Michael Forward
Financial Services

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GUIDE TO

INDIVIDUAL SAVINGS ACCOUNTS

DON'T MISS THE 5 APRIL 2017 DEADLINE

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When it comes to creating and maintaining the right investment strategy, we can provide the professional advice, comprehensive investment solutions and ongoing service to help you achieve your financial goals whether you are looking to invest for income or growth, or both.

As we approach the end of the 2016/17 tax year, have you fully utilised your annual Individual Savings Account (ISA) allowance? The ISA limit for 2016/17 is £15,240, rising to £20,000 in 2017/18. Anyone wishing to utilise their allowance should do so before the deadline at midnight on Wednesday 5 April 2017. The date marks the end of the 2016/17 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.

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 tax-efficiently.

SHELTERING YOUR MONEY FROM TAX

ISAs are becoming an integral part of financial planning. However, 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.

They offer a unique range of benefits, as there is no Income Tax on interest payments (which are made by bond funds) or dividends (which are paid by equity funds), and you don't lock your money away, so you can still access it whenever you need to.

WITHDRAWALS TO INCREASE YOUR INCOME

Income from an ISA doesn't affect your personal allowance or age-related allowance, and there's no Capital Gains Tax (CGT) payable on any growth you may achieve. This means you could use withdrawals to increase your income when necessary. However, any losses made in the ISA cannot be used to offset gains made elsewhere.

When you invest through an ISA, you don't have to pay personal Income Tax on any interest you receive from your investments. In a Stocks & Shares ISA, interest is generated by bond funds, which many investors choose because they offer the potential for a regular lower-risk income, compared with equities.

PARTICULARLY USEFUL IN RETIREMENT

This feature 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.

When your investments are held in ISAs, you don't have to pay any CGT on the growth. Of course, this may seem like a minimal benefit if your profits are well within the 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.

SIMPLIFYING YOUR FINANCIAL ADMINISTRATION

You don't 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.

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

WITHDRAWALS FROM AN ISA ARE TAX-EFFICIENT

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 tax-free. 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, at present only up to 25% of the pension can be withdrawn tax-efficiently, with withdrawals taxed at the applicable marginal rate of Income Tax. Separately, a test against the Lifetime Allowance may also be applied, which could result in additional tax becoming payable.

DIFFERENT TYPES OF ISA OPTIONS

CASH ISA

Anyone over the age of 16 can put their cash savings into a Cash ISA. Accounts can be either instant access, have notice periods or have fixed terms.

The annual allowance for a Cash ISA is currently £15,240. You can invest up to this full amount in your Cash ISA, or you can share this allowance between a Cash, Stocks & Shares and Innovative Finance ISA.

Some Cash ISAs are now flexible. If the ISA provider offers them, and you withdraw from one, you can put it back into the same account in the same tax year without affecting your allowance. It works on money in old Cash ISAs and cash you've deposited this tax year.

STOCKS & SHARES ISA

Anyone over the age of 18 can put individual shares or managed funds into a Stocks & Shares ISA.

The current annual allowance for a Stocks & Shares ISA is £15,240. You can invest up to this full amount in your Stocks & Shares ISA, or you can share this allowance between a Cash, Stocks & Shares and Innovative Finance ISA.

LIFETIME ISA

This ISA will be available for those aged between 18 to 39 from 6 April 2017 (if you turn 40 on or before 6 April 2017, you won't be eligible).

Announced in the 2016 Budget, this new tax-efficient savings or investments account is designed to help under-40s purchase their first home or save for retirement.

For every £4 you save, the Government will add £1 (worth up to £1,000 a year) paid at the end of tax year, up to the age of 50. Up to £4,000 a year is eligible for the 25% bonus (you can add more, but it won't receive a government contribution).

In the first year, it will be paid annually, but from the 2018/19 tax year onwards the bonus is paid every month, so that you benefit from compound growth. You can invest in either cash or stocks and shares.

INNOVATIVE FINANCE ISA

This ISA is for investments in peer-to-peer lending platforms such as Zopa, Ratesetter and Funding Circle. You must be over the age of 18 to invest.

The annual current allowance for an Innovative Finance ISA is £15,240. You can invest up to this full amount in your Innovative Finance ISA, or you can share this allowance between a Cash, Stocks & Shares and Innovative Finance ISA.

These are generally considered higher-risk investments and may not be considered suitable for all types of investors. You could lose some or all of your capital.

HELP TO BUY: ISA

This ISA has been introduced to help first-time buyers over the age of 18 get on the property ladder. You have to choose between either a Cash ISA or a Help to Buy: ISA, but you can have a Help to Buy and a Stocks & Shares ISA in the same tax year.

You can start your Help to Buy: ISA with a lump sum deposit of up to £1,200. You can then save up to £200 a month.

For every £200 you save, the Government will add 25% up to a maximum bonus of £3,000. However, the government bonus on a Help to Buy: ISA can only be applied at completion by the solicitor as the final part of the property purchase payment. As such, the monies cannot be used to help fund the deposit element of a property purchase.

JUNIOR ISA

Cash or investments can be wrapped in this ISA on behalf of children under the age of 18. The Junior ISA has an annual allowance of £4,080. You must be a UK resident or crown employee to invest in any type of ISA (with the exception of the additional permitted subscription ISA allowance).

You must be a UK resident or crown employee to invest in any type of ISA.

ISAS AND INHERITANCE TAX

Since 6 April 2015, spouses and registered civil partners of ISA holders who died after 3 December 2014 have been able to inherit an additional ISA allowance. The value of the inherited ISA allowance, also referred to as an 'additional permitted subscription' (APS) allowance, is equivalent to the value of funds that the ISA holder held in their ISAs when they died. A spouse or registered civil partner can therefore inherit allowances with a number of ISA providers, reflecting where the deceased held their ISAs.

The inherited ISA allowance is in addition to the normal annual ISA allowance that savers and/or investors can continue to use. The additional ISA allowance can be used for up to three years from the date of death or 180 days after the completion of the administration of the estate, if longer. Money can be paid in as a lump sum or in instalments (if allowed for by the provider).

EXPERT PROFESSIONAL INVESTMENT ADVICE

Choosing between a Cash ISA or an investment ISA such as A Stocks & Shares ISA will depend on the level of risk you are comfortable taking with your money, as well as factors such as how soon you will need to access your money. If you require individual expert professional advice to beat the ISA deadline on 5 April 2017, please contact us to review the most appropriate options for your particular situation.

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.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

STOCKS & SHARES AND INNOVATIVE FINANCE ISA INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL WHICH IS AFFORDED WITH A CASH ISA.

WANT TO FIND THE RIGHT INVESTMENT FOR YOU?

Whether you are an experienced investor or just starting out, we offer a range of different investment solutions to suit your needs.

To discuss your particular situation, please contact us.

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