

Individual Savings Accounts

Successive governments, concerned at the relatively low level of savings in the UK economy have over the years introduced various means by which individuals can save through a tax-free environment.

Individual Savings Accounts (ISAs) were introduced in April 1999 to replace the earlier tax-efficient savings schemes known as PEPs and TESSAs. The government has confirmed that ISAs will become a permanent feature of the savings landscape.

What is an ISA?

ISAs are tax-exempt savings accounts available to individuals aged 18 or over who are resident and ordinarily resident in the UK.

ISAs are guaranteed to run for ten years although there is no minimum period for which the accounts must be held.

Since April 2001, 16 and 17 year olds have been able to open a mini cash ISA (see below). However if the funds to open such an account originated from the children's parents then any income is not tax-free but taxable on the parents under the settlements provisions if it exceeds £100 per annum.

Investment Limits

ISAs have an annual subscription limit of £7,000 of which not more than £3,000 can be invested in cash. There is no minimum subscription level.

Investment Choices

ISAs are allowed to invest in cash (including bank and building society accounts and designated National Savings), stocks and shares (including unit and investment trusts and government securities with at least five years to run) and life assurance.

Maxi and Mini ISAs

Investors can make their investment either through a single manager (a maxi ISA) or may choose different managers for each component (ie cash and stocks and shares) – mini ISAs.

Mini ISAs are treated as stand alone plans, so that it is possible to have one of each of the mini ISA types in any given tax year. Each mini ISA is subject to a individual maximum investment of:

Stocks and shares	£4,000
Cash	£3,000

The maxi ISA is a fund that may have a mixture of either or both of the above elements to suit your needs. The maximum that can be put in each element, subject to the overriding limit of £7,000, is:

Stocks and shares	£7,000
Cash	£3,000

Tax Advantages

The income from ISA investments is exempt from income tax. However the tax credits on any dividends are not reclaimable.

Any capital gains made on investments held in an ISA are exempt from capital gains tax.

TESSAs

It has not been possible to open a new TESSA since April 1999. However existing accounts have been allowed to run their full five year term. On maturity, the capital (but not interest) could be transferred into the cash component of an existing maxi ISA , or into an existing mini cash ISA or into a TESSA-only ISA within six months of maturity without affecting the annual ISA investment limits.

PEPs

Similarly new PEPs have not been available since April 1999. However it is possible to consolidate single company PEPs with a general PEP or create a general PEP out of single company PEPs. This has the advantage of allowing more flexibility for sales and purchases of investments.

Uses of an ISA

Many people use an ISA in the first instance, to save for a rainy day. Since they were first introduced people have used them to save for retirement, to complement their pension plans or to save for future repayment of their mortgage to give just a few examples. We have known young people, wary of commitment to long-term saving start an ISA and when more certain of the future use it as a lump sum to start another financial plan.

Forthcoming changes

The government announced in the Pre-Budget Report in December 2006 that they are going to make ISAs a permanent feature of the savings landscape with some changes. The proposed changes include:

- The overall annual investment limit will be at least £7,000
- The mini/maxi distinction within the ISA will be removed.
- Individuals with funds saved in the cash component of ISAs from previous years will be able to transfer those funds into the stocks and shares component without affecting their annual investment limit.
- Personal Equity Plans will be brought within the ISA wrapper.

How We Can Help

Please talk to us if you would like any further information on ISAs.