hub guides



GUIDE TO **ISAS**

THIS IS OUR GUIDE TO INDIVIDUAL SAVINGS ACCOUNTS AND HOW TO MAKE THE MOST OF YOUR ANNUAL ISA ALLOWANCE. IF YOU WOULD LIKE TO DISCUSS ANY OF THE INFORMATION PROVIDED IN MORE DETAIL, PLEASE DO GET IN TOUCH.

WHAT IS AN ISA?

'ISA' stands for Individual Savings Account, a tax-efficient wrapper offered under Government legislation as a way of encouraging you to save. An ISA sits over your choice of a number of different investments to shelter them from further tax on any income or capital gains earned.

There are two types of ISA available – the Cash ISA and the Stocks and Shares ISA – and the maximum allowance for the current tax year is £20,000 per person. Investors can allocate their entire £20,000 allowance across cash, stocks and shares, or any combination of the two. Moreover, investors can transfer their ISAs between providers as often as they like (subject to their providers' rules).

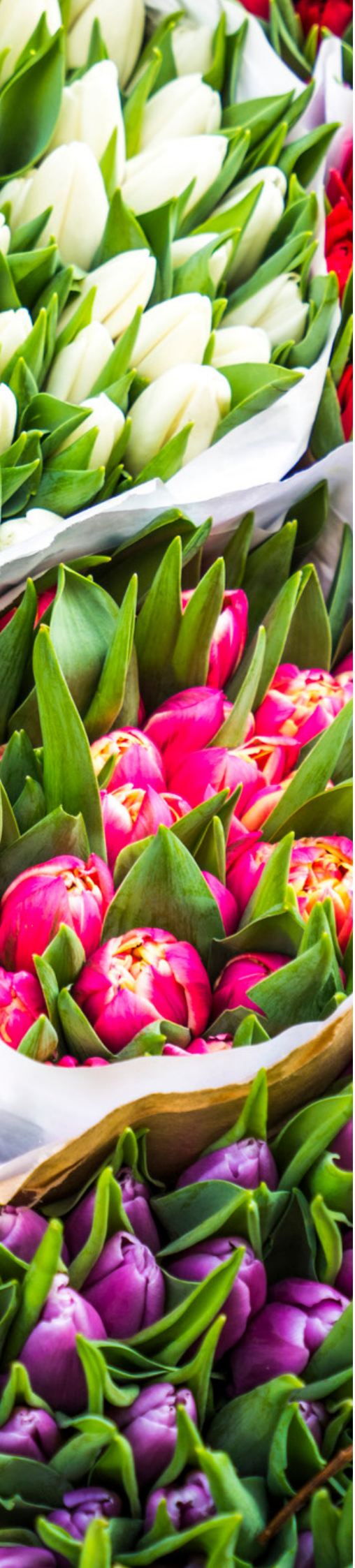
From 6 April 2027, the total ISA allowance will remain at £20,000, but the annual Cash ISA allowance will fall to £12,000. Moreover, you won't be able to transfer savings from a stocks and shares ISA into a Cash ISA. However, these restrictions will not apply to savers aged 65 or over.

WHAT SHOULD I LOOK FOR IN A CASH ISA?

Cash ISAs are simply cash accounts that sit within an ISA wrapper and therefore offer certain tax advantages. As with a normal bank account, the underlying account will pay a certain level of interest. Therefore, when shopping around for the best Cash ISAs, investors should check to ensure the rates on offer are competitive.

However, a high interest rate isn't the only reason for selecting a Cash ISA. The highest rate today might not prove to be the best rate over the longer term. There may be Cash ISA providers offering rates that are slightly lower but consistently competitive over the long term. These might suit investors who do not want to keep shifting between providers. Furthermore, some providers tie up money for a period of time so that, although these accounts may pay higher rates, savers will pay for those rates by waiting up to 90 days to be able to make a withdrawal.

In essence, even these seemingly simple products need some research. Make sure you make the right choice before you commit yourself and your money.



LOOKING BEYOND CASH

IF YOU ARE LOOKING BEYOND A CASH ISA, YOU HAVE A RANGE OF INVESTMENTS FROM WHICH TO CHOOSE, AND A NUMBER OF OTHER CONSIDERATIONS TO BEAR IN MIND.

SELF-SELECT ISAS

Self-select ISAs allow you to choose your own investments. They generally offer a choice of individual shares, individual bonds or collective investment schemes such as open-ended investment companies (OEICs), unit trusts, investment trusts or exchange-traded funds (ETFs). Your choice will ultimately depend on your reasons for investing and your tolerance for risk.

From 6 April 2026, ISA investors will be able to gain access to private assets and infrastructure projects through Long-Term Asset Funds (LTAFs), which can be held in stocks and shares ISAs. However, LTAFs can be complex and risky, so take expert advice.

If you seek capital growth, and are comfortable with the possibility of losing some or all of your capital, investing in single shares is a high-risk approach that can pay off. However, collective investments are often a more appropriate choice, particularly if your ISA investment constitutes a significant proportion of your overall savings.

COLLECTIVE INVESTMENTS

By investing in a collective investment, you're accessing not one or two but many different companies or holdings. Known as 'diversification', this approach is designed so that poor performance from one holding shouldn't have a significant effect on the overall performance of your entire portfolio.

Collective schemes offer access to a whole range of different investments. Some will offer a 'one-stop-shop' investment into a number of different asset classes, such as equities, bonds and property. Others will focus on just one area, which could be anything from large UK companies to high yield bonds. To make the choice easier for you, most unit trust and OEIC funds are sorted into sectors by the Investment Association (www.theia.org) so you can compare funds with similar goals. The Association of Investment Companies (www.theaic.co.uk) does the same with investment trusts.

When making your choice, you should also be aware of the associated charges. There may be a charge for the ISA wrapper (though this is increasingly rare), but there will be up-front and ongoing charges for the underlying investments. These fees will vary according to the complexity of the product and the company that manages it.

SOME TAX CONSIDERATIONS

Your tax position could affect your investment choice but such a consideration is likely to require specific professional guidance. If you're interested in discussing your tax position further, please contact us. In the meantime, here is a summary of some of the broader issues to bear in mind.

While ISAs are well known for being 'tax-efficient', your choice of investments can make a big difference to the level of benefit that is generated. All the income and growth you receive from your ISA is tax-free in your hand, but the treatment of each asset class is different while it remains invested – and this can be confusing.

Cash ISAs, for instance, are entirely free of income tax. Therefore, if you earn £1 in interest, you receive the whole lot. In comparison, basic-rate savers can receive up to £1,000 in savings income tax-free through their Personal Savings Allowance, while higher-rate taxpayers can receive up to £500. Any excess will be charged at the marginal rate of tax. Additional-rate taxpayers will not receive a Personal Savings Allowance and will have to pay tax on their savings interest

"WHILE ISAS ARE WELL KNOWN FOR BEING 'TAX-EFFICIENT', YOUR CHOICE OF INVESTMENTS CAN MAKE A BIG DIFFERENCE TO THE LEVEL OF BENEFIT THAT IS GENERATED."



at their marginal rate. Therefore, a Cash ISA might prove attractive to higher- or additional-rate taxpayers.

Unlike Cash ISAs, the capital value of corporate bonds can fluctuate, and there is the possibility of a tax-free capital gain as well as tax-free income. Of course, this also means there's the chance of a capital loss if markets move against the investment – and there's also a risk to your income if a company defaults. As a result, corporate bonds generally pay a higher level of income than cash deposits as a way of compensating investors for taking on this additional risk.

The tax benefits on shares are a little different. Until a few years ago, basic-rate taxpayers faced a notional 10% tax on dividend income. However, from 6 April 2016, the 10% tax credit on dividends was abolished in favour of a tax-free Dividend Allowance which currently stands at £500. This allowance, however, doesn't include dividends earned via an ISA, which remain fully tax-free. ISA investors also pay no tax on any capital gains.

Based on their historical performance, equities offer greater long-term growth potential than any other asset class; nevertheless, equities should always be considered a long-term investment as there is a possibility you may not recoup your original investment, particularly in the first few years. Before making any investment decision, you should weigh up all the pros and cons and, if you're in doubt about any aspect, do seek professional advice.

"BASED ON THEIR HISTORICAL PERFORMANCE, EQUITIES OFFER GREATER LONG-TERM GROWTH POTENTIAL THAN ANY OTHER ASSET CLASS"



USE IT OR LOSE IT

One thing isn't up for debate – you only receive one ISA allowance every tax year.

You can't carry your allowance over to the next tax year and therefore, if you don't use it, you'll lose it. Although your annual allowance can be used at any time during the tax year, the deadline of 5 April helps to concentrate the mind and there's generally an increase in ISA investments at that time of year.

However, you don't have to wait. You can use your allowance at any time – and many would suggest the earlier the better, particularly with Cash ISAs, as the earlier you open a Cash ISA, the more interest you will earn.

For Stocks and Shares ISAs, some people still attempt to 'time' an investment in and out of the market, although few have proved themselves adept at this type of market prediction. An alternative approach is to 'drip-feed' your allowance on a monthly basis, so you invest at different prices as markets fluctuate. This approach can help to smooth the return on your investment.

Regardless of how or where you decide to invest your money, you must do so before 5 April. At the end of the tax year, your ISA allowance is gone. So make sure you do not miss out: start your research and/or speak to your financial adviser now.

YOUR QUESTIONS ANSWERED

Who can open an ISA?
You must be a UK resident for tax purposes and over the age of 18 to open a Cash ISA or a Stocks and Shares ISA. If you open an ISA and then move abroad, you cannot add any new money to that ISA; however, you're able to keep the existing investment open and continue to enjoy the tax benefits on that investment. Although you aren't allowed to hold an ISA with or on behalf of someone else, you can open a Junior ISA for a child under the age of 18.

Can I change my mind if my investment provider underperforms?
Yes – you're able to transfer an ISA investment to a different manager at any time. This is particularly easy if you have a self-select ISA, where you can change investment managers without switching ISA providers. Nevertheless, you should always bear in mind that this should be a long-term decision. Moving can add costs and it is therefore best not to be overly swayed by short-term fluctuations in markets.

How would I transfer an ISA to another provider?
In order to transfer the money and retain the tax benefits, you must complete a 'transfer request' with your new provider, who will then contact the existing provider on your behalf and arrange to take charge of the proceeds for you.

You mustn't close one ISA and then reinvest the proceeds in another, as this is deemed to be a withdrawal. Once you withdraw, you lose all tax benefits on the money and can't reinvest unless the amount falls below your current tax year's unused allowance.

How do I monitor performance?
Some ISA providers allow you to view the value of your holdings online, but all should at least send you regular statements to let you know how much your investment is worth. You can compare these to previous statements to see how your investment is progressing.

In between statements, if you're invested in a collective investment or direct shares, their prices are available online or in certain newspapers. If you're invested in a cash deposit account, you should monitor mail from the bank telling you of changes to interest rates, and compare this with tables in Sunday newspapers and on internet finance sites to ensure you are receiving the most suitable deal.

When can I withdraw my money?
Some cash accounts may have notice periods but you can give instructions to withdraw at any time. The provider will then divest your money and return the proceeds to you. You don't need to withdraw all your money – you can just take a proportion of your investment and leave the rest invested. Do be aware, however, that some providers have minimum investment levels you have to meet.

What happens if I open two ISA accounts in the same tax year by mistake?
If this happens, the assets in the second ISA will become fully taxable. You aren't able to nominate the second ISA as the preferred account for the tax year in question, so make sure you're happy with the provider you've chosen before you make your move.

Do note that, if you pay into an ISA via regular savings, the first payment on or after 6 April automatically opens an account for the new tax year. If you wish to stop payments into an existing account and move to a new one, make sure you provide instructions to the provider and your bank well in advance or you'll either be stuck with it for another year or have to go through the transfer process to put things right.

contact

We hope you found the information in this guide useful and informative. If any of the points are of interest, or you would like to discuss your own situation in more detail, please do get in touch.

This guide is intended to provide information only and reflects our understanding of legislation at the time of writing. Before you make any decision, we suggest you take professional financial advice.
Reviewed March 2026

adviser-hub