

# ISA GUIDE

2011/2012

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An Individual Savings Account (ISA) is a tax-efficient wrapper. Within an ISA you pay no capital gains tax and no further tax on the income, making it one of the most tax-efficient savings vehicles available.

The earlier and the more you add to your ISA the better. But the crucial thing to remember is that every tax year – which runs from 6th April one year to 5th April the next year – you're only allowed to invest a certain amount in an ISA. This is known as your annual ISA allowance.

If you are planning to open or transfer an existing ISA, you have until 5th April, but don't leave it until this date. If you miss the deadline, you'll lose your £10,680 allowance for the 2011/12 tax year forever. The Inland Revenue says your ISA application must have been received by your ISA provider and it must also have been processed to qualify.

### Q: WHAT TYPES OF ISAs ARE THERE?

**A:** There are two main types of ISAs: Cash ISAs and Stocks and Shares ISAs.

### Q: WHAT IS A CASH ISA?

**A:** Cash ISAs work in the same way as normal savings accounts. You choose if you want a fixed rate account, an easy access (or instant access) account or a regular savings account. You don't pay income tax on the interest you earn. For every £1 of interest you earn on your savings, instead of the taxman pocketing 20p of income tax (if you're a basic rate taxpayer), you get to keep it all.

### Q: WHAT IS A STOCKS AND SHARES ISA?

**A:** A Stocks and Shares ISA is another option open to you if you're looking to invest for at least 5 to 10 years. With a Stocks and Shares ISA you can invest in individual stocks and shares or investment funds. Any profit you make is not subject

to capital gains tax. However, you pay 10 per cent tax on dividend earnings.

### Q: WHO CAN SAVE IN AN ISA?

**A:** Anyone who is 16 or over and a UK resident can save money in a tax-efficient Cash ISA but to save in a Stocks and Shares ISA you need to be at least 18.

### Q: HOW MUCH CAN I INVEST?

**A:** As of 6th April 2011, the ISA limit increased for everyone by £480 to £10,680 per tax year. Of this, the maximum amount you can put into a Cash ISA is £5,340, and then the remainder can be invested into a Stocks and Shares ISA.

Alternatively, you may choose to allocate the entire £10,680 into a Stocks and Shares ISA.

### Q: WHEN SHOULD I INVEST?

**A:** As long as you have not exceeded the current £10,680 ISA limit you can invest in an ISA at any point during the tax year and, depending on the ISA provider, you can allocate lump sums or monthly contributions that fit around your lifestyle.

### Q: WILL ISAs ALWAYS BE TAX-EFFICIENT?

**A:** The government has promised to keep ISAs indefinitely. However, the tax treatment of ISAs may change in the future.

### A: CAN I TRANSFER MY EXISTING ISA MONEY?

**A:** You can transfer the money saved in a Cash ISA to a Stocks and Shares ISA, even if it was saved in previous tax years, without affecting your annual ISA allowance. You can also transfer some or all of the money held in previous tax year Cash ISAs into a Stocks and Shares ISA. A stocks and shares investment is a medium to long term investment, but remember the value of your investment can go down as well as up, and you may get back less than you originally invested, and that tax rules may change in the future and taxation will depend on your personal circumstances. ■

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## HERE ARE SOME EXAMPLES OF HOW MUCH YOU COULD INVEST

CASH ISA	STOCKS AND SHARES ISA	TOTAL ISA ALLOWANCE
£1,680	£9,000	£10,680
£3,480	£7,200	£10,680
£5,340 (maximum cash allowance)	£5,340	£10,680
£0	£10,680 (maximum stocks and shares allowance)	£10,680

To ensure that there are no delays in processing your ISA application, please contact us sooner rather than later. Again, do not leave this until the last minute. If you do and your ISA application is not processed on time, it will be classed as part of next year’s ISA allowance and you will have lost the remainder of your tax-efficient allowance forever.



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