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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.

Individual Savings Accounts (ISAs) were introduced in April 1999 and the government has confirmed that ISAs are a permanent feature of the savings landscape.

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

From 6 April 2014 the overall ISA savings limit is £11,880 of which up to £5,940 can be invested in cash. From 1 July 2014 ISAs will be reformed into a simpler product, the 'New ISA' (NISA) and all existing ISAs will become NISAs.

From 1 July 2014 the overall annual subscription limit for these accounts will be increased to £15,000 for 2014/15. Special rules apply if investments are made before 1 July 2014. Investments for 2014/15 cannot exceed £15,000 in total.

Savers will also be able to subscribe this full amount to a cash account (currently only 50% of the overall ISA limit can be saved in cash). Under the NISA, investors will also have new rights to transfer their investments from a stocks and shares to a cash account.

Investment choices

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.

There are also changes to the rules on the investments that can be held in a NISA, so that a wider range of securities to include certain retail bonds with less than five years before maturity can be invested. In addition, Core Capital Deferred Shares issued by building societies will become eligible to be held in a NISA, Junior ISA or Child Trust Fund (CTF).

Types of ISA

Investors are able to invest in two separate ISAs in each tax year; a cash ISA and a stocks and shares ISA.

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.

Junior Individual Savings Account (Junior ISA)

The government has introduced a Junior ISA which is 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 is £3,840 from 6 April 2014. From 1 July 2014 the annual subscription limit will be increased to £4,000.

How we can help

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