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A Guide to NISAs

The Generous Tax Efficient Accounts

Contents

From 1st July 2014, ISAs will be called NISAs (New ISAs).

NISAs are generous, tax-efficient accounts. They are easily accessible and widely available to UK savers and investors.

Our Guide to NISAs is produced to explain what they are, how you can use them and how you can choose the best NISA for your requirements, especially taking into account the new rules as of 1st July 2014.

NISAs – a simple explanation

A NISA is a New Individual Savings Account. As the name suggests, these are accounts that can be accessed by individuals (you cannot have a NISA in joint names). ISAs were introduced in April 1999 as a replacement to Personal Equity Plans (PEPs) and Tax-Exempt Special Savings Accounts (TESSAs).

The political thinking was that ISAs could bring together these two different tax efficient products into one type of account and would help to encourage and widen their usage.

Over the following years, the type of ISA available has been changed and the amount that can be invested into each type changed. The latest change, making them NISAs, became effective as of 1 July 2014. Existing ISAs became NISAs automatically from that date.

The rules around NISAs are structured to make them easily accessible and simple to understand whilst still providing valuable tax benefits – especially over the longer term. They also open up greater flexibility than before and higher allowances.

Who can invest into a NISA?

To open an adult NISA you have to be aged 16 or over if the NISA is a Cash NISA or 18 or over if the NISA is a Stocks and Shares ISA. Between the ages of 16 and 18 you can invest the full allowance (£15,000) but only in a Cash NISA.

You have to be resident in the UK for tax purposes (ask your tax office if you are in any doubt about this), or a Crown employee, such as a diplomat or a member of the armed forces, who is working overseas and paid by the Government. The spouse, or civil partner, of one of these people can also open a NISA.

For the rules around Junior ISAs – see the separate section below.

The Different Types of ISAs available

There are basically two different types of NISA:

Cash NISAs and Stocks and Shares NISAs. In each tax year you can put money into these up to £15,000 (the new allowance) and you can invest as much as you like of your allowance in either type (but only up to the total of £15,000).

Cash NISAs

Cash NISAs are like an ordinary savings account except they have no tax applied. Although quite a simple account, the range of saving account that can be held under a cash account is actually quite diverse.

For example, they can include bank and building society accounts; National Savings and Investments products that are specially designed for NISAs; Sharia compliant products; and life insurance policies that fail to meet the qualifying conditions for the Stocks and Shares NISAs.

ISAs are an extremely popular way to save: in 2012-2013 there were around 14.6 million ISA accounts subscribed to in the UK, with a total of £57 billion saved into them.

Stocks and Shares NISAs

Stocks and Shares NISAs allow for investment into a wide range of higher risk assets, for example shares, government bonds and corporate bonds. These investments do NOT have to be in the UK. The investment can be direct (for example you can hold Marks and Spencer shares through a Stocks and Shares NISA) or through a fund.

Here is a list of the investments that can be included within a Stocks and Shares NISA:

- shares and corporate bonds issued by companies officially listed on a recognised stock exchange anywhere in the world
- gilt edged securities (‘gilts’), issued by the UK government, similar securities issued by governments of other countries in the European Economic Area and ‘strips’ of all these securities
- units or shares in funds authorised by the Financial Services Authority (unit trusts or Open Ended Investment Companies (OEICs))
- units or shares in non-UCITS (Undertakings of Collective Investment in Transferable Securities) retail schemes authorised by the FSA for sale to retail investors in the UK
- shares and securities in investment trusts
- units or shares in UCITS funds based elsewhere in the European Union (these are similar to unit trusts and OEICs authorised by the FSA)
- Any shares which have been transferred from an HMRC approved SAYE share option scheme or Share Incentive Plan
- life insurance policies
- stakeholder medium-term products

As of 1 July 2014, some new investment options have become available:

- Certain Core Capital Deferred Shares issued by a building society;
- Certain securities, such as retail bonds, which have less than 5 years to run to maturity at the time they are first held in your account
- Certain investments that do not currently satisfy the current ‘cash-like test’ for Stocks and Shares ISA - such as some company shares, units or shares in a collective scheme, and some types of insurance policy.
- The Government intends to enable peer-to-peer loans to be held within a NISA and will consult on how to implement this later this year. The Government will also explore extending NISA eligibility to debt securities offered via crowd funding platforms.

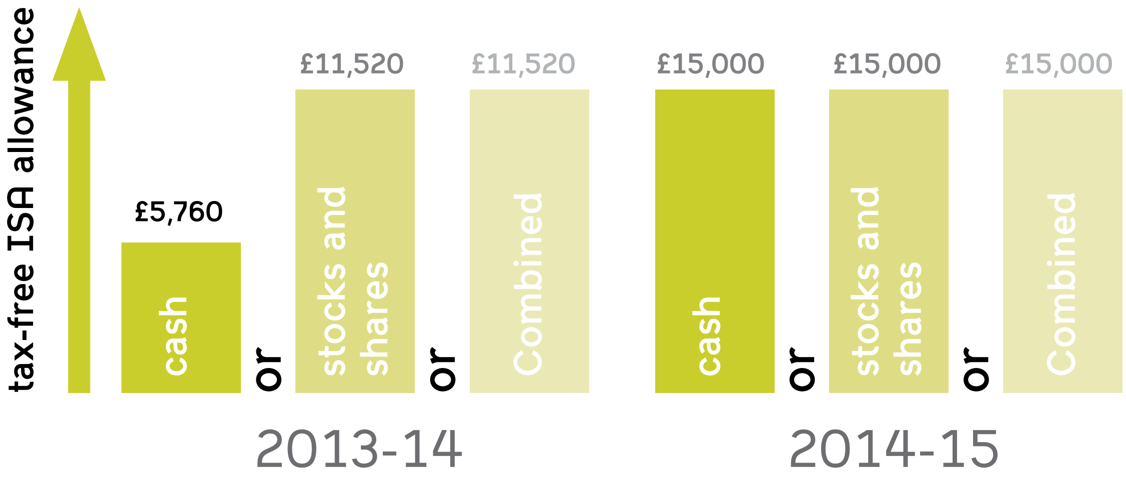
You will see this is a long list with many different possible underlying investment options. Most investors use some form of managed NISA, with funds under the NISA account arranged according to the wider investment strategy being employed by the investor.

However, the range of possible options allows for many different investment strategies to be pursued under the Stocks and Shares NISA.

How much can be invested?

From 1 July 2014, £15,000 per tax year.

Subject to this overall limit, you can put up whatever amounts you wish to split between Cash NISAs and Stocks and Shares NISAs. This is a new rule, different to the rule that applied before 1 July 2014, which limited the amount of money you could place into a Cash ISA.



You can now have one provider running both Cash and Stocks and Shares under the one account.

It is important to remember these are individual allowances - both a husband and a wife can invest these amounts each year.

Assuming current contribution limits stay fixed over a 10 year period, individuals would be able to save £150,000 tax free - £300,000 for a couple.

However, it is also important to remember that if you do not use your allowance in a particular year that allowance is lost. You cannot back date your contribution and you cannot bring forward any unused allowance.

There are some complicated transitional rules which apply to amounts invested between 6 April 2014 and 1 July 2014 (i.e. covering the tax year 2014/15 between the period of the start of the tax year and the new rules applying). These rules affect what you can do in the remainder of the 2014/15 tax year and how you can transfer/switch these amounts. Advice should be taken around these transitional rules if you believe you will be affected.

Warning: NISA limits do not 'roll-on': you cannot use an un-used portion of last year's NISA allowance to top-up this year's limit.

How long do I need to invest for?

Unlike a pension, there is no time period involved or minimum period. With a Stocks and Shares NISA type, where the money is invested, there should be a consideration that this will be held for some time. But this is just for the purposes of risk management – not because of any rule.

The rules impose no time limits or restrictions. The only aspect you need to think about is how the NISA fits in

with your general financial planning and other savings and investments.

Is my money tied up? Can I get it out?

As stated above, there is no restriction and your money is not tied up, unless you choose to use some form of underlying investment or cash account within a NISA, which in its own right has a contractual arrangement to a certain period. Subject to this and in all other cases you can withdraw your money, in full, without any tax consideration, at any time.

It is worth noting however, that if you subscribe to a NISA in a tax year and then withdraw money from that NISA in that year, you will lose the allowance equal to the withdrawal. You may also be unable to make further deposits in to your NISA depending on how much money you had already committed to it. If you had used the full allowance of £15,000, for example, and intended to take out £2,000 for a short period, you would be unable to add the £2,000 back into your NISA, as your total contributions for the year at this point would total £17,000.

> The original limits for ISAs, when they were introduced in 1999, were a total contribution of £7,000, with only £3,000 able to be saved in cash.

What's the tax treatment?

There is no tax on any income you receive from a NISA. This includes dividends, interest and bonuses. On 1 July 2014 the rules changed so that interest on cash held in a Stocks & Shares NISA will be completely tax-free, whereas before the interest was effectively paid net of basic rate tax.

There is no tax on capital gains arising on a NISA (losses on NISA investments cannot be allowed for Capital Gains Tax purposes against capital gains outside your NISA).

The insurer does not have to pay tax on income and capital gains on investments used to back your NISA life insurance policies. You do not have to pay any tax when the policy pays out.

You can take your money out at any time without losing tax relief.

You do not have to declare income and capital gains from NISA savings and investments or even tell your tax office that you have a NISA.

How do I know which NISA to choose?

There are two questions you need to answer to decide which ISA to choose:

- What type of NISA Account should you use?
- Which NISA Provider should you use?

You need to firstly decide whether you want to invest in a Cash NISA or a Stocks and Shares NISA or a combination of the two. This will probably be determined by your wider financial planning needs and approach. We can help you and advise you with this decision.

Once you have decided which type you will be using or the balance you will be putting into each, then you will need to decide which company or provider to invest with.

If you are seeking a Cash NISA account then you will want to compare different interest rates and terms offered by the various companies. The objective will be to get the highest interest return. This may vary from year to year – it is worth checking regularly to ensure that your NISA is paying a competitive rate.

If you are going to use a Stocks and Shares NISA then you need to determine what your investment approach will be and the level of risk you will want to take. This will help determine the underlying holdings that will be suitable.

If you have other investments then you will probably look to align your NISAs and the investments you choose with your overall investment strategy.

Once you have decided the nature of the underlying investments and whether to invest direct or via funds then you will want to find the best company (NISA provider). This decision will be made based on a mix of factors, for example what are the charges? What range of funds do they offer? Can you access the NISA through the internet? What is the administration and service record?

These decisions are ones we can help with either as a stand-alone decision or as part of wider financial planning view. We can advise you on suitable accounts and NISA providers and appropriate funds or investments to hold underneath the NISA.

ISAs are extremely popular with those at, or approaching, retirement. Around 5.5 million people of age 65 or older still hold ISA accounts.

Can I 'switch' an existing NISA?

Yes you can transfer your ISA to another ISA manager at any time. Your ISA must be transferred directly. You cannot transfer your ISA by closing it and opening a new ISA later even if this just a few days – it must be transferred direct from ISA to ISA.

A stocks and shares ISA can only be transferred to another stocks and shares ISA, whereas subscriptions to a cash ISA can be transferred to another cash ISA or to a stocks and shares ISA.

If you want to transfer the money you have put into your ISA in the current tax year, the whole amount has to be transferred.

However, for earlier years you can transfer all of the money you put into your ISA or only some of it. Be wary though, some managers may not allow you to transfer part of your ISA (this will be in the terms and conditions). Your existing ISA manager will be able to tell you how much you can transfer.

These are the terms under the ISA rules, another warning is that individual managers offering ISAs may have their own terms and conditions which may be more restrictive.

Transferring shares from an employee share scheme

You can transfer any shares you get from a SAYE share option scheme run by your employer or a Share Incentive Plan into a Stocks and Shares component of a NISA without having to pay Capital Gains Tax.

The value of the shares at the date of transfer counts towards your annual limit.

This means you can transfer up to £15,500 worth of shares in the tax year 2014-15 (assuming that you make no other subscription).

You must transfer the shares within 90 days from the day they cease to be subject to the Plan, or (for approved SAYE share option schemes) 90 days of the exercise of option date. Your employer should be able to tell you more.

Please note – not all NISA managers/providers will accommodate such transfers.

> Your ISA contribution limits reset at the end of the tax year (April 5th) each year. You cannot carry over any unused portion of your limit to next year's allowance.

The position on death

A NISA will end on the date of death. There will be no tax to pay on income or capital gains up to that date, but a personal representative will have to account for tax on any income or gains arising after the date of death. The NISA manager may sell the investments and pay the proceeds to a personal representative (or a beneficiary of an estate), or transfer the investments directly into their hands. The terms and conditions of the NISA may specify which it will be.

A NISA life insurance policy will pay out on death. A personal representative will have to claim the death benefit. There will be no tax to pay on income or capital gains that arise before the insurer accepts the claim. However, personal representatives will be taxed on any interest that is paid if there is then a delay in paying out the claim. The insurer will deduct tax at the lower rate before paying over the interest.

NISA investments form part of an estate for Inheritance Tax purposes.

The position on moving abroad

You can only open a NISA if you are resident in the UK for tax purposes (ask your Tax Office if you are in any doubt about this).

Crown employees, such as diplomats or members of the armed forces who are working overseas and paid by the government, are eligible to open a NISA. Their spouses or civil partners can also open a NISA.

If you start a NISA in the UK and then go abroad, you cannot continue putting money into the NISA (unless you are a Crown employee working overseas or the spouse or civil partner of a Crown employee working overseas). However, you can keep your NISA and you will still get tax relief on investments held in the NISA. When you return, you can start putting money in again (subject to the normal annual limits).

Should I use an ISA or a Pension?

This is an age-old question, often asked. There is no clear answer, as the answer is so dependent on personal circumstances. In many cases, the ideal position is if at all possible, you should use NISAs and Pensions.

Both are tax efficient investments, with some notable differences. Pensions grant tax relief on contributions – boosting the sums on the amounts put in. £100 into a NISA costs £100, whereas in a pension £100 contributed costs £80 and for higher taxpayers even less.

Both offer tax efficiency within the plans as there is no tax charged on the underlying assets.

Pensions, however, are restricted and cannot be released prior to age 55, whereas NISAs are free to take at any time. Pensions, like ISAS, were radically altered by the 2014 Budget, with greater flexibility introduced. There is no longer any major restriction in how a pension may be drawn down (effective from April 2015), removing one of the 'negatives' around pensions.

Any decision about whether to put available money into a pension or a NISA (or the balance between them) should be based on your wider financial planning requirements.

What is a Junior ISA?

Junior ISAs have separate rules and conditions to adult NISAs.

They are long term, tax free savings accounts for children.

They are available for children aged under 18, who live in the UK and who were not entitled to a Child Trust Fund (CTF) Account. If they were eligible, they cannot have a Junior ISA.

There are two types of Junior ISA; a cash Junior ISA and a Stocks and Shares Junior ISA (i.e. mirroring the general NISA approach).

Up to the age of 16, only a parent or an individual with parental responsibility can open a Junior ISA for the child. 16 or 17 year olds can open their own Junior ISA.

The money belongs to the child and cannot be withdrawn before age 18.

Parents have responsibility for 'managing' the ISA (e.g. opening it, choosing the company to open it with, making any changes etc) up to age 16. At 16 the child can take this responsibility over.

At age 18 the Junior ISA automatically converts to an adult NISA.

From 1 July, the new Junior ISA limit is £4,000 each year. This can be any mix between a Cash version and a Stocks and Shares version.

Getting help and advice

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The information contained in this guide was prepared in July 2014 and was based on the rules and regulations, limits and allowances in existence at that time. Readers should always ensure that they receive appropriate financial advice from a regulated adviser prior to make any investment into NISAs.

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