

Individual Savings Accounts

What is an ISA?

Individual Savings Accounts (ISA) offer a tax-free way of saving. There are four types of ISA; stocks and shares, cash, innovative finance and lifetime. You can save up to £20,000 per year in one account or split the amount between different types of ISA. The limit was previously £15,240.

Tax Advantages of ISAs

You can transfer your ISA from one provider to another at any time, as well as transferring one type of ISA to another type. If you want to transfer money which you have put into your ISA during the current year, then you must transfer the whole amount.

Any income you receive from the ISA is completely Income Tax free, and any gains you make on investments held in an ISA share are free from Capital Gains Tax. You can take money out of your ISA at any time, without losing any tax benefits. There are some different rules for lifetime ISAs.

Help-to-buy ISA

The Government has recently introduced an ISA to help people save to buy their first home. For each £200 saved (the monthly maximum), the Government will add in a further £50 up to a maximum of £3,000. When the account is first opened, you can deposit up to £1,000. The bonus will be paid when the first home is purchased. One very helpful aspect of these ISA's is that they are not limited to one per home, so if you are buying with someone else who is also a first-time buyer, you can each have an account. Once an account is opened there is no limit on how long an individual can save into it and no time limit on when they can use their bonus.

Lifetime ISA

A new Lifetime ISA is available for adults under the age of 40. Individuals will be 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the government bonus, can be used to buy a first home at any time from 12 months after opening the account, and can be withdrawn from age 60 completely tax-free.

Any savings an individual puts into the account before their 50th birthday will receive an added 25% bonus from the government. Unlike Help-to-buy, there is no maximum monthly contribution and up to £4,000 a year can be saved into a Lifetime ISA. Where an individual already has a Help-to-buy ISA they will be able to transfer those savings into the Lifetime ISA in the 2017/18 tax year, 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 Where the funds are withdrawn at any time before the account holder is aged 60 they will lose the government bonus (and any interest or growth on this) and will also have to pay a 5% 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 Child Trust Fund account. Junior ISAs are tax advantaged and have many features in common with ISAs. They can be cash or stocks and shares based. The annual subscription limit for Junior ISA and Child Trust Fund accounts is £4,128 for 2017/18.