

## smartmoney

GUIDE TO  
**INDIVIDUAL  
SAVINGS  
ACCOUNTS (ISAS)**

USE IT OR LOSE IT! DON'T MISS OUT ON THIS  
YEAR'S TAX-EFFICIENT OPPORTUNITY



JANUARY 2021

## GUIDE TO

# ISA RETURNS OF THE YEAR

Use it or lose it! Don't miss out on this year's tax-efficient opportunity

Individual Savings Accounts (ISAs) have been available since 1999. The proceeds are shielded from Income Tax, tax on dividends and Capital Gains Tax.

The end of the 2020/21 tax year is Thursday 1 April 2021, meaning that if you're planning to use this year's ISA allowance you need to act fast. There's no rollover from one tax year to the next. We've answered some typical questions we get asked about how best to use the ISA allowance to help make the most of the opportunities as this tax year draws to a close.

## Q: What is an Individual Savings Account (ISA)?

**A:** An ISA is a 'tax-efficient wrapper' designed to go around an investment. Types of ISA include a Cash ISA and Stocks & Shares ISA. A Cash ISA is like a normal deposit account, except that you pay no tax on the interest you earn. Stock & Shares ISAs allow you to invest in equities, bonds or commercial property without paying personal tax on your proceeds.

## Q: Can I have more than one ISA?

**A:** You have a total tax-efficient allowance of £20,000 for this tax year. This means that the sum of money you invest across all your ISAs this tax year (Cash ISA, Stocks & Shares ISA, Innovative Finance ISA, or any combination of the three) cannot exceed £20,000. Lifetime ISA is the fourth type so if eligible could pay into up to four types per tax year (with the £4k limit applying to the LISA, within the overall £20k).

## Q: When will I be able to access the money I save in an ISA?

**A:** You can take money out of your Cash ISA or Stocks & Shares ISA (the investments would be converted to cash first) but how much, and how often, depends on which type

of ISA you have. If your ISA is 'flexible', you can take out cash then put it back in during the same tax year without reducing your current year's allowance. Your provider can tell you if your ISA is flexible.

On the other hand, fixed-rate Cash ISAs will typically require you to tie your money up for a set amount of time. If you decide to cut the term short, you usually have to pay a penalty. But ISAs that tie your money up for longer do tend to have higher interest rates.

Stocks & Shares ISAs don't usually have a minimum commitment, which means you can take your money out at any point. That said, your money has to be converted back into cash before it can be withdrawn.

## Q: What is a Help to Buy ISA?

**A:** A Help to Buy ISA is a government scheme designed to help you save for a mortgage deposit to buy a home. The scheme closed to new accounts at midnight on 30 November 2019. If you have already opened a Help to Buy ISA, you will be able to continue saving up to £200 per calendar month (uses up part of the £20k allowance) into your account until November 2029 (bonus must be claimed by 1 Dec 2030).

## Q: Could I take advantage of a Lifetime ISA?

**A:** You're able to open a Lifetime ISA if you're aged between 18 and 39. You can save up to £4,000 each tax year, every year until your 50th birthday. The government will pay an annual bonus of 25%, which isn't withdrawn as long as the funds are used for first home purchase or left invested to age 60, (capped at £1,000 per year) on any contributions you make.

## Q: What is an Innovative Finance ISA?

**A:** An Innovative Finance ISA allows individuals to use some or all of their annual ISA allowance to lend funds through the Peer to Peer lending market. Peer to Peer lending allows individuals and companies to borrow money directly from lenders. Your capital and interest may be at risk in an Innovative Finance ISA and your investment is not covered under the Financial Services Compensation Scheme.

## Q: What is a Junior ISA?

**A:** This is a savings and investment vehicle for children up to the age of 18. It is a tax-efficient way to save or invest as it is free from any Income Tax, tax on dividends and Capital Gains Tax on the proceeds. The Junior ISA subscription limit is currently £9,000 for the tax year 2020/21.

## Q: Is tax payable on ISA dividend income?

**A:** No tax is payable on dividend income. You don't pay tax on any dividends paid inside your ISA. Outside of an ISA, you currently receive a £2,000 dividend income allowance.

## Q: Is Capital Gains Tax (CGT) payable on my ISA investment gains?

**A:** You don't have to pay any CGT on profits. You make a profit when you sell an investment for more than you purchased it for. If you invest outside an ISA, excluding residential property, any profits made above the annual CGT allowance for individuals (£12,300 in 2020/21 tax year) would be subject to CGT. For basic rate taxpayers, CGT is 10% or more. For higher and additional rate taxpayers, CGT is 20%.

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**Q: I already have ISAs with several different providers. Can I consolidate them?**

**A:** Yes you can, and you won't lose the tax-efficient 'wrapper' status. Many previously attractive savings accounts cease to have a good rate of interest, and naturally some Stocks & Shares ISAs don't perform as well as investors would have hoped. Consolidating your ISAs may also substantially reduce your paperwork. We'll be happy to talk you through the advantages and disadvantages of doing it.

**Q: Can I transfer my existing ISA?**

**A:** Yes, you can transfer an existing ISA from one provider to another at any time as long as the product terms and conditions allow it. If you want to transfer money you've invested in an ISA during the current tax year, you must transfer all of it. For money you invested in

previous years, you can choose to transfer all or part of your savings.

**Q: What happens to my ISA if I die prematurely?**

**A:** The rules on ISA death benefits allow for an extra ISA allowance to the deceased's spouse or registered civil partner. ■

**TIME TO TAKE YOUR ISA TO THE MAX?**

The Individual Savings Account (ISA) is one of the most straightforward ways to achieve tax-efficient gains. Investing in an ISA can complement an existing portfolio, or simply provide an introduction to saving and investing. To discuss your requirements, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND THE INCOME THEY PRODUCE CAN FALL AS WELL AS RISE. YOU MAY GET BACK LESS THAN YOU INVESTED.

# WANT TO MAKE THE MOST OF YOUR 2020/21 ISA ALLOWANCE?

Whichever investment strategy you opt for, the key to making money over the long term is to use your full ISA allowance every year.

**If you would like to review your situation or discuss the options available, please contact us for further information – we look forward to hearing from you.**

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