

Factsheet - Individual Savings Accounts

What is an ISA?

ISAs are tax-free savings or investment accounts offered by banks, insurers, asset managers, building societies and National Savings & Investments (NS&I).

The main ISA benefits are:

- No personal tax (income or capital gains) on any investments in an ISA.
- Income and gains from ISAs do not need to be included in tax returns.
- Money can be withdrawn from an ISA at any time without losing the tax breaks.

Types of ISA

There are essentially 4 types of ISA:

1. Cash ISA
2. Stocks & Shares ISA
3. Innovative Finance ISAs
4. Lifetime ISAs

You are able to invest up to £20k in the current tax year (2019/20) in any combination of the above, with a restriction of £4k maximum into a Lifetime ISA as noted below. Junior ISAs are however restricted to £4,368 per year. A transfer between providers does not affect your annual allowance.

In addition, there is also the Help to Buy ISA however, this is due to close to new saves on the 30th November 2019. You cannot contribute to a Cash ISA as well as a Help to Buy ISA in the same year.

Type	Structure	Allowance 2019-20	Bonuses
Cash	Savings account	£20,000	n/a
Stocks and Shares	Investment account		
Innovative Finance	Peer-to-peer lending account		
Lifetime Cash	House deposit and/or retirement savings and investment accounts for first-time buyers and/or under 40s	£4,000 ^a	25% top-up on contributions up to £4,000 a year
Lifetime Stocks and Shares			
Help to Buy	Savings account for first-time buyers	£3,400	25% top-up
Junior Cash	Savings and investment accounts for under 18s	£4,368	n/a
Junior Stocks and Shares			

Eligibility

You must be:

- 16 or over for a cash ISA
- 18 or over for a stocks and shares or innovative finance ISA
- 18 or over but under 40 for a Lifetime ISA
- resident in the UK
- a Crown servant (for example diplomatic or overseas civil service) or their spouse or civil partner if you do not live in the UK

You cannot hold an ISA with or on behalf of someone else.

Junior ISAs are available to those under 18.

What is a cash ISA?

A cash ISA is essentially the same as a traditional savings account, except there are limits on the amount of cash you can transfer in and there is no tax to pay on the interest you earn.

There are three principal types of cash ISA, explained below.

Instant access cash ISAs - This type of ISA provides savers with the ability to pay in and withdraw money at any time throughout the tax year.

Fixed-rate cash ISAs - These lock away your money for a set period, usually between one and five years, and in return pay you a higher interest rate. Generally, the longer you tie up your money, the better the interest rate you will receive.

Regular savings cash ISAs - These will pay a fixed rate of interest over a set period - usually a year - on the provision that you make a regular monthly savings contribution.

What is a Help to Buy ISA?

- This type of ISA is aimed specifically at would be first-time buyers.
- For every £200 contributed, the government will add an extra £50 towards a deposit on your first home, up to a maximum of £3,000.
- You can't contribute to a cash ISA in the same tax year as a Help to Buy ISA. Therefore, if you want to open a Help to Buy ISA in the current tax year, make sure you don't add any money to a cash ISA as well.
- The Help to Buy ISA is due to close to new savers on 30 November 2019.

What is a lifetime ISA?

- This is another type of ISA that allows you to save, tax-free, for your first home or for retirement. But it is only available for under 40s.
- For every £4 you contribute, the government will add a £1 bonus, to a maximum of £4,000. This means you could get an annual bonus of £1,000.

- You can use the lifetime Isa to save towards buying your first home, or you can leave it to grow until you are 60, when you can take the money out tax-free for retirement.

What is a stocks and shares ISA?

In a stocks and shares ISA, all capital gains and income are protected from tax. This allows you to shelter investment returns from tax when investing in a number of different investments within the ISA 'wrapper'. These include unit trusts, OEICs, government bonds, corporate bonds and shares.

What is an 'innovative finance' ISA?

This new type of ISA lets you invest in peer-to-peer (P2P) lending - where you lend cash to individuals or small businesses - without paying tax. You receive a rate of interest on the moneys you lend and if the borrower is still solvent then at the end of the fixed period, you receive your capital back. Investment in this type of ISA are not covered by the FSCS (Financial Services Compensation Scheme).

The platform you choose will be able to set up your account so that the interest paid by borrowers is kept within a tax-free Isa wrapper.

Junior ISA

Junior ISAs can be established for children under 18. Parents (or indeed anyone else) can save or invest up to £4,368 in this tax year. The JISA must be open by a parent although anyone can actually contribute to the JISA. The JISAs remain tax-free until the child's 18th birthday, when it gets converted into an adult ISA.

Taxation

Any investment returns received is tax free. There is no personal tax on any income taken and no capital gains tax on any gains made.

On death, the value of your ISAs will be included in your estate for Inheritance Tax purposes. It is now possible to transfer the value of a spouse's ISA to a surviving spouse on death. This additional allowance will not count towards the surviving spouse's normal subscription limit.