QUICK GUIDE TO ISAs 2024/25

APRIL 2024

clarity

KEY POINTS

- Individual Savings Accounts (ISAs) provide a tax-efficient home for your savings and investments.
- The adult ISA allowance for 2024/25 is £20,000. If you don't use it by 5 April 2025, you lose it.
- Investment returns received within an ISA are free from both income tax and capital gains tax (CGT) and you can access your money at any time.*
- You are eligible to invest in an ISA if you are a UK resident, aged over 18. Junior ISAs are also available for children under the age of 18.
- Your £20,000 allowance can be used for both cash savings and investments in stocks and shares (including funds such as unit trusts or OEICs). Subscriptions to multiple ISAs of the same type within the same tax year are now permitted (except for the Lifetime ISA), as are partial transfers of current year subscriptions.
- You can transfer cash ISAs into stocks & shares ISAs, and vice versa, without losing the tax-efficient ISA status.

*Please note that some providers may charge penalties for withdrawals within an initial period.

THE DIFFERENT TYPES OF ISAs

	Stocks & Shares	Cash	Junior	Help-to-Buy	Lifetime (LISA)
Age Criteria	>18	>18	<18	Closed, existing holders can pay until Nov '29	18-40 contributions to 50
Other Criteria	-		Cannot hold if already have a Child Trust Fund (CTF) CTFs can be tranferred into Junior ISAs	A contribution cannot be made to a cash ISA in the same year Can use only for first-time house purchase <£250k or <£450k London	Can access penalty-free for first-time house purchase <£450k, or after age 60 Otherwise access suffers 6.25% withdrawal penalty
Maximum Contributions (2024/25)	£20,000 (minus any payments made to other ISAs)		£9,000	£1,000 initial/£200pm	£4,000
Government Bonus	No	No	No	Yes 25%	Yes 25%

Innovative finance ISAs are also available, offering an ISA wrapper for peer-to-peer lending. This is a specialist area and further details are not included here.

TAX BENEFITS OF ISAs

- There is no income tax applied to any interest or dividend income generated within an ISA
- No CGT is due on any investment gains
- Upon death, if you are married, your spouse or civil partner can inherit your ISAs and maintain their tax-favoured status (the survivor's ISA allowance is effectively increased by the amount that the deceased held in ISAs)
- Shares that are listed on the Alternative Investment Market (AIM) and qualify for inheritance tax (IHT) business property relief, maintain the IHT benefits when held in an ISA
- Your £20,000 allowance can be used for both cash savings and investments in stocks and shares (including funds such as unit trusts or OEICs). However, only one new cash ISA and one new stocks & shares ISA can be opened in a single tax year.
- You can transfer cash ISAs into stocks & shares ISAs, and vice versa, without losing the tax-efficient ISA status.

FLEXIBLE ISAs

In April 2016, new 'flexible ISA' rules came into force. This change allows you to withdraw money from an ISA and replace it within the same tax year, without impacting your overall ISA allowance.

The flexible ISA rules can apply to cash ISAs, innovative finance ISAs and the cash component of stocks & shares ISAs. However, **please be aware that ISA providers do not have to offer this flexibility and many do not**. Where it is not offered, providers will allow only the maximum annual allowance, regardless of any withdrawals.

 |

INVESTMENT OPTIONS

Where to invest your ISA should be considered as part of your overall savings and investment strategy. Crucially, as with all other investments, your ISA monies should be managed in line with your personal objectives, timeframes and attitude to risk.

Remember, even those who are not comfortable investing in the stockmarket can benefit from using cash ISAs for their deposit account savings.

CASH (ISAs, JUNIOR ISAs, HELP-TO-BUY ISAs, LISAs)

As with ordinary deposit accounts, rates will vary according to the length of notice required for access to your money and, for example, the type of access to the account (internet, telephone, post etc).

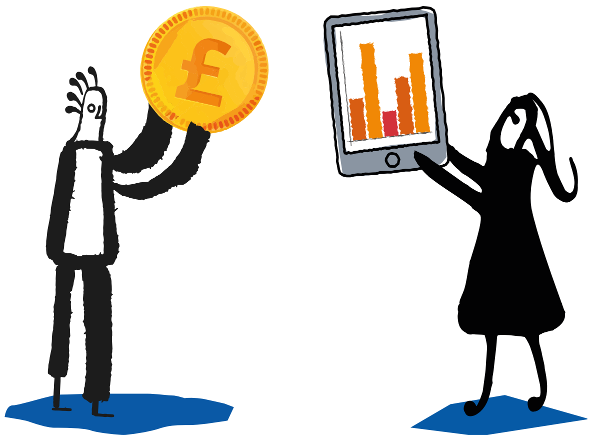
STOCKS & SHARES (ISAs, JUNIOR ISAs, LISAs)

ISAs can hold collective investment funds, such as OEICs and unit trusts, as well as individual equities, gilts and bonds that are traded on a recognised stock exchange in the UK or overseas, including AIM. This range of options gives you the flexibility to target growth-orientated assets (such as equities) in earlier life, switching to lower-risk, income-producing investments (such as bonds and gilts) in retirement.

INSURANCE/LIFE COMPANY FUNDS (STOCKS & SHARES ISAs, JUNIOR ISAs, LISAs)

ISAs can also hold insurance company funds, both 'with profits' and unit linked funds that invest in portfolios

of cash, bonds, gilts, property and equities. However, insurance company funds are subject to internal tax on income and capital gains, even within an ISA. This means that insurance ISAs are not commonly used.



JUNIOR ISAs

Any UK resident who is under 18 and does not hold a child trust fund (CTF) is eligible to save in a junior ISA. However, CTFs can be transferred into junior ISAs and then ongoing ISA contributions can be made (up to the prevailing allowance). **For 2024/25, the junior ISA allowance is £9,000**.

Children can only hold one junior stocks & shares ISA and one junior cash ISA at any one time, although transfers between providers are permitted. Once a child has reached age 16, they can open a junior ISA themselves. Prior to that, an adult with parental responsibility will need to open and manage the junior ISA on the child's behalf.

Unlike adult ISAs, where only the ISA holder can contribute, **anyone can make payments into a junior ISA**. This means **parents, grandparents, friends and other relatives** can all save for the child in a single arrangement. Crucially, **junior ISAs are not subject to the anti-avoidance rules described on this page**.

When the owner of a junior ISA turns 18, their account automatically becomes either a cash ISA or stocks & shares ISA, as appropriate. No withdrawals can be made before this, except in the event of terminal illness or death.

ISAs FOR CHILDREN: ANTI-AVOIDANCE RULES

Junior ISAs are **exempt** from the anti-avoidance rules. These rules usually apply where funds have been gifted from parent to child, and the total income arising from these gifts exceeds £100 in any tax year. In this situation all the income arising will be treated as part of the parental income for that tax year for income tax purposes, and should be reported on their tax return.

HELP-TO-BUY ISAs

Help-to-buy ISAs were launched in December 2015 **for first-time buyers saving for a house deposit**. **They have now largely been replaced by the lifetime ISA**, and no new contracts can be taken out. Contributions can continue into existing help-to-buy ISAs until 2029.

The maximum that can be saved in a help-to-buy ISA is an initial lump sum of up to £1,000, plus up to £200 per month thereafter.
The **government provides a bonus of £50 for every £200 saved**. Over the lifetime of a help-to-buy ISA, the maximum saving eligible for the bonus is £12,000 with a maximum bonus of £3,000.

Help-to-buy ISAs can be used towards properties valued up to £250,000 (or £450,000 in London).

Please note that help-to-buy ISAs operate under the same rules as cash ISAs. Therefore, if you have already made contributions to a cash ISA within a tax year, you cannot also contribute to a help-to-buy ISA in that same tax year. You can, however, contribute to both a stocks & shares ISA and a help-to-buy ISA in the same tax year. The overall ISA contribution allowance applies as normal.

LIFETIME ISAs (LISAs)

LISAs were introduced in April 2017 and combine the main aspects of ISAs with some additional features:

- LISAs can only be opened by UK residents aged under 40
- Once opened, you can continue contributing to a LISA up until the day before your 50th birthday
- There is a contribution limit of £4,000 per year, which attracts a 25% government bonus
- In order to keep the government bonus, LISAs must be used either for first-time home purchase (maximum value £450,000), or after you reach age 60
- The bonus is added monthly, subject to a minimum 12-month holding period
- Early withdrawals for other reasons are allowed but subject to a 25% penalty based on the amount withdrawn – meaning you lose the government bonus plus 6.25% of your original investment
- The overall £20,000 ISA allowance includes any contributions made to a LISA
- LISAs can invest in cash or stocks & shares, and you can contribute to one LISA, one cash ISA and one stocks & shares ISA in a single tax year
- Upon death, a spouse or civil partner can inherit LISAs and maintain their tax-favoured status (as for other ISAs)
- Help-to-buy ISAs can be run alongside LISAs – but only the bonus from one can be used for first- time house purchase

FIND OUT MORE

All UK residents who are over 18 can pay up to £20,000 a year into an ISA and benefit from their tax-favoured status. clarity can help you find the most appropriate ISA for your needs and ensure it is managed in line with your personal objectives and attitude to investment risk. For more information or to speak with an adviser about your personal circumstances, please get in touch:

Tel:	**+44 800 368 7511**
Email:	**enquiries@clarityglobal.com**
Address:	**1 Crown Square, Woking, Surrey GU21 6HR**
Web:	**clarityglobal.com**

Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. This guide is provided for information only and should not be relied upon as advice. You should not act on any of the information without seeking professional advice.

FINANCIAL PLANNERS CII CHARTERED

CITYWIRE NEW MODEL ADVISER AWARDS 2022 THE SOUTH EAST WINNER

@clarityglobal

@clarity_7

@clarity_global