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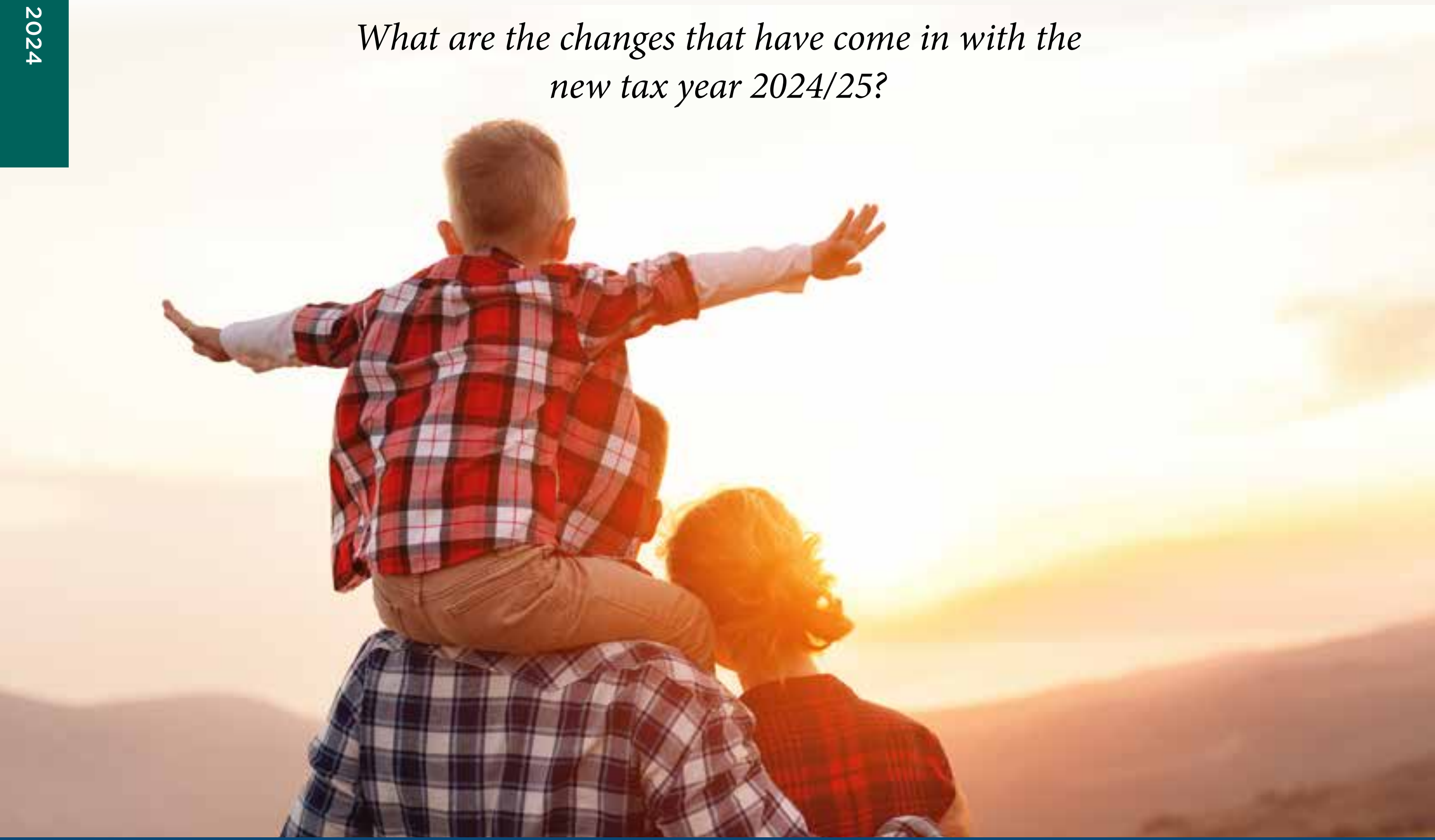
GUIDE TO

INDIVIDUAL SAVINGS ACCOUNTS

What are the changes that have come in with the new tax year 2024/25?



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GUIDE TO

INDIVIDUAL SAVINGS ACCOUNTS

What are the changes that have come in with the new tax year 2024/25?

Welcome to our *Guide to Individual Savings Accounts*. This guide explains the changes to Individual Savings Accounts (ISAs) for the 2024/25 tax year. ISAs offer a versatile and tax-efficient way to save for the future, whether for yourself, your children, or your grandchildren. Now that we have entered the new financial year, significant changes have been introduced to ISAs.

Since 6 April, savers and investors have had a more flexible approach to using their ISA allowance. For the first time, individuals can open multiple accounts of the same type of ISA within a single tax year, from 6 April one year to 5 April the next, provided they do not exceed the annual ISA limit. This marks a departure from previous rules, which annually restricted savers to one account per ISA type.

Partial transfers and the British ISA

In addition to this newfound flexibility, the rules now permit partial transfers of funds from current tax year ISAs into different types of ISAs, enhancing the ability to tailor savings strategies to personal needs. Furthermore, the government has proposed a new 'British ISA' featuring a separate £5,000 allowance aimed at investments in UK-based companies on the UK stock market.

The Chancellor's announcement of the British ISA during this year's Spring Budget seeks to complement the existing £20,000 annual ISA allowance. This initiative is still under consultation, with a deadline set for 6 June, signalling a potential boost for domestic investment.

Diverse spectrum of ISAs

The ISA regime offers a variety of options to cater to different financial goals and risk appetites. Whether prioritising safety, growth or a mix of both, there's an ISA type to match most requirements. From Cash ISAs, known for their simplicity and tax efficiency, to Stocks & Shares ISAs, which offer the potential for higher returns albeit with increased risk, choosing the right ISA depends heavily on individual circumstances.

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Cash ISAs

Cash ISAs serve as a cornerstone for risk-averse savers, providing a straightforward, tax-efficient haven for cash savings. Cash ISA products can be easy access accounts that allow immediate withdrawals or fixed rate accounts that reward savers for committing their funds for a predefined period. Although these accounts can offer both higher and lower interest rates typically offer lower interest rates than standard savings accounts, they present a valuable tax shield, especially for those who have maximised their savings allowance or anticipate doing so.

The allure of Cash ISAs lies in their tax advantages. Interest earned within these accounts does not contribute to the saver's personal savings allowance, thereby offering a tax-efficient growth environment for savings. This feature is particularly beneficial for higher rate taxpayers and those with substantial savings, making Cash ISAs an option despite potentially lower interest rates compared to non-ISA savings accounts.

Stocks & Shares ISAs

Stocks & Shares ISAs, sometimes referred to as 'investment ISAs', present an opportunity for individuals to diversify their investment portfolio across a broad spectrum, including collective investment funds, Exchange Traded Funds (ETFs), investment trusts, gilts, bonds, and stocks and shares. This form of investment carries an inherent risk since the value can fluctuate significantly; however, historically, the stock market has offered returns that surpass those of traditional savings accounts over extended periods.

Investors can choose investment funds within a Stocks & Shares ISA, where funds are amalgamated with those of other investors and managed by a professional fund manager, diluting the risk associated with individual investments failing.

Proceeds from Stocks & Shares ISAs are tax efficient. This encompasses both capital gains and dividends derived from the investments within the ISA. The convenience of not having to report these investments on a tax return simplifies the investment process, making Stocks & Shares ISAs an appealing starting point for newcomers to the investment world.

Lifetime ISAs

The Lifetime Individual Savings Account (ISA) presents a unique opportunity for individuals aged between 18 and 40, potentially benefiting your children or grandchildren. For each pound deposited into the account, the government offers an additional 25p, tax-free. With an annual contribution limit of £4,000, savers can receive a maximum bonus of £1,000 per year.

This fund can be used to purchase a first home worth up to £450,000 or for retirement savings, functioning similarly to a pension scheme. It is important to note that funds can be freely accessed after the age of 60 to supplement retirement income. However, early withdrawals for other purposes incur a 25% penalty.

The Lifetime ISA is available in two forms: Cash ISA and Stocks & Shares ISA. The market for Cash ISAs within this category is limited, with only a handful of providers. The £4,000 contribution towards a Lifetime ISA is counted within the broader £20,000 annual ISA allowance.

Junior ISAs

Turning our attention to Junior ISAs (JISA), these are designed for individuals under the age of 18. This financial year allows for an investment of up to £9,000 in either cash or stocks and shares. Access to the funds is restricted until the beneficiary turns 18, at which point full control over the account is granted. From the age of 16, they can manage the account, making it an ideal option for those looking to foster financial independence in their youth. From the start of the 2024/25 tax year, the minimum age to open a Cash ISA increased to 18.

ISA transfers

The flexibility to transfer across different ISA providers and types (from cash to stocks and shares or vice versa) enhances the appeal of ISAs. However, verifying transfer policies with your chosen providers is critical, as not all permit transfers. Direct withdrawals and transfers should be avoided to maintain the funds' tax-efficient status. Instead, the recommended approach involves initiating the transfer through the receiving provider, who will manage the process on your behalf through a straightforward form.

ISAs and spousal inheritance

When it comes to managing the financial aftermath of a loved one's passing, understanding the nuances of how Individual Savings Accounts (ISAs) can be inherited is key. An ISA can be transferred to a surviving spouse while retaining its coveted tax-free status, offering a silver lining during such difficult times.

However, it's important to note that no further contributions can be made to the ISA once the original owner has passed away. Nevertheless, any increase in account value during the probate period remains exempt from tax. For the surviving spouse, this transfer includes an additional ISA allowance, which is calculated based on the higher of two values: the cash or investments inherited or the market value of the ISA at the time of the original holder's death.

Non-spousal beneficiaries

The situation becomes markedly different when ISAs are bequeathed to beneficiaries other than the spouse. In these instances, the value of the ISA may fall within the scope of Inheritance Tax (IHT), which is levied at a rate of 40% on portions of the estate exceeding the current £325,000 (2024/25) IHT threshold. This significant tax implication underscores the importance of proactive estate planning to effectively navigate the potential fiscal impact.

THIS GUIDE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

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ARE YOU CONTEMPLATING OPENING AN ISA OR TRANSFERRING BETWEEN ACCOUNTS?

From the growth-focused Lifetime ISA to the foundational Junior ISA, understanding the nuances and options available is crucial for maximising benefits. Please get in touch with us if you're contemplating opening an ISA or transferring between accounts and require further guidance. We can assist you in navigating these options to secure your financial future.

WILL YOU ACHIEVE YOUR FINANCIAL GOALS?

If you want guidance on making smarter investing decisions, regardless of where you stand on your financial journey, we can help devise an investment strategy to achieve your goals.

To find out more, please get in touch with us today – we look forward to hearing from you.

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