

## Individual Savings Accounts (ISAs)

An ISA is a tax-free investment vehicle. When you invest your savings, shares or life insurance, as well as all FSA authorised retail investment schemes and UK Real Estate Investment Trusts into an ISA account, your income and gains from the investments are free from income tax and capital gains tax. However, the value of your ISAs will be added to your estate for the purposes of calculating any liability to inheritance tax.

We consider here some of the more common Frequently Asked Questions our clients have asked.

### 1     What is an ISA?

An ISA is a tax exempt savings account which is available to any individual aged 18 or over who is both resident and ordinarily resident in the UK. There is no tax payable on income received within an ISA. Similarly, any capital gain received on sale will be exempt and no details of your ISA will be required on your tax return.

The ISA scheme has now been made permanent following the initial seven year review.

### 2     How much can I invest in an ISA?

ISAs have an annual subscription limit of £10,680, of which no more than £5,340 can go into cash.

16-17 year olds can invest up to £5,340 only in a cash ISA.

Cash ISAs can be in the form of deposits and savings accounts with banks, National Savings or Building Societies as well as other "cash based" investments.

"Stocks and shares" ISAs may include investments in unit trusts, open ended investment companies, investment trusts, ordinary shares, fixed interest preference shares, corporate bonds having at least five years to maturity, all FSA authorised retail investment schemes and UK Real Estate Investment Trusts, stakeholder medium term products and certain life insurance policies.

### 3     I've heard there are two types of ISA

That is correct – cash ISAs and stocks and shares ISAs.

The maximum investment in a cash ISA is £5,340 per year. Investment in stocks and shares ISAs can be made up to the overall limit of £10,680.

So, for example, you could invest:

Cash	£2,000
Stocks and shares	£8,680
Total	<u>£10,680</u>

**Disclaimer:** The information contained in these articles is of a general nature and no assurance of accuracy can be given. It is not a substitute for specific professional advice in your own circumstances. No action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a consequence of the material can be accepted by the authors or the firm.

Following the closure of the Child Trust Fund to new entrants earlier this year, tax-free Junior ISAs are available from November 2011.

The tax-free savings account will have similar terms and conditions to an adult ISA, with investments available in cash or stocks and shares. However, annual contributions will be capped at £3,600. Funds placed in a Junior ISA will be owned by the child but investments will be locked in until the child is 18.

## 4    What tax advantages do ISAs offer?

UK tax does not have to be paid on income received from investments within an ISA. Assuming an average yield of 2% on an ISA (£4,000) this would be worth £40 to an additional rate taxpayer, £32 p.a. to a higher rate taxpayer and £16 to a basic rate taxpayer, i.e. not much!

Gains made on investments held in ISAs are exempt from capital gains tax.

## 5    Is there a specified minimum investment?

ISAs are not subject to a minimum investment. You can invest any amount up to the relevant annual limit.

## 6    Is there a minimum period of investment?

The ISA offers cash investors the same tax free conditions as share investors in that there is no lock-in period. Withdrawals can be made at any time without losing tax relief attributed to the account.

You need to be aware that the ceiling on investment in ISAs is applied to your total gross investment in a year. ISAs allow withdrawal with no loss of tax relief, but you can only re-invest later in the same tax year within your limits.

For example: You invest £3,000 in your ISA in May, then withdraw £2,340 in July. You then invest £2,340 in September. Although your 'capital' has risen by only £3,000 net, you have reached your £5,340 investment limit. Therefore, if you are concerned to invest the maximum amount in your ISA(s), you should not use the account to 'park' money temporarily.

## 7    Is there any risk associated with an investment in an ISA?

Yes - don't forget that the majority of funds capable of investment into ISAs will purchase equity based investments. You must therefore acknowledge the usual health warning that the value of such investments may go down as well as up. The sale of this element of any ISA will be monitored by the Financial Services Authority (FSA) and expert advice from a regulated advisor should be sought prior to any investment.

If your holding is primarily deposit or savings accounts the risk is reduced.

## 8    How do I invest in an ISA? / Who provides them?

ISAs are available from Banks and Building Societies, insurance companies and a variety of other providers. In all cases the account is administered by managers and you have the choice of opting for a single plan manager who offers an account that can accept the overall subscription, or separate managers administering different components. Naturally an administration fee will be charged for the management of the account. You can choose to have a different manager each year.