

This leaflet explains the main features of individual savings accounts (ISAs). It concentrates on those features most relevant to savings in building societies and is only a summary of the full provisions and requirements.

## Individual Savings Accounts and Building Societies



*The general information in this leaflet should not be relied upon as a guide to specific action, for which you should seek appropriate advice.*

*This leaflet is correct at the time of printing (April 2005).*

This publication is issued by  
**The Building Societies Association**  
3 Savile Row, London W1S 3PB  
on behalf of Building Societies Trust Limited.

April 2005



# Individual Savings Accounts and Building Societies

This leaflet explains the main features of individual savings accounts (ISAs). It concentrates on those features most relevant to savings in building societies and is only a summary of the full provisions and requirements.

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## 1 What are ISAs?

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Individual savings accounts (ISAs) were designed by the Government and were introduced in April 1999. ISAs replaced tax-exempt special savings accounts (TESSAs – see Q10) and personal equity plans (PEPs – see Q28). All income and gains from ISA investments are exempt from UK income tax and capital gains tax in the hands of the investor. The Government has said the ISA scheme will run at least until 5 April 2010.

The Government's objectives for ISAs are to develop and extend the savings habit by encouraging those on low incomes to save, and to ensure that tax relief on savings is fairly distributed.

## 2 What are the qualifying investments for ISAs?

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The two groups of qualifying ISA investments are now –

### ■ cash

- building society accounts
- bank deposit accounts
- authorised money market schemes (“cash funds”)
- certain National Savings products
- stakeholder cash products
- collective investment products (such as unit trusts) that provide a cash like return
- life assurance that provides a cash-like return (this used to be a separate ISA component but was merged with the stocks and shares component with effect from 6 April 2005)

### ■ stocks and shares

- equity shares listed on a recognised stock exchange
- many authorised unit trusts, investment trusts, open ended investment companies and other collective investment schemes

- building society permanent interest bearing shares (PIBS)
- corporate bonds, UK Government securities (gilts) and other European Government securities (with more than five years to run to maturity when purchased for the ISA)
- life assurance (this used to be a separate ISA component but was merged with the stocks and shares component with effect from 6 April 2005)
- cash may also be held on deposit temporarily, but only for the purpose of investing in qualifying shares and securities
- stakeholder medium term products

The two groups of qualifying investments are known as –

- the **cash component**
- the **stocks and shares component**

## 3 What ISAs are available?

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There are two types of ISA –

- **maxi** – made up of either one or both components (see Q2), but including at least the stocks and shares component
- **mini** – made up of a single component

See also Q8.

## 4 What are the subscription limits?

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The annual subscription limits to ISAs are –

<b>Maxi ISA</b>	overall maximum	£7,000 of which:
<b>stocks &amp; shares component</b>		not more than £7,000
<b>cash component</b>		not more than £3,000
<b>Mini ISA – stocks &amp; shares mini</b>		£4,000
<b>cash mini</b>		£3,000

You may subscribe to only one maxi ISA in any tax year or to one of each of the two mini ISAs – in which case different managers may be used for each component. There is no cumulative subscription or value limit other than the annual limits.

The tax year starts on 6 April in one year and finishes on 5 April in the next year.

## 5 Do withdrawals affect the subscription limits - or the tax relief?

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Withdrawals from an ISA have no impact on the subscription limits, and do not affect the tax relief.

For example, if you subscribe £3,000 to a cash mini ISA on 1 May 2005 and withdraw £2,000 on 3 December 2005 you cannot make any further subscriptions to that mini ISA in 2005-06 because the annual subscription limit has already been reached. Interest on that mini ISA continues to be exempt from tax.

## 6 What tax relief is available?

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All income and gains from ISA investments are exempt from UK income tax and capital gains tax in the hands of the investor. Interest on building society and bank accounts is payable without deduction of income tax at source.

Subject to the terms and conditions of an ISA (see Q19 and Q22), you may make withdrawals from or close an ISA at any time without loss of tax exemption.

Information about ISAs does not have to be declared on your tax return.

## 7 What is the tax relief worth?

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For most people (those liable to income tax, but not at the higher rate) having a building society or bank savings account within an ISA will mean not having to suffer the

20% deduction for income tax from the interest that would otherwise be made. Higher rate taxpayers will save a further 20% of each interest payment.

Since 6 April 1999 most people (again, those not liable to higher rate tax) have had no tax to pay on dividends from UK equities outside an ISA anyway.

The exemption from capital gains tax of gains on selling equities, etc held within an ISA is worthwhile only to those people whose taxable gains for the tax year concerned would be more than the annual exempt amount (£8,500 for 2005/06).

## 8 Should I invest in a maxi ISA or a mini ISA?

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You cannot subscribe to both a maxi ISA and a mini ISA in the same year, but you can choose different options in different years if you wish.

The main feature of a maxi ISA, with a single ISA manager, is that you can invest the maximum amount (ie £7,000) allowed each year wholly in stocks and shares. Using mini ISAs, the maximum amount that can be invested in stocks and shares is £4,000 each year. However, the extent to which you might wish to invest in stocks and shares will be determined by a number of factors, including your attitude to risk and the level of the stock market. For example, are you prepared for the value of your investments to go down as well as up? Also, if you are not a higher rate taxpayer, nor likely to make significant capital gains chargeable to tax, there are no tax benefits from holding UK equity shares within an ISA.

The main advantage of mini ISAs is that you can have a different ISA manager for each component. With a maxi ISA, the one manager looks after all components and may not necessarily even offer the cash component. However, mini ISAs allow you to shop around for the best manager for each.

## 9 How can subscriptions be made?

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Generally, all ISA subscriptions must be in cash – which includes (subject to the agreement of the ISA manager) transfers from other accounts such as by cheque, direct debit, standing order and debit card. The only exception is for shares issued to an investor under an approved all employee savings-related share option scheme or profit-sharing scheme, as these may be transferred into the stocks and shares component.

## 10 What is a TESSA-only ISA?

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TESSA-only ISAs allowed a building society or bank to offer a saver with a maturing TESSA the option of investing the funds from the TESSA (excluding interest credited) in an ISA with that institution, even though the saver had already opened a maxi (or cash mini) ISA with another manager earlier in the tax year concerned. It is no longer possible to open a new TESSA-only ISA. However, existing TESSA-only ISAs may continue to be held and are treated like any other cash mini ISA.

## 11 Whatever happened to the ISA insurance component?

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Since 6 April 2005 there have only been two ISA components – ‘cash’ and ‘stocks and shares’. Insurance products, which used to be a separate ISA component now fall into one of these two components depending on the type of insurance policy you buy.

If you subscribed to an ISA insurance before 5 April 2005, your ISA manager will have told you which component your policy falls into after 6 April 2005 and the maximum that you will be able to subscribe from that date. If you continue subscribing to the policy you must make sure you do not have another ISA of the same component with a different manager.

## 12 Who can be an ISA manager?

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ISA managers must be approved by the Inland Revenue. To be eligible to manage an ISA, a business must be appropriately authorised and regulated by the Financial Services Authority. All building societies are eligible to manage cash mini ISAs. ISA managers must operate the scheme in accordance with the relevant legislation and other provisions.

## 13 Who may invest in an ISA?

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To be eligible to subscribe to any type of ISA you must be –

- an individual aged 18 or over, or for cash ISAs aged 16 or over
- resident and ordinarily resident in the UK (subject to an exception for certain Crown employees, and their spouses)

If you cease to meet the second condition you may not make further subscriptions to an ISA, but may keep the continuing benefit of the tax reliefs on the accumulated funds.

## 14 Can my spouse and I each have an ISA?

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Yes.

## 15 Can an ISA be held in joint names?

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No.

## 16 How do I apply for an ISA?

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Applications to subscribe to an ISA may be made in writing, electronically or by telephone. Some ISA managers will accept written applications only. You will need to give various details, including your full name, permanent residential address, date of birth and national insurance

number. Where the application is made in writing it must be signed. For applications made electronically or by telephone a copy of the information given will be sent to you by the ISA manager for checking.

Normal account opening procedures – such as providing proof of identity and address – apply for ISAs opened by new customers. In certain circumstances, ISA applications may be signed by someone acting on behalf of someone else – such as cases of physical or mental incapacity.

### 17 Do I have to complete a new application every year?

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No – an ISA application remains valid for subscriptions to that ISA made in the next and subsequent tax years. However, where a break between subscriptions to a particular ISA lasts for a whole tax year, you must make a fresh application before subscriptions to the same ISA may re-commence.

In any tax year you may subscribe to only one maxi ISA or to one of each of the two mini ISAs.

### 18 Can I transfer my ISA from one manager to another?

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Yes – funds in an ISA may be transferred from one ISA manager to another. The transfer must be arranged by the new ISA manager directly with the current manager. If the transfer is to be of current year subscriptions, the whole of those subscriptions must be transferred. Funds in an ISA from previous year investments may be transferred from one manager to another in whole or in part. ISA managers are not obliged to accept transfers. See also Q19 and Q20.

### 19 Can I make withdrawals from, or transfer, my ISA whenever I want?

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Yes – however, an ISA manager may require a reasonable period (of not more than 30 days) to allow for the practical implementation of any withdrawal from, or transfer of, an ISA. An ISA manager may also specify such matters as the minimum amount of a withdrawal. An ISA manager may make a charge for a withdrawal or transfer and, depending on the type of account, you may lose some interest (which may be avoided in some cases if you give appropriate notice).

### 20 Can I transfer funds from the cash component to the stocks and shares component?

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No – funds may not be transferred from one ISA component to another.

### 21 Do I pay tax on interest on temporary deposits in the stocks and shares component?

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No, but the ISA manager must pay to the Inland Revenue a flat rate charge of 20% on all interest paid or credited on deposits of cash held temporarily in the stocks and shares component (such charge is not repayable to non-taxpayers).

### 22 What other terms and conditions apply to ISAs?

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A building society or other ISA manager is required to include various matters in its terms and conditions for ISAs – some of which are described in this leaflet. However, except as mentioned in Q26 (concerning ISAs meeting the stakeholder standards), such matters as whether interest is fixed or variable, the rate of interest payable, the frequency of paying or crediting interest, minimum balances and transaction size, whether with-

drawals are restricted, penalties or charges for early closures or transfers, etc are all a matter for the individual building society or other manager.

### 23 What if I subscribe to too many ISAs?

If, by mistake, you subscribe **in the same tax year** –

- to both a mini ISA and a maxi ISA, or
- to more than one mini ISA of the same type, or
- to more than one maxi ISA

then you should contact the Inland Revenue ISA help-line on 0845 604 1701 for advice as soon as possible.

### 24 Are there any charges for ISAs?

The answer depends on the type of ISA. Building societies and banks do not usually make charges for the operation of savings accounts, including cash ISAs except, in some cases, on early closure or for making a transfer to another manager. There may be an initial charge and/or an annual charge made by the managers of stocks and shares ISAs.

### 25 Whatever happened to CAT standards?

The Government introduced CAT standards in 1999. They were minimum performance criteria which firms could apply on a voluntary basis to each of the ISA components and referred to 'Charges, Access and Terms'. The Government withdrew the CAT standards with effect from 6 April 2005. The CAT standard for the cash mini ISA has been replaced by a new standard for 'stakeholder deposit products' (see Q26 and Q27)

### 26 What are Stakeholder Products?

To be a stakeholder product an ISA must meet certain minimum standards. For a **cash ISA** these are:

- the minimum amount which can be deposited is no more than £10;
- deposits may be made by a variety of methods (ie cash, cheque, direct debit, standing order and other forms of direct credit);
- interest accrues daily at a rate no lower than one percentage point below Bank of England base rate;
- when the Bank of England base rate increases, the interest rate on the account must be raised within one month of the increase;
- no more than seven days' notice is needed for withdrawals and transfers;
- there is no limit on the frequency of withdrawals.

For a stocks and shares ISA, the criteria to be met by stakeholder accounts are more complicated. They include:

- no more than 60 per cent of the value of the account will be invested in stocks and shares, collective investment schemes or insurance;
- the investments will be selected and managed to attempt a balance between the opportunity for the investor to benefit from growth in the value of investments generally – and the risk of loss of value in the investments;
- the minimum amount that may be paid into the account is no more than £20;
- payments may be made by a variety of methods (ie cash, cheque, direct debit, standing order and other forms of direct credit);

Further details of the minimum standards which must be met if a stocks and shares ISA is to qualify as a 'stakeholder' product are available from H M Treasury website and the Financial Services Authority (see the contact details under Q29).

## 27 Should I always choose an ISA that is a Stakeholder?

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Not necessarily – the ‘stakeholder’ label is designed to identify a range of straightforward savings products which are simple, clear and fair so that savers should feel confident about choosing them. However, just because an ISA meets the stakeholder standards does not mean that –

- the ISA is appropriate for every saver
- the performance of the ISA is guaranteed
- the ISA is Government approved.

An ISA which does not meet the stakeholder standards might be well suited to the needs of many savers. For example, you might find that a cash mini ISA which does not meet the stakeholder standards because it restricts the number of withdrawals you can make, offers a better rate of interest in return.

## 28 What happened to personal equity plans?

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All personal equity plans (PEPs) held on 5 April 1999 may continue to be held as PEPs outside the ISA scheme, but with the same tax advantages as ISAs (see Q6 and Q7). No new subscriptions have been allowed since that date, and funds from PEPs may not be transferred directly to an ISA.

## 29 Where can I find out more?

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The Inland Revenue booklet IR2008 *ISAs and PEPs*, is available from the Inland Revenue’s website at [www.inlandrevenue.gov.uk/leaflets/ir2008.pdf](http://www.inlandrevenue.gov.uk/leaflets/ir2008.pdf)

There is also an Inland Revenue telephone helpline for general information about the tax rules for ISAs – **0845 604 1701**.

The Financial Services Authority regulates financial services and publishes a wide range of booklets and factsheets for consumers. These are available from the FSA Consumer Helpline on 0845 606 1234 or from the FSA website at [www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer)

Details on the stakeholder products may be found at HM Treasury website at: [www.hm-treasury.gov.uk/consultations\\_and\\_legislation/stakeholder/consult\\_stakeholders\\_index.cfm](http://www.hm-treasury.gov.uk/consultations_and_legislation/stakeholder/consult_stakeholders_index.cfm)

Many building societies and other financial institutions issue information on ISAs generally and on their own ISA products.

## 30 What is The Building Societies Association?

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The Building Societies Association is the trade association for building societies and all building societies in the UK are members. Further information about the Association and its members, and the leaflets listed below, is available on our website at: [www.bsa.org.uk](http://www.bsa.org.uk)

- *Why we need building societies*
- *Taxation of building society interest*
- *The Child Trust Fund and Building Societies*
- *What EMU means for you*
- *Individual savings accounts and building societies*
- *Dormant savings accounts – how building societies can help you trace your lost savings.*