



ISA returns of the year

Finding the right mix of tax-efficient investments

We all have our own financial goals, so it's important to find an approach that suits our current financial situations and future plans by finding the right mix of investments to achieve them.

By understanding which products are the most tax-efficient, you can make the most of your savings and investments, and minimise how much tax you pay.

TAX-EFFICIENT INVESTMENT WRAPPER

One option to consider is an Individual Savings Account (ISA). An ISA is a tax-efficient investment wrapper in which you can hold a range of investments, including bonds, equities, property shares, multi-asset funds and even cash, giving you control over where your money is invested.

During his Spending Review and Autumn Statement last year, Chancellor George Osborne announced he would also be extending the list of qualifying investments for the new Innovative Finance Individual Savings Account from Autumn 2016 to include debt securities offered via crowdfunding platforms.

ISAs are a highly tax-efficient way to save or invest your money because you don't pay Income Tax on your interest or Capital Gains Tax on any profits.

TAX YEAR 2015/16 ISA ALLOWANCE

Between 6 April 2015 and 5 April 2016, you have an ISA allowance of £15,240. The rules now

mean you can split the ISA allowance as you wish between a Stocks & Shares ISA and a Cash ISA. The ISA allowance limit will remain at £15,240 for tax year 2016/17.

You don't have to declare any investments held in ISAs on your tax return. This may not seem like much, but if you have to file an annual tax return, you'll know that any way of simplifying your financial administration can be very helpful.

HOW MUCH CAN I SAVE OR INVEST EACH YEAR?

Cash ISA – £15,240 less any amount held in a Stocks & Shares ISA.

Stocks & Shares ISA – £15,240 less any amount held in a Cash ISA.

WHO CAN APPLY FOR ONE?

Cash ISA – UK residents aged 16 and over.

Stocks & Shares ISA – UK residents aged 18 and over.

IS THERE RISK INVOLVED?

Cash ISA – The value of your initial investment cannot decrease. However, the current low rates of interest could mean that the return on your money does not outpace inflation.

Stocks & Shares ISA – While the long-term

potential returns are greater, the value of your investment can go down as well as up, and you could get back less than you have paid in.

CAN I SWITCH BETWEEN ISAS?

Cash ISA – You can transfer funds between Cash ISAs or from a Cash ISA into a Stocks & Shares ISA.

Stocks & Shares ISA – You can transfer funds between Stocks & Shares ISAs or from a Stocks & Shares ISA into a Cash ISA.

ISAs are becoming an important part of financial planning, and they offer a unique range of benefits. These include:

- No income is tax payable on interest payments – which are made by bond funds
- No higher rate tax is payable on dividends, which are paid by equity funds (you can't claim back the 10% dividend tax paid by the fund in an ISA)
- You can access your money whenever you need to but it cannot be returned (if you withdraw your ISA, you will automatically lose all of its associated tax benefits – unless you need to liquidate your cash, you should transfer it between providers to retain its tax-efficient status)



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- Income from an ISA doesn't affect your personal allowance or age-related allowance
- No Capital Gains Tax is payable on any growth you may achieve, so you could use withdrawals to increase your income when necessary (any losses made in the ISA cannot be used to offset gains made elsewhere)

It is important to remember that an ISA is just a way of sheltering your money from tax – it's not an investment in its own right.

CHANGE TO ISA INHERITANCE RULES

Under the new rules, additional ISA subscriptions are now available to a surviving spouse or registered civil partner, as long as the ISA holder passed away on or after 3 December 2014.

This comes in the form of an Additional Permitted Subscription (APS) ISA allowance (additional to the personal annual ISA) equal to the amount that was held in the ISA on the day the holder died.

TRANSFERRING YOUR INVESTMENT BETWEEN PROVIDERS

If you want to change your existing ISA provider or are looking to consolidate your investments under one roof, with an ISA you can transfer your investment between providers to suit your individual needs. However, your current provider may apply a charge when you transfer your investment. While your investment is being transferred, it will be out of the market for a short period of time and will not lose or gain in value.

CONTROL OVER YOUR RETIREMENT INCOME

ISAs can give you control over your retirement income, as you can take as much money out

as you require, whenever you want. Savings in an ISA and withdrawals from an ISA are tax-efficient, but, if you withdraw money and put it back later, it will count towards your ISA annual subscription limit in the year that you re-invested your money (although changing from 6 April 2016 where an ISA chooses to offer the new flexible ISA facility).

JUNIOR ISAS – A STRAIGHTFORWARD WAY TO SAVE FOR A CHILD'S FUTURE

Junior ISAs offer investors a straightforward way to save for a child's future and offer similar tax advantages to 'adult' ISAs, but with a lock-in, making the child's investment inaccessible until they turn 18. Like an ISA, Junior ISAs can invest in bonds, equities, cash, property and even multi-asset funds, giving you even more flexibility over the future of your child's long-term savings.

Since April 2015, it is possible for existing Child Trust Funds (CTFs) to be transferred into Junior ISA accounts. You can invest up to £4,080 in the current tax year and switch from a Cash Junior ISA to a Stocks & Shares Junior ISA and back again.

Only parents or a guardian with parental responsibility can open a Junior ISA for under 16s.

HELP TO BUY ISAS

Help to Buy ISAs are a new type of ISA designed to help first-time buyers save up a deposit for their home. The Government will add 25% to your savings, up to a maximum of £3,000 on savings of £12,000. With a new Help to Buy ISA, the Government will top up your savings by 25%. So, for every £200 you save, the Government will contribute £50.

The most you can get from the Government is £3,000, so the maximum amount you can save in a Help to Buy ISA is £12,000. The minimum amount you need to save to qualify is £1,600 (which gives you a £400 bonus). You can start off your ISA with an initial deposit of up to £1,000, which also qualifies for the 25% boost from the Government.

DISCUSS YOUR ISA OPTIONS

Historically, Stocks & Shares ISAs have offered better potential returns over a longer period, so they should be considered for medium-to-long-term goals. Cash ISAs are usually seen as suitable for short-to-medium-term savings goals. If you would like to discuss your ISA options or review any aspects of your portfolio, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.*

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.*

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.*

*only applies to Stocks & Shares ISAs

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