A guide to Stocks and shares ISAs

AJBell Youinvest

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The value of your investments can go down as well as up and you may get back less than you originally invested.

We don't offer advice, so it's important you understand the risks, if you're unsure please consult a suitably qualified financial adviser.

Tax treatment depends on your individual circumstances and rules may change. The information in this guide is based on tax rules as at 6 April 2018.

Introduction

Do you want the chance to make your money grow? While keeping your tax bills low?

Individual savings accounts (or ISAs) offer generous government tax breaks that allow you to keep more of your money. And unlike a pension, they give you the flexibility to withdraw that money when you want. An ISA doesn't even need to be declared on your tax return.

An ISA, essentially, works as a 'wrapper' for your savings and investments, sheltering them from capital gains tax, and tax on income and interest. However, there's a limit on how much you can put into ISAs every year – £20,000 for the 2018/19 tax year – and you can't 'roll over' any unused allowance from one year to the next.

How long have ISAs been around?

ISAs were first introduced on 6 April 1999, replacing Personal Equity Plans (PEPs) and Tax-Exempt Special Savings Accounts (TESSAs).

How much can you invest into an ISA?

In the 2018/19 tax year, you can invest £20,000 into an ISA. You can split that amount across one of each of the main types of adult ISA: Cash ISA, Stocks and shares ISA, Innovative Finance ISA, Lifetime ISA and Help to Buy ISA (although payments to both Lifetime ISAs and Help to Buys ISAs are limited).

What types of ISA are there?

This guide focuses specifically on Stocks and shares ISAs. But as you can see, they're just one member of the large ISA family:

Stocks and shares ISAs can hold a wide range of investments, including stocks and shares, bonds and funds. Over a span of 10 years, shares are 90% more likely to outperform cash[1] – but with the added risk of losing some, or all, of your investment. Some Stocks and shares ISAs have a manager choosing investments on your behalf; others let you pick your investments yourself.

Cash ISAs let you shelter cash, or cash equivalents (such as money market funds), from the taxman. Largely sold by banks and building societies, cash ISAs are a no-hassle home for your money. But though there isn't any risk of investment loss, cash ISAs aren't entirely risk free – and if interest rates stay below inflation, your money will lose value in real terms.

Junior ISAs are savings vehicles for children, replacing the older Child Trust Funds. They come in two varieties – cash, and stocks and shares. The subscription limit is £4,260 for the 2018/19 tax year, and anyone can pay into them (such as grandparents or family friends). Money paid into a Junior ISA is locked away until the child turns 18. At that point it turns into an ISA, and they are free to do as they like with the money. Any savings they don't immediately withdraw will stay within the ISA wrapper, and the same tax advantages will apply.

Help to Buy ISAs are for would-be first-time buyers. You can save up to £12,000 and receive a 25% bonus when you use it to buy your first home. Keep in mind the maximum initial deposit you can make is £1,000, and after that, the most you can contribute each month is £200 – meaning it would take 55 months or more to subscribe the full £12,000. Also, the home you're buying must cost £250,000 or less (outside London), or £450,000 or less (in London).

Lifetime ISAs let people age 18-39 save for their first home, or for later life. With a 'LISA', you can put in up to £4,000 per year, and get a 25% government bonus (up to £1,000 per year). But if you take money out before you turn 60, or for any reason other than buying your first home, or terminal ill health, you'll be hit with a 25% government charge on the amount you withdraw.

Innovative Finance ISAs let you save with peer-to-peer lenders, or invest in companies through crowdfunding sites. But if the borrower defaults or the provider collapses, your money isn't covered by the Financial Services Compensation Scheme – so it can be a riskier ISA to choose.

You're in control

An AJ Bell Youinvest ISA lets you choose the stocks, shares, funds and bonds you invest in. We give you all the tools to manage your investment, leaving you free to do the rest. You can invest in three different types of ISA with AJ Bell Youinvest: a Stocks and shares ISA, a Lifetime ISA and a Junior ISA.

[1] https://wealth.barclays.com/ocp/en_gb/investment-ideas-and-strategies/home/better-investor/investing-lessons-from-114-years-of-data.html

Who can invest in a Stocks and shares ISA?

To open a Stocks and shares ISA, you need to be at least 18 years old. You also must be resident in the UK – that is, England, Scotland, Wales and Northern Ireland, and not the Channel Islands or Isle of Man.

If you don't live in the UK, you can open a Stocks and shares ISA providing you're a Crown employee (for example, a diplomat or member of the armed forces), or their spouse or civil partner.

You can only subscribe into one of each main type of ISA (Cash ISA, Stocks and shares ISA, Innovative Finance ISA and Lifetime ISA) each tax year. For example, if you've already paid into a Stocks and shares ISA with one provider in a tax year, you won't be able to pay into a Stocks and shares ISA with another until the next tax year (unless you transfer one ISA into the other).

And it's important to remember the £20,000 annual ISA subscription allowance applies to all your ISAs. If you've already subscribed £10,000 into your Cash ISA in a tax year, only £10,000 can be subscribed into your Stocks and shares ISA that same tax year. How you split your money between your different types of ISA is up to you (and remember that subscriptions to Lifetimes ISAs and Help to Buy ISAs are restricted).

Residency status

If you're not sure of your residency status, contact your tax office or the HMRC helpline on 0300 200 3300.

What happens to your ISA if you move away from the UK?

If you're not sure of your residency status, contact your tax office or the HMRC helpline on 0300 200 3300.

Under 18?

If you're under 18, your parent or guardian may be able to open a Junior ISA for you. Visit our website for more information.

The tax advantages of a Stocks and shares ISA

Because of its tax breaks, an ISA, in effect, lets you keep more of your money – because you're handing over less to the taxman.

So what are those tax breaks? First, you pay no additional income tax on any dividends you receive from equities, nor on any interest you receive from corporate bonds. Second, no matter how large your investments grow, you pay no capital gains tax when you sell your investments – which can make a sizeable difference to your returns as your ISA grows in value.

A potential downside of an ISA, however, is that you can't reduce your capital gains tax liability by offsetting any losses your ISA investments suffer against any investment profits gained outside your ISA. And though there's no tax to pay when you take money out of your ISA, you may not be able to reinvest that amount again in an ISA that tax year – depending on the amount you've already subscribed.

You should also consider the possibility that the tax benefits of an ISA may change in the future.

Subscribing to a Stocks and shares ISA

Paying into a Stocks and shares ISA is simple – you just need to make sure you don't invest more than the subscription allowance. It's currently £20,000, and every autumn the government announces whether the allowance will change the following tax year.

Apart from certain schemes that accept subscriptions from employee share schemes, you can only pay cash into a Stocks and shares ISA – in lump sums, or regular payments. This means investments can't be transferred into an ISA from another type of account.

You can subscribe to an AJ Bell Youinvest Stocks and shares ISA by:

- Debit card
- Direct debit, for regular monthly subscriptions

We accept both lump sum and regular subscriptions. You can choose to invest a lump sum from as little as £500, make a regular monthly subscription of £25 or more, or do a combination of both.

Bed and ISA

If you don't have cash to invest, but would like to shelter more of your investments from the taxman, you can do a Bed and ISA. A Bed and ISA lets you sell investments outside an ISA and buy them back inside an ISA at the open market price. Because it counts as one deal, not two, you only pay only one dealing charge – and minimise your exposure to market movement. However, depending on your tax circumstances, a Bed and ISA can make you liable to pay capital gains tax, and you'll incur stamp duty costs too.

You can do a Bed and ISA with AJ Bell Youinvest

What you can invest in with a Stocks and shares ISA

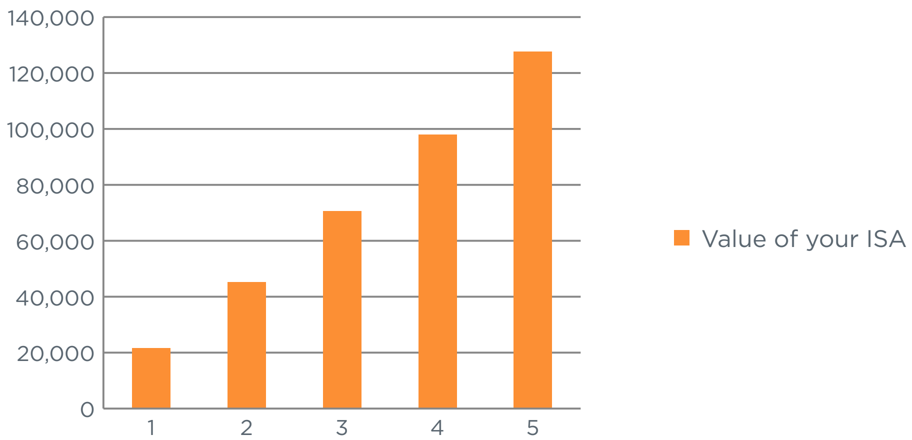
A Stocks and shares ISA gives you the freedom to choose from a wide variety of investment options. What options you choose should depend on your attitude to risk, and the level of investment return you're looking for. (We don't offer investment advice, so if you're in any doubt, consult a financial adviser.)

In an AJ Bell Youinvest Stocks and shares ISA you can invest in:

- Shares in companies traded on an HMRC recognised stock exchange
- Company securities (bonds, loan stock, loan notes, eurobonds) traded on an HMRC recognised stock exchange
- Government securities issued by EEA governments
- UK investment trusts
- UK authorised funds (UCITS or NURS)
- FCA recognised funds in EEA states
- Cash

How your ISA might grow

Scenario: The chart shows the growth of an ISA where £20,000 is paid into the ISA at the beginning of each year for 5 years



Assumptions: The ISA is fully invested in shares with two share deals being carried out each year. It is assumed that an annual investment growth of 5% and annual dividend income of 3% is achieved and this value is added to the ISA at the end of each year. Custody and dealing charges are deducted each year. The value of the ISA at the end of year 5 is £127,568 and the growth in value is free from capital gains tax. ISA allowances and income tax rules can change in the future and the tax treatment depends on your personal circumstances. The value of investments, and any income from them can go down as well as up and you may not get back your original investment. This simple scenario ignores inflation which will affect your return.

Regular savings

Saving regularly into your ISA, rather than investing larger lump sums, can help insulate you from stock market fluctuations. It's a technique known as 'pound-cost averaging'. By buying units with a regular payment, you buy more units in months when the price is lower than when the price is higher. As the price moves up and down, your investment return is 'smoothed out'.

With AJ Bell Youinvest, you can invest as little as £25 per month in a range of shares, funds and ETFs, and pay only £1.50 per deal

Want to find out more?

Our website www.youinvest.co.uk has a wealth of information to help you make your investment decisions, including articles, videos, fact sheets, and our expert-chosen Favourite funds list.

Withdrawals

You can withdraw money from your Stocks and shares ISA at any time, subject to the ISA manager's terms and conditions. Thanks to an ISA's tax breaks, you'll pay no tax on any money you withdraw.

Unless you have a flexible ISA, withdrawing money doesn't free up any ISA allowance you've already used. So if you pay your full £20,000 allowance into your ISA, you won't be able to make any more subscriptions that tax year, regardless of whether you take money out. And for example, if you pay £15,000 into your ISA during the tax year and withdraw £10,000, you can only pay £5,000 back in. (An AJ Bell Youinvest Stocks and shares ISA is not a flexible ISA)

Transferring your Stocks and shares ISA

Stocks and shares ISAs can be transferred between different providers. You can choose to transfer either in full or in part, although some providers only allow full transfers. And if you've subscribed to an ISA in the current tax year, you'll need to transfer all those new subscriptions, and assets.

A transferred Stocks and shares ISA keeps all the same tax advantages – and assets you transfer in from another ISA don't count as new subscriptions.

Transfer your ISA to AJ Bell Youinvest

You can easily transfer your existing ISA to us, and take advantage of our low-cost, high-quality service. Find out more at https://www.youinvest.co.uk/transferring-to-us. We'll pay up to £500 to cover your transfer costs.

What happens if you break the ISA subscription rules by mistake?

It's against the ISA subscription rules to subscribe to more than one Stocks and shares ISA in the same tax year. But what happens if you do it by mistake?

All ISA managers send annual returns to HMRC, who check for any subscription infringements. Depending on the seriousness of the infringement, they may ask the ISA manager to adjust or close the ISA.

In the worst case, you'll lose the tax-protected status of the ISA and will need to pay any tax due.

What do I do if I realise I've made a mistake?

You need to stop making subscriptions into the ISA, then wait for HMRC to contact you with further instructions. If it's a minor error, they may not get in touch.

What happens to my Stocks and shares ISA when I die?

Where the holder of an AJ Bell Youinvest ISA dies, their ISA will retain its tax benefits until the earlier of the completion of the administration of the estate, the third anniversary of the death or the closure of the account.

A spouse will be entitled to pay the additional spouse's allowance equal to the higher of: value of the deceased's ISA at their death or the value at the point the account is closed. Any interest, dividends or gains arising on investments after death will continue to be tax free.

The surviving spouse or civil partner of a deceased ISA holder is given an increased subscription allowance equal to the value of the ISA at the holder's death (in addition to the survivor's own ISA allowance).

An AJ Bell Youinvest Stocks and shares ISA

Tax advantages, flexibility, control – you get many good things when you open a Stocks and shares ISA.

And you get even more when you open an AJ Bell Youinvest ISA. Awarded 'Best ISA Provider 2017' at the City of London Wealth Management Awards, we give you:

- ✓ **Low costs** – deal from £1.50 and never pay more than £9.95 per online deal
- ✓ **Wide investment choice** – choose from 4,000 funds and shares from 24 markets, as well as investment trusts and ETFs
- ✓ **Ease of use** – access your account online 24/7, and deal on the go with our mobile app

One of the UK's largest and financially strongest online investment platforms, AJ Bell are proud to look after more than **£46.1 billion of customer assets**. For more than 20 years we've helped people on their investment journeys, and we hope to help you on yours with our:

- **AJ Bell Passive funds** – effort-free investing. All you need to do is pick your risk level and how much you'd like to put in. It's as easy as that
- **Portfolio ideas** – frequent articles and videos, a Favourite funds list, and free access to Shares magazine if you maintain a balance of more than £4,000 in your account
- **Regular investment service** – letting you save as little as £25 per month
- **Customer support** – we're here to answer your queries with two UK-based customer services teams, webchat and email support

And if you want the convenience of managing your investments under one roof, we also offer a Self-invested personal pension (SIPP), Dealing account and Lifetime ISA too.

Find out more about the
AJ Bell Youinvest Stocks and shares ISA
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