

# Ovation

SOUND FINANCIAL MANAGEMENT



The Ovation Guide to

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## Individual Savings Accounts (ISAs)

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## Ovation Guide to Individual Savings Accounts

### *What is an ISA?*

Simple, an ISA is simply a way of saving without paying tax on those savings.

### *Do I get tax relief on ISAs?*

No. Although the funds do not pay the tax on the growth, there is no tax relief on payments into ISAs, unlike pensions.

### *Are there different types of ISAs?*

Yes, there are quite a few now available, and these are:

**Cash ISAs:** usually bank or building society savings account. Must be over 16 years old and over.

**Stocks & Shares (S&S) ISA:** hold direct shares, bonds and investment funds. Must be 18 years old and over.

**Innovation Finance (IF) ISA:** loans made through peer-to-peer (P2P) platforms. Must be 18 years old and over.

**Help to Buy ISA:** Cash ISA designed for first time buyers. Must be 16 years old and over.

**Junior ISA (JISA):** Cash or Stocks & Shares ISA for children under the age of 18.

### *How much can I save each year?*

The annual ISA allowance for 2016/17 is:

**£15,240** for Cash, S&S and IF ISAs

**£200pm** for Help to Buy ISAs

**£4,080** for JISAs.

The £15,240 can be split between the Cash, S&S and IF ISAs. The help to buy ISA will use up this allowance as well.

The JISA is a separate allowance. Therefore, a 16 and 17 year olds could contribute to both a JISA and a Cash ISA.

### *Should I do cash ISA or stocks and shares ISA?*

This is a very common question when saving in to an ISA.

Everyone should have some funds set aside for emergencies (perhaps six months' expenditure). This should be held on deposit, and we would generally recommend that an instant access cash ISA or deposit account would be a suitable place.

Depending on your attitude to risk and personal circumstances, once you have enough set aside for emergencies, you should consider maximizing the stocks and shares ISA to build up a portfolio for your future.

### *How do I take money out of ISAs?*

You can access your cash or stocks and shares ISA at any point in time (be careful of some cash ISAs which may have restrictions). Alternatively, you can take an income from your ISA, which will be free of tax.

### *Hang on, you are telling me I can set up a tax free income in retirement?*

Yes. You can draw income from an ISA to supplement your retirement income, and you will not pay any tax.

### *So ISAs are better than pensions then?*

We believe that ISAs and pensions both have a place in wealth creation.

The pension has the advantage of giving tax relief up front, however the income is taxed in retirement.

The ISA is almost a mirror image, you get no tax relief on an ISA, but you don't pay tax when you draw it out. Furthermore, you can access the ISA at any time.

### *How do I choose the best cash ISA?*

Interest rates on cash ISAs change all the time. You can use an online search tool such as [www.moneyfacts.co.uk](http://www.moneyfacts.co.uk). We would suggest that you beware of fixed rates, although this can get you what seems like a higher interest rate, you are often locked in for a fixed period of time.

You should also beware of choosing the higher rate of a bank that you don't know, or choosing a high rate and then forgetting about it for many years – this is a common banking trick that a high interest is then reduced once sufficient monies have been secured.

In short, we would suggest you stick to a bank you know, and regularly (perhaps every six months) test the rate you are getting on your cash ISA.

***I choose my stocks and shares ISA from the newspaper best buy list each year, so I don't need an IFA.***

There are a couple of problems with this approach, firstly the best buys from the newspapers are typically looking at those ISAs that have performed the best over the preceding 12 months or so. This does not, however, guarantee that such funds are likely to be high performers over the next 12 months. Indeed, it is an almost certainty that whoever is top of the pops one year is not going to be in the next year, as their particular sector or market will have changed.

More importantly, however, is the review process. As more money is put into ISAs, so the importance of a regular review and applying an investment philosophy so the funds grows.

If you have an ISA that you took out several years ago, but have not looked at since, and in particular if it has grown to, say, £20,000 or more in conjunction with other ISA payments, then it is likely that you would benefit from a review.

It is also equally possible that the funds should be split into different types of investments, and then reviewed on at least an annual basis.

### ***What does Ovation do?***

We will combine your ISAs into one portfolio, and apply a rigorous investment strategy, which will be reviewed on a regular basis.

### ***For help with this and all financial services speak to Ovation***

Call: 0117 942 4333

Email: [enquiries@ovationfinance.co.uk](mailto:enquiries@ovationfinance.co.uk)

Return to web site: [www.ovationfinance.co.uk](http://www.ovationfinance.co.uk)

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# Ovation

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