

## **An IFA can find a safer home for your ISA**

### **ISAs - Know your choices**

There are hundreds of Individual Savings Accounts (ISAs) available in two different forms. ISAs are tax efficient and offer the potential for growth from some of the most exciting investment opportunities in the world – or greater security if required. An Independent Financial Adviser (IFA) can guide you through all the options available.

This guide is designed to help you understand why you need to think about ISAs, the issues you should be aware of and where you can get help and advice concerning what action you should take.

The Government is keen to increase the number of people in the UK who save money to provide for the future. As we are living longer, the financial strain on the welfare state needs to be counteracted by self-provision. Savings is a sensible area for the Government to incentivise with tax breaks, as about half of the UK population has less than £200 saved each. 15% of the UK population are currently saving nothing.\*

The Government has a target to double the number of people who save money – from 6 million to 12 million. The introduction of ISAs was designed to help reach this target.

Many ISA offers will be tempting, but before you make your decision as to which one is best for you, it may be useful for you to have answers to some of the following questions.

\*Source: IFA Promotion Get Saving! research, 2006.

### **What is an ISA?**

Individual Savings Accounts are simple, flexible, tax-efficient savings plans that are widely available and easy to set up.

You can open an ISA without giving instructions in writing, which allows ISAs to be set up over the telephone or through the Internet. The ISA manager will then send you confirmation of what has been arranged, which you can change if necessary.

You can also save in an ISA that will offer tax-efficient savings through a wide range of investments. ISAs may have one or two separate components:

- Stocks and Shares – which includes equities, unit trusts, OEICs, investment trusts, life assurance, gilts and corporate bonds
- Cash – which includes National Savings & Investment products, bank and building society accounts and cash funds.

You can choose to invest in one component of the ISA or two depending on your requirements and circumstances.

### **Who can invest in an ISA?**

Anybody over the age of 18 (16 for a cash ISA) is able to save using an ISA as long as they are a UK tax resident. You can take out an ISA even if you are not currently working.

You and your partner are both able to set up an ISA as you get separate ISA allowances. You cannot take out an ISA with somebody else as each ISA must be individually taken out. However, you can subscribe to an ISA on behalf of someone else, for example as a gift.

### **How much can I invest?**

There is an overall maximum investment limit for ISAs, and separate limits for each element.

<b>ISA type</b>	<b>Allowed in the tax year</b>
Stocks and Shares ISA	Up to £7,200
Cash ISA	Up to £3,600
Combined maximum	£7,200

### **Fill me in on the details**

#### **Tell me more about the Cash ISAs**

You can invest up to £3,600 in a cash ISA for the current tax year (2008/2009).

If you have any cash sitting on deposit in the bank or building society it may be advantageous to place some of this money (having left yourself an adequate emergency cash fund) into a cash ISA. This is because money on deposit with a bank or building society is normally taxed at your highest rate of income tax. Cash ISAs can include some National Savings & Investment products, bank and building society accounts and cash funds, and all interest will be tax-free.

#### **Tell me more about Stocks and Shares ISAs**

The Stocks and Shares component of an ISA can be in funds such as unit trusts, OEICs or investment trusts. You may also choose to invest directly into equities, life assurance, gilts or corporate bonds.

A stocks and shares ISA can accept investments of up to £7,200 for the current tax year (2008/2009). They offer a very wide choice of investments to choose from. An IFA can help guide you as to whether your money should be conservatively managed or can be more aggressively invested in the stock markets of the world.

### **I've heard about CAT standard and Stakeholder ISAs – what are they?**

These are benchmarks set by the Government to provide assistance to investors when choosing an ISA. They cover Charges, Access and Terms. Stakeholder ISAs replaced CAT-standard ISAs from 6 April 2005 onwards. However, if you took out a CAT-standard ISA before that date, it will continue to meet the CAT standards. Neither the stakeholder conditions nor the CAT standards guarantee the performance. They do however provide a useful benchmark against which to compare other products.

### **Will a Stakeholder ISA always be the best for me?**

No, the standards do not mean that the product is necessarily suitable for you or will be the best performing. Many ISAs do not meet the standards intentionally so they can, for example, be fully invested in the stock market.

ISAs offer a broad range of investment choices and so the most suitable ISA for you depends on your needs and circumstances. This is where the advice of an Independent Financial Adviser (IFA) will provide invaluable.

### **Stakeholder ISA Standards**

It is important to understand that a stakeholder ISA is neither approved, nor its performance guaranteed, by the government.

#### *Cash ISA (Stakeholder deposit account)*

- There are no charges to pay on stakeholder cash ISAs.
- The minimum deposit cannot be higher than £10.
- You can pay into the account by cash, cheque, direct debit, standing order or direct credit.
- You can make unlimited withdrawals.
- Withdrawals should be paid to you within seven days or less.
- The interest rate paid must be no less than 1 per cent below the Bank of England base rate.
- If the base rate goes up, the minimum interest rate must also go up within one month.

#### *Stocks and shares ISA (Stakeholder medium-term investment product)*

- Annual charge limited to 1.5% of the fund during the first ten years and 1% thereafter.
- The minimum deposit cannot be higher than £20.
- No more than 60% of the fund is invested in riskier assets such as shares.
- You can pay into the account by cash, cheque, direct debit, standing order or direct credit.

- The prices at which units or shares in the fund are bought and sold must be the same and the price should be published daily.

### **Who will provide my ISA?**

There is a choice between many individual ISA managers. Some managers only offer cash ISAs or only Stocks and Shares ISAs. Others offer both components.

Different providers inevitably offer different rates of return, different charges and different levels of service.

Because of the large number of ISA providers and the different types – from investment houses to supermarkets, it may be in your best interest to invest with two different ISA managers each tax year and with one or two different ISA managers who specialise in specific areas for the following tax years. This is where an IFA can advise you and help you make the right choice.

### **What about the ISAs, PEPs and TESSAs I have previously invested in?**

If you have invested previously in mini cash ISAs, TESSA-only ISAs (TOISAs) or the cash component of a maxi ISA, these will automatically from the start of the new tax year on 6<sup>th</sup> April 2008 become cash ISAs. You may have invested in mini stocks and shares ISAs and the stocks and shares component of a maxi ISA which will automatically become stocks and shares ISAs. All Personal Equity Plans (PEPs) will automatically become stocks and shares ISAs.

### **What are the tax advantages of an ISA?**

Your ISA will benefit from tax-efficient growth and you will not have to pay any income tax or capital gains tax when you cash in your ISA.

You do not need to declare your ISA on your tax return.

### **Can I 'dip into' my ISA if I'm short of cash?**

There is generally no lock-in period for ISAs and withdrawals are possible at any time, without loss of the tax advantages. This may not be the case if you choose to save in an ISA that, in return for offering extra benefits such as a guarantee, may offer you less flexibility.

Remember that a Stocks and Shares ISA should be viewed as a medium to long term commitment (5 years+) and the value of investments and any income from them may fall as well as rise and investors may get back less than they originally invested. Past performance is no guarantee of future performance.

### **Speak to an IFA about your ISA or reviewing your existing PEP investments**

An IFA can advise you upon the best options available to you. He or she will ask you about how much you can afford to invest, what your aims are, when you need the money, the level of risk you are prepared to take and explain anything else you want to know about. They will ask you a lot of questions when you first meet them and you may want to ask questions in return, such as:

- Should I invest in a Mini or Maxi, Cash or Stocks and Shares ISA?
- What charges will I pay?
- Should I change where my investments are?
- Am I as tax efficient as I can be?
- Do my investments match my needs?
- Which investment companies should I invest with?
- Am I receiving as high interest on bank and building society accounts as I could be?
- What information will I receive?

For further information on the subject contained in this guide, please contact Inshore IFA.

We can help for advice or further information please call **01425 282181** or email us at [info@inshoreifa.com](mailto:info@inshoreifa.com).

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