

The value of ISAs

What is an ISA?

ISAs (Individual Savings Accounts) are simple savings accounts that allow you to make tax free savings and investments. The Government introduced them in 1999 to encourage people to save for the future.

Each year we are given an annual ISA allowance; the limit for the current tax year is £20,000 per person. You can also pay £9,000 into a Junior ISA for children.

What are the benefits of having an ISA?

ISAs are an important part of financial planning because they provide a way of sheltering your money from tax. ISAs offer a unique range of benefits:

- **Tax efficient saving** - by making the most of your tax efficient ISA allowance, you're potentially increasing any income or growth on your investment.
- **No capital gains tax (CGT)** - you don't have to pay CGT on your ISA investments, no matter how much the investment grows in the future or how much you take out.
- **No income tax** - ISAs are tax efficient because they're free from personal income tax. So, whatever interest, growth or income you receive, it's yours to keep.
- **Dividends** - dividends received within an ISA will remain tax free and won't impact your dividend allowance.
- **Self assessment** - if you complete a tax return, there is no need to declare any investments held in ISAs.
- **Easily accessible** - you can access your money whenever you need to and take out as much as you like without losing any of the tax benefits.

Your annual ISA allowance for 2021/22 runs until the 5th April 2022; the end of the tax year.





What are the different types of ISA?

Cash ISA

Cash ISAs, like savings accounts, give you a variable or fixed rate of interest, usually over a set period of time. You are guaranteed this income but interest rates may be low. You will pay no tax on the interest earned and it will not count towards your personal allowance.

Stocks and shares ISA

Stocks and shares ISAs let you invest your ISA allowance in the stock markets. They can potentially give you better returns than cash ISAs over the long term, but as with any investments there is the risk of losing money.

In a stocks and shares ISA, all capital gains and income are protected from tax.

Innovative finance ISA

An innovative finance ISA (IFISA) lets you invest in peer-to-peer (P2P) lending - where you lend cash to individuals or small businesses - without paying tax.

Innovative Finance ISA (IFISAs) are not protected under the Financial Services Compensation Scheme (FSCS). This means your money could be at risk if you save with an IFISA company that goes bust.

Junior ISA

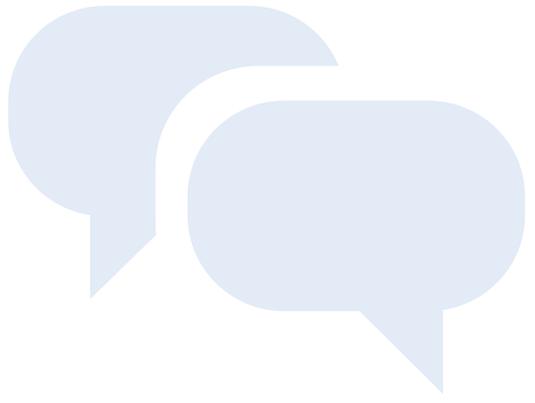
Junior ISAs come with the same tax benefits as adult ISAs. You can open one for your child and invest the £9,000 junior ISA allowance into it each year.

However, you cannot have a junior ISA as well as a child trust fund (CTF). If you want to open a Junior ISA, you will need to ask the provider of the CTF to transfer the trust fund into it.

Also, children aged 16 or 17, get two ISA allowances - the junior ISA allowance PLUS the adult ISA allowance of £20,000, making a combined possible allowance of £29,000.

Lifetime ISA

Lifetime ISAs allow you to save, tax-free, for your first home or for retirement. However, it is only available for people aged under 40. It gives you a £4,000 annual allowance with the Government adding a 25% bonus to anything you pay in up to age 50. You can use the money to either buy your first home or to fund your retirement once you reach age 60. You can make withdrawals for other reasons, but you will lose your bonus and will pay a 5% fee on anything you take out.



Can I split my ISA allowance?

You can either:

- **use the maximum allowance** for cash and investing; or
- **mix and match**, where you split the allowance between the different types of ISAs.

It is worth noting that if you choose to split your allowance, you cannot invest more than £20,000 across the different ISA types. Any amount you contribute to the lifetime ISA counts towards your annual ISA allowance.



You must save or invest by 5th April, the end of the tax year, for it to count for that year. Crucially, any unused allowance cannot be carried forward to the next tax year, so if you don't use it, you lose it forever. You will get a new allowance for the next tax year, but won't be able to contribute any more to the old ISA.

If you would like to find out more about ISAs or would like some advice, please contact us to discuss your options.

call 0330 332 7866*;

email advise-me@fosterdenovo.com; or

visit www.fosterdenovo.com

* Calls are charged at your standard landline rate.

The value of your investment can go down as well as up and you may not get back the full amount invested.

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