

Individual Savings Accounts

Personal Tax Factsheet | www.rousepartners.co.uk/factsheets



An overview of
the latest changes and
developments.


rouse
Chartered Accountants

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.

If you would like to discuss how we can assist you, please contact us on 01494 675321 or by email at info@rousepartners.co.uk

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 only available to individual investors and cannot be held jointly.

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

Investment limits

The overall annual savings limit is £20,000.

Investment choices

Investors are allowed to invest in a cash ISA, an investment ISA, an Innovative Finance ISA, or a combination of the three subject to not exceeding the overall annual investment limit.

Investors are able to transfer their investments from a stocks and shares ISA to a cash ISA (or vice versa).

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.

A wide range of securities including certain retail bonds with less than five years before maturity, Core Capital Deferred Shares issued by building societies, listed bonds issued by Co-operative Societies and Community Benefit Societies and SME securities that are admitted to trading on a recognised stock exchange are eligible to be held in a ISA, Junior ISA or Child Trust Fund (CTF).

The Innovative Finance ISA can be used for loans arranged via a peer-to-peer (P2P) platform. Peer-to-peer lending is a small but rapidly growing alternative source of finance for individuals and businesses. The Innovative Finance ISA may also invest in debt securities offered via crowdfunding platforms.

Withdraw and replace monies

ISA savers may be able to withdraw and replace money from their cash ISA without it counting towards their annual ISA subscription limit for that year where they hold a 'Flexible ISA'.

Additional ISA allowance for spouses on death

An additional ISA allowance is available for spouses or civil partners when an ISA saver dies. The additional ISA allowance is equal to the value of a deceased person's accounts at the time of their death and is in addition to the normal ISA subscription limit. There are time limits within which the additional allowance has to be used. In certain circumstances an individual can transfer to their own ISA non-cash assets such as stocks and shares previously held by their spouse.

In most cases it is envisaged that the additional allowance will be used to subscribe to an ISA offered by the same financial institution that provided the deceased person's ISA. As the new regulations allow the transfer of stocks and shares directly into the new ISA, in many cases the effect will be that the investments are left intact and the spouse becomes the new owner of the deceased person's ISA.

The tax advantaged treatment of ISAs continue whilst an individual's estate is in administration.

Tax advantages

The income from ISA investments is exempt from income tax.

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

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.

Help to Buy ISA

The Help to Buy ISA, which provides a tax-free savings account for first time buyers wishing to save for a home.

The scheme will provide a government bonus to each person who has saved into a Help to Buy ISA at the point they use their savings to purchase their first home. For every £200 a first time buyer saves, the government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings.

Help to Buy ISAs are subject to eligibility rules and limits:

- ▶ An individual is only be eligible for one account throughout the lifetime of the scheme and it is only available to first time buyers.
- ▶ Interest received on the account will be tax free.
- ▶ Savings are limited to a monthly maximum of £200 with an opportunity to deposit an additional £1,000 when the account is first opened.
- ▶ The government will provide a 25% bonus on the total amount saved including interest, capped at a maximum of £3,000 which is tax free.
- ▶ The bonus will be paid when the first home is purchased.
- ▶ The bonus can only be put towards a first home located in the UK with a purchase value of £450,000 or less in London and £250,000 or less in the rest of the UK.
- ▶ The government bonus can be claimed at any time, subject to a minimum bonus amount of £400.
- ▶ The accounts are limited to one per person rather than one per home so those buying together can both receive a bonus.

The government has confirmed that Help to Buy ISA accounts will be available until 30 November 2019, when this type of account will be withdrawn for new savers. Those individuals that already have an account can keep saving until 30 November 2029, when accounts will close to additional contributions. An individual must claim their bonus by 1 December 2030.

Lifetime ISA

A Lifetime ISA is available for adults under the age of 40. Individuals are able to contribute up to £4,000 per year and receive a 25% bonus on the contributions from the government. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account, and can be withdrawn from age 60 completely tax-free.

Further details of the Lifetime ISA are as follows:

- ▶ Any savings an individual puts into the account before their 50th birthday will receive an added 25% bonus from the government.
- ▶ There is no maximum monthly contribution and up to £4,000 a year can be saved into a Lifetime ISA.
- ▶ The detailed rules are based on those for the Help to Buy ISA, in that the withdrawal must be for the purchase of a property for the first-time buyer to live in as their only residence and not buy-to-let. There are differences, however. In particular, the bonuses within the Lifetime ISA can be used to fund the initial deposit on the home whereas the Help to Buy bonus can only fund the completion of the purchase.
- ▶ The savings and bonus can be used towards a deposit on a first home worth up to £450,000 across the country.
- ▶ Accounts are limited to one per person rather than one per home, so two first time buyers can both receive a bonus when buying together.
- ▶ An individual that has a Help to Buy ISA may transfer those savings into a Lifetime ISA, or continue saving into both. However, only the bonus from one account can be used to buy a house.
- ▶ Where the funds are withdrawn at any time before the account holder is aged 60 they will lose the government bonus (and any interest or growth on this) and will also have to pay a 25% charge.
- ▶ After the account holder's 60th birthday they will be able to take all the savings tax-free.

Junior Individual Savings Account (Junior ISA)

Junior ISAs are available for UK resident children under the age of 18 who do not have a CTF account. Junior ISAs are tax advantaged and have many features in common with ISAs. They can be cash or stocks and shares based products. The annual subscription limit for Junior ISA and Child Trust Fund accounts is £4,368 for 2019/20 (£4,260 for 2018/19).

A transfer of savings from a CTF to a Junior ISA is permitted at the request of the registered contact for the CTF.

How we can help

Please contact us on 01494 675321 or by email at info@rousepartners.co.uk if you would like to find out more about how we can assist you with tax planning.

Trusted advice, *imaginative solutions.*

It's the old adage that all accountants are the same, but ask yourself this; what kind of service would most add value to your personal or business position? In our opinion, the quality of advice and service is what separates a good accountant from a great one. This is where Rouse Partners can make a difference for you.

Our award-winning team make it their business to get to know you and your specific needs. Whether your goal is to grow your business, increase your personal wealth or improve your work-life balance, by understanding your challenges, we will address them together.

We also know how important it is for you to have a team that you can rely on for timely advice and reassurance. At Rouse, our people are our most important asset and we will select team members who offer an optimum mix of experience, specialism and knowhow. From your Partner, to your Tax Advisor, each team member will be accessible to you or your team and be proactive in seeking solutions.

At the heart of our way of working is a determination to think differently, to challenge the 'status quo' and to ask 'what if?'. Whether you are facing a complex tax, accounting or management situation, we are ready to find a solution.

Contact us today to discuss how we can support your personal or business tax needs:

t: 01494 675321

e: info@rousepartners.co.uk

Accountancy

Audit

Tax

Business advice

Corporate finance

Company secretarial

Outsourcing

Payroll

Wealth management

International services



Rouse Partners LLP
55 Station Road
Beaconsfield
Buckinghamshire
HP9 1QL

t: 01494 675321
e: info@rousepartners.co.uk
www.rousepartners.co.uk

© Rouse Partners 2020. This factsheet has been produced by Rouse Partners LLP for general interest. No responsibility for loss occasioned to any person acting or refraining from action as a result of the information contained in this edition is accepted by Rouse Partners LLP. In all cases appropriate advice should be sought from us before making a decision. All information correct at time of publication (29 January 2020) and subject to change.