Lync Wealth Management

Guide To Individual Savings Accounts (ISAs)

Tel: 01565 658 840

enquiries@lyncwealth.co.uk

www.lyncwealth.co.uk

What is an ISA?

In the world of financial planning and wealth management, the concept of tax-efficient savings is paramount. ISAs represent a strategic channel whilst paying no income, dividend or capital gains tax on the money you earn from an ISA.

ISAs are effectively tax wrappers that are designed to facilitate tax-efficient savings and investment. They were introduced by the government in 1999 and replaced Personal Equity Plans (PEPs) and Tax-Exempt Special Savings Accounts (TESSAs).

They have changed over the years to what we have today and explained below.

For the 2023/34 tax year you are able to save £20,000 within ISAs tax-free. ISAs allow individuals to channel their financial resources into diverse avenues, ranging from cash deposits to investment portfolios, whilst shielding the accrued gains from taxation.

Types of ISA

ISAs come in several different types, each catering to various financial goals and risk appetites. ISAs are bound by a limit you can invest in each tax year. For the 2023/24 tax year, the overall individual ISA limit is £20,000 per year, per individual. You are unable to contribute to multiple ISAs of the same type within the same tax year. For example, you can contribute £10,000 separately to a Cash ISA and a Stocks and Shares ISA but you are unable to contribute £10,000 separately to two different Cash ISAs.

Cash ISA

A Cash ISA is essentially a tax-free savings account. Interest earned on the money you save in a Cash ISA is not subject to income tax. It's a low-risk option suitable for those who want to preserve their capital whilst earning interest. Depending on the type of Cash ISA you open, you can either have instant access to your money where you can withdraw whenever you need to, or you will have limited access where you can only take out money a certain amount of times and then your interest rate will drop.

Stocks and Shares ISA

This type of ISA allows you to invest in a wide range of assets, including stocks and shares (equities) and bonds amongst other investments. Any dividends or capital gains earned within a Stocks and Shares ISA are exempt from tax.

If you have the facility to invest for at least 6 years, a Stocks and Shares ISA can help you build a nest egg for the future. It is important to remember that investments carry risk. The value of your investments can go down as well as up so you may get back less than you first invested.

Innovative Finance ISA (IFISA)

This type of ISA is designed for peer-to-peer lending platforms or other alternative finance investments. It allows you to invest in loans or debt-based securities and receive tax-free interest on returns. It is important to note that IFISAs could be considered higher risk and are not appropriate for the majority of retail consumers. They do not have any protection from the Financial Services Compensation Scheme (FSCS).

Junior ISA (JISA)

A parent or guardian can open a Junior ISA to save tax-free for their children, although anyone can contribute to them. It operates similarly to a Stocks and Shares ISA or a Cash ISA, but with an annual contribution limit of £9,000 for the tax year 2023/24. It is important to note that the funds belong to the child who take control of the ISA at age 16. They cannot access until they are aged 18, so if you require access before this it may not be appropriate.

Lifetime ISA (LISA)

A LISA is designed for long-term savings, specifically for purchasing your first home or saving for retirement. Currently, you can contribute up to £4,000 per year into a LISA although this counts towards your annual overall £20,000 ISA allowance.

The government adds a 25% bonus to your LISA contributions each year up to a maximum of £1,000. You can open a LISA from the age of 18 and you must make your first payment into it before you reach 40. When you reach the age of 50, you are no longer able to pay into a LISA and the government's additional 25% will stop. Your LISA will remain open and your savings will continue to earn interest.

When it comes to withdrawing money from a LISA, you will incur a 25% withdrawal charge unless you are:

- Buying your first home (under a total of £450,000)
- Aged 60+
- Terminally ill with less than 12 months to live

This means you will lose more than you put in. As you can see from the example below, if you withdraw the full amount the penalty is more than the bonus received.

	You Invest		You withdraw
You Invest	£4,000.00	**You Withdraw**	£5,000.00
Bonus @ 25%	£1,000.00	**Penalty @ 25%**	£1,250.00
Total Amount	£5,000.00	**You receive**	£3,750.00

How should I use my ISA entitlement? Savings vs Investing

As you can see, there are various types of ISA you can invest in, but which is right for you?

Savings ISAs such as Cash ISAs offer security for your money. Very similar to a standard savings account, Cash ISAs offer fixed or variable returns. Most ISAs are protected by the FSCS who offer compensation up to £85,000 if the financial firm or Bank/banking group you use goes bust.

If you are happy taking more of a risk, investing your money in a stocks and shares ISA have the potential to give far higher returns.

During the Covid-19 pandemic the global stock markets crashed and from that, many people lost money and took what they had left out of their Stocks and Shares ISA. However, they have missed out on strong returns and there could be more growth to come.

There is no right or wrong way to use your ISA entitlement, but what is important is that you seek financial advice in order to determine your risk appetite.

The younger you are, the longer you have to recover from a market fall, whereas if you are nearing or are in retirement, you may have to take a more cautious approach to protect the savings you have built up over the years. This will be dependent on your appetite for investment risk.

Financial Services Compensation Scheme?

Most ISAs are protected by the FSCS who offer compensation up to £85,000 if the financial firm or Bank/banking group you use goes bust. It is important to check this before purchasing an ISA or investment.

It should be noted that if you have multiple accounts with a bank or building society within the same banking group then the money is treated as the same bank/building society. For the compensation limit to be treated as individual amounts, the money should be held with firms that have separate licenses. This can be checked on the Financial Services register at the Financial Conduct Authority.

What can I do if I have used my ISA allowance?

If you've already utilised your full ISA allowance for the current tax year and are looking for additional ways to save or invest, there are several options available to you. Here are a few alternatives to consider:

Pension Contributions

Contributing to a pension scheme is a tax-efficient way to save for retirement. Contributions to pensions receive tax relief, meaning you could get back the income tax you've paid on those contributions, up to certain limits.

General Investment Accounts

If you've used up your ISA allowance, you can still invest in a regular investment account. While gains in such accounts may be subject to capital gains tax, you have an annual capital gains allowance, which for the tax year 2023/24 is £6,000, more than a 50% decrease on the previous year where it was £12,300. In April 2024, the allowance is set to reduce further to £3,000.

Savings Bonds and Certificates

Government-backed savings bonds or National Savings and Investments (NS&I) certificates might offer a stable and secure way to save, although interest rates can be relatively low.

Premium Bonds

NS&I Premium Bonds offer a chance to win tax-free prizes in monthly draws. Keep in mind that while the winnings are tax-free, they are not guaranteed.

NS&I are government backed and are not regulated by the Financial Conduct Authority (FCA).

Pensions cannot be accessed until the age of 55 (57 from 2028). This will increase in line with state retirement age.

It's important to note that tax rules and regulations can change, and the suitability of these options depends on your individual financial situation, goals, and risk tolerance. Consulting a Financial Adviser or tax professional is recommended before making any significant financial decisions.

Don’t let your ISA allowances go to waste

Time is money: the sooner you invest, the better off you could be. Using your ISA allowance at the start of the tax year could mean an extra year of growth for your money. Even if you don’t have £20,000 to invest in one go, which for the large majority is the case, prioritising saving whatever you can within an ISA as soon as possible is better use of your money than it being sat in a savings account potentially paying unnecessary tax. With most ISAs, you are able to invest regularly on a monthly basis.

Don’t forget about your ISA – Make sure you’re checking it regularly

Having a stocks and shares ISA does come with risk so it is important you are checking to see how your money is doing. You don’t have to leave your money in an underperforming fund. There are hundreds of funds to choose from, obtaining advice from a professional adviser who help in recommending a portfolio or fund that compliments your attitude to investment risk.

Tips for successful ISA investing

There are no guarantees that you will make money investing in a Stocks and Shares ISA. However, there is a good chance you will make money on at least some of your investments in the long run.

Long-term investing: ISAs are designed for long-term growth. Avoid making impulsive and emotional decisions based on short-term market fluctuations and volatility and stay committed to your investment strategy.

Regular Contributions: Consistent contributions, even if they are small, can add up over time. Set up automatic contributions to your ISA to ensure you're consistently saving.

Research and Education: Stay informed about different investment options and financial markets. Understanding the assets that you're investing into will help you make informed decisions.

Diversify Your Portfolio: Spread your investments across different asset classes, such as stocks, bonds, property and cash. Diversification helps reduce risk by avoiding overexposure to a single investment.

Understand Risk Tolerance: Assess your risk tolerance before making investment decisions. Your willingness and ability to tolerate risk will influence the mix of investments in your portfolio.

Professional Advice: There are hundreds of Stocks and Shares ISAs available all with different risk tolerances and possible returns. Finding the ISA that is right for you is not a simple task, and it is harder to do when you do not work in the industry. Consider consulting a Financial Adviser or Planner to create a tailored investment plan that aligns with your goals and risk tolerance.

Remember that successful investing requires a combination of patience, research, and disciplined decision-making. Tailor your ISA investments to your individual financial situation and long-term goals for the best chances of success.

It is important to remember that when investing your capital is at risk. The value of your investment (and any income from them) can go down as well as up and you may not get back the full amount you invested. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

A Guide To Investing

Tel: 01565 658 840

enquiries@lyncwealth.co.uk

www.lyncwealth.co.uk