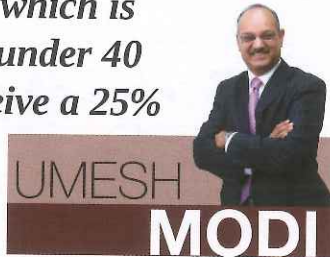


Individual savings accounts or ISAs explained

Investors who contribute up to £4,000 per year on lifetime ISA, which is available for anyone under 40 years of age, can receive a 25% bonus from government, writes Umesh Modi...



ISAs are allowed to invest in cash, stocks and shares and life assurance.

Individual Savings Accounts or 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.

The income from ISA investments is exempt from income tax. Any capital gains made on investments held in an ISA are exempt from capital gains tax.

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.

The overall annual savings limit is £20,000 for 2019/2020.

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.

Investors are able to transfer their investments from a stocks and shares ISA to a cash ISA (or vice versa).

Help to Buy ISA

The Help to Buy ISA provides a tax-free savings account for

first-time buyers wishing to save for a home.

The scheme will provide a government bonus to each person who has saved into a Help to Buy ISA at the point they use their savings to purchase their first home. For every £200 a first-time buyer saves, the government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings. Help to Buy ISAs are subject to eligibility rules and limits.

The government has confirmed that Help to Buy ISA accounts will be available until 30 November 2019, when this type of account will be withdrawn for new savers. Those individuals that already have an account can keep saving until 30 November 2029, when accounts will close to additional contributions. An individual must claim their bonus by 1 December 2030.

Lifetime ISA

A Lifetime ISA is available for adults under the age of 40. Individuals can contribute up to £4,000 per year and receive a 25% bonus on the contributions from the government. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account, and can be withdrawn from age 60 completely tax-free.

Further details of the Lifetime ISA are as follows:

- Any savings an individual put into the account before their 50th birthday will receive an added 25% bonus from the government.

- The detailed rules are based on those for the Help to Buy ISA, in that the withdrawal must be for the purchase of a property for the first-time buyer to live in as their only residence and not buy-to-let. There are differences, however. In particular, the bonuses within the Lifetime ISA can be used to fund the initial deposit on the home whereas the Help to Buy bonus can only fund the completion of the purchase.

- The savings and bonus can be used towards a deposit on a first home worth up to £450,000 across the country.

- Accounts are limited to one per person rather than one per home, so two first-time buyers can both receive a bonus when buying together.

- An individual that has a Help to Buy ISA may transfer those savings into a Lifetime ISA, or continue saving into both. However only the bonus from one account can be used to buy a house.

- Where the funds are withdrawn at any time before the account holder is aged 60 they will lose the government bonus (and any interest or growth on this) and will

also have to pay a 25% charge.

- After the account holder's 60th birthday they will be able to take all the savings tax-free.

Junior Individual Savings Account (Junior ISA)

Junior ISAs are available for UK resident children under the age of 18 who do not have a CTF account. Junior ISAs are tax advantaged and have many features in common with ISAs. They can be cash or stocks and shares-based products. The annual subscription limit for Junior ISA and Child Trust Fund accounts is £4,368 for 2019/20.

Vinku Shah FCCA, manager at Silver Levene provided research for this article.

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This article is based on current legislation and practice and is for guidance only. Specific professional advice should be taken before acting on matters mentioned here. Umesh Modi BA ACA is a Chartered Accountant and Tax Advisor, and a partner at Silver Levene LLP. He can be contacted on 020 7383 3200 or umesh.modi@silverlevene.co.uk