

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 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.

Since April 2001, 16 and 17 year olds have been able to open a Junior 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 £11,520 of which not more than £5,760 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.

Types of ISA

Investors are able to invest in two separate ISAs in each tax year; a cash ISA and a stocks and shares ISA. Mini and maxi ISAs no longer exist.

Mini cash ISAs and the cash component of what was known as a maxi ISA automatically became cash ISAs. In addition the old TESSA-only ISAs also become mini cash ISAs. The maximum amount which can now be deposited in a cash ISA is £5,760 each tax year.

Mini stocks and shares ISAs and the stocks and shares component of a maxi ISA automatically become 'stocks and shares' ISAs. In addition all Personal Equity Plans (PEPs) automatically become 'stocks and shares' ISAs. The maximum which can be invested in a 'stocks and shares' ISA is £11,520 subject to an overall annual limit of £11,520. This means that if an individual invests £5,760 in a cash ISA, the maximum available to be invested in 'stocks and shares' is also £5,760.

Junior cash ISAs are limited to a maximum of £3,720.

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.

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.

How abacus can help

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

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