

## Key issues

ISAs are tax efficient savings products in which you can invest in cash or stocks and shares.

The annual ISA allowances for 2011-12 tax year are:

- £5,340 (£445 pm) into a Cash ISA
- £10,680 (£890 pm) into a Stocks & Shares ISA

If you invest in a Cash ISA your Stocks & Shares ISA allowance will reduce by that amount.

ISAs are offered by a range of providers from banks and life assurance companies to supermarkets.

Cash ISAs are often sold with introductory interest rates which may not last more than a year.

Stocks & Shares ISAs can invest in a whole variety of funds, although they need not be high-risk. Professional advice will ensure that your choice of funds is appropriate to your risk preference.

ISA investments should be reviewed regularly with the help of an independent financial adviser.

## What is an ISA?

Introduced in 1999, Individual Savings Accounts (ISAs) replaced Personal Equity Plans (PEPs) and Tax Exempt Special Savings Accounts (TESSAs). There are two types of ISA:

### Stocks & Shares ISA

This type of ISA is invested in shares, bonds, investment funds, life assurance funds or investment trusts. Broadly speaking, that's just about anything apart from cash. Any capital growth will be tax free and there is no further tax to pay on any dividends you receive.

### Cash ISA

As the name suggests, the investment is in cash, like a savings or deposit account. Any investment in a Cash ISA will reduce the Stocks & Shares ISA allowance proportionately. Quite often Cash ISAs are sold on headline-grabbing interest rates which may not last longer than a year. Any interest earned on a Cash ISA will be tax free.

## How much can you save in an ISA?

The maximum annual ISA subscription for the 2011-12 tax year is **£10,680** of which half (£5,340) can be put in a cash ISA. Sensibly, the limits have been rounded to multiples of 120 so that monthly savings can be calculated more easily. So the monthly limits are:

- £890 Stocks & Shares ISA
- £445 Cash ISA

## Who provides ISAs?

Cash ISAs are offered by all of the major banks and building societies as well as other financial institutions such as National Savings & Investments (NS&I) and even supermarkets. Generally, they offer competitive rates of interest but savers should beware the terms and conditions, especially if they might need to get at their money quickly.

Stocks & Shares ISAs are offered by a host of providers from life assurance companies and banks to fund and investment managers. The returns on these ISAs are usually less certain, since the gains depend upon the performance of the investments e.g. companies and stock markets. There is therefore a risk of capital loss.

## How do I decide where to invest?

Throughout the year, but especially around the end and the start of the tax year, ISA providers spend a great deal on advertising and marketing, seeking to lure investors to their products.

However, deciding on an ISA investment without professional advice is only for the experienced investor. For most of us, professional advice will provide valuable help in first clarifying and deciding things like:

- What will the savings be used for?
- When will the money be needed?
- Is income is needed from the investment?
- How much is to be invested? In one lump or regular small amounts?
- What to invest in (stocks, shares, cash etc)?

And all of this should be considered long before selecting an ISA provider. But when it comes to deciding which provider to use, the professional adviser will have much more hands-on experience and objective knowledge than the headline grabbing messages put out in adverts.

## Can anyone have an ISA?

There are several simple qualifications for opening an ISA. They can only be opened in the name of a person who is:

- a UK resident;
- over 16 for Cash ISAs, and
- over 18 for Stocks & Shares ISAs

The only exception to the UK residency rule is for Crown employees working abroad but paid by the Government.

## Can I have more than one ISA?

Each person is limited to one Stocks & Shares ISA and one Cash ISA for each tax year. But that doesn't mean a new one needs to be opened each year. In fact, it can be a lot easier to keep the same ISA accounts going from year to year.

## Cashing in your ISA

The rules about cashing in part or all of an ISA vary from account to account. Some simple Cash ISAs allow instant access without any loss of interest. Others may require the money to be invested for 12 months or more. Stocks & Shares ISAs may usually be cashed in whole or part at short notice, subject to any rules imposed by the provider.

## Transferring ISA investments

ISA investments can be transferred to different ISA providers or

managers. However there are a couple of rules to beware:

- **Cash ISAs** can be transferred to other Cash ISAs, or into Stocks & Shares ISAs
- **Stocks & Shares ISAs** can only be transferred into other Stocks & Shares ISAs, and **not** into Cash ISAs

If you've built up several old ISAs it might make sense to consolidate them. Transferring is usually straightforward, but you should always seek professional advice before doing so as some plans may apply a penalty.

### Is your existing Cash ISA performing?

If you have already got a Cash ISA, increases in the Retail Price Index (RPI) and inflation could mean that your investment is losing value in real terms. A review of your existing savings and investments could be especially worthwhile if you've taken out cash ISAs with your bank and any introductory interest rate has expired - you might not be getting the deal you once were.

## Regular reviews and independent advice

It is as important to review the performance of ISA investments as it is to seek advice when first investing. We strongly recommend that ISA holders carry out annual reviews of their ISA investments and seek professional assistance with this process. A professional adviser will not only be able to check that you're getting a competitive deal but will also be able to assess your attitude to investment risk - to identify if your savings are appropriately invested.