

# Individual Savings Accounts and You



This leaflet explains the main features of individual savings accounts.  
Valid from 6 October 2009 to 5 April 2010 only.

# Individual Savings Accounts and Building Societies



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## 1 What are ISAs?

Individual savings accounts (ISAs) were designed by the Government and were introduced in April 1999. ISAs replaced tax-exempt special savings accounts (TESSAs – see Q8) and personal equity plans (PEPs – see Q26). All income from cash ISAs and most income and gains from stocks and shares ISAs are exempt from UK income tax and capital gains tax. (For more information about tax relief see Q5 and Q6).

## 2 What are the qualifying investments for ISAs?

The two groups of qualifying ISA investments are –

### ■ for a cash ISA:

- building society accounts
- bank deposit accounts
- authorised money market schemes ("cash funds")
- certain National Savings products
- stakeholder cash products
- collective investment products that provide a cash-like return
- life assurance that provides a cash-like return

### ■ for a stocks and shares ISA:

- 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
- cash may also be held on deposit temporarily, but only for the purpose of investing in qualifying shares and securities
- stakeholder medium term products

## 3 What are the annual subscription limits?

Unless you are aged 50 or over by 5 April 2010 your annual investment allowance is £7,200. Up to £3,600 of that allowance can be saved in cash with one provider, such as a building society. The remainder of the £7,200 can be invested in stocks and shares with either the same or another provider. Some examples of how this might work in practice are set out below.

### ■ Example 1

You save £1,200 in a cash ISA at the beginning of the tax year. In the same tax year you could save up to another £6,000 in ISAs. This could be up to £2,400 in the same cash ISA or up to £6,000 in a stocks and shares ISA with either the same or another provider, or a combination of both.

### ■ Example 2

You set up a monthly direct debit for £500 into a stocks and shares ISA with one provider – over the year as a whole you pay in £6,000 (12 x £500). In the same tax year you could save up to another £1,200 in ISAs, either in the same stocks and shares ISA or in a cash ISA with either the same or another provider, or a combination of both.

If you are aged 50 or over (or will be by 5 April 2010) you have an annual investment allowance of £10,200. Up to £5,100 of that allowance can be saved in cash with one provider, such as a building society. The remainder of the £10,200 can be invested in stocks and shares with either the same or another provider. (However, not all providers will be able to offer the higher allowance of £10,200 before 6 April 2010. You should check with your provider that they can do this.) Some examples of how this might work in practice are set out below.

### ■ Example 3

You save £3,200 in a cash ISA at the beginning of the tax year. In the same tax year you could save up to another £7,000 in ISAs. This could be up to £1,900 in the same cash ISA or up to £7,000 in a stocks and shares ISA with either the same or another provider, or a combination of both.

### ■ Example 4

You set up a monthly direct debit for £600 into a stocks and shares ISA with one provider – over the year as a whole you pay in £7,200 (12 x £600). In the same tax year you could save up to another £3,000 in ISAs, either in the same stocks and shares ISA or in a cash ISA with either the same or another provider, or a combination of both.

#### 4 Do withdrawals affect the subscription limits or the tax relief?

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

For example, if you are aged under 50 and will still be under 50 on 5 April 2010 and subscribe £2,500 to a cash ISA on 1 May 2009 and withdraw £1,000 on 3 December 2009 you could make further subscriptions to that ISA in 2009-10 of £1,100 before you reached your annual subscription limit. Interest on that cash ISA continues to be exempt from tax.

If you are aged 50 or over or will be by 5 April 2010 and you subscribe £2,500 to a cash ISA on 1 May 2009 and withdraw £1,000 on 3 December 2009 you could make further subscriptions to that ISA in 2009-10 of £2,600 before you reached your annual subscription limit. (However, not all providers will be able to offer the higher allowance of £10,200 before 6 April 2010. You should check with your provider that they can do this.) Interest on that cash ISA continues to be exempt from tax.

#### 5 What tax relief is available?

##### ■ In a cash ISA with a building society or bank

- all interest is paid without deduction of income tax.

##### ■ In a stocks and shares ISA

- interest on bonds and stocks within the ISA is paid without deduction of tax
- interest from a cash deposit held within the ISA is subject to a flat rate 20% charge
- dividends paid within the ISA are subject to a non-reclaimable 10% tax charge.

ISAs held within a deceased person's estate may also result in a liability to inheritance tax.

Subject to the terms and conditions of an ISA (see Qs 15 to 19), 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.

#### 6 What is the tax relief worth?

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 (£10,100 for 2009-10).

#### 7 How can subscriptions be made?

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 exceptions are for shares issued to an investor under an approved all-employee savings-related share option scheme, a profit-sharing scheme, or a share incentive plan as these may be transferred into the stocks and shares ISA.

#### 8 What was a TESSA-only ISA?

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 ISA.

## 9 Who can be an ISA manager?

ISA managers must be approved by HM Revenue & Customs. 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 ISAs. ISA managers must operate the scheme in accordance with the relevant legislation and other provisions.

## 10 Who may invest in an ISA?

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/civil partners)

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.

## 11 Can my spouse/civil partner and I each have an ISA?

Yes.

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

No.

## 13 How do I apply for an ISA?

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.

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

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.

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

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. If you wish to make a transfer, you will need to complete a 'transfer application' with the new manager. See also Qs 16 to 19.

You cannot transfer your ISA by closing one ISA and opening another one. This has to be done by your ISA provider(s), otherwise you risk losing some of your ISA entitlement.

## 16 Can I make withdrawals from, or transfers, of my ISA whenever I want?

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, deduct some interest (which may be avoided in some cases if you give appropriate notice).

## 17 Can I transfer funds from a stocks and shares ISA to a cash ISA?

No. The Building Societies Association thinks that you should be able to do so - and we are trying to persuade the Government that transfers to a cash ISA from a stocks and shares ISA should be allowed.

## 18 Can I transfer money I have saved in previous tax years from cash ISAs into stocks and shares ISAs?

Yes, you can transfer to a stocks and shares ISA some or all of the money you have saved in previous tax years in cash ISAs without affecting your annual ISA investment allowance.

### ■ Example

You have a total of £9,000 saved in cash ISAs from previous tax years, and you plan to invest your full current year ISA annual investment allowance of £7,200 (or £10,200 if you are aged 50 or over or will be by 5 April 2010) in a stocks and shares ISA. In the same tax year you could also transfer some or all of the £9,000 held in your cash ISAs in to any stocks and shares ISA(s).

But, bear in mind that once you transfer money from a cash ISA to a stocks and shares ISA, you cannot transfer it back. So you need to be clear about your attitude to risk. If you are not prepared to lose some of your ISA savings if the value of your investment goes down, then a transfer from a cash ISA to a stocks and shares ISA may not be suitable.

## 19 Can I transfer money I save in a cash ISA in the current tax year into a stocks and shares ISA?

Yes, you can transfer money saved in the current tax year in a cash ISA into a stocks and shares ISA. But you must transfer the whole amount you have saved in that tax year in that cash ISA up to the day of the transfer.

Once money saved in the current tax year is transferred from your cash ISA to a stocks and shares ISA, it is treated as if you had invested it directly into a stocks and shares ISA in that tax year. You will then be able to save up to the full remaining balance of your annual ISA investment allowance in ISAs in that tax year.

### ■ Example 1

**If you are aged under 50 and will still be under 50 on 5 April 2010**

You save £3,600 in a cash ISA at the beginning of a tax year. You could transfer the whole £3,600 to a stocks and shares ISA. You could then still save up to another £3,600 into your ISAs, either the same stocks and shares ISA, a new cash ISA or a combination of both.

### ■ Example 2

**If you are aged 50 or over or will be by 5 April 2010**

You save £5,100 in a cash ISA during a tax year. You could transfer the whole £5,100 to a stocks and shares ISA. You could then still save up to another £5,100 into your ISAs, either the same stocks and shares ISA, a new cash ISA or a combination of both. However, not all providers will be able to offer the higher allowance of £10,200 before 6 April 2010. You should check with your provider that they can do this.

But, bear in mind that, once you transfer money from a cash ISA to a stocks and shares ISA, you cannot transfer it back. So, you need to be clear about your attitude to risk. If you are not prepared to lose some of your ISA savings if the value of your investment goes down, then a transfer from a cash ISA to a stocks and shares ISA may not be suitable.

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

No, but the ISA manager must pay to the HM Revenue & Customs a flat rate charge of 20% on all interest paid or credited on deposits of cash held temporarily in the stocks and shares component.

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

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 Q24 (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 withdrawals are restricted, penalties or charges for early closures or transfers, etc are all a matter for the individual building society or other manager.

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

If, by mistake, you subscribe in the same tax year to more than one cash ISA or more than one stocks and shares ISA, you should contact the HM Revenue & Customs ISA helpline on 0845 604 1701 for advice as soon as possible.

## 23 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.

## 24 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 (i.e. cash, cheque, 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 (i.e. cash, cheque, 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 HM Treasury website and the Financial Services Authority (see contact details under Q27).

## 25 Should I always choose an ISA that is a stakeholder?

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 or,
- the ISA is Government approved.

An ISA that 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.

## 26 What happened to personal equity plans?

All PEP accounts automatically became stocks and shares ISAs on 6 April 2008. If you held PEPS on that date, you do not have to do anything. You can still invest up to your full annual ISA investment allowance of £7,200, or £10,200 if you are aged 50 or over (or will be by 5 April 2010).

## 27 Where can I find out more?

A factsheet is available from the website of HM Revenue and Customs (HMRC) [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

There is also a HMRC 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 0300 500 5000 or from the FSA website: [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

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

## 28 What is The Building Societies Association?

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

- *Taxation of building society interest*
- *The Child Trust Fund and building societies*
- *Lost track of your savings?*

The information in this leaflet is a summary of the full provisions and requirements and should not be relied upon as a guide to specific action, for which you should seek appropriate advice.

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