ISA FACTSHEET

What is an ISA?

ISA stands for Individual Savings Account. Anybody with any savings or investments should consider one because you may pay less tax (or no tax in the case of cash ISAs). They're open to all UK residents aged 18 or over (16 or over for Cash ISAs). Within an ISA you can invest in cash or in stocks and shares. MoneySavingExpert has a great analogy to explain how they work…

"Imagine a couple of cakes, one chocolate (cash) and another strawberry (shares). Usually, the tax man comes along, picks up a slice and takes a bite from it. But each year you're given a tax free wrapper, like cling film, which you can put around some cake as you choose.

Once inside the cling film, the nature of the cake hasn't changed; the chocolate's still chocolate (cash is still cash) and the strawberry's still strawberry (shares are still shares), but because the cake is wrapped up in cling film the tax man can no longer take a bite."

The money you invest in your ISA and the gains from that money (interest or investment returns) can be withdrawn tax-free, but you can only pay in up to the current allowance each tax year.

KEY ISSUES

ISAs are a tax-efficient means of saving money. You can save regularly or in one-off lump sum payments.

They're available from high street banks, supermarkets and financial services providers.

The money you save can be invested in cash or stocks and shares, but is limited to a total of £20,000 in the 2018/19 tax year.

ISA allowances expire at the end of each tax year. If you don't use it you lose it!

Special kinds of ISA account are available including Junior ISAs, Help to Buy and Lifetime ISAs.

How much can you pay into an ISA?

Each year you get an ISA allowance which sets out the maximum that can be saved within the tax-free wrapper each tax year. The old ISA system used to limit how much you could pay into each pot (half in cash and half in shares, or all in shares). Since July 2015, although there is still a limit to the amount you can invest each year (£20,000 in the 2018/19 tax year), you can now choose how you split this between stocks and shares and cash ISAs. And if you don't want to split it you can choose to use the whole allowance in cash, or the whole allowance in stocks and shares.

Can you take money out of an ISA?

There is no minimum time for which ISAs have to be held in order to reap the tax-free benefit. Indeed the product rules of many ISAs allow you instant access to your money without losing tax benefits. From 6th April 2016 ISA providers which adopt the Flexible ISA rules will allow cash to be withdrawn (cash ISA, cash element of stocks & shares or if investments have been converted to cash) and the amount withdrawn can be reinvested in the same tax year without using up further ISA allowance.

You can also transfer money from one ISA to another - speak to the new ISA provider and complete a transfer form. The new provider will then contact the current provider and do everything on your behalf, including moving the money over for you. Some ISA providers will charge you for withdrawing your money or leaving them, and if you're moving a stocks & shares ISA you may have to pay another initial set-up charge.

What you can move and where depends on the type of ISA you have, but not all ISA providers will accept transfers of previous year's allowances:

Current year's cash ISA	You can move ALL of this to another cash ISA, or into a stocks & shares ISA. You CAN'T split it between more than one provider.
Current year's stocks & shares ISA	You can move ALL of this to another stocks & shares ISA or a cash ISA. You CAN'T split it between more than one provider.
Past year's cash ISA	You can move all of this to another cash ISA, or a stocks & shares ISA. Or you can SPLIT it between more than one cash ISA or stocks & shares ISA.
Past year's stocks & shares ISA	You can move ALL of this to another stocks & shares ISA, or a cash ISA. Or you can SPLIT it between more than one stocks & shares or cash ISA.

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ISA Providers

Although you have a new ISA allowance each tax year, you don't need to set up a new ISA every time. If you already subscribe to an ISA, you can continue to save in it in following tax years, or you can open another one. But, you can only contribute to one cash ISA (and/or stocks & shares ISA) in any tax year, and again, you're limited to a total of £20,000 in contributions.

You can get ISAs from a wide variety of providers:

- High street banks like Lloyds, Barclays and NatWest
- Supermarkets/department stores like Tesco & M&S
- Financial services providers like Standard Life & AXA
- National Savings & Investments (Post Office)

Terms and conditions for ISAs will vary with each provider. This will include rates of interest, notice periods exit penalties for cash ISAs, fund choices and set-up charges for stocks & shares ISAs among other things. You should research the market or speak to a financial adviser for the best ISA for your requirements.

ISAs for children

You can save in a standard ISA for your child, or you can use a special Junior ISA (or JISA), or you can do a bit of both. JISAs replaced Child Trust Funds (CTFs) when they were scrapped for new savers on 3 January 2011. The account is held in the child's name but is opened and managed by you.

Since 6th April 2016 anyone with a CTF can transfer their funds to a Junior ISA. Amounts transferred from CTF to JISA will not count towards the JISA subscription limit for that tax year.

JUNIOR ISAs:

Save up to £4,260 a year into a JISA

You can divide this allowance between cash/ stocks & shares as you wish.

The child can't touch the money until they reach 18 years old.

You can only hold one cash or stocks & shares JISA with one provider - you'll need to top up with the same provider each year.

If the child is 16 or 17 they get two ISA allowances - the Junior ISA allowance PLUS the adult cash ISA allowance of £20,000.

Innovative Finance ISAs (IFISAs)

IFISAs provide a tax-free wrapper around peer-to-peer (P2P) lending for the first time. They were introduced in April 2016 and are not suitable for most investors—this is because P2P lending carries significant risks, including the risk of **losing all your capital**.

P2P lending matches lenders directly with borrowers, cutting out the middle-man (traditionally banks). Borrowers can be business or individuals and pay back the money over time with interest. The matching of parties is generally facilitated by online P2P lending platforms who charge a fee for their brokerage services.

Investors (lenders) usually get a better rate of interest than is available on a traditional savings account, and the IFISA allows the interest earned to be received tax-free, whatever the amount. However the accepted wisdom is that higher interests on offer generally reflect a greater level of risk.

The IFISA and indeed the P2P lending industry itself is relatively new and potential investors should be wary. Aspira advisers will not provide advice to clients on P2P lending or investments such as IFISAs. However, if you're considering this as an option, we recommend you seek competent professional advice before taking any action.

Other types of ISA

There are special ISAs for first time buyers—these are called Help to Buy ISAs and have been available since December 2015. A new Lifetime ISA was announced in the April 2016 Budget and is available from April 2017. We have a separate factsheet which looks at these in more detail.

Useful links and information

There are several websites where you can find more details about saving in ISAs:

Gov.uk
https://www.gov.uk/individual-savings-accounts
Money Saving Expert
http://www.moneysavingexpert.com/banking/?tab=sect7
Money Advice Service
https://www.moneyadviceservice.org.uk/en/categories/saving-and-investing

The value of investments can fall as well as rise. You may not get back what you invest.

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