BEYOND WEALTH
FINANCIAL MANAGEMENT

A guide to ISAs

What is an ISA?

In the world of financial planning and wealth management, the concept of tax-efficient savings is paramount. Independent Savings Accounts (ISAs) represent a strategic channel whilst paying no income, dividend or capital gains tax on the money you earn from an ISA.

ISAs are effectively tax wrappers that are designed to facilitate tax-efficient savings and investment. They were introduced by the government in 1999 and replaced Personal Equity Plans (PEPs) and Tax-Exempt Special Savings Accounts (TESSAs).

For the 2026/27 tax year you are able to save a maximum of £20,000 within a range of ISAs tax-free. ISAs allow individuals to channel their financial resources into diverse avenues, ranging from cash deposits to investment portfolios, whilst shielding the accrued gains from taxation.

Types of ISA

ISAs come in several different types, each catering to various financial goals and risk appetites. ISAs are bound by a limit you can invest in each tax year. For the 2026/27 tax year, the overall individual ISA limit is £20,000 per year, per individual. As of 6th April 2024, the restriction on subscribing to only one ISA of each type per tax year has been removed. This means that you can now contribute to multiple ISAs of the same type (with the exception of Junior ISAs and Lifetime ISAs) within the same tax year, provided that the total contributions do not exceed the £20,000 annual allowance.

Cash ISA

A Cash ISA is essentially a tax-free savings account. Interest earned on the money that you save in a Cash ISA is not subject to income tax. It's a low-risk option suitable for those who want to preserve their capital whilst earning interest. Depending on the type of Cash ISA that you open, you can either have instant access to your money where you can withdraw whenever you need to or you will have limited access where you can only take out money a certain amount of times a year before your interest rate will drop. It is worth noting that from 6th April 2027, under 65's will be limited to £12,000 in a Cash ISA. Over 65's will continue to be able to save up to £20,000.

Stocks and Shares ISA

This type of ISA allows you to invest in a wide range of assets, including stocks, shares (equities) and bonds amongst other investments. Any dividends or capital gains earned within a Stocks and Shares ISA are exempt from tax.

If you have the facility to invest for at least 6 years, a Stocks and Shares ISA can help you to build a nest egg for the future. It is important to remember that investments carry risk. The value of your investments can go down as well as up so you may get back less than you first invested.

Innovative Finance ISA (IFISA)

This type of ISA is designed for peer-to-peer lending platforms or other alternative finance investments. It allows you to invest in loans or debt-based securities and receive tax-free interest on returns. It is important to note that IFISAs could be considered higher risk and are not appropriate for the majority of retail consumers. They do not have any protection from the Financial Services Compensation Scheme (FSCS).

Junior ISA (JISA)

A parent or guardian can open a Junior ISA to save tax-free for their children, although anyone can contribute to them. It operates similarly to a Stocks and Shares ISA or a Cash ISA, but with an annual contribution limit of £9,000 for the tax year 2026/27.

It is important to note that the funds belong to the child who takes control of the ISA at the age of 16. They cannot access until they are aged 18, so if you require access before this it may not be appropriate.

Lifetime ISA (LISA)

A LISA is designed for long-term savings, specifically for purchasing your first home or saving for retirement. Currently, you can contribute up to £4,000 per year into a LISA although this counts towards your annual overall £20,000 ISA allowance.

The government adds a 25% bonus to your LISA contributions each year up to a maximum of £1,000. You can open a LISA from the age of 18 and you must make your first payment into it before you reach 40. When you reach the age of 50, you are no longer able to pay into a LISA and the government's additional 25% will stop. Your LISA will remain open and your savings will continue to earn interest.

When it comes to withdrawing money from a LISA, you will incur a 25% withdrawal charge unless you are:

- Buying your first home (under a total of £450,000)
- Aged 60+
- Terminally ill with less than 12 months to live

This means that you will lose more than you put in. As you can see from the example below, if you withdraw the full amount the penalty is more than the bonus received.

	You Invest		You withdraw
You Invest	£4,000.00	You Withdraw	£5,000.00
Bonus at 25%	£1,000.00	Penalty at 25%	£1,250.00
Total Amount	£5,000.00	You receive	£3,750.00

How should I use my ISA entitlement? Savings vs investing

As you can see, there are various types of ISA you can invest in, but which is right for you?

Savings ISAs such as Cash ISAs offer security for your money. Very similar to a standard savings account, Cash ISAs offer fixed or variable returns. Most Cash ISAs are protected by the FSCS who offer compensation up to £120,000 if the financial firm or bank/banking group that you use goes bust.

If you are happy taking more of a risk, investing your money in a stocks and shares ISA have the potential to give far higher returns. Although this is not guaranteed and you can lose money During the Covid-19 pandemic the global stock markets crashed and from that, many people lost money and took what they had left out of their Stocks and Shares ISA. However, they have missed out on strong returns and there could be more growth to come.

There is no right or wrong way to use your ISA entitlement, but what is important is that you seek financial advice in order to determine your risk appetite.

The younger that you are, the longer you have to recover from a market fall, whereas if you are nearing or are in retirement, you may have to take a more cautious approach to protect the savings that you have built up over the years. This will be dependent on your appetite for investment risk.

Financial Services Compensation Scheme (FSCS)

can protect eligible customers if an authorised financial firm fails and cannot return their money. For cash deposits held with banks, building societies or credit unions, protection is up to £120,000 per person, per authorised institution. For investments, including stocks and shares ISAs, the limit is usually up to £85,000 per person, per authorised firm. Before opening an ISA or making an investment, it is sensible to check that the provider is authorised and covered by the FSCS.

If you hold several accounts with the same bank or building society, your money is usually added together for the purpose of FSCS protection. This also applies if different brands operate under the same banking license. Even if the names are different, they may legally be part of the same authorised institution. In that case, the relevant limit applies to the total amount that you hold across all those accounts combined.

If you want separate protection limits, your money must be held with firms that have different banking licenses. This can be checked on the Financial Services register on the Financial Conduct Authority's website.

It is important to understand that the FSCS protects you if the firm or bank fails, not if your investments fall in value. If you hold a Stocks and Shares ISA and markets decline, this is normal investment risk and would not be compensated. The FSCS only steps in if there is a shortfall because the authorised firm itself collapses.

What can I do if I have used my ISA allowance?

If you've already utilised your full ISA allowance for the current tax year and are looking for additional ways to save or invest, there are several options available to you.

Here are a few alternatives to consider:

Pension contributions

Pension contributions receive tax relief, which means that you could benefit from income tax relief on the money that you pay in, subject to annual limits. For most people, the annual allowance is £60,000 or 100% of your earnings (whichever is lower) and unused allowance from previous years may also be available. This can be a useful way to continue saving tax-efficiently once your ISA allowance has been fully used.

General investment accounts

As of the 2026/27 tax year, if you've utilised your full ISA allowance, you can still invest through regular investment accounts. However, be aware of the following updates regarding Capital Gains Tax:

- For the 2026/27 tax year, the annual CGT exemption is £3,000.
- Effective from 30th October 2024, the CGT rates have increased to 18% for basic rate taxpayers and 24% for higher rate taxpayers.

Savings bonds and certificates

Government-backed savings bonds or National Savings and Investments (NS&I) certificates might offer a stable and secure way to save, although interest rates can be relatively low.

Premium bonds

NS&I Premium Bonds offer a chance to win tax-free prizes in monthly draws. Keep in mind that while the winnings are tax-free, they are not guaranteed.

Don’t let your ISA allowances go to waste

Time is money: the sooner you invest, the better off you could be. Using your ISA allowance at the start of the tax year could mean an extra year of growth for your money. Even if you don’t have £20,000 to invest in one go, which for the large majority is the case, prioritising saving whatever you can within an ISA as soon as possible is better use of your money than it being sat in a savings account potentially paying unnecessary tax. With most ISAs, you are able to invest

Pensions cannot be accessed until the age of 55 (57 from 2028). This will increase in line with state retirement age.

NS&I are government backed and are not regulated by the Financial Conduct Authority (FCA).

It's important to note that tax rules and regulations can change, and the suitability of these options depends on your individual financial situation, goals, and risk tolerance. Consulting a Financial Adviser or tax professional is recommended before making any significant financial decisions.

Don’t forget about your ISA – Make sure you’re checking it regularly

Having a stocks and shares ISA does come with risk so it is important you are checking to see how your money is doing. You don’t have to leave your money in an underperforming fund. There are hundreds of funds to choose from, obtaining advice from a professional adviser who help in recommending a portfolio or fund that compliments your attitude to investment risk.

Tips for successful ISA investing

There are no guarantees when investing in a Stocks and Shares ISA. Markets go up and down and the value of your investments can rise or fall. However, investing over the long term gives you a strong opportunity for growth.

ISAs are designed to help you to build wealth over time. Try not to make decisions based on short-term market movements or emotions. Staying focused on your long-term goals can help you to avoid reacting to normal market fluctuations.

Make regular contributions

You don’t need a large lump sum to get started. Small, regular contributions can build up over time and make a real difference. Setting up automatic payments into your ISA can help you to stay consistent and disciplined.

Stay informed

Take the time to understand the investments that you hold and how they work. Learning about different asset types and how markets operate will help you to make more confident and informed decisions about your money.

Diversify your investments

Spreading your money across different types of investments, such as shares, bonds, property and cash, can help to reduce risk. Diversification means that you are not relying on the performance of just one investment.

Understand your risk level

Everyone has a different level of comfort when it comes to risk. Before investing, consider how much risk you are willing and able to take and make sure that your investments reflect that level of comfort and your financial situation.

Consider professional advice

There are many different Stocks and Shares ISAs available, each with different investment strategies, risk levels and potential returns. Choosing the right one can be complex. Speaking to a Financial Adviser or Planner can help you create a plan that aligns with your goals and attitude to risk.

It is important to remember that when investing your capital is at risk. The value of your investment (and any income from them) can go down as well as up and you may not get back the full amount you invested. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

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Important information

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