Did U Know?

A Simple Guide to

ISA's

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The ISA allowance:

Using the 2016/17 ISA allowance you can invest up to £15,240. This is a use it or lose it allowance. If you only use part of your allowance you will not be able to roll over the remainder to the following year. The earlier in the tax year you use your ISA allowance the better. The longer you receive tax free returns the higher those potential returns could be

The different types of ISAs:

At a basic level there are two types of ISAs: Cash or Stocks and Shares. You can put your whole allowance of £15,240 into a Stocks and Shares ISA, a Cash ISA or a combination of these.

Stocks and Shares ISA:

The Stocks and Shares ISA is for individuals looking to invest their money that want to protect any returns from tax. An ISA is not an investment, it is a wrapper that can be put around a range of investment products and creates a tax efficient environment. A Stocks and Shares ISA is generally considered a longer term investment for anything over 5 years. You can only pay into one Stocks and Shares ISA each tax year. Investments in an ISA are not completely tax-free but there are a number of tax advantages:

- No capital gains tax on profits made if your portfolio increases in value.
- You pay no tax on interest earned on bonds.
- There is a 10% tax cap on income. Any income earned from your portfolio is taxed at 10%.

If you were a higher rate taxpayer you would normally pay rates of 40% for this.

When to use them:

This ultimately comes down to your attitude to risk and your tax status. If you are in the lower tax rate band, then it may be prudent to take advantage of a simple Cash ISA to ensure you do not get taxed on the interest. When investing you should ask yourself the following questions:

- Are you paying capital gains tax on other assets?
- Are you investing in bonds?
- Are you generating an income from dividend payments?

If you answer yes to any of these questions it is worth considering a Stocks and Shares ISA as there are savings to be made. Always remember that the value of investments can go down as well as up and that this still applies to those held in an ISA. To get the maximum value you need to structure your investment well. Do your own research, take advice or use an independent financial adviser.

Things to consider:

1. Are you paying to invest? Most investment platforms make a charge to hold funds on them and there will usually be a management fee. You need to make sure you are getting value from the fee you pay, the higher the fee, the lower the real return. Make sure you are paying less than 1% combined for the fund and platform charge.
2. Do you have access to the full market? Check the investment strategy of your providers, some are limited to certain asset classes and others will be limited to certain providers.

3. How do you want to invest? Do you have time to invest and monitor the markets yourself or do you want a professional to do it for you (discretionary investment). Use the services of an Independent Financial Adviser.

Cash ISAs

Cash ISAs are savings accounts that pay interest free of income tax. These are provided by most high street banks and building societies. Some cash ISAs are fixed-term savings accounts and there are penalties for withdrawing early. You can only open one Cash ISA per year.

When to use them:

Cash ISAs are great for that big holiday you know you want to go on next year, or that car you want to buy in 18 months. The Cash ISA is ideal for somebody fairly early in their saving journey unsure of how long they will be able to keep that cash in savings. A Cash ISA is also good for the nervous saver; if you live in fear of losing your money this is a safe and efficient way of saving.

Things to consider:

1. The penalties for withdrawing early can completely wipe out your returns, if you think you need that money if a short term expense occurs, you are better off keeping it in a current account or checking that it is invested in a flexible ISA.

2. If you plan to keep your savings in cash for longer than a year you need to think about inflation. Interest rates are currently very low and the impact of inflation could actually mean the real value of your account decreases over time.

Help to Buy ISA

In the autumn of 2015 the Help to Buy ISA was introduced to help first time buyers save towards the cost of buying their first home. The Help to Buy ISA is a type of Cash ISA. Savers can make an initial deposit of £1,000 and then receive £50 for every £200 saved up to a maximum of £12,000. The maximum tax break a saver can receive is £3,000.

When to use them:

Anyone not yet on the property ladder who thinks they will buy a property in the future should have a Help to Buy ISA. This new type of Cash ISA often has more favourable interest rates and the bonus of up to £3,000 is a free incentive from the Government.

Things to consider:

1. Make sure you shop around as the interest rates can vary. On some accounts (at time of print) you could be receiving up to 4%.
2. These are savings to buy a house that are only available to first time buyers. If you already have a property or do not plan on buying one this is not the ISA for you. Similarly, if you decide to use the money for something else you will not receive the bonus.
3. Do not forget about the rest of your ISA allowance. You can put £1,000 in once when you set the account up, (regardless of the tax year), and then you are limited to contributions of £200. That means if you are just doing the monthly contributions you will still have £12,840 of your ISA allowance remaining.

Junior ISA

Family and friends can open a Junior ISA for any child under the age of 18 living in the UK. They can put up to £4,080 into the account on behalf of the child. In the same way as the adult ISA, savings can be placed in a Cash ISA or a Stocks and Shares ISA or a combination of the two.

When to use them:

Any child who is under the age of 18 and lives in the UK can have a Junior ISA. They cannot have a Junior ISA if they have a child trust fund, but you can transfer that into the ISA.

Things to consider:

1. The age of your child will help to determine whether you want a Cash ISA or a Stocks and Shares ISA. The longer the money will be saved for, the more likely you will want to invest that money in stocks and shares.
2. Remember the impact of inflation. If you put savings away in a cash deposit account (at current interest rates) by the time the child is going to benefit from the gift, it could be worth less than the amount you invested. Investing can help to protect that money from inflation.

Innovative Finance ISA

From 6 April 2016 those that lend to companies were able to enjoy tax-free interest. This will cover loans arranged through peer-to-peer platforms.

When to use them:

An Innovative Finance ISA can be compared to the Stocks and Shares ISA. Individuals can earn up to 6% interest tax free and this is designed to boost investment in small businesses.

Things to consider:

1. Much like stock picking you are placing a bet on the success of a particular company so that is quite a risky investment strategy.
2. Consider which companies you are investing in and carry out checks on the level of investment and their ability to pay it back.
3. This is a long term investment, if you will need the money in the near future this probably is not the right channel.

In conclusion Individual Savings Accounts are an extremely useful way of accumulating wealth. If you are not sure of how to invest in a portfolio that matches your capacity for loss and wish to invest at less than 1% combined fees then seek Independent Financial Advice.