Haines Watts
Local Matters, National Strength.

factsheet

Individual Savings Accounts

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 and the government has confirmed that ISAs are 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 mini 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

The 2011/12 annual ISA subscription limit is £10,680 of which not more than £5,340 can be invested in cash. There is no minimum subscription level. The limits were previously £10,200 and £5,100 respectively.

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.

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.

Junior Individual Savings Account (Junior ISA)

The government will introduce a new Junior ISA product which will be available for UK resident children under the age of 18 who do not have a Child Trust Fund account. Junior ISAs will be tax advantaged and will have many features in common with existing ISAs. They will be available as cash or stocks and share based products.

The government expects that Junior ISAs will be available from autumn 2011.

Eligibility for the new account will be backdated to ensure that no child born after the end of CTF eligibility will miss out on the chance to have one of the accounts.

How we can help

Please contact us if you would like any further information on ISAs.