

Explaining the new ISA regime

From April 2008 the Government is making a series of changes to the way Individual Savings Accounts (ISAs) work. These changes are designed to deliver certainty, simplicity and flexibility for savers.

The key changes are set out below.

ISAs are available indefinitely

ISAs are available indefinitely. There is no set end date for ISAs.

New Structure and Limits

Every adult has an annual ISA investment allowance of £7,200. Up to £3,600 of that allowance can be saved in cash with one provider. The remainder of the £7,200 can be invested in stocks and shares with either the same or another provider.

Example.

An individual saves £1,200 in a cash ISA at the beginning of the tax year. In the same tax year they 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.

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

Transferring money saved in previous tax years from cash ISAs into stocks and shares ISAs

Savers are able to transfer some or all of the money saved in previous tax years from cash ISAs to stocks and shares ISAs without affecting their annual ISA investment allowance.

Example.

An individual has a total of £9,000 saved in cash ISAs from previous tax years. They plan to invest their full current year ISA annual investment allowance of £7,200 in a stocks and shares ISA. In the same tax year they could also transfer some or all of the £9,000 held in cash ISAs in to any stocks and shares ISA(s).

Transferring money saved in the current tax year from cash ISAs into stocks and shares ISAs

Savers are also able to transfer money saved in the current tax year in cash ISAs to stocks and shares ISAs. Such transfers must be the whole amount 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 a cash ISA to a stocks and shares ISA, it is treated as if it had been invested directly into a stocks and shares ISA in that tax year. The saver is able then to still save up to the full remaining balance of their £7,200 annual ISA investment allowance in ISAs in that tax year, including up to £3,600 in a cash ISA.

Example.

An individual saves £3,600 in a cash ISA at the beginning of a tax year. They could transfer the whole £3,600 to a stocks and shares ISA. The individual could then still save up to another £3,600 into their ISAs, either the same stocks and shares ISA, a cash ISA or a combination of both.

PEPs become ISAs

All PEP accounts will automatically become stocks and shares ISAs on 6 April 2008, and become subject to ISA rules.

Example.

An individual has a number of different PEPs from previous tax years. The PEPs will become stocks and shares ISAs on 6 April 2008. The individual does not have to do anything. They could still then invest up to their full annual ISA investment allowance of £7,200.