

Happy 20th birthday

6 April marks the 20th birthday of the Individual Savings Account (ISA).

When the ISA was introduced in 1999, many thought it to be little more than a rebranding of the two schemes it replaced: the Personal Equity Plan (PEP) and Tax Exempt Savings Account (TESSA). The following 20 years have proved ISAs to be much more.

The latest figures from HMRC (to 5 April 2018) show that over £610,000 million is invested in ISAs. Nearly 45% of that sum is held in cash ISAs, despite the ultra-low interest rates that have prevailed over the last ten years. Since 1999, successive Chancellors have tweaked many aspects of ISAs and extended the range to include variants such as Lifetime ISAs and Help to Buy ISAs. However, three factors have remained virtually constant throughout:

- Income, whether in the form of dividends or interest, is free of UK income tax.
- Capital gains are similarly free of UK capital gains tax.
- There is nothing that the individual investor has to report to HMRC.

For some investors, the advent of the personal savings allowance and the dividend allowance have eroded or even eliminated the tax benefits of using an ISA. For others, the tax advantages have increased, not least because of the higher tax levels on dividends once the dividend allowance is exceeded. A growing band of investors are also seeing benefits of a change made several years ago that allows AIM shares to be included in ISAs, creating the possibility of an ISA that is free of inheritance tax.

The contribution ceiling for all ISA contributions (other than Junior ISAs) in 2019/20 is £20,000, the same as it has been for the past two tax years. A key to making the most of the benefits of ISAs is to maximise contributions. If you had done so over the last 20 tax years, you could by now have invested over £220,000 in a stocks and shares ISA.

If you have been investing in ISAs over the years – if not the full 20 – now is probably a good time to review them, particularly if you are holding cash ISAs or have not altered your choice of investment funds from outset. Tax advantages can all too easily be countered by poor investment decisions.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

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