

Make the most of your ISAs

Outline	ISAs provide a highly valuable shelter from income and capital gains taxes. You have access to most accounts, if need be. There are five types of ISAs, with differing advantages and return/risk levels. The tax benefits are often greatest in invest-	ment (stocks and shares) ISAs, despite rises in cash ISA interest rates over the past year. ISAs should be considered alongside other tax wrappers, such as pensions, based on your tax status and personal situation.
What is an ISA?	An ISA is an individual savings account. All ISAs have one thing in common and that is they are popular because of their tax-free status. Any UK resident can open an ISA and their money will	grow tax-free for as long as it is in the account. This favorable tax treatment is combined with easy access to your money whenever you need it.
£20,000 ISA allowance	The annual ISA allowance is currently £20,000, so this is the maximum amount that can be invested in ISAs each year. A couple using both of their allowances can invest up to £40,000 each	year, allowing significant savings to be moved into a tax-free environment over time. The ISA allowance is only available for a given tax year, so if it is not used by 5 April it is lost forever.
Transferring ISAs	If you already have one or more ISAs you can transfer them to a new provider. You can do this at any time, and as often as you like. It is quite common to build up a number of different ISAs over the years. Combining these into one account can reduce the administrative burden, save on costs, and also give you greater control over your investments.	You can also transfer between different types of ISAs, and ISA transfers do not count towards your annual £20,000 ISA allowance. For example, a £10,000 cash ISA can be transferred into a stocks and shares ISA, and you will still be entitled to contribute £20,000 that tax year in addition to the transfer.
Types of ISAs	<p>There are five types of ISAs currently available:</p> <p>Cash ISAs are similar to bank savings accounts, making them popular among savers. Rates have risen over the past year, but there is a greater potential for better long-term returns with investment ISAs. Anyone over 16 can open a cash ISA.</p> <p>Stocks and shares ISAs are investment accounts that allow your money to grow tax-free for as long as they are held in your ISA. There are a very wide range of investments to choose from, so this can be matched to your own personal objectives and attitude to risk. Your stocks and shares ISA can be as conservative or adventurous as you want it to be, and you can choose your own investments or have it professionally managed for you by a discretionary fund manager such as Lumin. Anyone over 18 can open a stocks and shares ISA.</p> <p>Junior ISAs can be opened by a parent or legal guardian for children under the age of 18. A jun-</p>	<p>ior ISA can have a wide range of investments similar to a stocks and shares ISA, or hold cash. The junior ISA allowance is £9,000 a year for those aged 16 and under, and the tax-free benefits are the same as other ISAs. This means that a family of four can invest up to £58,000 a year into ISAs (£20,000 × 2 and £9,000 × 2) and have that money growing tax-free. Your child will have access to the money once they turn 18. This can be used to help fund university expenses, or a first home deposit.</p> <p>Lifetime ISAs can be used to save and invest for your first home, or for retirement. The maximum contribution is £4,000 a year, and the government adds a £1,000 bonus to your account. The condition of the 25% bonus is that the money is only withdrawn for a first home purchase, or after the age of 60. If the money is withdrawn for any other purpose, then it is subject to a 25% penalty charge.</p>
	<p>Junior ISAs can be opened by a parent or legal guardian for children under the age of 18. A jun-</p>	Lifetime ISAs can be opened by anyone aged 18 to 39. When you turn 50, you will not be able to pay

into your lifetime ISA or earn the 25% bonus. Your account will stay open and your savings will still earn interest or investment returns.

Innovative finance ISAs are used to invest in peer-to-peer loans and crowdfunding debentures. These are types of business loans and therefore carry the risk that you may not get your money

back if the businesses you invest in default on their payments. This risk is reflected in the interest rates that you can earn. While the interest rates may look much higher than savings rates offered by banks it is important to remember that your capital is at risk, and that you may have to wait to access your money if you decide to make a withdrawal.

Maximising the tax benefits

All ISAs will allow your money to grow tax-free, but the size of the tax benefits can vary significantly. This is based on your tax status, available allowances, and the investment returns that you make. If your investment returns are very modest then the tax savings will also be modest. Higher

investment returns also lead to higher potential tax savings.

The table below shows current tax rates for capital gains, dividends, and interest income. An ISA provides a shelter from all these taxes.

Overview of key tax rates	Basic rate taxpayer	Higher rate taxpayer	Additional rate taxpayer
Interest income (from cash or fixed interest investments)	20% (over £1,000)	40% (over £500)	45%
Capital gains on most investments (in excess of the annual capital gains allowance)	10%	20%	20%
Dividend income (in excess of the annual dividend allowance)	8.75%	33.75%	39.35%

The illustration below compares the possible returns, and tax savings, between a cash ISA and a stocks and shares ISA. This example assumes a

higher rate taxpayer who has already used their capital gains tax (CGT) annual exemption, dividend allowance, and personal savings allowance.

The value of the ISA tax shelter can be meaningful			
Example: Higher rate taxpayer with £100,000 ISA.			
	Regular investment account (without tax shelter)	Stocks & shares (investment) ISA	
Return p.a. (assumption)	6%	6%	
Return	£6,000	£6,000	
Tax¹	-£1,525	zero	
After-tax income	£4,475	£6,000	
After-tax return p.a.	4.5%	6%	
			1.5% return difference
	Regular cash account (without tax shelter)	Cash ISA	
Return p.a. (assumption)	3%	4%	
Return	£3,000	£4,000	
Tax	-£1,200	zero	
After-tax income	£1,800	£4,000	
After-tax return p.a.	1.8%	4%	

1 Assumption: £1,000 interest income, £1,000 dividend income, £4,000 capital gains

In the example the cash ISA provides returns of £3,000 a year and tax savings of £1,200 (40% of £3,000). The stocks and shares ISA gives returns of £6,000 a year and tax savings of £1,538 (a com-

bination of tax savings of 20% for CGT, 33.75% for dividends, and 40% for interest). This means that 1.5% of the return has been sheltered from tax compared to a regular investment account.

Passing on an ISA

ISAs are non-transferable, meaning it is not possible to gift your ISA to family members. It is possible to withdraw money from your ISA and then make a gift, but your money will then lose its tax-free status.

A similar result can be achieved by withdrawing money from your ISA and making a contribution to a beneficiary's ISA as long as their annual al-

lowance is still available for that year. This could be repeated for more than one beneficiary, and also over several years. There is also one exception to transferability, which allows a spouse or civil partner to inherit their spouse's ISA allowance. This 'additional permitted subscription' is equal to the value of the ISA at death or when the account is closed by the executors. This is on top of the regular £20,000 annual ISA allowance.

Checklist

- Have you maximised your individual/family allowances?
- Have you chosen the right ISA type?
- For investment ISAs: Have you chosen an investment strategy that matches your risk profile and objectives?
- Could you save administration costs and trading fees by combining a number of investment ISAs?
- Have you chosen the most suitable, cost-effective investments?
- Do you self-manage your investments, or have you delegated investment responsibilities to a professional partner?
- How do ISAs compare with pension investments in your situation? How do both tax wrappers fit within your overall financial plan?

Lumin portfolios for your ISA

Lumin can professionally manage your ISA and ensure it is invested in a portfolio tailored to your financial objectives and risk appetite. Our portfolios are all highly diversified across a very broad range of investments to spread the risk. This ensures that you will never have all your eggs in one

basket. Lumin's portfolios are rebalanced every quarter to reflect our latest investment views, market movements, and new opportunities that may emerge. Contact the experts at Lumin to learn how ISAs can form part of a joined-up financial plan for you and your family.

In expert hands with Lumin

Lumin is a leading independent financial adviser headquartered in St Albans, with particular reach across London and the South East. We offer trusted and professional advice on pensions and retirement, investments, inheritance and tax planning, financial protection for individuals and businesses, and mortgages. Lumin's financial plans are geared toward growing, or protecting, wealth by optimising our

clients' income, assets, tax burden and financial security. Whatever your financial ambitions, you can count on our expertise to provide peace of mind. We are backed by VZ Group, the leading independent financial services provider in Switzerland.



Financial advice made easy: Scan the QR code to arrange a complimentary meeting over a coffee.

London | St Albans
info@luminwealth.co.uk
www.luminwealth.co.uk
03300 564 446

Cornwell House
21 Clerkenwell Green
London
EC1R 0DX

5 Sandridge Park
Porters Wood
St Albans
AL3 6PH

This document is for general information only. It does not constitute advice or (by itself), a basis for any financial decision. You should only make such decisions based on your individual circumstances and, we recommend, with advice from a suitably qualified and regulated financial adviser. Whilst we endeavour to be accurate, Lumin Wealth does not accept responsibility for any inaccuracies in this document or for any loss that may result from reliance on it, but this disclaimer does not affect our responsibilities or your rights under the Financial Services and Markets Act 2000. Any financial projections in this document are provided for illustrative purposes only and should not be regarded as predictions. Past performance is not a guide to future returns. The value of investments may fall as well as rise and you may get back less than you invested. Tax treatment depends on your individual circumstances and rules may change. Lumin Wealth Limited is authorised and regulated by the Financial Conduct Authority, or FCA, (under registration number 775068). It is a limited company registered in England and Wales under company number 03381115. Copyright: No part of this publication may be reproduced or transmitted in any form without the prior permission of Lumin Wealth. The FCA does not regulate tax and estate planning.