

A Brief Guide to..... Individual Savings Accounts (ISAs)

Since their initial introduction in 1999, ISAs have proved popular with both savers and investors, as they offer exemption from both income tax and capital gains tax. A variety of different types of ISA have been introduced, which are explained below:

Junior ISA

For those under 18, their parents can open a Junior ISA, which can accept contributions from anyone, subject to an annual limit of £4,080 (for the 2016/17 tax year).

The contributions can be invested in cash, in stocks and shares, or both. The child will be able to control the ISA from age 16, but cannot withdraw funds until they are 18.

Help to Buy ISA

This ISA provides a Government 'bonus' to those saving for their first home. Funds can be invested in cash only.

Savers can save up to £200 a month, plus an initial deposit of up to £1,000 within the ISA. The Government will add a bonus of 25%, capped at £3,000, and subject to a minimum of £1,600 being saved.

To qualify for the bonus, the saver must be a first time buyer, and the funds used to buy a property that:

- is in the UK
- costs up to £250,000 (or £450,000 in London)
- is not a second home or buy-to-let property
- is not let after it is bought
- is purchased with a mortgage

Couples, whether married or not, are each eligible for their own Help to Buy ISA.

Lifetime ISA

This ISA becomes available from April 2017. It is aimed at first-time buyers and/or those looking to save for their retirement. Funds can be invested in cash or stocks & shares.

A saver can open Lifetime ISA between the ages of 18 and 40, and contributions can be made until age 50.

Savers can save up to £4,000 each year and receive a government bonus of 25%. Funds can be withdrawn penalty-free under either of the following circumstances:

- you are a first time buyer, funding a deposit on a property worth up to £450,000
- you are over 60

If funds are withdrawn under other circumstances, then the government bonus is lost, together with any growth on that bonus, and a 5% charge also applied.

Help to Buy ISAs can be transferred to the Lifetime ISA, without any bonus being lost.

'Normal' ISA

The ISA allowance for 2016/17 is £15,240, rising to £20,000 from April 2017.

Investors can hold both the Help to Buy and Lifetime ISAs in addition to a 'normal' ISA, although the overall allowance cannot be exceeded. So, for example if a Help to Buy ISA had received £3,400 in 2016/17, a saver could still contribute £11,840 to a 'Normal' ISA.

The tax-free wrapper of an ISA can be used to contain a variety of different investments, with the main options being:

- **Cash ISA** – effectively an income tax free savings account.

With interest rates at low levels, and tax-free allowances introduced to non-ISA savings, these ISAs are generally only of interest to savers with high levels of income.

- **Stocks & Shares ISA** – both income and capital gains are tax-free.

This type of ISA can hold quoted shares, unit trusts, corporate and government bonds.

Following the introduction of additional income tax charges on dividends from April 2016, these ISAs are becoming very popular as a method of reducing income tax liabilities.

- **Innovative Finance ISA** – this type of ISA can contain peer-to-peer loans.

There is no limit to the number of different types of each 'normal' ISA that can be held, provided the total contributions in each tax year does not exceed the ISA allowance for that year.

Inheritance Tax and Estate planning

Whilst there is no specific inheritance tax exemption for ISAs, there are potential planning points to consider when considering inheritance tax planning:

- Stocks & shares ISAs are now able to hold shares quoted on the Alternative Investment Market (AIM). AIM shares can, if held for 2 years, qualify for 100% Business Relief, resulting in them being free from Inheritance Tax. AIM shares are also exempt from Stamp Duty.
- On the death of an ISA investor, their surviving spouse or civil partner is eligible to an additional ISA allowance for the year of death, based on the value of the deceased's ISA.

Find out more

For further information, advice and guidance please contact one of our specialists:

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This is a general illustrative guide only, and individual professional advice should be obtained on specific issues. The information is believed to be correct at the time of publication, but may alter.

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