ISAs

Clarity Wealth Limited

ISAs

Investment Savings Accounts

Investment Savings Accounts (ISAs) were introduced by the Government in 1999. They effectively replaced both Tax-Exempt Special Savings Accounts (TESSAs) and Personal Equity Plan (PEPs) as the tax-exempt saving vehicles.

TESSAs (Tax-Exempt Special Savings Accounts) – a previous form of tax-free savings which was phased out of existence when ISAs were introduced.

PEP were tax-efficient savings products (also see tax efficient investment planning) allowing people to invest in stocks and shares, but new investment in PEPs was stopped in 1999 to coincide with the introduction of ISAs.

In April 2008, all of these products were reclassified as either cash or stocks and shares ISAs.

There are four types of ISA. Each tax year you can invest money into each kind of ISA.

- Cash ISAs
- Stocks and Shares ISAs
- Innovative Finance ISAs
- Lifetime ISAs

Cash ISA

A Cash ISA is fundamentally the same as a traditional savings account, with the exception that there are limits on the amount of cash you can pay in and there is no need to pay tax on the interest earnt.

A tax year runs from 6th April to 5th April. Once the monies are invested into an ISA you have the ability to transfer them to another more suitable ISA or a different type of ISA. This could simply be because another account is offering higher interest or because you want to transfer it to a Stocks and Shares ISA, as you may have a longer-term investment strategy. This can mean that over the years of contributing to any type of ISA that you could protect a significant amount of funds from Capital Gains Tax (CGT) or income tax by taking advantage of this annual allowance. Under current rules in the event of death, ISAs can be transferred to a spouse.

Stocks and Shares ISA

A stocks and shares ISA is quite a misleading description. The investment can have stocks and shares exposure within the ISA but it is not compulsory and more typically investment ISAs will have a blend of assets that include shares, corporate bonds, gilts property and cash. Indeed you could actually have a stocks and shares ISA with no stocks and shares in it! This could provide a regular tax free income that could compliment your overall income and/or retirement strategy. Alternatively you can transfer existing stocks and shares ISAs between providers.

Investments can decrease in value due to the volatile market, but allowing them to remain invested for longer periods gives them time to hopefully recover. There is always a risk when investing in Stocks and Shares ISAs that you may end up receiving less than you put in.

The ability to protect your returns from tax on dividends, Capital Gains Tax, and income tax is one of the biggest advantages of investing in Stocks and Shares ISAs.

Lifetime ISA

A Lifetime ISA has been designed to give you the opportunity to save for your first home or leave it to grow for your retirement, when you can withdraw the money tax-free. To open a Lifetime ISA you must be over 18 but under 40.

Each year you may pay up to a certain amount, which may be liable to change, into your Lifetime ISA. You will receive a 25% bonus up to £1000 each year from the Government as an incentive to save. Once you turn 50 you will no longer be able to pay into the ISA or receive the 25% bonus. The account will remain open and your savings will continue to earn interest or investment returns.

You are able to withdraw your ISA if you're:

- Buying your first home
- Aged 60 or over
- Terminally ill, with less than 12 months to live

A 25% charge will apply if you withdraw cash or assets for any other reason.

Investment Planning

Retirement Planning & Pensions

Business & Protection

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