



What is a Stocks & Shares ISA?

A Stocks and shares ISA is a 'wrapper' that can be put around a wide range of different investment products to help save you tax. You'll often find that Stocks and shares ISAs are sold and marketed as products in their own right.

When might a stocks and shares ISA be for you?

GOLDEN RULE

If you don't understand a financial product, get independent financial advice before you buy.

A Stocks and shares ISA could be for you if:

- you are happy to put your money into investments but want to protect any profits, rent or interest from tax or to protect dividends from higher-rate and additional-rate tax
- you are looking to tie up your money for at least five years
- you haven't used up your total ISA allowance for the current tax year, and
- you're comfortable with the fact that the value of your investments can go both up and down and that you may get back less than you invested

What investments are held in Stocks and shares ISAs?

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Lots of different types of investment can be held in an ISA, including:

- unit trusts
- OEICs (Open Ended Investment Companies)
- investment trusts
- exchange traded funds
- corporate and government bonds, and
- individual stocks and shares

How Stocks and shares ISAs work

Your allowance is how much you can pay in, not the total value of your investments – so if you put your whole allowance in a Stocks and shares ISA and it falls in value you can't top it up in the same tax year.

- You can pay a total of £11,520 into ISAs in the 2013-14 tax year, which is from 6 April 2013 to 5 April 2014. This is your ISA allowance and includes both your Stocks and shares ISA and your Cash ISA.
- You can pay your whole allowance of £11,520 into a Stocks and shares ISA.
- Alternatively, you can pay up to £5,760 into a Cash ISA and the remainder into a stocks and shares ISA.
- Your yearly ISA allowance expires at the end of the tax year and any unused allowance will be lost. It can't be rolled over to the following year.

- You can choose between making a lump sum investment and/or making regular or ad hoc contributions throughout the tax year.
- Any increase in value of the investments in your Stocks and shares ISA is free of Capital Gains Tax.
- Apart from dividend income (paid with 10% tax already deducted which can't be reclaimed), the rest of the income is tax-free – find out more in the later section on tax.
- You can only pay into one Stocks and shares ISA in each tax year, but you can open a new ISA with a different provider each year if you want to. You don't have to use the same provider for your Cash ISA, if you have one.
- It's worth shopping around to make sure you find an ISA that suits you - use our comparison tables to compare any charges for the ISA wrapper and the range of investments you can put inside.

Transferring ISAs

- Should you wish to switch your current or previous year's ISA provider to a different provider's ISA while simultaneously keeping future tax benefits intact, you have to arrange for a transfer rather than selling and reinvesting.
- All ISA providers have to allow transfers out, but they don't have to allow transfers in. Many don't allow this so make sure you check this before you sign up and read this guide Transferring an ISA on the HM Revenue and Customs website.
- You can transfer money from a Cash ISA to a Stocks and shares ISA but not the other way around. However, you can transfer money from one Stocks and shares ISA provider to another.
- If you transfer an ISA that you have paid into during the current tax year to a new provider, you must transfer the whole balance. For ISAs from previous years, you can choose how much to transfer.

Still have questions? See the HM Revenue & Customs website for frequently asked questions about ISAs

Risk and return

- For most of the investments you would put into a Stocks and shares ISA, the value can go down as well as up and you may get back less than you invested.
- The level of risk in your Stocks and shares ISA will depend on the investments you choose to put into it.

Access to your money

- You can sell the assets held in your ISA at any time and there is no minimum length of time you need to hold it.
If you do cash in some or all of your ISA, you can only reinvest this money to the extent that you have unused available ISA allowances.

Charges

- Make sure you check the charges on the underlying investment as these can vary a lot. By making sure of the details you can avoid being overcharged.

Safe and secure?

If a fund manager goes bust and owes you money – and the manager is covered by the Financial Services Compensation Scheme – you can claim compensation of up to £50,000 per person, per institution. But you won't get any compensation just because the value of your investments falls.

You can buy an ISA:

- directly from discount brokers, fund supermarkets or a bank

- directly through a fund manager
- from an independent financial adviser or financial planner
- directly from an ISA provider, or
- through an online share account or stockbroker

Charges may vary for the same product depending on where you buy it, so check and see where it's cheapest. If you're not sure what kind of investments would suit your personal goals and needs, talk to an independent financial adviser (IFA).

Tax

Investments that pay interest (eg government and corporate bonds), or rental income (such as some property funds) provide 100% tax-free income if held within an ISA and therefore offer tax benefits for everyone.

Dividends paid from stocks and shares ISAs come with a non-refundable 10% 'tax credit' – this amounts to a 10% tax deduction.

If you're a higher-rate or additional-rate taxpayer, there is no additional tax to pay.

If you're a basic rate taxpayer and hold dividend-paying investments within a Stocks and Shares ISA, there is no Income Tax benefit.

Also, any profit you make when selling investments in your Stocks and shares ISA is free of Capital Gains Tax.

Remember, there is a Capital Gains Tax annual exempt amount (currently £10,900) which you can claim on your annual tax return. If you're likely to make capital gains of more than this, you'll benefit from using an ISA.

Any losses made on your investments in your Stocks and shares ISAs can't be used to offset capital gains on your other investments.

If things go wrong

If you are unhappy with the service you receive or want to make a complaint, start off by contacting your provider. Most fund managers and ISA managers are regulated by the Financial Conduct Authority so if your complaint is not resolved, then you can contact the Financial Ombudsman.

