ROTHESAY BENNETT
FINANCIAL PLANNING

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GUIDE TO

INDIVIDUAL SAVINGS ACCOUNTS

A tax-efficient, flexible method for future planning

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GUIDE TO

INDIVIDUAL SAVINGS ACCOUNTS

A tax-efficient, flexible method for future planning

Welcome to our *Guide to Individual Savings Accounts.*

Investing in an Individual Savings Account (ISA) is a tax-efficient, flexible method for future planning. One of the most attractive features of an ISA is its tax benefits – it's immune to both Income Tax and Capital Gains Tax on any growth within the fund or on income you withdraw. This makes contributing to an ISA an intelligent decision for those looking to grow their wealth while minimising tax liabilities.

If you utilise your annual ISA allowance before the end of this tax year on 5 April 2024, it will be recovered and reset on 6 April. Maximising your ISA allowance is crucial to reap the full benefits of this savings tool.

The different types of ISA

There are four types of ISA available for adults:

- Cash ISAs
- Stocks & Shares ISAs
- Lifetime ISAs
- Innovative Finance ISAs

> "The 2023/24 ISA allowance currently stands at £20,000. You can split this allowance however you wish, so long as you don't exceed it within the 'only one ISA of each type' subscription rule that applies in the current tax year."

Cash ISAs

The Cash ISA is arguably the most straightforward form of ISA. It offers a tax-efficient avenue for your cash savings to earn interest. You generally have the choice between a variable or fixed interest rate.

With a variable rate Cash ISA, you'll likely get a lower interest rate but can withdraw funds when needed. On the other hand, a fixed rate Cash ISA might provide a slightly higher interest rate but typically requires you to leave your money untouched for a predetermined duration.

Stocks & Shares ISAs

Unlike a Cash ISA, a Stocks & Shares ISA involves investing your contributions in the stock market rather than keeping them as cash. Some ISAs allow you to decide where your investments go, while others are invested in managed funds on your behalf. This type of ISA could potentially amplify your savings faster than a Cash ISA, and any returns from your investments are tax-free.

However, it's important to remember that all investments carry a certain degree of risk, meaning you might end up with less than what you initially put in. With a Stocks & Shares ISA, leaving your funds untouched for at least five years is recommended to allow sufficient time for potential growth.

Lifetime ISAs

These are aimed at assisting young adults in saving for their first home or retirement. These accounts, available only to individuals aged 18 to 39, offer an annual savings limit of £4,000, which forms part of the total £20,000 ISA allowance. The government enhances these contributions by 25%, translating into a potential annual bonus of £1,000. Contributions can continue up to age 50.

Funds are specifically earmarked for the two purposes mentioned and are subject to conditions. If used towards purchasing a home, the property's value must not exceed £450,000, a stipulation that might pose challenges in certain UK regions. Alternatively, if the savings are intended for retirement, they remain inaccessible until the age of 60. Early withdrawal or usage for other purposes incurs a 25% charge on the withdrawn amount. Thus, withdrawing the entire amount, including the bonus, may result in receiving less than the initial contribution.

Innovative Finance ISAs

These represent another savings vehicle. This type of ISA enables you to allocate your tax-efficient ISA allowance towards peer-to-peer (P2P) lending. In this arrangement, your funds are loaned to individuals or businesses via a lending platform, and the interest paid by the borrower constitutes your return on investment.

Although Innovative Finance ISAs potentially offer high-interest returns, they also carry the risk of the borrower defaulting. Additionally, it's important to remember that the Financial Services Compensation Scheme does not cover all investments made through this scheme.

> "For married couples, you can both use your ISA allowances, enabling you to put up to £40,000 in ISAs tax-efficiently between you."

Spreading your ISA allowance

During the 2023/24 tax year, you can distribute your ISA allowance between multiple ISAs, such as a Cash ISA and a Stocks & Shares ISA, but can only contribute to one of each type (this is expected to change from the 2024/25 tax year). They can be with different providers, but your

> "Moving your ISA to a new provider, or even a different type of ISA, is an option available to you at any time."

total payments into them can't be more than your £20,000 annual ISA allowance. This allows you to diversify your investments and potentially spread the risk.

Alternatively, you can currently choose to invest the entire £20,000 ISA allowance into one type of ISA, depending on your financial goals and risk tolerance. For married couples, there's an additional advantage. You can combine your ISA allowances, enabling you to put up to £40,000 in ISAs between you. This effectively doubles the amount you can save tax-efficiently annually, significantly boosting your joint financial planning.

Junior ISA

A Junior ISA (JISA) is another option for parents wishing to secure their children's financial future. However, it's important to note that contributions to a Junior ISA won't affect your personal ISA allowance. This type of savings account is established and managed in the child's name, ensuring a professional, customer-focused approach.

There are two types of JISAs: Junior Stocks & Shares ISA and Junior Cash ISA, each allowing a yearly deposit limit of £9,000 in total. Similar to an adult ISA, a JISA enjoys tax benefits. The growth from a Stocks & Shares JISA or interest earned from a Cash JISA within the annual allowance is exempted from tax.

Parents, grandparents or friends can make contributions. In contrast, contributions to an adult ISA are usually exclusive to the account holder. Funds deposited into a Junior ISA are locked until the child turns 18, and the tax-efficient status remains intact as long as the funds remain in the ISA.

ISA transfers

Moving your ISA to a new provider, or even a different type of ISA, is an option available to you at any time. Moving funds accumulated in past tax years will not affect your current year's allowance. You have the flexibility to transfer any amount you choose.

For example, you could relocate £15,000 subscribed in a previous tax year from a previous

Cash ISA into a new Stocks & Shares ISA and still have room to contribute an additional £20,000 within the same tax year. However, transferring the full amount of current-year contributions and any related growth is mandatory. Once the transfer process is completed, you'll have a modified allowance.

When considering an ISA transfer, remember two key points. First, avoid withdrawing the money yourself to facilitate the transfer. Instead, contact your new provider and let them handle the transfer process. Second, be prepared to incur an initial setup fee or advice charge with your new provider.

If you're a Lifetime ISA holder, transferring to a different type of ISA (before the age of 60) is considered a withdrawal. Consequently, you may be liable for a withdrawal charge.

Inheriting an ISA

It's important to distinguish between ISA allowance and ISA funds. If your spouse or registered civil partner passed away on or after 3 December 2014, you can receive an additional ISA allowance equivalent to their ISA savings.

This provision enables you to augment your ISA savings. Even if your spouse or registered civil partner bequeathed their ISA funds to a different individual, you'll still inherit the ISA allowance equal to the funds they've accumulated over time, either up to the date of death or the date of completion of estate administration.

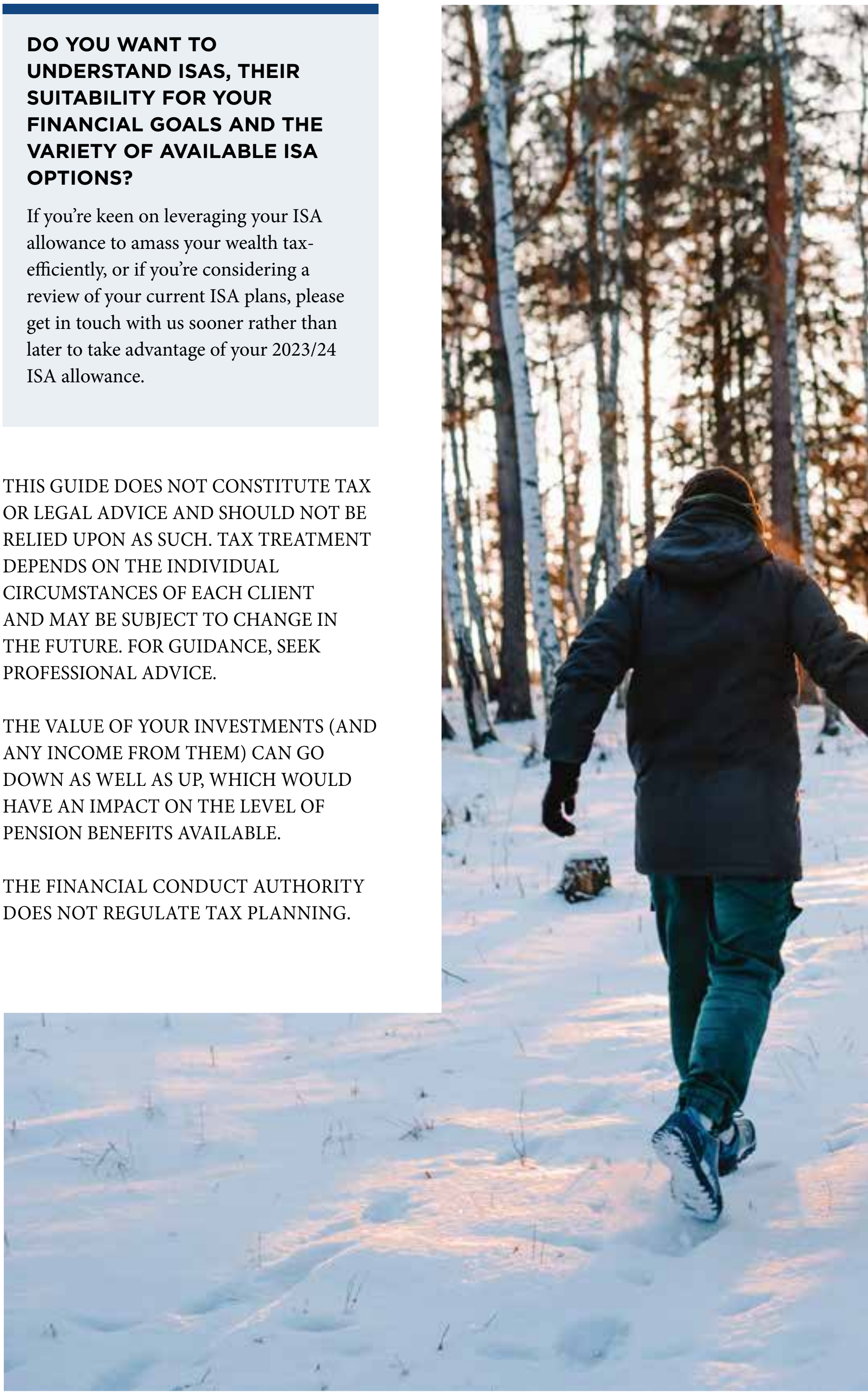
Autumn Statement 2023 ISA rule changes

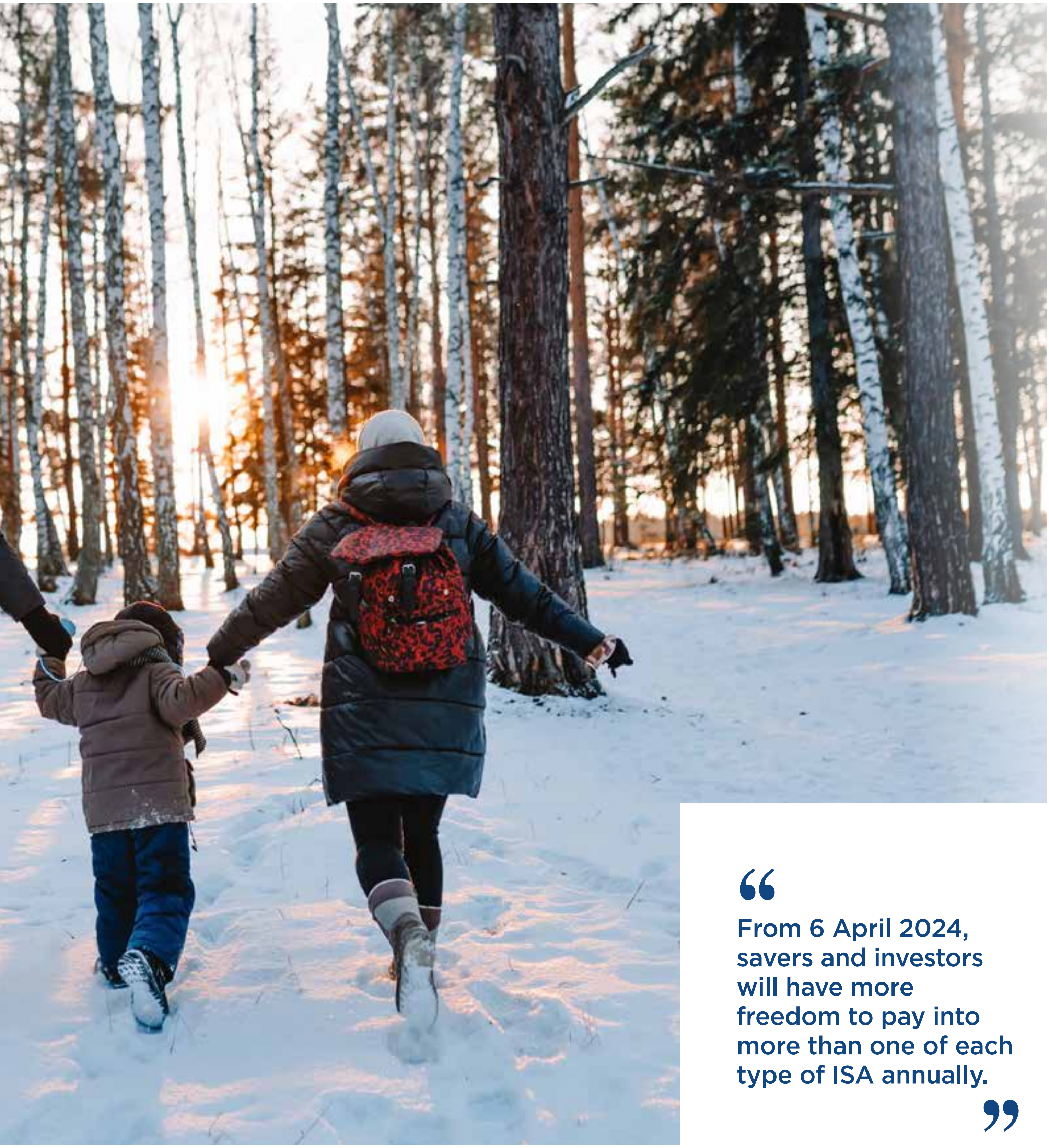
Significant changes are coming to ISA rules. From 6 April 2024, savers and investors will have more freedom to pay into more than one of each type of ISA annually. Announced during the Autumn Statement 2023, this is considered one of the most considerable shake-ups of ISA rules for many years.

The new rules are designed to provide further flexibility, enabling savers and investors to move between different providers. By allowing multiple subscriptions to ISAs of the same type every year, the government aims to stimulate competition among providers. This will increase flexibility and choice and support the development of long-term investment products. ■

DO YOU WANT TO UNDERSTAND ISAS, THEIR SUITABILITY FOR YOUR FINANCIAL GOALS AND THE VARIETY OF AVAILABLE ISA OPTIONS?

If you're keen on leveraging your ISA allowance to amass your wealth tax-efficiently, or if you're considering a review of your current ISA plans, please get in touch with us sooner rather than later to take advantage of your 2023/24 ISA allowance.





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ARE YOU LOOKING FOR A TAX-EFFICIENT WAY OF INVESTING FOR TOMORROW?

We’re here to guide you through the different types of ISAs and help you make an informed decision that aligns with your financial goals.

Contact us today for personalised advice and guidance.

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