the ultimate **isa** guide

looking to open your first ISA or to want transfer an existing ISA?

our ultimate guide will provide you with all you need to know

mercantile circle

what is an ISA and why should I consider investing?

The current financial market place is flooded with hundreds of different current accounts, savings accounts, investment accounts and many more – leaving investors confused about choosing an option that's right for them. How is an Individual Savings Account (ISA) different?

An ISA, or Individual Savings Account is a little tax-free gift from the UK government, introduced as a means of encouraging UK consumers to save more - so you really should be making the most of them.

The best way to think of an ISA is as a 'wrapper' in which consumers can shelter savings and investments from tax. Savers can choose to invest in two types of ISA – either a Cash or Investment ISA (aka Stocks and Shares ISA), or split between the two. An individual can only contribute money into one Cash ISA and one Investment ISA in each tax year.

Any UK resident aged over 18 (16 for cash ISAs) can open an ISA. There is no upper age limit and savings can be withdrawn whenever needed, however this will affect potential returns. It also generally costs no more to place your money into a cash or investment wrapper; however the potential returns are very different.

An additional incentive for savers is the Lifetime ISA. Introduced in 2017 this type of ISA offers a flexible way for adults under 40 to save for their first home or for later in life with a boost from the government. You can contribute up to £4,000 each year and get a 25% government bonus (up to £1,000 each year) on any contributions before your 50th birthday. You'll be able to withdraw the money tax free when used to buy your first home or after the age of 60 you can choose to save this as cash or invest in the stock market.

the ISA allowance

You can contribute into your ISA every year; however the amount is dependent on the government's allocation for that year. The allocation for the 2017/18 tax year is £20,000.

If you use part of your allowance you will not be able to roll over the remainder to the following year. The earlier in the tax year you use your ISA allowance the better, because the longer you receive tax free returns the higher those potential returns could be.

why invest?

- ISAs are a great way for UK residents to save or invest tax-free
- Boost your savings and increase the returns on your original investments
- The government sees ISA's as a way forward for investors
- The increase in the ISA limit allows for greater tax free capital gains
- More and more ISA millionaires are arising
- Withdraw your funds with ease, without penalties
- Secure your financial future today
- The lifetime ISA offers an additional incentive
- Investment ISAs allow you to have multiple investments under one wrapper.

continued growth of the ISA

The flexibility, range of tax benefits and the fact that they are extremely easy to understand has led to exponential growth with over 12 million UK adults contributing into an ISA in 2015/16

why tax efficient savings matter

Any tax you pay impacts your real returns in much the same way as the cost of the provider. You want to balance your cost and returns, so you need to ensure that you are paying the right tax. Taking advantage of the tax wrappers available to you will minimise your costs.

For example:

- If you had invested £20,000 (the current ISA allowance) every year for 20 years, at the end of 20 years your ISA value would total **£694,385.04**.
- You pay the higher rate of income tax so are subject to 20% capital gains tax.
- You have achieved returns of 5% every year for 20 years.
- If you had saved this outside of an ISA you would pay £56,657.01 in capital gains tax when you withdraw your savings, reducing your pot to £637,728.03 (assuming you have not used your £11,100 capital gains tax allowance elsewhere).

If those savings were in an ISA you would not pay a thing. So the ISA tax wrapper introduced by the Government can prove to be incredibly valuable over time.

Cash vs Stocks and Shares - what type of ISA is right for me?

In a nutshell there are two conventional types of ISA – either a Cash or Investment ISA (aka Stocks and Shares ISA). You can put your annual allowance into each, or split between the two. The question is, what's the best option? We discuss the pros and cons of both...

Cash ISA

A Cash ISA is considered in most cases as a basic savings account, with most high-street banks and building societies offering several types. An instant access account gives you greater flexibility but offers a lower rate of interest, whilst fixed accounts promise a higher rate of return providing that you don't touch the money for an agreed period of time.

A Cash ISA protects your capital, which means you won't lose any of the money you put in, but the trade-off for this security is a much slower pace of growth for your savings pot. Essentially you'll be exposed to the risk of inflation, which can inevitably erode your money's spending power.

Unfortunately, Cash ISAs have been offering disappointing returns for several years now due to a trending all-time low with the base interest rate – as such many savers are looking to alternative options such as Managed Stocks and Shares ISAs to secure greater, more meaningful returns.

who's suitable and when to use them

To sum it up Cash ISAs are a safer bet for short-term savers. If you foresee the need to access your money within the next couple of years – perhaps for that big holiday you know you want to go on, or that car you want to buy, then leaving your money in cash would be deemed as a more sensible option – think of it as a place to park your money. A Cash ISA is also good for the nervous saver; if you live in fear of losing your money this is a safe and efficient way of saving.

things to consider

- The penalties for withdrawing early can completely wipe out your returns, if you think you need that money for when the freezer breaks you are better off keeping it in a current account or checking that it's a flexible ISA.
- If you plan to keep your savings in cash for longer than a year you need to think about inflation. Interest rates are currently very low and the impact of inflation could actually mean that the real value of your account decreases.

Stocks and Shares ISA

A very different type of product to the Cash ISA, Stocks and Shares ISAs (also known as Investment ISAs) are best described as a 'wrapper' rather than an account, protecting your returns from tax regardless of where it is invested. This type of savings account is ideal for those who want the tax-efficiency of an ISA wrapper with the growth potential of the stock market. This type of ISA allows you to have multiple investments under one wrapper, making your portfolio highly diversified.

Designed to deliver significantly better returns compared to Cash ISAs - especially over the long-term, Stocks and Shares ISAs do offer a higher level of risk but this can be tailored to your individual circumstances. Expert portfolio managers will seek value in the market to ensure you obtain the greatest returns possible for your investments.

A shift in behaviour driven by low savings rates, means that savers are developing a far more robust appetite to risk, with a growing number turning to Investment ISAs as a means of securing more meaningful returns.

Investments in such an ISA are not completely tax-free but there are a number of tax advantages. You'll pay no capital gains tax on profits made if your portfolio increases in value, neither will you pay tax on interest earned on bonds. There is a 10% tax cap on income, meaning that any income earned from your portfolio is taxed at 10%. If you were a higher rate taxpayer you would normally pay rates of 40% for this.

who's suitable and when to use them

This type of ISA is suitable for all investor types, from the novice who wants to benefit from the returns achieved in the marketplace, to the experienced investor who doesn't have the time to oversee their investments and is seeking diversification in their portfolio. If your savings plan is long-term (anything over 5 years), investing your money in a diversified portfolio managed by an expert portfolio manager is the smartest option.

things to consider

- Always remember that this type of ISA offers a higher level of risk and the value of your investments can go down as well as up. To get the maximum value you need to structure your investment well. Do your own research, take advice or use a combination of the two before you make your decision.
- Are you paying to invest? Most investment platforms charge to use them, there will usually be a management fee and there can be exit fees and platform fees (as well as many more). You need to make sure you are getting value from the fee you pay - the higher the fee, the lower the real return.
- Do you have access to the full market? Check the investment strategy of your providers, some are limited to certain asset classes and others will be limited to certain providers.
- How do you want to invest? Do you have time to invest and monitor the markets yourself or do you want a professional discretionary investment manager to do it for you?

Innovative Finance ISA

Innovative Finance ISAs were introduced on 6 April 2016, this new type of ISA allows savers using peer-to-peer lending schemes, such as loans, to earn tax-free interest.

IFISAs are structured very similar to Stocks and Shares ISAs. You are still limited to the investment threshold of £20,000 and you still have the varying types of risk levels of low, medium and high risk. Individuals can earn up to 6% interest tax free and this is designed to boost investment in small businesses.

who's suitable and when to use them

IFISAs provide a great investment mechanism into small to medium businesses and projects which would otherwise not be eligible to secure ISA status. Such an ISA can be compared to the Stocks and Shares ISA. This is a long-term investment so if you need the money in the near future this probably isn't the right channel.

things to consider

- Much like stock picking you are placing a bet on the success of a particular company so that is quite a risky investment strategy.
- Remember that an IFISA is similar to a Stocks and Shares ISA and as such your investment can go up as well as down
- Consider which companies you are investing in and carry out checks on the level of investment and their ability to pay it back.

Help to Buy ISA

In the autumn of 2015 the Help to Buy ISA was introduced to help first time buyers save towards the cost of buying their first home. The Help to Buy ISA is a type of Cash ISA. Savers can make an initial deposit of £1,000 and then receive £50 for every £200 saved up to a maximum of £12,000. The maximum tax break a saver can receive is £3,000.

who's suitable and when to use them

This type of ISA is only suitable for those not on the property ladder, but who would like to buy a property in the future. This new type of Cash ISA often has enviable interest rates and the bonus of up to £3,000 is free money from the Government.

things to consider

- Make sure you shop around as the interest rates can vary. On some accounts, you could be receiving up to 4%.
- These are savings to buy a house that are only available to first time buyers. If you already have a property or do not plan on buying one this is not the ISA for you. Similarly, if you decide to use the money for something else you will not receive the bonus.
- Do not forget about the rest of your ISA allowance. You can put £1,000 in once when you set the account up, this is regardless of the tax year, you are then limited to contributions of £200. That means if you are just doing the monthly contributions you will still have £12,840 of your ISA allowance remaining.

Just under 2.2 million less ISAs were opened in 2014/15 than in 2010/11 – which means individuals are not maximising the tax benefits available to them

HMRC Data

stop your ISA underperforming by switching providers

With cash ISAs currently offering disappointing returns; now may be the time to consider a Managed Stocks and Shares ISA to achieve much greater returns and secure your nest egg for the future.

You can transfer existing ISAs from other providers by completing an ISA transfer form. This should be sent to your new provider and they will contact your existing ISA provider to arrange the transfer. It is possible to transfer both Cash ISAs and Stocks and Shares ISAs into an account of either type.

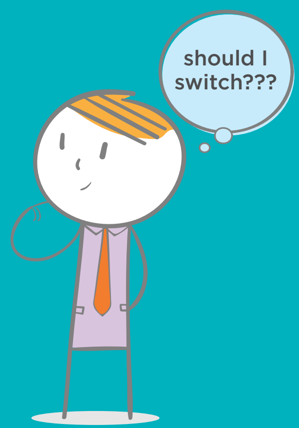
Any Stocks and Shares ISA that is transferred will not hold the same investment as before - your existing ISA provider would sell the investments and transfer the ISA as cash to the new provider.

what are the benefits of switching?

- **Rescue underperforming ISAs** - Rescuing your current ISAs from mediocre interest rates while retaining their tax-free status could really stack up.
- **You'll save money** - Cut any potential high rates and fees you could be paying for additional investment ISAs.
- **Greater potential returns** - Compared to Cash ISAs, the returns on Stocks and Shares ISAs have shown to be far greater.
- **Keep everything in one place** – Consolidating your ISAs in one place will not only save you money, but time, effort and worry.
- **Fully managed portfolio** – Many people think they have to be an expert to open a Stocks and Shares ISA. You don't. You just need the right portfolio manager to oversee and manage your investments – this will incur fees.

and the considerations?

- **Exit fees** – many providers charge exit fees for withdrawing funds – it is important you are aware of these because your nest egg could end up being smaller than you thought
- **Costs** – When switching provider ensure you are fully aware of their fees and management charges. Both tax and costs eat into your real returns and can have a huge impact on the value of your savings.
- **Security** – Consider how secure your savings are and ensure your provider is covered by the Financial Services Compensation Scheme.



who invests in ISAs and how do I compare?

ISAs can be taken out by anyone aged 16 or over who is a UK resident for tax purposes. For Investment ISAs its 18 or over. In the 2014/15 tax year 13 million adult ISA accounts were opened and £79 billion was put into those ISAs.

The amount saved in ISAs is increasing, this can be attributed to a significant increase in the annual allowance by the government, but the number of people using ISAs is actually decreasing which means individuals are not maximising the tax benefits available to them. The average value of an ISA is £6,064.

ISA savers by income

The highest number of ISA accounts are held by those with an annual income of between £10,000 and £19,999, the average value of their ISA savings is £19,538. As you move up the pay scale the number of ISA holders decreases (due to fewer people in the income band), but the average value of ISA savings increases.

For those with an income of £150,000 or more the average value of total ISA savings is £64,148. Higher income groups show a preference for Stocks and Shares ISAs, the turning point is an annual income of over £30,000.

ISA savers by age

Older savers are more likely to hold ISAs and ISAs of a larger value. There are around 6.2 million ISA holders over the age of 65 and on average their ISA savings have a value of £37,864.

The lowest number of ISA savers are under the age of 25 (1.1 million). But about 78% of that category are active savers. Data shows a decrease in the popularity of ISAs with those in the younger age brackets when compared to previous years.

ISA savers by gender

80% of women who had taken out an ISA chose to put their savings in cash alone when subscribing to an ISA in 2013/14 (the latest data available). This is around 21% of all women in the UK.

Of those individuals who take out an ISA men are 36% more likely to use a Stocks and Shares ISA compared to their female counterparts.

The overall gender split on ISAs is fairly equal and in line with the UK population. 56% of all ISA savers using Stocks and Shares ISA as part of their allowance are male.

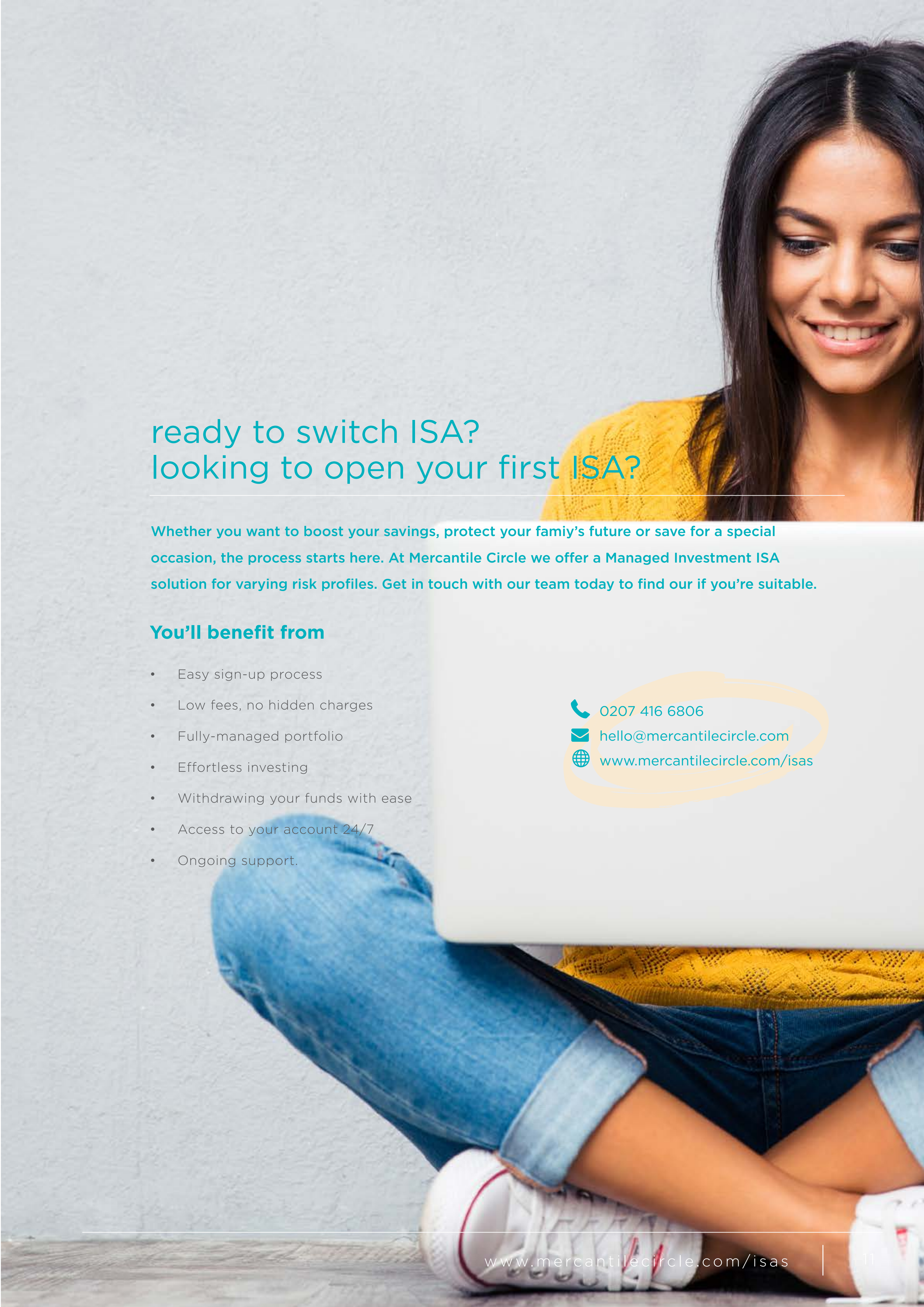
ISA savers by region

In 2013-14 England and Wales had the highest proportion of adults with ISA savings (44% and 42% respectively). In general, ISAs held by individuals in England were on average of higher value than the rest of the UK.

Only 36% of Londoners own an ISA, they are lagging behind all other regions of England. 43% of all adults across the UK hold an ISA, approximately 21.6 million individuals.

The South West has the highest proportion of ISA ownership in the UK, with 50% of individuals holding as ISA. Of those ISAs subscribed to in 2013-14, 25% of those in the South West have subscribed to a Stocks and Shares ISA.

The majority of ISA holder in the South East are that of Stocks and Shares ISAs, where the average value of an ISA is also highest in the UK.



ready to switch ISA?
looking to open your first ISA?

Whether you want to boost your savings, protect your famiy's future or save for a special occasion, the process starts here. At Mercantile Circle we offer a Managed Investment ISA solution for varying risk profiles. Get in touch with our team today to find our if you're suitable.

You'll benefit from

- Easy sign-up process
- Low fees, no hidden charges
- Fully-managed portfolio
- Effortless investing
- Withdrawing your funds with ease
- Access to your account 24/7
- Ongoing support.

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disclaimer

With investment, your capital is at risk. The value of your portfolio can go down as well as up and you may get back less than you invest.

A Mercantile Circle ISA may not be right for everyone and tax rules may change in the future. If you are unsure if an ISA is the right choice for you, please seek independent financial advice. Depending on how or who you invest with, fees and charges may affect your returns.

The panel of IFA's we work alongside will only advise on your suitability for the products and services Mercantile Circle has to offer - they may or may not be right for you and it is entirely your decision as to whether you choose to invest or not. If you are unsure, please consult your Financial Adviser. Mercantile Circle do not provide investment advice. The Mercantile Circle ISA is provided by regulated third parties.

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