PARTNERS WEALTH MANAGEMENT

AN INTRODUCTION TO

ISAs

YOUR ANNUAL ALLOWANCE

BECOMING AN ISA MILLIONNAIRE

CHOOSING THE RIGHT ISA

ISAS VS PENSIONS

When it comes to saving or investing, there are numerous investment options. Whatever your investment strategy, making the most of your annual allowance and taking out an ISA makes good sense.

An ISA is a tax-efficient way to save or invest because your savings grow free from Income Tax and Capital Gains Tax, with some ISAs delivering a government bonus.

Your annual allowance

The ISA allowance is £20,000 for the 2019-20 tax year. This £20,000 can be put into a Cash ISA or invested into a Stocks and Shares ISA or Innovative Finance ISA. You can also mix and match, but the combined amount must not exceed £20,000 in a tax year. The generous annual allowance means that couples can put away up to £40,000. Year on year, this soon builds up.

Becoming an ISA millionaire

A growing number of people are becoming 'ISA millionaires' as a result of rising stock market prices, and the steady increase in the annual allowance over the years. By using your allowance every tax year, you would be surprised at how quickly your ISA pot can build up. It seems that the ISA message has failed to filter through to everyone. HMRC has produced data that shows only two thirds of those earning more than £150,000 a year use up their ISA allowance each year.

With pension contributions subject to annual and lifetime limits, ISAs represent an excellent way of topping up retirement savings and providing flexibility in your income withdrawal strategy once you stop working. The cash or shares held within an ISA could be subject to inheritance tax on death, unlike most types of pension that can be passed on to beneficiaries more tax-efficiently.

Making it to a million

If you were able to invest your full ISA allowance in a Stocks and Shares ISA every year, the ISA limit increased by around 2% each year, and your investments made an annualised return of 5% after fees, you too could join the elite band of ISA millionaires in 22 years (purely an example for illustrative purposes). Of course, we must underline that this is not guaranteed, because stock markets can and do go down as well as up.

There are several different types of ISA available:

With a **Cash ISA** you never need to pay tax on the interest you earn on your cash – a big advantage for higher-rate taxpayers. Any interest you earn does not count towards your personal savings allowance.

If you choose a **Stocks and Shares ISA**, you will not be liable for CGT and there is no tax on dividend income. ISA dividends have no impact on the dividend allowance.

Junior ISAs are a tax-efficient way to build up savings for a child and can be opened for any child under 18 living in the UK. In the 2019-20 tax year, a maximum of £4,368 can be saved in a Junior ISA. The money can be held in Cash and/or invested in Stocks and Shares.

Innovative Finance ISAs allow individuals to use some (or all) of their annual ISA investment allowance to lend funds through the growing Peer-to-Peer lending market, whilst receiving tax-free interest and capital gains.

With a **Lifetime ISA** you are able to hold your money in cash or invest in stocks and shares. LISAs are designed for those aged 18 to 40, wanting to save for their first home or retirement, with the added attraction that they can save until they are 50 including the Government contribution, or 60 if they wish to but with no Government contribution after 50. You are able to contribute up to £4,000 in each tax year and the government adds a 25% bonus. So, saving the maximum each year will result in a £1,000 bonus each year from the government. Savers need to be aware of the risks associated with a LISA, early withdrawal charges, restrictions and accessibility.

Since November 2019 **Help-to-Buy ISAs** closed to new applications but existing policies can still be used to complete a house purchase and the government will add a 25% bonus (up to a maximum bonus

of £3,000). Certain conditions apply. In order to claim the maximum bonus of £3,000, you will need to save £12,000. The Help-to-Buy ISA bonus is paid once it is certain the property transaction will proceed. In most cases the bonus is claimed between exchange and completion. In some situations, the bonus may be required to make up the deposit on exchange, a conveyancer may be able to agree a smaller deposit on exchange and guarantee the bonus to follow.

Choosing the right ISA

We can help you make the right choice of ISA based on your age, the length of time you want to save for, your attitude to risk and your plans for the future. We can save you time and make recommendations that are right for your personal financial circumstances.

With a Cash ISA you are guaranteed to get back all the money you have put in – but with low interest rates, there is a risk that inflation will erode the value of the money saved over time. If you are able to lock your money away for a reasonable amount of time – a minimum of five years for example – it is often better to invest in stocks and shares which historically have offered a better return. Money invested in stocks and shares rises and falls in line with the financial markets. So, the value of your investment can fluctuate.

Withdrawing cash

ISAs can be flexible, which means that if the account terms allow, you can take cash out and put it back during the same tax year without reducing your current year's allowance and without losing the tax benefits.

Your tax return

There is no requirement to include your ISA on your tax return under current tax rules. Neither do you need to declare income and capital gains from ISA savings or investments on your tax return.

The value of investments and income from them can go down. You may not get back the original amount invested. 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. Past performance is not a reliable indicator of future performance.

We're here to help

If you're planning to invest this tax year, it's a good idea to put plans in place as early as possible. The longer your money is invested, the more time it has to produce tax-free returns. You can't carry any unused ISA allowance into the next tax year, so don't risk missing out on the valuable tax savings available. We can help you investigate the choices on offer, and help ensure you use your allowance wisely.

If you have queries or would like to discuss the different types of ISAs and consider what would work best for you or your family, please do get in touch on:

- **020 7444 4030**
- **info@partnerswealthmanagement.co.uk**

Top Tips

Using ISAs to help toward school fees – it pays to plan early

According to the annual census of leading independent schools, the average fee for attending a top private day school is now over £17,000[1] a year. After buying a home, school fees could be a family's largest expense, especially if you have several children to put through school and college. Starting to save from the day your children are born and encouraging other family members to contribute to accounts like Junior ISAs, can all help in building up the amount needed in fees. If you have more than ten years to go before schooling starts, then it's worth considering stock market investments. Whilst your money will be exposed to risk, it also has the potential, although not the guarantee, to outstrip the returns you would get in an average savings account. Parents can make use of their annual ISA to build up a school fees pot.

ISAs vs pensions

Both ISAs and pensions are tax wrappers that offer valuable tax concessions. One of the key differences between ISAs and pensions is that contributions to ISAs are made from taxed income, while those made to pensions are not. Savers contributing to a pension within certain allowances receive tax relief at the same rate you pay income tax. With a pension, you can't generally access your money before you are 55. For many people, contributing to an ISA and a pension makes good financial sense.

Cash is not risk free

With interest rates currently low, there is a risk that over time inflation will erode the buying-power of your savings. You can hold a wide variety of assets in an ISA. We'll explain these options to you.

Think about your time horizons

If you intend to save or invest into an ISA over the longer term, say five to ten years, then you may want to consider investing ather than saving in cash, giving your money more time and scope for growth.

[1]Independent Schools Council, 2018

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