



Ellacotts
Wealth Planning

SMARTMONEY

GUIDE TO
**INDIVIDUAL
SAVINGS
ACCOUNTS (ISAS)**

USE IT OR LOSE IT! DON'T MISS OUT ON THIS
YEAR'S TAX-EFFICIENT OPPORTUNITY



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GUIDE TO

ISA RETURNS OF THE YEAR

Use it or lose it! Don't miss out on this year's tax-efficient opportunity

Individual Savings Accounts (ISAs) have been available since 1999. The proceeds are shielded from Income Tax, tax on dividends and Capital Gains Tax.

If you have cash savings or are investing, there is no reason not to use an ISA tax-efficient wrapper. The end of the 2020/21 tax year is Monday 5 April 2021, meaning that if you're planning to use this year's ISA allowance you need to act fast. There's no rollover from one tax year to the next.

We've answered some typical questions we get asked about how best to use the ISA allowance to help make the most of the opportunities as this tax year draws to a close.

Q: What is an Individual Savings Account (ISA)?

A: An ISA is a 'tax-efficient wrapper' designed to go around an investment. Types of ISA include a Cash ISA and Stocks & Shares ISA. A Cash ISA is like a normal deposit account, except that you pay no tax on the interest you earn. Stock & Shares ISAs allow you to invest in equities, bonds or commercial property without paying personal tax on your proceeds.

Q: Can I have more than one ISA?

A: You have a total tax-efficient allowance of £20,000 for this tax year. This means that the sum of money you invest across all your ISAs this tax year (Cash ISA, Stocks & Shares ISA, Innovative Finance ISA, or any combination of the three) cannot exceed £20,000. However, it's important to bear in mind that you have the flexibility to split your tax-free allowance across as many ISAs and ISA types as you wish. For example, you may invest £10,000 in a Stocks & Shares ISA and the remaining £10,000 in a Cash ISA. This is a useful option for those who want to use their investment for different purposes and over varying periods of time.

Q: When will I be able to access the money I save in an ISA?

A: Some ISAs do tie your money up for a significant period of time. However, others are pretty flexible. If you're after flexibility, variable rate Cash ISAs don't tend to have a minimum commitment. This means you can keep your money in one of these ISAs for as long – or as short – a time as you like. This type of ISA also allows you to take some of the money out of the ISA and put it back in without affecting its tax-efficient status.

On the other hand, fixed-rate Cash ISAs will typically require you to tie your money up for a set amount of time. If you decide to cut the term short, you usually have to pay a penalty. But ISAs that tie your money up for longer do tend to have higher interest rates.

Stocks & Shares ISAs don't usually have a minimum commitment, which means you can take your money out at any point. That said, your money has to be converted back into cash before it can be withdrawn.

Q: What is a Help to Buy ISA?

A: A Help to Buy ISA is a Government scheme designed to help you save for a mortgage deposit to buy a home. The ISA is for first-time buyers saving to buy a property up to the value of £250,000 outside London or £450,000 inside London. The Government will add 25% to the savings, up to a maximum of £3,000 on savings of £12,000. If you pay into a Help to Buy ISA in the current tax year, you cannot also pay into another Cash ISA. The scheme closed to new accounts at midnight on 30 November 2019. If you have already opened a Help to Buy ISA (or did so before 30 November 2019),

you will be able to continue saving into your account until November 2029.

Q: Could I take advantage of a Lifetime ISA?

A: You're able to open a Lifetime ISA if you're aged between 18 and 39. You can use a Lifetime ISA to buy your first home or save for later life. You can put in up to £4,000 each year until you're 50. The Government will add a 25% bonus to your savings, up to a maximum of £1,000 per year.

Q: What is an Innovative Finance ISA?

A: An Innovative Finance ISA allows individuals to use some or all of their annual ISA allowance to lend funds through the Peer to Peer lending market. Peer to Peer lending allows individuals and companies to borrow money directly from lenders. Your capital and interest may be at risk in an Innovative Finance ISA and your investment is not covered under the Financial Services Compensation Scheme.

Q: What is a Junior ISA?

A: This is a savings and investment vehicle for children up to the age of 18. It is a tax-efficient way to save or invest as it is free from any Income Tax, tax on dividends and Capital Gains Tax on the proceeds. The Junior ISA subscription limit is currently £9,000 for the tax year 2020/21.

Q: Is tax payable on ISA dividend income?

A: No tax is payable on dividend income. You don't pay tax on any dividends paid inside your ISA. Outside of an ISA, you currently receive a £2,000 dividend income allowance.

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An ISA is a tax-efficient way to invest because your money is shielded from Income Tax, tax on dividends and Capital Gains Tax.

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Q: Is Capital Gains Tax (CGT) payable on my ISA investment gains?

A: You don't have to pay any CGT on profits. You make a profit when you sell an investment for more than you purchased it for. If you invest outside an ISA, excluding residential property, any profits made above the annual CGT allowance for individuals (£12,300 in 2020/21 tax year) would be subject to CGT. For basic rate taxpayers, CGT is 10% or more. For higher and additional rate taxpayers, CGT is 20%.

Q: I already have ISAs with several different providers. Can I consolidate them?

A: Yes you can, and you won't lose the tax-efficient 'wrapper' status. Many previously attractive savings accounts cease to have a good rate of interest, and naturally some Stocks & Shares ISAs don't perform as well as

investors would have hoped. Consolidating your ISAs may also substantially reduce your paperwork. We'll be happy to talk you through the advantages and disadvantages of doing it.

Q: Can I transfer my existing ISA?

A: Yes, you can transfer an existing ISA from one provider to another at any time as long as the product terms and conditions allow it. If you want to transfer money you've invested in an ISA during the current tax year, you must transfer all of it. For money you invested in previous years, you can choose to transfer all or part of your savings.

Q: What happens to my ISA if I die prematurely?

A: The rules on ISA death benefits allow for an extra ISA allowance to the deceased's spouse or registered civil partner. ■

TIME TO TAKE YOUR ISA TO THE MAX?

The Individual Savings Account (ISA) is one of the most straightforward ways to achieve tax-efficient gains. Investing in an ISA can complement an existing portfolio, or simply provide an introduction to saving and investing. To discuss your requirements, please contact us.

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 THE INCOME THEY PRODUCE CAN FALL AS WELL AS RISE. YOU MAY GET BACK LESS THAN YOU INVESTED.

WANT TO MAKE THE MOST OF YOUR 2020/21 ISA ALLOWANCE?

Whichever investment strategy you opt for, the key to making money over the long term is to use your full ISA allowance every year.

If you would like to review your situation or discuss the options available, please contact us for further information – we look forward to hearing from you.

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