

# Saving and Investing in ISAs

ISAs are often referred to as “tax wrappers”. This means that you pay no tax, or less tax than usual, on the income you earn or on the profits you may make on your investments.

This guide explains:

- The different types of ISA that are available.
- Whether you are eligible to save or invest in an ISA.
- The tax savings you can make.
- The maximum amount you can put into an ISA each year.

## THE DIFFERENT TYPES OF ISAS

ISAs (Individual Savings Accounts) were introduced by the government to encourage people to save. There are two types:

- Cash ISAs.
- Stocks and shares ISAs.

### Cash ISAs

Cash ISAs enable you to save money in bank or building society deposit accounts, National Savings and Investment Products, and any other products that aim to produce a cash-like return. Any interest earned is tax-free.

They may be more suitable for people who prefer not to take risks with their money. Although it is not possible to lose the money invested in cash ISAs, it is important to remember that inflation can erode the value of cash over time. For example, £100 will always be worth £100, but in two years time that £100 is likely to buy you less than it does today.

## Stocks and shares ISAs

Stocks and shares ISAs enable you to invest in:

- Stocks and shares (including investment trusts), and gilts and corporate bonds.
- Authorised funds (unit trusts and OEICS).
- Life insurance products.

**By investing within a stocks and shares ISA, the tax you pay will be less than if you held the same investments outside an ISA** (see below for further details on the tax benefits).

It is important to be aware that the value of your investment can go down as well as up in line with the performance of the stock market. Therefore, stocks and shares ISAs are more likely to be suitable for people who are willing to accept some investment risk.

## ELIGIBILITY

You can invest in an ISA if:

- You are aged 16 or over. However, if you are under 18 you can only invest in a cash ISA. After your 18th birthday, you can invest in a stocks and shares ISA.
- You are a resident of the United Kingdom for tax purposes.
- You are a Crown employee currently working overseas and treated as a resident of the United Kingdom for tax purposes (eg. diplomats, civil servants, members of the armed forces) or you are married to such a person.

***But, you cannot hold an ISA jointly with another person or hold an ISA on behalf of another person.***

## TAX BENEFITS

- You do not have to declare your ISA on your tax return.
- **If you have a cash ISA, you do not pay income tax on any interest earned.** This applies to all taxpayers (basic, higher and additional rate).
- **If you have a stocks and shares ISA, you do not have to pay any additional income tax on distributions.** This means:
  - Higher rate tax payers (ie those who pay 40% income tax) do not have to pay the extra 25% income tax on dividends received from shares or equity funds that would normally be paid outside an ISA.
  - Additional rate taxpayers (ie those who pay 50% income tax) do not have to pay the extra 36.1% income tax on dividends received from shares or equity funds that would normally be paid if held outside an ISA.
  - If you hold corporate bonds or bond funds within an ISA that pay out interest distributions, you will be entitled to receive that interest (or “those distributions”) gross of tax or reclaim the savings tax of 20% (as appropriate).
  - Cash held temporarily in a stocks and shares ISA and any interest earned on that cash will be taxed at 20%. However, higher rate and additional rate taxpayers, who would otherwise suffer a 40% and 50% income tax hit, respectively, outside an ISA, will have no further tax liability.

- **You do not pay any Capital Gains Tax (CGT) on any gains made from an investment held within an ISA.** However, you cannot offset any losses from your ISA investment against any gains made from non-ISA investments in order to reduce any Capital Gains Tax (CGT) owed.

## THE MAXIMUM AMOUNT YOU CAN SAVE IN AN ISA

**You can invest £10,680 into a stocks and shares ISA in the 2011/12 tax year.**

**The maximum amount you can save in a cash ISA in 2011/12 is £5,340.**

So, assuming you have the maximum annual allowance of £10,680 to invest in 2011/12, you can choose to put all that investment into a stocks and shares ISA, or you can split it between a stocks and shares ISA and a cash ISA. For example, £5,340 in a cash ISA and £5,340 in a stocks and shares ISA, or £3,000 in a cash ISA and £7,680 in a stocks and shares ISA.

You can invest up to the maximum ISA allowance, either as a lump sum or by making regular payments into your ISA(s) (for example, £50 per month or more). Your ISA manager will be able to tell you what the minimum amount is that you can invest. If the ISA meets the Stakeholder standards, the minimum will not be higher than £10 per month in a Cash ISA and £20 per month in a stocks and shares ISA (see below: Stakeholder ISA.)

## WITHDRAW AS MUCH AS YOU WISH AND AT ANY TIME

Money withdrawn will not be taxed. But always check the terms and conditions of the ISA first.

It is important to note that if you withdraw money from your ISA, it will still count towards the maximum ISA allowance for that tax year. You will not be able to put extra money back into the ISA in the same tax year to take you up to the maximum.

For example, if in 2011/12 you invest £9,000 in a stocks and shares ISA and then withdraw £2,200, you would be able to put back in only £1,680, as this takes you up to the maximum contribution limit for the year of £10,680 (the original £9,000 plus the extra £1,680).

On the other hand, if in 2011/12 you invest £5,000 in a stocks and shares ISA and then withdraw £2,200, you will still be able to invest a further £5,680 in that tax year.

## WHERE TO GET AN ISA

Many fund management companies offer a range of ISA products. You can also approach financial advisers, fund supermarkets, or insurance companies about the ISAs they offer, or go to your local high street bank or building society. It is also possible to open many ISAs online.

## SEEK PROFESSIONAL ADVICE

If you have any doubts about whether an ISA is suitable for you or about your tax position, you should seek advice. IMA's online Financial Adviser search tool can help you look for an adviser. See [www.investmentuk.org/investor-centre/ifa](http://www.investmentuk.org/investor-centre/ifa) for more information.

## OTHER KEY FACTS

### Stakeholder ISAs

A Stakeholder ISA may be either a cash ISA or a stocks and shares ISA, and must meet specific standards set by the government. These standards are listed in the table below. They are designed for investors who prefer to save in low cost products, to put small amounts of money into their ISA at any particular time and to start with a cash ISA or a stock and shares ISA that is relatively low risk. It is important to note that although the standards are set by the government, this does not mean that Stakeholder ISAs are approved by the government, nor is their performance guaranteed.

ISA TYPE	STANDARDS FOR STAKEHOLDER ISAs
<b>Cash</b>	<p><b>Must</b></p> <ul style="list-style-type: none"> <li>■ permit minimum contributions of £10.</li> <li>■ have an interest rate not less than the Bank of England base rate minus 1%.</li> <li>■ increase the interest rate within one month of the Bank of England raising the base rate.</li> <li>■ not have limitations on the number of withdrawals that can be made.</li> </ul>
<b>Stocks and shares</b>	<p><b>Must</b></p> <ul style="list-style-type: none"> <li>■ not have more than 60% of the fund or product invested in shares of a recognised stock exchange, or land and buildings.</li> <li>■ permit minimum contributions of £20.</li> <li>■ publish the price on a daily basis.</li> <li>■ have charges capped at a maximum of 1.5% for the first 10 years of investment reducing to 1% thereafter.</li> <li>■ be singled priced.</li> </ul>

### You have the right to cancel your ISA if you change your mind

You must notify the manager by returning the cancellation notice you receive from them, generally within 14 days of receipt.

### Transfers during the tax year are permitted

For example, if you buy your ISA in the 2011/12 tax year and then want to transfer to a new manager in the same year, you must move all the contributions you have already made into the ISA in 2011/12. You will need to check that the new ISA manager is willing and able to accept the transfer.

### You can switch from your current ISA to a new ISA

However, you should first check whether your current provider will impose a penalty.

### You can move money from an existing cash ISA(s) to your stocks and shares ISA

It will not count as part of the £10,680 annual allowance. For example, in 2011/12 you could transfer £15,000 from your existing cash ISA(s) to a stocks and shares ISA and invest a further £10,680 without losing your tax-free benefits.

However, you cannot move money from a stocks and shares ISA to a cash ISA.

## There is a system in place for handling complaints

First, take up your complaint directly with the ISA manager. If the manager is unable to satisfy your complaint, you can pursue the matter with the Financial Services Ombudsman.

## Tell your ISA manager immediately if you have taken out too many ISAs in one tax year

They will ask you to contact HM Revenue and Customs, as in certain circumstances you may be able to keep your ISA open.

## FURTHER INFORMATION

This factsheet is produced by the Investment Management Association. We publish a number of other guides on investing, which are all available free of charge. You can download a copy from the IMA's Investor Guides page at:

[www.investmentuk.org/investor-centre/investor-factsheets](http://www.investmentuk.org/investor-centre/investor-factsheets)

You can also request hard copies of any of IMA's factsheets from:

**Investment Factline**

**c/o IMA**

**65 Kingsway**

**London WC2B 6TD**

**Telephone: 020 7269 4639**

**Website: [www.investmentuk.org/investor-centre/investor-factsheets/order-form](http://www.investmentuk.org/investor-centre/investor-factsheets/order-form)**

You can use IMA's Fund search tool to look for funds to meet your needs:

[www.investmentuk.org/investor-centre/fund-search](http://www.investmentuk.org/investor-centre/fund-search)

For further details about specific funds, contact either the relevant fund management company or talk to a qualified financial adviser. To find out more about getting financial advice, see Financial adviser search: [www.investmentuk.org/investor-centre/ifa](http://www.investmentuk.org/investor-centre/ifa)

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