

What Is An ISA? - New Rules For 2008 Onwards.

There are a number of important changes to the existing ISA regime that will affect investors and will be effective from April 6th 2008, these changes are designed to present ISA's in a more simplistic and flexible way for investors

Summary of the changes

- The existing regime of Mini and Maxi accounts is being removed. There will be no distinction between Mini and Maxi accounts.
- ISA investors will be able to invest in up to two separate ISAs each year: a Cash ISA and a Stocks and Shares ISA
- Existing PEP investments will automatically become ISAs; the changes align the rules for the two schemes.
- The annual ISA allowance will be raised to £7,200* (from the existing £7,000 Maxi ISA limit).
- The entire £7,200* can be invested in a Stocks and Shares ISA with one provider.
- Up to £3,600** of the allowance can be invested in a Cash ISA with one provider whilst the remainder can be invested in a Stocks and Shares ISA.
- It will be possible to transfer new and existing Cash ISAs to a Stocks and Shares ISA.
- ISA's will remain available indefinitely.

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-efficient investment 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, either directly or through unit trusts and OEICs.

ISAs, however, serve as a kind of 'wrapper' to protect savings from tax, allowing individuals to invest a maximum of £7,200* (by way of regular or single savings 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.

The big 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- Money can be withdrawn from an ISA at any time without losing the tax breaks.
- It is not possible for ISA managers to recover tax deducted at source from UK dividend income.

The basics of how ISAs work

There are two types of ISA from April 6th 2008 (**Cash and Stocks and Shares**) which may contain one or more of the following components:

- **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.

Cash ISA

You can have 1 cash ISA up to the limit of £3600 with one provider with the option of investing the remaining allowance of £3600 into a Stocks and Shares ISA.

Stocks and Shares ISA

With a **Stocks and Shares ISA** you can invest the full £7,200 with one provider. The Stocks and Shares ISA must include a stocks and shares element .

The Government has said that the ISA will be available indefinitely.

Tessa Only ISA

Anyone who held Tessa's will have previously converted these to TOISA'S, these are no longer available and have been replaced by ISA's.

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 £3,600 in either 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).

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.

Note:

* for people aged 50 and over from 6 October 2009, and to everyone from 6 April 2010, this figure of £7200 above is increased to £10200

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