

What is an ISA?

Any individual who is an income tax payer and has some money to save or invest should know about Individual Savings Accounts (ISAs). Available since April 1999, ISAs offer an attractive, tax-free shelter to anyone aged 18 or over (16 or over for cash ISAs).

With standard bank and building society savings accounts taxpayers normally have to pay tax on any interest earned on their money. The tax is deducted from the interest before it is paid out, reducing the amount received. Similarly, tax must be paid on the income and profits made from investments in the stock market, like company shares or unit trusts.

However, ISAs serve as a kind of "wrapper" to protect savings from tax, allowing individuals to invest monies up to maximum limits (by way of regular or single amounts) each tax year in a range of savings and investments and pay no personal tax at all on the income and/or profits received.

From July 1 2014 all ISAs became New ISAs (NISAs). This applies to all existing ISAs and new accounts opened after 1 July 2014.

The main ISA benefits are:

- No personal tax (income or capital gains) on any investments in an ISA.
- Income and gains from ISAs do not need to be included in tax returns.
- Money can be withdrawn from an ISA at any time without losing the tax breaks.

ISA Maximum Contribution Limits

The current ISA maximum contribution limits are:

With effect from 1st July 2014, the limit increased to £15,000 for both cash and stocks and shares ISAs. The full allowance can be split between the two types within the maximum limit.

The basics of how ISAs work

There are two types of ISA:

- Stocks and shares, in the form of either individual shares or bonds, or pooled investments such as open-ended investment funds, investment trusts or life assurance investments.
- Cash, usually containing a bank or building society savings account.

All of your allowance can be invested in stocks and shares, or you can split it by investing in cash (the maximum permitted) and the remainder in stocks and shares with either the same or a different provider.

You will also be able to transfer money saved in previous years' cash ISA holdings to stocks and shares ISAs without affecting your current year's allowance. It should be noted that it is currently not possible to transfer in the opposite direction i.e. stocks and shares ISA to a cash ISA.

With effect from 1st July 2014, it will be allowable to transfer stocks and shares and cash ISAs in both directions.

Taxation

Any investment returns received will be largely tax free, although the tax credit on dividend income received by the fund is not recoverable. However, cash and fixed interest funds are deemed to receive interest rather than dividends and a 20% tax credit is recoverable. There is no personal tax on any income taken and no capital gains tax on any gains made.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Qualifying Investors

To be eligible to invest in an ISA, an investor must be an individual (i.e. not a company or trustee) who is 18 years of age or over (except that 16 and 17 year olds are able to invest up to £3,840 in a cash ISA) and who is resident and ordinarily resident in the UK (or is a Crown servant serving overseas or the spouse of such an individual who accompanies their spouse abroad). This limit will increase to £4,000 with effect from 1st July 2014.

When an individual ceases to be eligible to invest in an ISA, any existing ISAs will continue to be exempt from UK tax, but future contributions to regular investment ISAs must be terminated and no further single contributions may be made.

Each individual may effect a stocks and shares and/or cash ISA each tax year (subject to prescribed limits). A husband and wife are treated as separate individuals so that although joint ownership of an ISA is prohibited each may fully subscribe to ISAs in their own name.

Stakeholder Standard ISAs

Stakeholder Standard ISAs are those which meet Government guidelines regarding cost, access and terms. Both types of ISA component can qualify for a Stakeholder Standard. The cost limit varies with each investment type and the access and terms criteria specify that investors must be able to get their money back at any time without penalty and with no other restrictions. The ISA must also offer low minimum investment limits and can only invest a maximum of 60% in equities and property, with the remaining 40% in less volatile assets such as bonds and cash.

Because of these limits, Stakeholder Standard Stocks and Shares ISAs are designed to meet the needs of a wide range of investors. For this reason, they may be less appealing to experienced investors who want to maximise their long-term growth potential and are therefore more likely to seek specialist funds.

The presence or absence of a Stakeholder Standard cannot predict whether an ISA will prove to be a good or bad investment. A Stakeholder Standard ISA has not received Government approval of any kind, nor is your money or investment return guaranteed by the Government in any way.

The recommended contract is not a Stakeholder standard ISA.

New rules on NISA investments from 1 July 2014

What changed on 1 July 2014?

It is allowable to acquire the following investments to hold in your Stocks and Shares NISA:

- Certain Core Capital Deferred Shares issued by a building society;
- Certain securities, such as retail bonds, which have less than 5 years to run to maturity at the time they are first held in your account; and
- Certain investments that do not currently satisfy the current 'cash-like test' for Stocks and Shares ISA - such as some company shares, units or shares in a collective scheme, and some types of insurance policy.

In addition, cash held in Stocks and Shares NISAs need not be held for the purpose of investing in qualifying investments. Any interest arising on this cash will not be subject to a flat rate charge of 20 per cent.

Risks

The Key Features Document also provides you with details of any risks and potential disadvantages associated with the contract recommended. We have previously discussed these, and I would like to highlight the following points:

- Past performance is no guarantee of future returns.
- The price of units and the income from them can fall as well as rise.
- The value of this investment is not guaranteed and on encashment you may not get back the full amount invested.

Note that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended is still designed to meet your stated tolerance. I explained this during our meeting and you were comfortable with this approach.

The advice provided to you is based upon the information you have disclosed and therefore, if this letter does not accord with your view of the situation, or you require any further clarification, please contact me immediately.

Key Features Document/ Fund Fact Sheets

I have provided you with a Key Features Document/Fund Fact Sheet. These documents are important and contain information regarding the product and funds I have recommended, particularly with regards to the product's aims, charges, the commitment which it entails, together with its legal (including policyholder protection) and tax status. If there are any points on which you are unsure or require further clarification, please contact me and I will be pleased to explain these in greater detail.

Financial Services Compensation Scheme (FSCS)

The FSCS was set up under the Financial Services and Markets Act 2000 and exists to protect clients of FSA authorised firms and covers deposits, insurance and investments. The Scheme can pay compensation to clients who have lost money as a result of their dealings with FSA authorised firms that are unable to pay claims against them, usually because they are insolvent or have stopped trading.

As outlined earlier, the limit of protection varies between different types of products and is detailed in the key facts initial disclosure document.

Cancellation rights

Details of the appropriate cancellation period for the contract recommended are contained within the key features document.