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Individual Savings Accounts

Successive governments, concerned at the relatively low level of savings in the UK economy have over the years introduced various means by which individuals can save through a tax-free environment.

What is an ISA?

ISAs are tax-exempt savings accounts available to individuals aged 18 or over who are resident and ordinarily resident in the UK. ISAs are only available to individual investors and cannot be held jointly.

ISAs are guaranteed to run for ten years although there is no minimum period for which the accounts must be held.

Investment limits

On 1 July 2014 ISAs were reformed and the overall annual subscription limit for these accounts was increased to £15,000 for 2014/15. From 6 April 2015 the overall ISA savings limit is further increased to £15,240.

From 1 July 2014 ISAs were reformed into a simpler product and all existing ISA are able to benefit from the revised investment options.

Investment choices

Investors are not allowed to invest in more than two separate ISAs in each tax year; a cash ISA and a stocks and shares ISA. Savers are able to subscribe any amounts into a cash ISA or a stocks and shares ISA subject to not exceeding the overall annual investment limit.

Investors are to transfer their investments from a stocks and shares ISA to a cash ISA (or vice versa).

ISAs are allowed to invest in cash (including bank and building society accounts and designated National Savings), stocks and shares (including unit and investment trusts and government securities with at least five years to run) and life assurance.

A wide range of securities including certain retail bonds with less than five years before maturity, Core Capital Deferred Shares issued by building societies, listed bonds issued by Co-operative Societies and Community Benefit Societies and SME securities that are admitted to trading on a recognised stock exchange are eligible to be held in a ISA, Junior ISA or Child Trust Fund (CTF).

From 6 April 2016 the government will introduce the Innovative Finance ISA, for loans arranged via a peer-to- peer (P2P) platform. Peer-to-peer lending is a small but rapidly growing alternative source of finance for individuals and businesses.

Withdraw and replace monies

It was announced in the March Budget that regulations would be introduced in autumn 2015, following consultation on technical detail, to enable ISA savers to withdraw and replace money from their cash ISA without it counting towards their annual ISA subscription limit for that year. This change will have effect from 6 April 2016.

Additional ISA allowance for spouses on death

The Chancellor announced in the Autumn Statement an additional ISA allowance for spouses or civil partners when an ISA saver dies. The additional ISA allowance will be equal to the value of a deceased person’s savings at the time of their death and will be in addition to the normal ISA subscription limit.

Regulations will set out the time period within which the additional allowance will be used. In certain circumstances an individual will be able to transfer to their own ISA non-cash assets such as stocks and shares previously held by their spouse.

In most cases it is envisaged that the additional allowance will be used to subscribe to an ISA offered by the same financial institution that provided the deceased person’s ISA.

As the new regulations will allow the transfer of stocks and shares directly into the new ISA, in many cases the effect will be that the investments are left intact and the spouse becomes the new owner of the deceased person’s ISA.

This measure applies for deaths from 3 December 2014 and takes effect from 6 April 2015.

Tax advantages

The income from ISA investments is exempt from income tax. However the tax credits on any dividends are not reclaimable.

Any capital gains made on investments held in an ISA are exempt from capital gains tax.

Uses of an ISA

Many people use an ISA in the first instance, to save for a rainy day. Since they were first introduced people have used them to save for retirement, to complement their pension plans or to save for future repayment of their mortgage to give just a few examples. We have known young people, wary of commitment to long-term saving start an ISA and when more certain of the future use it as a lump sum to start another financial plan.

Help to Buy ISA

The government has announced the introduction of a new type of ISA, the Help to Buy ISA, which will provide a tax free savings account for first time buyers wishing to save for a home.

The scheme will provide a government bonus to each person who has saved into a Help to Buy ISA at the point they use their savings to purchase their first home. For every £200 a first time buyer saves, the government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings.

Help to Buy ISAs will be subject to eligibility rules and limits:

- An individual will only be eligible for one account throughout the lifetime of the scheme and it is only available to first time buyers.
- Interest received on the account will be tax free.
- Savings will be limited to a monthly maximum of £200 with an opportunity to deposit an additional £1,000 when the account is first opened.
- The government will provide a 25% bonus on the total amount saved including interest, capped at a maximum of £3,000 which is tax free.
- The bonus will be paid when the first home is purchased
- The bonus can only be put towards a first home located in the UK with a purchase value of £450,000 or less in London and £250,000 or less in the rest of the UK.
- The government bonus can be claimed at any time, subject to a minimum bonus amount of £400.
- The accounts are limited to one per person rather than one per home so those buying together can both receive a bonus.
- As is currently the case it will only be possible for an individual to subscribe to one cash ISA per year. It will not be possible for an account holder to subscribe to a Help to Buy ISA with one provider and another cash ISA with a different provider.

Once an account is opened there is no limit on how long an individual can save into it and no time limit on when they can use their bonus.

The government announced in the Summer Budget that Help to Buy ISAs will be available for first time buyers to start saving into from 1 December 2015. First time buyers will be able to open their Help to Buy ISA accounts with an additional one off deposit of £1,000.

Junior Individual Savings Account (Junior ISA)

Junior ISAs are available for UK resident children under the age of 18 who do not have a Child Trust Fund account. Junior ISAs are tax advantaged and have many features in common with ISAs. They can be cash or stocks and shares based products.

The annual subscription limit for Junior ISA and Child Trust Fund accounts is £4,080 for 2015/16.

The government has previously decided that a transfer of savings from a CTF to a Junior ISA should be permitted at the request of the registered contact for the CTF. The government has confirmed the measure will have effect from 6 April 2015.

How we can help

Please contact us if you would like any further information on ISAs.

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