A guide to Stocks and Shares ISAs

MORTGAGES | INVESTMENTS | PROTECTION | PENSIONS

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Introduction

How do I make my money grow in a tax efficient way? Individual Savings Accounts (ISAs) present a tax efficient investment vehicle to maximise your money's growth. In contrast to pension plans, you have total flexibility to withdraw your money as and when you wish.

An ISA works as a 'wrapper' for your savings and investments, sheltering them from capital gains tax, tax on interest, and income tax. However, there is a limit on how much you can put into ISAs every year – £20,000 for the 2022/23 tax year – and you cannot 'roll over' any unused allowance from one year to the next.

What types of ISA are there?

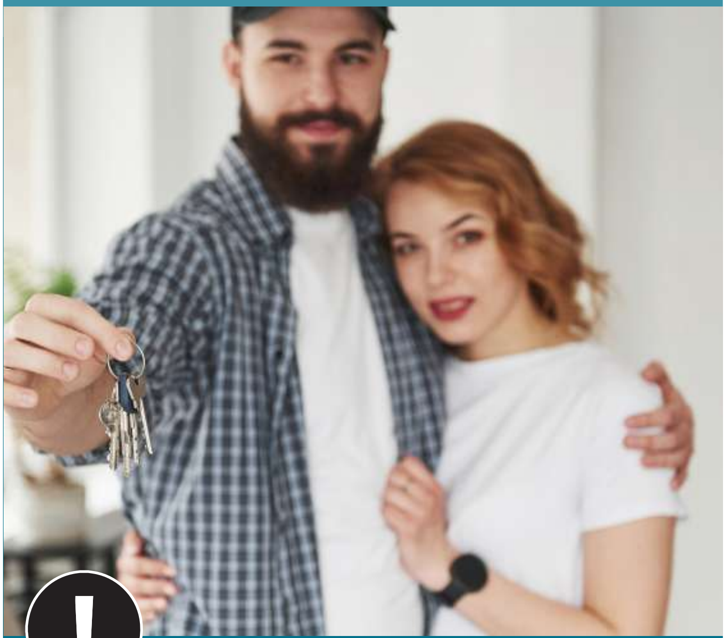
This guide focuses specifically on Stocks and Shares ISAs, but it is worth considering the other ISA types available:

Stocks and Shares ISAs can hold a wide range of investments, including stocks and shares, bonds, and funds. Stocks and Shares ISAs generally perform better than Cash ISAs, however, they carry more risk. Some Stocks and shares ISAs have a manager choosing investments on your behalf; others let you pick your investments yourself. Our advisers will help you choose the right option for you.

Cash ISAs let you save cash, just like a savings account, however, the Cash ISA 'wrapper' will protect interest gains from being taxed. Largely sold by banks and building societies, Cash ISAs are a straightforward, low-risk strategy for saving. Whilst there is no investment risk, Cash ISAs are not entirely risk free: if interest rates stay below inflation, your money will lose value in real terms.

Junior ISAs are savings vehicles for children, replacing Child Trust Funds. You can choose for the ISA to either be Cash, or Stocks and Shares. The subscription limit is £9,000 for the 2023/24 tax year, and anyone can pay into them (such as grandparents or family friends). Money paid into a Junior ISA is locked away until the child turns 18, at which point, it turns into an ISA, and the holder is free to do as they like with the money. Any savings they do not immediately withdraw will stay within the ISA wrapper, and the same tax advantages will apply.

Lifetime ISAs let people aged 18-39 save for their first home, or for later life. With a 'LISA', you can contribute up to £4,000 per year and benefit from a 25% government bonus (up to £1,000 per year). If you take money out before you turn 60, or for any reason other than buying your first home, or terminal ill health, you'll be hit with a government withdrawal charge of 25% on the amount you withdraw.



Help to Buy ISAs were designed to help first time buyers purchase their first property. You can save up to £12,000 and receive a 25% bonus when you use it to buy your first home. Keep in mind the maximum initial deposit you can make is £1,000, and after that, the most you can contribute each month is £200. Also, the home you're buying must cost £250,000 or less (outside London), or £450,000 or less (in London). Help to Buy ISAs are no longer available to open. If you have an existing Help to Buy ISA, you can continue contributing at £200 per month until 30th November 2029. You will then have until 1st December to claim the 25% state bonus.

Who can invest in a Stocks and Shares ISA?

To open a Stocks and Shares ISA, you need to be at least 18 years old. You also must be resident in the UK – that is, England, Scotland, Wales, and Northern Ireland, and not the Channel Islands or Isle of Man.

If you don't live in the UK, you can still open a Stocks and Shares ISA provided you're a Crown employee (for example, a diplomat or member of the armed forces), or their spouse or civil partner.

You can only contribute into one of each main type of ISA (Cash ISA, Stocks and Shares ISA, and Lifetime ISA) each tax year. For example: if you've already paid into a Stocks and Shares ISA with one provider in a tax year, you won't be able to pay into a Stocks and Shares ISA with another until the next tax year (unless you transfer one ISA into the other).

It's important to remember the £20,000 annual ISA subscription allowance applies to all your ISAs. If you've already subscribed £10,000 into your Cash ISA in a tax year, only £10,000 can be subscribed into your Stocks and Shares ISA that same tax year. How you split your money between your different types of ISA is up to you (and remember that subscriptions to Lifetimes ISAs and Help to Buy ISAs are restricted).

Your adviser will ensure that your ISA allowance is monitored throughout the tax year. This will maximise tax efficiency for your savings/investment.

The tax advantages of a Stocks and Shares ISA

As mentioned previously, ISAs operate as a 'wrapper' and protect your money from taxation, helping you keep more of your money for you! You pay no additional income tax on any dividends you receive from equities, nor on any interest you receive from corporate bonds. Secondly no matter how large your investments grow, you pay no capital gains tax when you sell your investments – which can make a sizeable difference to your returns as your ISA grows in value.

A potential downside of an ISA, however, is that you can't reduce your capital gains tax liability by offsetting any losses your ISA investments suffer against any investment profits gained outside your ISA. And though there's no tax to pay when you take money out of your ISA, you may not be able to reinvest that amount again in an ISA that tax year – depending on the amount you've already contributed. You should also consider the possibility that the tax benefits of an ISA may change in the future.

Contributing to a Stocks and Shares ISA

Paying into a Stocks and Shares ISA is simple – you just need to make sure you don't invest more than the annual allowance, currently £20,000. Every autumn, the government announces whether the allowance will change the following tax year.

Generally, you can only pay cash into a Stocks and Shares ISA in lump sums, or regular payments.

Bed and ISA

If you don't have cash to invest but like to 'wrap' your investments tax efficiently, you can carry out a Bed and ISA exercise. A Bed and ISA lets you sell investments outside an ISA and buy them back inside an ISA at the open market price. Because it counts as one deal, not two, you only pay only one dealing charge – and minimise your exposure to market movement. However, depending on your tax circumstances, a Bed and ISA can make you liable to pay capital gains tax, and you'll incur stamp duty costs too.

A Bed and ISA exercise is included in the Taylor James ongoing advice service. This ensures that you are always investing tax efficiently, maximising your investment opportunities.

What you can invest in with a Stocks and Shares ISA?

A Stocks and Shares ISA gives you the freedom to choose from a wide variety of investment options. Which options you choose should depend on your attitude to risk, and the level of investment return you're looking for. As part of both the initial and ongoing advice service, your Taylor James Financial Services adviser will ensure that your attitude to risk is assessed, and any investments are recommended in line with your risk attitude.

Your Taylor James Financial Services adviser will explain the different investment options available and recommend you the best fund from those available in the whole market, filtered by funds with the highest industry ratings and low charges, ensuring you are invested in the most suitable fund for your situation.

Withdrawals

You can withdraw money from your Stocks and Shares ISA at any time, subject to the ISA terms and conditions. You'll pay no tax on any money you withdraw, in keeping with the tax efficient nature of the ISA wrapper. Remember, withdrawing money doesn't free up any ISA allowance you've already used. So, if you pay your full £20,000 allowance into your ISA, you won't be able to make any more contributions that tax year, regardless of whether you take money out. And for example, if you pay £15,000 into your ISA during the tax year and withdraw £10,000, you can only pay £5,000 back in.

Your Taylor James Financial Services adviser will ensure that you understand the specifics of any withdrawal before it is completed.

Transferring your Stocks and Shares ISA

Stocks and Shares ISAs can be transferred between different providers. You can choose to transfer either in full or in part, although some providers only allow full transfers. If you've contributed into an ISA in the current tax year, you'll need to transfer all those new contributions, and assets. A transferred Stocks and Shares ISA keeps all the same tax advantages – and assets you transfer in from another ISA don't count as new contributions.

Your Taylor James Financial Services can arrange an ISA transfer for you, after fully assessing your current financial situation.

What happens if you break the ISA contribution rules by mistake?

It's against the ISA contribution rules to subscribe to more than one Stocks and Shares ISA in the same tax year. But what happens if you do it by mistake? All ISA managers send annual returns to HMRC, who check for any contribution infringements, depending on the seriousness of the infringement, they may ask the ISA manager to adjust or close the ISA. In the worst case, you'll lose the tax-protected status of the ISA and will need to pay any tax due.

Your Taylor James adviser will ensure that all rules are followed and that you fully understand any implications, or potential implications, of investing or saving.

What happens to my Stocks and Shares ISA when I die?

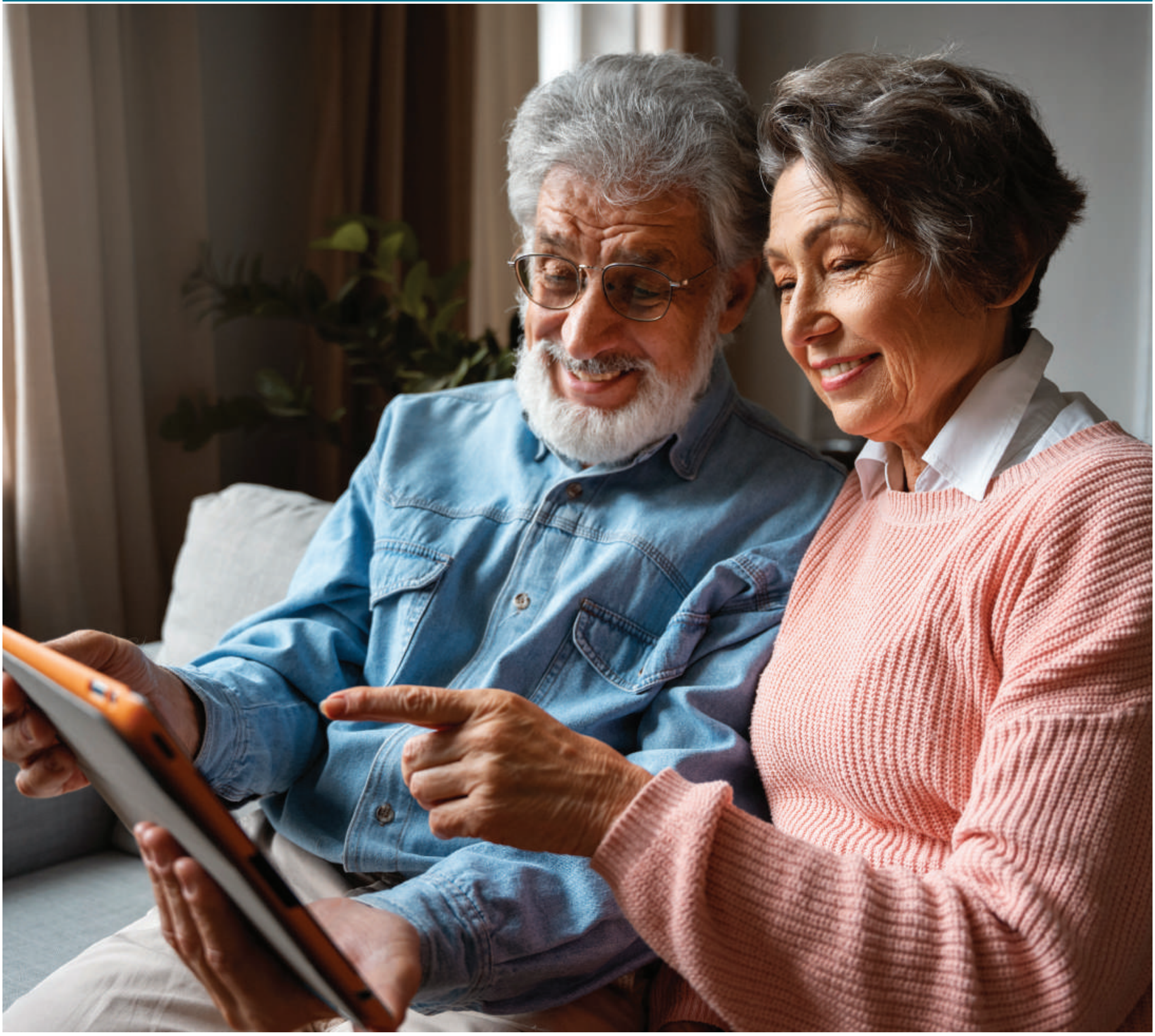
Where the holder of an ISA dies, their ISA will retain its tax benefits until the earlier of the following: the completion of the administration of the estate; the third anniversary of the death; or the closure of the account. A spouse will be entitled to pay the additional spouse's allowance equal to the higher of: value of the deceased's ISA at their death, or the value at the point the account is closed. Any interest, dividends, or gains arising on investments after death will continue to be tax free. The surviving spouse or civil partner of a deceased ISA holder is given an increased subscription allowance equal to the value of the ISA at the holder's death (in addition to the survivor's own ISA allowance).

Potential Costs

Investing in a Stocks and Shares ISA will involve certain costs. Stocks and Shares ISAs have similar costs to general investment accounts.
The likely charges include:

- Investment Platform Charge(s)
- Financial Adviser Charge (s)
- Investment Fund Charge(s)

These charges are still relatively low, and these will be explained by your adviser when a recommendation is made, alongside a graph of potential growth with fees considered.



Speak to a adviser using the details below:

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The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.

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