



# Understanding ISAs

## Individual Savings Accounts (ISAs)

An ISA is a tax-advantaged means by which investors may save and invest without incurring income or capital gains taxes on the proceeds. Under current guidelines you are able to invest up to £20,000 annually in ISAs. This can be made up entirely of stocks and shares, or a combination of cash, stocks and shares, Innovative Finance ISA, Help to Buy ISA

or a Lifetime ISA (if eligible). For example you could invest £2,000 in a cash ISA and £16,000 into a stocks and shares ISA and £2,000 in an Innovative Finance ISA. Any unused ISA allowance cannot be carried forward to subsequent tax years.

You are allowed to hold the cash element and the stocks and shares element either with the same or different providers. So you could have a cash ISA with a building society and the stocks and shares ISA with a fund manager, or with the same provider if they allow it. Innovation Finance ISA's are offered by specialist providers, however they are not suitable for all investors.

You are able to transfer the cash element of your ISA allowance into the stocks and shares component or vice versa. The advantages of using tax free ISAs for cash saving should not be given up without recognising that you will be exposing your capital to market risk by investing in a stocks and shares ISA.

A special ISA, the Help to Buy ISA is available for individuals wishing to save on a regular basis towards a deposit for a first home. After an initial deposit of up to £1,000 savings are capped at £200 per month. Your savings in the Help to Buy ISA receive a bonus of 25% from the Government (subject to a maximum bonus of £3,000 in total). The Help to Buy ISA is no longer available for new investors since November 2019 being replaced by The Lifetime ISA (LISA) although contributions to existing plans can continue until 2029 and bonuses must be claimed by 1 December 2030.

The Lifetime ISA was launched on 6 April 2017 and is designed to assist anyone between the ages of 18-39 save up to £4,000 per annum towards the cost of purchasing their first home or to build up a retirement fund which can be accessed without penalty from age 60. Savings in the Lifetime ISA will receive a bonus of 25% from the Government (subject to a maximum of £1,000 per year) on qualifying savings up to age 50.

Eligible investors holding a Help to Buy ISA and a Lifetime ISA will not be able to claim a government bonus from both for qualifying house purchases.

## ISA Income Taxation

All income you receive from your ISA is paid gross.

## On Death

ISA's will retain their tax efficiency during the period of administration where the account holder dies on or after 6 April 2018. During this time the ISA will be identified as an '**administration-period investment**' and held in a '**continuing account of the deceased investor**' until the earlier of completion of the administration of the deceased estate;

- the third anniversary of the account holder's death;
- closure of the account on the withdrawal of all assets out of the ISA

Your Beneficiaries may elect to retain or sell the underlying fund, which will form part of your estate for Inheritance Tax assessment unless you are invested in and AIM ISA which qualifies for Business Relief.

If you are married at the time of your death your spouse will inherit an additional one off ISA allowance. The allowance will be the higher of the value of your ISA account on the date of your death (provided death occurred after 3 December 2014), the value of the **continuing account** immediately before ownership is transferred, the third anniversary of the account holder's death or closure of the account and withdrawal of the assets from the ISA.

## Important Information

Our advice has been prepared based on our company's understanding of the current law and HM Revenue and Customs' practice. Whilst we believe the interpretation is correct we cannot guarantee it. Tax treatment may change in the future.

**Your ISA investment can go up and down and you may not get back the full amount invested. Income generated from investments held in ISAs is variable and not guaranteed.**

**PLEASE REFER TO OUR SEPARATE DOCUMENT 'GENERAL AND INVESTMENT RISK WARNINGS' FOR ADDITIONAL INFORMATION RELATING TO THE RISKS OF INVESTING.**

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