get in touch with your adviser to discuss using ISAs as part of your wider financial strategy. They will be able to tell you whether this is the right solution for you, based on your circumstances and goals.

CARTESIAN
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LET'S START A CONVERSATION

We'd love to discuss your goals and answer any questions you may have. Get in touch today for a no-obligation chat with the team.

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Please note:

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits.

The Financial Conduct Authority does not regulate estate planning, tax planning or will writing.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it.

Note that life insurance plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.