



ST. JAMES'S PLACE  
WEALTH MANAGEMENT

## ISA ..... TOP TIPS

# TAKE CONTROL OF YOUR ISA PLANS

The chancellor may not have increased next year's annual ISA allowance in his Autumn Budget, but the substantial increase in the annual allowance to £20,000 for this tax year was a very welcome step in encouraging individuals to invest for their future.

The popularity of ISAs in fostering the UK's savings habit is clear. At the end of last tax year, around £585 billion was held in ISAs by over 21 million adults.<sup>1</sup>

Yet many savers are at risk of missing out on the potential benefits of their ISA allowance because they continue to save into low-paying cash accounts that fail to make the most of the tax breaks on offer. But the preference for holding cash is proving a hard habit to break. Research from BlackRock last year revealed that UK savers on average hold more than two thirds of their investable wealth in cash.<sup>2</sup>

Similarly, Cash ISAs have typically accounted for around 80% of subscriptions every year and more than 10 million Cash ISAs have received contributions in each of the last 10 years.<sup>3</sup> Those trends make clear that Cash ISA accounts are not being used to house emergency cash, but as a key part of individuals' longer-term savings strategy.

The ISA numbers add to the total of over £1,596 billion that is deposited in retail savings accounts – a huge sum of money that is currently failing to achieve the very basic objective of keeping pace with inflation.<sup>4</sup>

---

At the current rate of 0.68%, the average Cash ISA saver is suffering a negative return of over 2.4% once inflation is taken into account. Not a single Cash ISA is currently paying a rate that beats inflation.<sup>5</sup>

While many savers may have given up the battle to maximise their Cash ISA returns, there are signs of a shift in savers' attitudes and habits.

High street banks reported an average monthly outflow of £1.1 billion from Cash ISA deposits in the second half of 2017<sup>6</sup>, suggesting that an increasing number of savers are turning away from Cash ISAs as the impact of low returns and tax changes becomes clearer.

Furthermore, latest HMRC figures show that contributions to Stocks & Shares ISAs in the last tax year rose by nearly 6% to £22.3 billion. On the other hand, Cash ISA subscriptions fell by a staggering 33% to £39.2 billion. For the first time since ISAs were introduced 18 years ago, the total amount of money held in Stocks & Shares ISAs is greater than the total deposited in Cash ISAs.<sup>7</sup> It appears that savers are increasingly recognising the greater potential of Stocks & Shares ISAs to create tax-efficient capital growth and income for the future.

As the end of the tax year approaches, individuals yet to use their ISA allowance, and those with accumulated ISA savings, need to carefully consider their options to ensure that they are maximising this valuable tax perk.

## Consider how the Personal Savings Allowance affects your ISA plans

Among the factors contributing to the shift away from Cash ISAs was the introduction of the Personal Savings Allowance in April 2016. This enables basic rate taxpayers to earn £1,000 a year in tax-free interest from standard current and deposit accounts. For higher rate taxpayers, the allowance is £500.

This has significantly reduced the relative advantages of holding cash in an ISA, which had previously been the only available source of tax-free interest. It means that basic rate savers earning the average no-notice account rate of 0.45%<sup>8</sup> could receive tax-free interest on deposits of around £222,000. For higher rate taxpayers, the equivalent sum is £111,000.

Cash is the right home for short-term needs. Given the size of the emergency fund on which you can earn tax-free interest, could your ISA allowance, or accumulated Cash ISA savings, instead be invested for the long term?

Of course, some savers will continue to be attracted by the opportunity to earn tax-free interest above the level of the Personal Savings Allowance.

---

It's also the case that money held in Cash ISAs will retain the tax benefits, while the amount on which tax-free interest can be earned in standard accounts will reduce as and when interest rates rise. But it seems unlikely that savings rates will rise significantly for some time given the economic uncertainties.

For now, the question for savers is whether their valuable ISA allowance could be working harder for them by taking more advantage of the long-term tax benefits on offer, rather than serving as an additional home for short-term cash needs.

## Beware of the cut in the Dividend Allowance

A change to the taxation of dividends from April this year will make it even more important that investors fully utilise tax-efficient wrappers such as ISAs and pensions to shelter income-generating assets.

In April 2016, the then-chancellor George Osborne introduced the Dividend Allowance, enabling individuals to receive tax-free dividend income of £5,000 each year, regardless of their other income. But little over a year later, his successor Philip Hammond announced that the allowance would be cut to £2,000 from April 2018.

Savers were caught in the crossfire as the government sought to crack down on the ability of company directors with a shareholding in their business to pay themselves tax-free dividends.

The cut makes a big difference to value of equity-based investments on which dividends can be received tax-free. Assuming a dividend yield of 3.5%, the amount falls from around £150,000 to just over £57,000.

In an environment of low growth and low interest rates, the ability of your investments to generate a healthy level of income is even more valuable, whether you take the income or reinvest it to boost returns over the longer term.

It makes sense for that income to be as tax-efficient as possible. Making the most of your ISA allowance in this tax year is one way to build a fund free of any further liability to Income Tax or Capital Gains Tax.

After transferring assets between spouses to fully utilise the lower Dividend Allowance, you should consider using your annual Capital Gains Tax (CGT) exemption of £11,300 to realise gains on taxable assets that could then be invested into an ISA wrapper to provide a long-term shelter from Income Tax and CGT.

---

## Review your ISA portfolio

It's not just those with existing Cash ISA holdings who should consider whether their accumulated ISA savings are working as hard for them as possible.

Investors with Stocks & Shares ISA portfolios should review them regularly, and the end of the tax year is as good a time as any. How are the funds or underlying investments performing? Are the managers you originally chose still looking after your investments?

Does your portfolio still match your attitude to risk or current needs? Could you improve the income-generating potential of your ISA portfolio? Would you like to consolidate your ISA investments into one convenient and easily-managed portfolio?

If after a thorough review of your ISA portfolio you conclude that a change is appropriate, you can transfer the fund to a new ISA manager while retaining all the tax benefits.

## Make market volatility work to your advantage

Last year, stock markets around the world registered their least volatile year since before the financial crisis over a decade ago. But investors would be wrong to believe that volatility is a thing of the past, as markets grapple with a long list of geopolitical and economic uncertainties.

The fact remains that short-term volatility is an inherent feature of stock market investing. For those worried about investing at the wrong time, saving regularly into a Stocks & Shares ISA is an ideal way to make the most of your allowance. It's a tried and trusted way to help control risk over the longer term, encouraging you to invest no matter what the market is doing.

By drip-feeding your money into the market, you have the potential to buy more units when share prices are falling. Of course, no-one can predict when it will be, but when prices recover, you'll have more units with a higher value.

Saving regularly, or phasing a lump sum investment from cash into the market over a number of months, makes it possible to benefit from the short-term ups and downs and, at the very least, reduce the worry about investing at the wrong time.

## Don't overlook the opportunity to save for children

Given the future financial challenges faced by the children of today, it's important not to overlook the opportunity to give them a head start by investing into a Junior ISA. Of course, gifting money in this way also provides estate planning benefits.

In this tax year, up to £4,128 can be contributed for each child by parents, family members and friends. The government has announced that the allowance will rise to £4,260 next tax year, in line with the Consumer Prices Index.

A Junior ISA can hold stocks and shares or cash, and it cannot be accessed until the child reaches 18 years of age. In other words, for parents and grandparents who start saving early, it's a long-term investment and an opportunity to build up a tax-efficient fund to help meet the future expenses and plans of their children or grandchildren.

Latest figures show that 794,000 Junior ISAs were subscribed to last tax year and around £858 million was invested. Junior ISAs are growing in popularity, yet around 61% of the money saved into Junior ISAs last year was deposited in cash.<sup>9</sup>

These savings are at real risk of failing even to maintain their spending power. The alternative of a Stocks & Shares Junior ISA, of course, comes with the risk of short-term volatility; but it provides the opportunity of achieving long-term capital growth and creating a sum that provides a child with that important head start.

## Take control of your ISA plans. Invest by 5 April.

<sup>1, 3, 7, 9</sup> HMRC, September 2017.

<sup>2</sup> BlackRock, 'Investor Pulse' survey, May 2017.

<sup>4, 5, 8</sup> Moneyfacts, December 2017.

<sup>6</sup> UK Finance, November 2017.

*The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested. An investment in a Stocks and Shares ISA or JISA will not provide the security of capital associated with a deposit account with a bank or building society.*

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



ST. JAMES'S PLACE  
WEALTH MANAGEMENT

The 'St. James's Place Partnership' and the titles 'Partner' and 'Partner Practice' are marketing terms used to describe St. James's Place representatives. Members of the St. James's Place Partnership in the UK represent St. James's Place Wealth Management plc, which is authorised and regulated by the Financial Conduct Authority. St. James's Place Wealth Management plc Registered Office: St. James's Place House, 1 Tetbury Road, Cirencester, Gloucestershire, GL7 1FP, United Kingdom. Registered in England Number 4113955.