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Individual Savings Accounts

Successive governments, concerned at the relatively low level of savings in the UK economy, have over the years introduced various means by which individuals can save through a tax-free environment.

What is an Individual Savings Account (ISA)?

ISAs are tax-exempt savings accounts available to individuals aged 18 or over who are resident and ordinarily resident in the UK. ISAs are only available to individual investors and cannot be held jointly.

Investment limits

The overall annual savings limit remains at £20,000 for 2026/27.

From 6 April 2027, the annual ISA cash limit will be set at £12,000, within the overall annual ISA limit. This restriction will not apply for those over the age of 65, where the cash ISA limit will remain at £20,000.

Investment choices

Investors are allowed to invest in a cash ISA, an investment ISA, an Innovative Finance ISA, a Lifetime ISA (see below), or a combination of the four, subject to not exceeding the overall annual investment limit.

Investors are able to transfer their investments from a stocks and shares ISA to a cash ISA (or vice versa).

ISAs are allowed to invest in cash (including bank and building society accounts and designated National Savings), stocks and shares (including unit trusts, investment funds and government securities with at least five years to run) and life assurance.

A wide range of securities including certain retail bonds with less than five years before maturity, Core Capital Deferred Shares issued by building societies, listed bonds issued by Co-operative Societies and Community Benefit Societies and SME securities that are admitted to trading on a recognised stock exchange are eligible to be held in an ISA, Junior ISA or Child Trust Fund (CTF).

The Innovative Finance ISA can be used for loans arranged via a peer-to-peer (P2P) platform. Peer-to-peer lending is a small but rapidly growing alternative source of finance for individuals and businesses. The Innovative Finance ISA may also invest in debt securities offered via crowdfunding platforms. Existing peer-to-peer loans or crowdfunding debentures cannot be transferred into Innovative Finance ISAs.

Withdraw and replace monies

Money can be withdrawn from an ISA without any of the tax benefits being lost. ISA savers may be able to withdraw and replace money from their cash ISA without it counting towards their annual ISA subscription limit for that year where they hold a 'Flexible ISA'.

Additional ISA allowance for spouses on death

An additional ISA allowance is available for spouses or civil partners when an ISA saver dies. The additional ISA allowance is equal to the value of a deceased person's accounts at the time of their death or when they are closed and is in addition to the normal ISA subscription limit. There are time limits within which the additional allowance has to be used. In certain circumstances an individual can transfer to their own ISA non-cash assets such as stocks and shares previously held by their spouse.

In most cases, it is envisaged that the additional allowance will be used to subscribe to an ISA offered by the same financial institution that provided the deceased person's ISA. As the rules allow the transfer of stocks and shares directly into the new ISA, in many cases the effect will be that the investments are left intact and the spouse becomes the new owner of the deceased person's ISA.

The tax advantaged treatment of ISAs continues whilst an individual's estate is in administration.

Tax advantages

The income from ISA investments is exempt from income tax.

Any capital gains made on investments held in an ISA are exempt from capital gains tax.

Any ISAs held on death will form part of a person's estate for inheritance tax purposes.

Comment

The recent reductions in the dividend allowance (now £500) and the CGT annual exempt amount (now £3,000), make ISA accounts more attractive for tax efficient share investments going forward.

Uses of an ISA

Many people use an ISA in the first instance to save for a rainy day. Since they were first introduced people have used them to save for retirement, to complement their pension plans or to save for future repayment of their mortgage to give just a few examples. We have known young people, wary of commitment to long-term saving start an ISA and when more certain of the future use it as a lump sum to start another financial plan.

Help to Buy ISA

The Help to Buy ISA, which provides a tax-free savings account for first time buyers wishing to save for a home.

Help to Buy ISA accounts were available until 30 November 2019, when this type of account was withdrawn for new savers. Those individuals that already have an account can keep saving until 30 November 2029, when accounts will close to additional contributions. An individual must claim their bonus (see below) by 30 November 2030.

The scheme provides a government bonus to each person who has saved into a Help to Buy ISA at the point they use their savings to purchase their first home. For every £200 a first time buyer saves, the government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings.

Help to Buy ISAs are subject to eligibility rules and limits:

- An individual was only eligible for one account throughout the lifetime of the scheme and it was only available to first time buyers.
- Interest received on the account will be tax-free.
- Savings are limited to a monthly maximum of £200. There was an opportunity to deposit an additional £1,000 when the account was first opened.
- The government will provide a 25% bonus on the total amount saved including interest, capped at a maximum of £3,000 which is tax-free.
- The bonus will be paid when the first home is purchased.
- The bonus can only be put towards a first home located in the UK with a purchase value of £450,000 or less in London and £250,000 or less in the rest of the UK.
- The government bonus can be claimed at any time, subject to a minimum bonus amount of £400.
- The accounts are limited to one per person rather than one per home so those buying together can both receive a bonus.

Lifetime ISA

A Lifetime ISA is available for adults under the age of 40. Individuals are able to contribute up to £4,000 per year and receive a 25% bonus (up to £1,000 per year) on the contributions from the government, up until the age of 50. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after making the first payment into the Lifetime ISA, can be withdrawn from age 60 completely tax-free, or where the account holder is terminally ill (with less than 12 months to live).Where the funds are withdrawn for any other reason than those listed above, they will have to pay a 25% charge (clawback of the government bonus).

The Lifetime ISA can be used to invest in cash or stocks and shares, or have a combination of both.

Further details of the Lifetime ISA are as follows:

- The annual £4,000 allowance will form part of a person's total ISA annual allowance of £20,000.
- Over a lifetime of contributing to the ISA, a person can save up to £128,000 and receive up to £32,000 of government bonus.
- From a person's 50th birthday, no further contributions are allowed and no government bonus is available, although the account will continue to earn interest or investment returns.
- The savings and bonus can be used to buy a home worth up to £450,000 anywhere in the country. Additionally, the property must be purchased with a mortgage and a conveyancer or solicitor must be acting for you on the purchase. Two first-time buyers can both use their Lifetime ISAs, provided the other conditions are still met.
- An individual that has a Help to Buy ISA may transfer those savings into a Lifetime ISA, or continue saving into both. However, only the bonus from one account can be used to buy a house.

The government announced in Autumn Budget 2025 that a new, simpler ISA product would be developed to support first time buyers and will replace the Lifetime ISA. A consultation will be published in early 2026.

Junior Individual Savings Account (Junior ISA)

Junior ISAs are available for UK resident children under the age of 18 who do not have a CTF account. Junior ISAs are tax advantaged and have many features in common with ISAs. They can be cash or stocks and shares based products. The annual subscription limit for Junior ISA and CTF accounts remains at £9,000 for 2026/27. When a child turns 18, the Junior ISA automatically converts into an adult ISA.

A transfer of savings from a CTF to a Junior ISA is permitted at the request of the registered contact for the CTF.

The CTF scheme closed in 2011. CTF accounts started to mature in September 2020 when the first qualifying children reached 18. Without regulatory change the investments would lose their tax advantaged status. CTF and ISA regulations have therefore been made which:

- make sure that investments in CTF accounts retain their tax advantaged status post maturity, pending instructions from the account holder
- allow savings transferred from a matured CTF to be disregarded for the annual ISA subscription limit.

How we can help

Please contact us if you would like any further information on ISAs.

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