

Exploring your ISA options

Time to give your financial future a boost?

The end of the tax year on 5 April is fast approaching, so make sure you've made the most of your annual allowances before it's too late. No matter what, why or how you want to save and invest, an Individual Savings Account (ISA) could help make your money work harder for you.

ISAs are tax-efficient wrappers. Every tax year, we each have an annual ISA allowance. If you don't take full advantage of using all or part of it in one tax year, you cannot carry it over to the next.

There are various tax advantages to saving or investing through an ISA: you don't pay Capital Gains Tax on any capital growth nor Income Tax on any income received, either as interest or dividends, from the investment or cash savings. Another advantage is that you don't have to declare ISAs on your tax return.

TYPES OF ISAS AND THEIR ALLOWANCES

There are currently six different types of ISA.

CASH ISA

Anyone over the age of 16 can put their cash savings into a Cash ISA. Accounts can be either instant access, have notice periods or have fixed terms.

The annual allowance for a Cash ISA is £20,000 (tax year 2018/19). You can invest up to this full amount in your Cash ISA, or you can share this allowance between the different types of ISA, with the exception of the Help to Buy ISA.

STOCKS & SHARES ISA

A Stocks & Shares ISA is a medium-to-long-term investment (five years or more). Anyone over the age of 18 can put individual shares or managed funds into a Stocks & Shares ISA. It enables you to decide how much risk you are prepared to take when investing, offering access to a range of funds and the potential for better returns than a Cash ISA over the long term.

The annual allowance for a Stocks & Shares ISA is £20,000 (tax year 2018/19). Again, you can invest up to this full amount in your Stocks & Shares ISA, or you can share it between the other types of ISA.

INNOVATIVE FINANCE ISA

This ISA is for investments in peer-to-peer lending platforms. You must be over the age of 18 to invest.

The annual allowance for an Innovative Finance ISA is £20,000 (tax year 2018/19). Once again, you can invest up to this full amount in your Innovative Finance ISA, or you can spread it out between various types of ISA.

HELP TO BUY ISA

Help to Buy ISAs are available to each first-time buyer, not each home. This ISA has been introduced to help first-time buyers over the age of 18 get on the property ladder. You have to choose between either a Cash ISA or a Help to Buy ISA, but you can have a Help to Buy and a Stocks & Shares ISA in the same tax year.

The Government will top up any contributions you make by 25%, up to the contribution limit

of £12,000. So, for every £200 you save, the Government will contribute £50. This means you can earn a maximum of £3,000 from the Government. So, if you're buying a property with your partner, for example, you'll be able to get up to £6,000 towards your deposit.

The minimum amount you need to save to qualify for a government bonus is £1,600 (which gives you a £400 bonus). You can start off your ISA with an initial deposit of up to £1,000, which also qualifies for the 25% boost from the Government.

Another important factor is that the proceeds can only be used to buy a property worth up to £250,000 outside of London, and up to £450,000 within London.

LIFETIME ISA

The Lifetime ISA is similar to the Help to Buy ISA. It is designed to help investors between the ages of 18 and 39 save for either a first house purchase or their retirement. Once you have a Lifetime ISA, you can continue to contribute until the age of 50.

You can put a maximum of £4,000 into a Lifetime ISA each tax year and are paid a 25% bonus from the Government. The bonus is paid in monthly instalments, and the maximum bonus you can earn in a tax year is £1,000.

The amount you pay in is linked to your annual ISA allowance (£20,000 for 2018/19). For example, if you pay £1,000 into your Lifetime ISA, you can still pay £19,000 into other ISA products. It is

possible to hold both a Help to Buy ISA and a Lifetime ISA, but you will not be able to use both bonuses for a first-time house purchase.

Another differentiator between this type of ISA and the Help to Buy ISA is that the proceeds can be used to purchase a property worth up to £450,000 regardless of its location.

JUNIOR ISA

Cash or investments can be wrapped in this ISA on behalf of children under the age of 18. Anyone can invest in the Junior ISA – parents, grandparents or friends. The money belongs to the child, and they can access it when they reach 18 years of age. The Junior ISA has an annual allowance of £4,260 (tax year 2018/19). You must be a UK resident or crown employee to invest in any type of ISA. ■

WHAT ARE YOUR SAVINGS AND INVESTMENT GOALS?

Saving and investing is not just about what you know but also who you are. Whether you consider yourself a savvy investor or a financial novice, if you would like to discuss the options available to you, please contact us.

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