



A Guide to ISAs

What is an ISA?

ISA stands for Individual Savings Account, a tax-efficient wrapper introduced by Government legislation as a way of encouraging you to save. An ISA is a tax wrapper designed to shelter your investments from further tax on any income or gains earned.

You can only open one cash ISA in a tax year but can open other stocks/shares ISAs if you wish, providing you do not exceed the overall limit.

Eligibility

- You must be UK resident for tax purposes and over the age of 16 to open a Cash ISA or over 18 to open a Stocks and Shares ISA. Junior ISAs are available for children under the age of 18.
- ISA investments are individual and cannot be opened in joint names.
- If you open an ISA and then move abroad, you cannot add any new money to that ISA. However, you can keep the existing investment open and continue to earn the tax benefits on that.
- On death of the plan holder, a surviving spouse can inherit the ISA portfolio and maintain its ISA status.

Tax Benefits

ISA investments grow free of capital gains tax and any income received into the ISA from share dividend payments has tax deducted at 10%, which cannot be reclaimed, there is no tax deduction for cash holdings and therefore they are very tax efficient vehicles for both basic rate and higher rate taxpayers.

How much can you invest?

You can currently invest up to £20,000 each tax year and you can hold the money in any combination of shares or cash.

Where can you invest your stocks and shares ISA?

Various non-cash assets can be held within a Stocks and Shares ISA. Most Stocks and Shares ISAs are held in collective investments such as unit trusts and OEICs. Some providers will offer access to other investments such as individual shares, investment trusts and exchange traded funds, which may incur additional charges.

Withdrawals

- Withdrawals are not usually permitted during the term of a fixed rate ISA (you will probably be penalised with a loss of interest if you do need to access your money during that time) and notice accounts obviously require you to give the provider warning before you make a withdrawal.
- If you have money in an instant access cash account you can access the funds at anytime however if the ISA has a special bonus payable, any withdrawals could affect this bonus.
- For money held in shares or unit trusts you can normally sell the units or shares at anytime. Once the funds are cleared, which will typically take 5 working days, the money will be available.
- Please note that on anything you withdraw from the ISA, you will lose the tax status, so it is worth keeping your money invested in ISAs for as long as possible and consider using other savings first.

ISA Transfers

If you have money in a cash ISA account that is no longer paying a competitive rate of interest, you can transfer it, without losing the tax-free status. This must be undertaken as a transfer between ISA providers. You therefore need to make sure that your current provider treats it as a transfer and not an account closure as you will lose the tax status of the plan. Because there is no longer a differential between cash and share ISAs you can switch between the two types. This means that if you hold Cash ISAs, you can transfer these to either another Cash ISA or a Stocks and Shares ISA. Just as if you hold stocks and shares you can sell the holdings and keep the money in cash.

TESSAs and PEPs

Tax Exempt Special Savings Accounts (TESSA) were the forerunners of Cash ISAs and Personal Equity Plans (PEPs) were the forerunners of Equity ISAs. PEPs were automatically enrolled into the ISA environment and TESSAs were rolled into TESSA only ISAs. These are now treated under the ISA rules.

Other ISAs

Junior ISA

Junior ISAs, or JISAs, are for those under the age of 18 and are UK resident.

Up to £9,000 a year can be saved into a Junior ISA.

This money cannot be accessed until the age of 18 and at that stage can be converted into an adult ISA, and the child takes control.

They can be invested as cash or into investments.

Lifetime ISA

Providing you are aged between 18 and under the age of 40 you can open a Lifetime ISA. You can contribute up to £4,000 each year, up to the age of 50. The government will add a 25% bonus to your savings, up to a maximum of £1,000 per year.

The Lifetime ISA limit of £4,000 counts towards your annual ISA allowance of £20,000.

You can hold cash or stocks and shares in your Lifetime ISA or have a combination of both.

When you turn 50, you will not be able to pay into your Lifetime ISA or earn the 25% bonus.

Your account will stay open and your savings will still earn interest or investment returns.

To open and continue to pay into a Lifetime ISA you must be a resident in the UK, unless you are a crown servant (for example, in the diplomatic service), their spouse or civil partner.

Withdrawing money from your Lifetime ISA

You can withdraw money from your ISA, without penalty, if you are:

- buying your first home
- aged 60 or over.
- terminally ill, with less than 12 months to live.

You will pay a withdrawal charge if you withdraw cash or assets for any other reason (also known as making an unauthorised withdrawal). This recovers the government bonus you received on your original savings. The charge is currently 20%. It increases to 25% on 6 April 2021.

Buying your first home

You can use your savings to help you buy your first home if all the following apply:

- the property costs £450,000 or less
- you buy the property at least 12 months after you open the Lifetime ISA.
- you use a conveyancer or solicitor to act for you in the purchase - the ISA provider will pay the funds directly to them.
- You are buying with a mortgage.

Help to Buy ISA

These were introduced in December 2015 but are no longer available, if you opened one prior to 30th November 2019, you can still contribute to one until November 2029. The government will top up any contributions you make by 25%, to a maximum government bonus of £3,000. To benefit from the maximum bonus, you need to save £12,000.

The minimum you must pay, to receive the government bonus is £1,600 per year, in which case you would receive a bonus of £400. if you pay less than this you will not receive the government bonus.

Other rules apply, please check with a 'Help To Buy' ISA provider for full details of the schemes and eligibility. If you have both a Help to Buy and Lifetime 'ISA', you will only qualify for one bonus. Please check with providers of these products for full details

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