A Guide to ISAs

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The Individual Savings Account, or ISA, is a tax-efficient savings scheme, designed to encourage people to save by offering tax benefits on any gains made.

The Government is committed to the ISA scheme and wishes to ensure that they become a permanent part of the savings environment.

How much can I save in an ISA?

The annual ISA investment allowance for the current tax year (2011/2012) is £10,680.

The Government has now announced that it intends to move the underlying indexation assumption for direct taxes from a Retail Price Index (RPI) to a Consumer Price Index (CPI) basis. As a result ISA indexation will progress to a CPI basis from 6 April 2012.

ISA savers are able to invest in 2 separate ISA's each tax year up to their annual limit.

The two different types of ISA available are:-

1. Cash ISA

2. Stocks & Shares ISA

If an ISA saver chooses to have both types of ISA it can be with different providers.

Cash ISA

For more cautious investors, cash sidesteps the volatility of the stock markets but the gains may not be as great as the potential gains from a Stock & Shares ISA. Key points to note are:

- A Cash ISA allows you to invest up to £5,340 each tax year
- Each year you can purchase your Cash ISA from different providers if you wish but you can only have one Cash ISA per year
- Children over the age of 16 have an allowance but it can only be used to save in a Cash ISA up to £5,340 per year,(see overleaf for information on the newly proposed Junior ISAs)
- The Cash component of an existing ISA can be transferred into a Stocks & Shares ISA (without counting towards the current year allowance) but not vice versa.

Stocks & Shares ISA

A Stocks and Shares ISA may be suitable for people who are prepared to accept the risk that the value of their investment and income from it can go up or down and they may get back less than they originally invested. You should look to invest for at least 5 years and have other savings to meet your short-term needs.

- In addition to the Cash ISA, ISA savers can also choose to invest in a Stocks & Shares ISA.
- Alternatively they can choose to place all their £10,680 annual allowance into a Stocks & Shares ISA.

- Where both ISA types are held, provided the annual allowance is not exceeded, the saver can choose how to split their allowance across the two types to a maximum of £5,340 in a Cash ISA. For example if £2,500 is saved in a Cash ISA the remaining allowance of £8,180 can be invested in a Stocks & Shares ISA.
- 'Mini' Stocks & Shares ISAs and the Stocks & Shares component of the old 'Maxi ISA' will be reclassified as 'Stock & Shares' ISAs.
- All Personal Equity Plans (PEPs) automatically became Stocks & Shares ISAs on the 6th April 2008 and became subject to the ISA rules.

For all ISAs the following rules apply:

- Each adult individual has their own ISA allowance each year.
- If you do not utilise your annual allowance it cannot be carried forward to the next year
- It is the responsibility of the individual to ensure that ISA contributions do not exceed the annual allowance.

What are the tax benefits of investing in an ISA?

- You don't pay tax on any interest you receive from your Cash ISA
- No tax paid on Capital gains arising from your investment in a Stocks & Shares ISA
- You do not have to tell the Inland Revenue and Customs about income and gains from ISA investments and savings
- Dividends earned by stocks and shares within the ISA will build up after deduction of tax at 10%.

Stakeholder ISAs

New regulations in April 2005 saw an end to the voluntary CAT standards for ISAs i.e. fair charges, easy access and decent terms.

Instead, new Stakeholder ISAs for both cash and share-based investments have been introduced as part of the government's growing suite of stakeholder products.

The changes won't affect consumers already with CAT standard ISAs – these accounts will continue to run on the same terms and conditions as when they were bought.

Corporate Bond ISAs

Corporate Bonds are IOUs issued by a company that wants to raise money. The company fixes the annual rate of interest rate it will pay on the loan, and also a date when it will repay the loan. The interest rate, the credit worthiness of the company and the demand for bonds reflects the type of a return an investor can expect. However, not all companies are as credit worthy as others. This means that some companies may fail to repay the capital on the loan on maturity. The different levels of risk are reflected in the level of return offered. A safer bond, issued by a large and successful company will typically offer a lower interest rate, whilst a bond offered by a smaller, less secure company will often offer a much higher interest rate. Corporate Bonds are given a risk rating by credit rating agencies such as Standard & Poor's, where the very best bonds are rated AAA and the riskiest are rated CCC.

Investing in a Corporate Bond fund reduces the risk to the investor. Instead of an investor putting money into just one or two bonds, a Corporate Bond fund pools a large number of investor's money together and uses a professional fund manager. They invest this money into a range of bonds. This has the advantages of spreading the risk and being able to buy different bonds paying a range of interest rates. This means an investor has the benefit of some protection if a single company defaults on its loan. This type of fund is available in a stocks & shares ISA. Any income or growth achieved if held within an ISA will be tax-free.

Child Trust Funds

Children with Child Trust Funds will be able to roll their investment over into an ISA at maturity.

Junior ISA

A new tax-advantaged account for saving for children is to be introduced. It will be known as a Junior ISA. It is expected that Junior ISAs will be available from autumn 2011 for any UK-resident child (under the age of 18) who does not currently hold a Child Trust Fund.

- Junior ISAs will be tax-relieved
- They will be available as a cash or stocks and shares product
- They will be a voluntary product
- Only people under 18 years of age, who do not hold a CTF will be eligible for a Junior ISA.

So, should you buy an ISA and, if so, which one?

This will depend on your individual circumstances. However, we can help. We recommend you take your time to consider your circumstances and seek financial advice before making any investment commitments.

For further information or to book an initial consultation, please call us on 020 8760 9940

*Please not that: ISAs are not a suitable investment for everyone, if you have any doubt as to whether this is suitable for you - you should obtain expert advice. Levels and bases of relief from taxation are subject to change.
Investments in stocks and shares or unit trusts may go down in value as well as up, so you may not get back the full amount invested. If you withdraw from an investment product, you may not get back the full amount invested.