

A GUIDE TO SAVING AND INVESTING IN INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

ISAs are savings schemes which were introduced in 1999 to encourage people to save by offering tax incentives. This factsheet answers the typical questions asked about ISAs.

If you would like more general information about saving and investing, the IMA publishes a free guide “Introducing Investment”. Contact details can be found at the back of this fact sheet.

WHAT IS AN ISA?

ISAs allow people to save their money in a range of investments such as cash, stocks and shares and life insurance products. Unlike investing directly in these products, investing through an ISA provides certain benefits. An ISA is often referred to as a “tax wrapper” which goes around your savings, protecting them from paying certain taxes.

AM I ELIGIBLE?

- If you are aged 16 or over (although until your 18th birthday you can only invest in the cash component of an ISA); and
- If you reside in the United Kingdom for tax purposes (or are a Crown employee currently working overseas and treated as resident, or are married to a person who performs such duties);

you may invest in an ISA. You cannot hold an ISA jointly with anyone else, or hold one on behalf of another person.

If at any time you are unsure about your investment objectives or attitude to risk, you should contact a financial adviser. Details of how to contact a financial adviser can be found at the back of this factsheet.

Helpful Hint

ISAs consist of two components, cash and stocks and shares.

Investment products such as authorised unit trusts, OEICs and investment trusts can be held in the stocks and shares component along with eligible life insurance products.

HOW DO ISAs WORK?

There are two types of ISA, a Mini ISA and a Maxi ISA. In any tax year (the period from 6 April to 5 April) you are permitted to hold only one type of ISA. You cannot hold both a Mini and a Maxi ISA in the same tax year. Once you have invested in one type of ISA for the current tax year you cannot change your mind.

ISAs consist of two components: cash and stocks and shares. These components have different limits (see below). Within the stocks and shares component you can hold investments such as individual stocks and shares, investment products such as authorised unit trusts, open-ended investment companies (OEICs), investment trusts and life insurance products. The cash component permits you to hold bank and building society deposit accounts, National Savings and Investment products and investment or insurance products which aim to produce a cash like return e.g. money market funds.

Both Mini and Maxi ISAs permit you to invest up to £7,000 during the course of the tax year. The main difference between the two is that Mini ISAs permit you to have a different manager for each component, although you can invest with the same manager, if you wish, providing they offer both components.

Maxi ISAs on the other hand require you to invest with one ISA manager in any tax year.

It is important to note that not all managers will offer both components and may not provide the full range of permitted investments. It is therefore crucial to do some research before you make any commitment.

HOW MUCH CAN I SAVE OR INVEST IN AN ISA?

You can place up to £7,000 per tax year in an ISA. You can invest a lump sum, a series of lump sums or a regular amount, but you must check with your ISA manager(s) as to the minimum amounts you can invest, as this will vary from company to company.

ISA LIMITS

You can invest up to £7,000 in an ISA over the course of the tax year. The way this allowance is divided depends on the type of ISA.

Maxi ISA	Mini ISA
<ul style="list-style-type: none">■ Up to £3,000 in the cash component■ Balance up to £7,000 in the stocks and shares component (including life insurance products)	<ul style="list-style-type: none">■ Up to £3,000 in the cash component■ Up to £4,000 in the stocks and shares component (including life insurance products)

LIFE INSURANCE COMPONENT

The life insurance component was abolished on 6th April 2005. You are still able to hold life insurance products inside an ISA, but now they will be placed in the stocks and shares component.

MAXI ISAs

Maxi ISAs require you to invest with only one ISA manager in any tax year. Should you wish, you can choose to invest the entire annual ISA allowance (£7,000) in the stocks and shares component, but by doing so, you may not then elect to switch your holdings into the cash component.

MINI ISAs

This route allows you to choose a different ISA manager for each of the components. For example, the cash component could be placed with one manager and the stocks and shares component with another. Within a Mini ISA you can only place up to £4,000 into the stocks and shares component.

Please note - You are not able to take out a Mini and a Maxi ISA in the same tax year.

WHAT ARE THE BENEFITS OF INVESTING IN ISAs?

- There are Income and Capital Gains Tax benefits
- You do not have to declare your ISA on your tax return
- The ISA manager will either receive income gross of tax or reclaim the savings tax from HM Revenue and Customs on your behalf. You don't have to do a thing.

Income Tax

- Money held in the cash component of an ISA is entitled to a tax reclaim of 20%
- Higher rate taxpayers are exempt from paying 32.5% tax on dividends from equity investments, which they would normally pay on investments outside an ISA wrapper
- Corporate bonds, which pay out fixed interest distributions, held in an ISA are entitled to receive a tax reclaim of 20%
- Interest paid on cash held temporarily in a stocks and shares ISA will be taxed at a rate of 20%, but higher rate taxpayers will suffer no further tax liability.

Capital Gains Tax

All gains from any investments sold within an ISA are free of Capital Gains Tax (CGT), but it is important to note that any losses cannot be offset against gains made elsewhere.

WHAT IS A STAKEHOLDER ISA?

Stakeholder products abide by standards set by the Government and were introduced to provide investors with access to low-cost, risk-controlled savings products. The following table shows which Stakeholder products can be held in the different ISA components.

ISA COMPONENT	PRODUCT	TERMS
Cash	Cash deposit accounts	Must <ul style="list-style-type: none">■ permit minimum contributions of £10■ have an interest rate not less than the Bank of England base rate minus 1%■ increase the interest rate within one month of the Bank of England raising the base rate■ not have limitations on the frequency of withdrawals
Stocks and shares	Investment funds and eligible life insurance	Must <ul style="list-style-type: none">■ not have more than 60% of the fund or product invested in shares of a recognised stock exchange or land and buildings■ be managed to achieve a balance between risk and reward■ permit minimum investments of £20■ make public the price on a daily basis■ have charges capped at a maximum of 1.5% for the first 10 years of investment reducing to 1% thereafter■ be single priced

It is important to understand that a Stakeholder ISA is neither approved, nor its performance guaranteed, by the Government.

CHANGES TO ISA INVESTING FROM THE 2008/2009 TAX YEAR

ISAs were introduced for an initial ten year period in 1999. The Government has announced that this period is to be extended indefinitely, with the overall annual investment limit increasing to £7,200 (up to £3,600 in cash and the balance, or full amount, in stocks and shares) from 6 April 2008.

The Government also announced that it intends to make significant changes to the structure of ISAs and PEPs from the 2008/2009 tax year. The changes will include:

- Existing PEP and TESSA only ISA (TOISA) accounts will be re-designated as stocks and shares and cash ISAs respectively;
- The distinction between mini and maxi ISAs will be abolished, with accounts being re-designated as “cash accounts” and “stocks and shares accounts”;
- Transfers from the cash component of existing ISAs will be permitted into the stocks and shares component and will not count against the current year’s subscription;
- Money held in child trust fund (CTF) accounts will be able to roll over into an ISA once the child reaches 18.

Helpful Hint

Stakeholder products are not approved or guaranteed by the Government.

Helpful Hint

You are only permitted to take out one ISA per tax year. If you think you may have taken out more you must contact your manager immediately.

WHAT HAPPENS IF...

I currently hold a PEP?

- You are able to keep any PEP investments you have. However, you will not be able to invest any more money in them. You may change the company that currently manages your PEP, or switch into a different fund if you wish, but you must make sure that the manager to whom you wish to transfer your PEP is willing to accept the transfer.
- PEPs have the same tax advantages as ISAs. You can withdraw money from your PEP, subject only to the terms set out by your particular manager, but remember that you are not allowed to put any money back in.

I want to cancel my ISA?

If you invest into an ISA on the basis of a recommendation by a financial adviser, you have the right to cancel your investment if you change your mind.

To cancel your investment you must notify the manager by returning the cancellation notice you receive from them, generally within 14 days of receipt.

I would like to move my ISA from one manager to another?

In the year of subscription you can transfer your ISA to a different manager, but it must include all contributions made to that ISA in the tax year. After the first year of subscription, the rules are more relaxed and partial transfers between ISA managers are permitted. You are not allowed to transfer between components until April 2008. So, if you have a cash ISA with one manager, you can transfer it to a cash ISA operated by another manager, but you cannot transfer it into a stocks and shares ISA. You also need to make sure that your new ISA manager is willing and able to accept your transfer.

I want to withdraw some or all of my money?

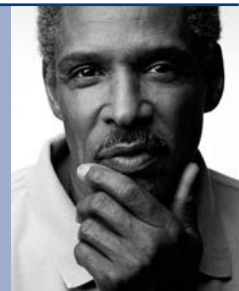
You can withdraw as much money as you wish from your ISA at any time, subject to the terms of your ISA. If you do and then want to put it back in later in the year, however, it will count against your normal ISA subscription limits for that year e.g. if you invested £6,000 and withdrew £2,000 you would only be able to put £1,000 back in, as this would bring you up to the maximum limit of £7,000.

Things go wrong?

First take up your complaint with the ISA manager. If the manager is unable to satisfy your complaint, you can take up the matter with the Financial Services Ombudsman. The manager is obliged to tell you who to write to.

I have taken out too many ISAs?

Mistakes do happen, but you must tell the manager straight away. The manager will ask you to contact HM Revenue and Customs, as in certain circumstances you may be able to keep your ISA open.



IMPORTANT NOTICE

The value of the current tax relief depends on your individual circumstances. If you have any doubts about your tax position or whether or not an ISA is suitable for you, you should seek professional advice.

HOW TO CONTACT A FINANCIAL ADVISER

For details of how to find a financial adviser in your area you can visit the IMA website at www.investmentuk.org/investors

FURTHER INFORMATION

If you would like to read more about unit trusts and open-ended investment companies (OEICs), the Investment Management Association (IMA) has a range of free information.

To obtain further details, please contact:

Investment FactLine

65 Kingsway, London, WC2B 6TD

Telephone: 020 7269 4639

or visit the IMA website: www.investmentuk.org/investors