Kudos
Wealth

Top tips to maximise your ISAs

Your essential guide to invest
and grow your money.

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Welcome to our top ISA tips...

It's over 20 years since ISAs were introduced and they remain a popular way for savers wanting to invest and grow their money. Yet tax changes announced by the government at the end of 2022 will soon make ISAs an even more valuable and important way to save tax and invest for your future.

Six top tips for maximising your ISAs

In this booklet, we'll explain why and provide our six top tips aiming to get the most from your ISA savings. It could make all the difference when it comes to achieving your long-term financial goals.

1

Top up your ISA

Tax efficient investments are now even more valuable

You can save £20,000 into an ISA every year and it's generally a good idea to put in as much as you can. Any money held in an ISA is sheltered from Income Tax and Capital Gains Tax (CGT).

That's always been a great way to boost your savings, but ISAs will be even more attractive following tax changes that come into effect in April 2023.

For assets held outside of products like ISAs and pensions, investors have an annual CGT allowance – the amount of profit that can be made before tax is payable.

However, the CGT allowance will be cut from £12,300 to £6,000 in the 2023/24 tax year. That brings the allowance back down to what it was 30 years ago. From April 2024 it will drop again to £3,000.

So, what should investors do? Firstly, make the most of your ISA and pension allowances so you don't have to worry about paying CGT. Secondly, make use of your current CGT allowance before 5/4/23 while you can to realise gains and transfer assets into tax efficient products that will help shelter your money from further income tax and CGT.

The value of an investment will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

Review your cash savings

Make the most of your Personal Savings Allowance

It's vital to hold enough money in cash to meet short-term and emergency needs. It's your rainy-day fund. But using your ISA allowance as a home for your cash might not be the best thing to do, even though you'll benefit from tax-free interest.

That's because your Personal Savings Allowance enables basic-rate and higher-rate taxpayers to earn annual interest of £1,000 and £500 respectively from standard cash accounts before any tax is deducted. There is no allowance for an additional rate tax payer. For example, using an interest rate of 1.16% means that you can hold a lot (£86k for a basic-rate taxpayer and £43k for a higher-rate taxpayer[1]) in cash savings before you'd end up paying tax on the interest.

You should really consider whether your ISA allowance could be put to better use by investing it for the longer term in assets that have greater potential to maximise the tax breaks on offer.

The value of an ISA will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than you invested.
An investment in a Stocks & Shares ISA will not provide the security of capital associated with a Cash ISA.

The favourable tax treatment of ISAs may be subject to changes in legislation in the future.

[1] Based on the current average rate of interest for an easy access account of 1.16% - Moneyfacts, November 2022.

Get the most from your dividends

Don't pay more tax than you have to

It's easy to overlook the importance of the income that can be generated from your investments. Whether you take the income or reinvest it to help boost longer-term growth, it can make a big difference to your overall returns.

But tax changes coming in from April 2023 make it even more sensible to invest as much as possible into tax-efficient products such as ISAs and pensions that shelter your money from dividend tax, as well as income and CGT.

That's because the government is cutting the Dividend Allowance. In 2022/23, this allowance enables investors to receive annual tax-free dividend income of £2,000. But from April 2023, it's reducing to £1,000 and then down to £500 in April 2024.

Based on a dividend yield of 3.5%, this means that the value of an equity-based portfolio on which you can receive tax-free dividends will fall from £57,000 to around £14,000 in April 2024.

It's a huge difference, so it's worth talking to us as soon as possible about whether existing investments could be moved into more tax-efficient products. There are other factors to also consider so please always seek advice.

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Did you know?

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- This allowance enables investors to receive annual tax-free dividend income of £2,000 in 2022/23. This reduces to £1,000 in April 2023 and £500 in April 2024.
- As an example, based on a dividend yield of 3.5%. The value of an equity-based portfolio on which you can receive tax-free dividends will fall from £57,000 to around £14,000 in April 2024.

Review your ISA returns

Make sure your ISAs are working as hard as possible for you

Recent interest rate increases have resulted in Cash ISA rates hitting their highest level in a decade[2]. But soaring inflation means that savers are still losing money in real terms.

Despite the returns on offer, saving into cash is proving a hard habit to break. Cash ISAs still account for nearly seven out of ten ISA subscriptions[3]. It may be time to review whether money you've saved into Cash ISAs is going to help you achieve your longer-term financial goals.

It's also important to regularly review any Stocks & Shares ISAs you hold. It can be challenging to keep track of how they're performing. Maybe your attitude to risk has changed as you've reached a different stage in life. Perhaps you need to make changes aiming to generate more income.

Whatever ISAs you've got, we're always ready to talk through your options to get your money working as hard as it can, and bring your future goals a bit closer.

You should note that if you transfer as cash, you'll be out of the market until the transfer is completed. You won't lose out if the market falls, but your money won't benefit from any income or growth if the market rises in this period. If you transfer a fixed rate cash ISA before the end of the term, you may have to pay a fee.

If you're transferring funds from a Stocks and Shares ISA, you'll remain invested until the transfer. You'll be unable to switch or sell these funds while the market falls or rises during this time. Please note that your current provider may charge exit fees.

[2] Moneyfacts – November 2022
[3] HMRC Individual Savings Account Statistics – June 2022

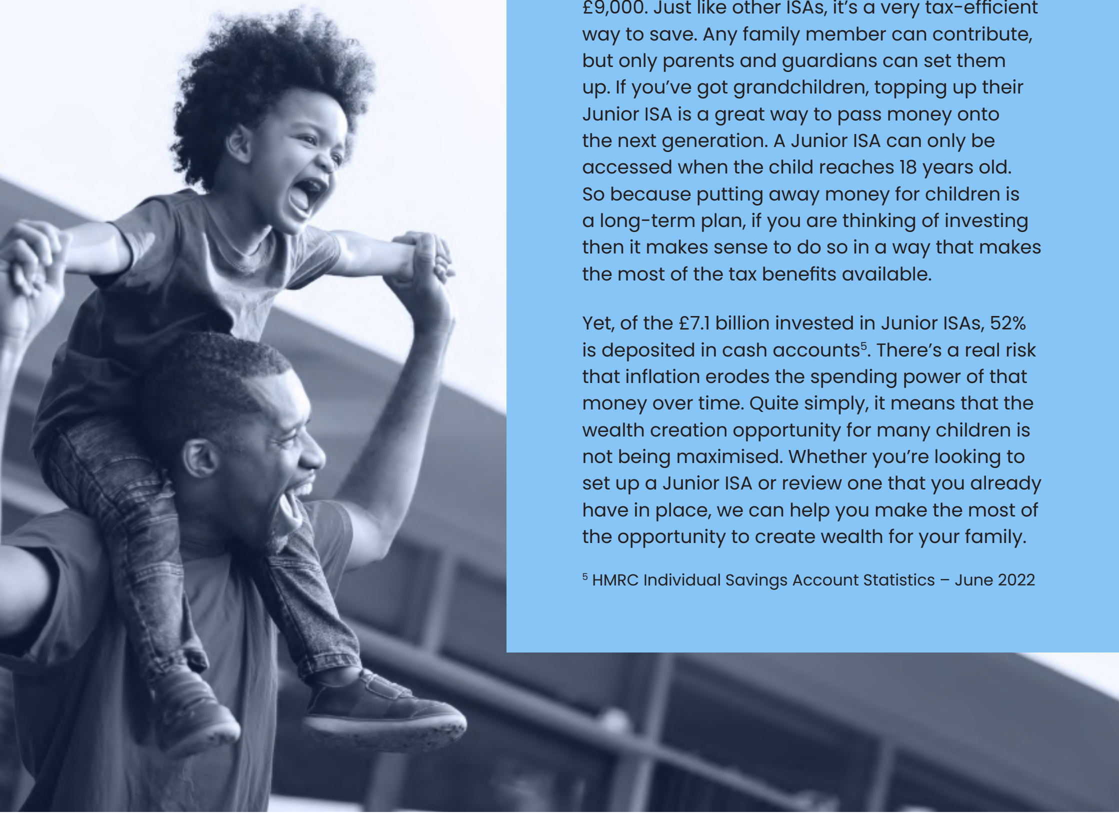
Set up regular ISA payments

Reduce the risk of stock market volatility

It's a fact that stock markets go up and down in the short term, sometimes significantly. If you're investing a lump sum, you might be worried about doing it at the 'wrong time'. The risk is that you keep putting it off and never give yourself the chance to invest for your future. Investing regularly into an ISA is a way to help control risk over the long term. It encourages you to invest no matter what the markets are doing.

By drip-feeding your money into the market, you can buy more units when prices fall. When prices recover, you'll have more units of a higher value.

Saving regularly makes it possible to benefit from the short-term ups and downs and, at the very least, reduce the worry about getting your timing wrong.



Open a Junior ISA

Giving children a head start in life

Junior ISAs are a great way to help build capital for children with the financial challenges they'll face in the future.

The annual Junior ISA allowance is currently £9,000. Just like other ISAs, it's a very tax-efficient way to save. Any family member can contribute, but only parents and guardians can set them up. If you've got grandchildren, topping up their Junior ISA is a great way to pass money onto the next generation. A Junior ISA can only be accessed when the child reaches 18 years old. So because putting away money for children is a long-term plan, if you are thinking of investing then it makes sense to do so in a way that makes the most of the tax benefits available.

Yet, of the £7.1 billion invested in Junior ISAs, 52% is deposited in cash accounts[5]. There's a real risk that inflation erodes the spending power of that money over time. Quite simply, it means that the wealth creation opportunity for many children is not being maximised. Whether you're looking to set up a Junior ISA or review one that you already have in place, we can help you make the most of the opportunity to create wealth for your family.

[5] HMRC Individual Savings Account Statistics – June 2022

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