

INDIVIDUAL SAVINGS ACCOUNTS

Individual Savings Accounts offer a “wrapper” around other investment products to provide a shelter from Income and Capital Gains Tax. However, tax deducted overseas in respect of international investments may not be reclaimable and the tax credits attaching to dividends from UK companies were lost from April 2004.

Individuals aged over 18 can invest up to £10,200 per tax year into an Individual Savings Account (from 6th April 2010). Investors aged over 50 can put this amount into an ISA from the 6th October 2009. Other investors can put £7,200 into an ISA during the tax year 2009/2010.

Up to 50% of this amount can be invested into a cash ISA with the balance available to be invested in stocks and shares.

Cash ISAs are offered by many deposit takers and are just a way of holding cash deposits whilst avoiding Income Tax on the interest. It is possible to take out a cash ISA with one provider and a stocks and shares ISA with another in the same tax year, as long as the appropriate maxima are not breached. The stocks and shares ISA enables investors to take a stake in shares quoted on any recognised stock exchange. Fixed interest securities are a popular vehicle to include in a stocks and shares ISA as they tend to have a higher income yield with no tax deducted on the interest paid.

Most ISAs in the stocks and shares category are offered by Unit Trust providers as a wrapper to their traditional products. Whilst it may be possible in some limited circumstances to hold products with some guarantees within an ISA, often with a fixed term of 3-5 years, most stocks and shares ISAs are variable in value and can fall as well as rise.

It is possible to arrange self select ISAs with some institutions that will enable you to build a portfolio using other manager's products.

Since 2008, all old style Personal Equity Plans have been consolidated into Individual Savings Accounts for slightly improved investment flexibility.

These notes are based on our understanding of current legislation and HMRC practice which is subject to change.

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