Integritas Financial Planners Ltd
Nurture · Grow · Protect

BED AND INDIVIDUAL SAVINGS ACCOUNT (ISA)

What is it?

A bed and ISA is where an investment is sold and then bought back within an ISA. The two transactions are carried out together so there is less exposure to market movement. However, the amount of shares bought in the ISA may be less than the amount of shares sold in the dealing account due to the costs deducted – stamp duty, dealing charge and the difference between the market buying and selling price.

Under HM Revenue and Customs regulations, you cannot transfer your existing investment straight into an ISA as stock (with the exception of shares acquired through certain approved employee share schemes). Instead, you need to sell your shares and reinvest the sale proceeds into your choice of ISA fund(s).

You should note that your investment will be out of the market between the sale of your existing fund(s) and the purchase of your new fund(s) on the following business day.

HM Revenue and Customs will treat this as a new ISA investment, so it counts as part of your ISA allowance for the relevant tax year.

Where the original investment is held in an OEIC/Unit trust the investments/funds will need to be sold and then repurchased by the ISA manager.

The sale of your existing investment will count as a disposal for Capital Gains Tax (CGT) purposes. When the sale proceeds are reinvested in full, any CGT liability will have to be met from other resources.

What is an ISA

Anyone, who is an income tax payer and has some money to save or invest, should know about Individual Savings Accounts (ISAs). ISAs are wrappers within which a wide range of savings and investment products can be held, free of UK income and capital gains tax by anyone aged 18 or over (a cash ISA can be opened or subscribed to by someone who was aged 16 or 17 on 5 April 2024).

ISAs serve as a 'wrapper' to fully protect savings from tax, allowing individuals to invest monies up to maximum limits (by way of regular or single amounts) each tax year in a range of savings and investments and pay no personal tax at all on the income and/or profits received.

The main ISA benefits are:

- No personal tax (income or capital gains) on any investments held within an ISA
- Income and gains from ISAs do not need to be included in tax returns
- Money can be withdrawn from an ISA at any time without losing the tax breaks

There are four types of ISA:

1. **Stocks & shares**
   These are in the form of either individual shares or bonds, or pooled investments such as open-ended investment funds, investment trusts or life assurance investments.
2. **Cash**
   These are usually contained in a bank or building society savings account.
3. **Innovative Finance (IF-ISA)**
   These are in the form of loans made through peer-to-peer (P2P) platforms.
4. **Lifetime (LISA)**
   These are for those aged between 18 and 40 to help save them up for their first home or retirement.

Plus the Help to Buy ISA (which is a type of cash ISA and no longer available to new subscribers)

These are aimed at helping first time buyers to save for their mortgage deposit. Closed to new accounts on 30 November 2019 but savings can continue into existing plans until November 2029. It is not possible to subscribe to both a cash and a Help to Buy ISA in the same tax year.

All of your ISA allowance can be invested in either stocks & shares, cash (including Help to Buy if applicable), innovative finance or lifetime ISAs, or you can split it between more than one type or, from 6 April 2024, multiple ISAs of the same type, up to the overall annual limit of £20,000 with either the same or different providers. However, the maximum annual amount you can save in a lifetime ISA is £4,000 (and up to £200 per calendar month to a Help to Buy should you hold one) and these amounts count towards the overall £20,000 limit.

You will also be able to transfer money saved in previous years' cash ISA holdings to stocks & shares ISAs and vice versa without affecting your current year's annual allowance. Innovative Finance ISAs can be transferred to other ISA wrappers and can receive transfers in from other ISAs but additional conditions and restrictions may apply.

Stakeholder standard ISAs

Stakeholder standard ISAs are those which meet Government guidelines regarding cost, access and terms. Cash and Stocks & Shares ISAs can qualify for a Stakeholder standard. The cost limit varies with each investment type and the access and terms criteria specify that investors must be able to get their money back at any time without penalty and with no other restrictions. The ISA must also offer low minimum investment limits and can only invest a maximum of 60% in equities and property, with the remaining 40% in less volatile assets such as bonds and cash.

Because of these limits, Stakeholder standard Stocks & Shares ISAs are designed to meet the needs of a wide range of investors. For this reason, they may be less appealing to experienced investors who want to maximise their long-term growth potential and are therefore more likely to seek specialist funds.

The presence or absence of a Stakeholder standard cannot predict whether an ISA will prove to be a good or bad investment. A Stakeholder standard ISA has not received Government approval of any kind, nor is your money or investment return guaranteed by the Government in any way.

Eligibility

To be eligible to invest in an ISA, an investor must be an individual (i.e. not a company or trustee) who is 18 years of age or over (except that those who were aged 16 or 17 on 5 April 2024 are able to invest up to £20,000 in a cash ISA) and who is resident in the UK (or is a Crown servant serving overseas or the spouse of such an individual who accompanies their spouse abroad).

When an individual ceases to be eligible to invest in an ISA, any existing ISAs will continue to be exempt from UK tax, but future contributions to regular investment ISAs must be terminated and no further single contributions may be made.

Each individual may effect stocks & shares, cash (including Help to Buy if applicable), innovative finance and lifetime ISAs each tax year (subject to prescribed age and subscription limits). A husband and wife and civil partners are treated as separate individuals so that although joint ownership of an ISA is prohibited each may fully subscribe to ISAs in their own name.

Contribution limits

The current ISA overall maximum contribution limit is £20,000.

Within this figure, the Lifetime ISA limit is £4,000 per annum and £200 per calendar month for anyone who already has a Help to Buy ISA.

Taxation

The sale of your shares/OEIC/unit trust is a disposal for capital gains tax purposes. If your total capital gains within the tax year exceed your annual exempt amount, capital gains tax will be payable on the excess at either 10%, 20% or a combination of the two (depending whether the excess, when added to your income for the tax year, falls into the basic rate tax band or above).

Any investment returns received from the ISA will be tax free.

There is no personal tax on any ISA income taken and no capital gains tax on any ISA gains made.

The value of your ISAs will be included in your estate for Inheritance Tax purposes on your death (except ISAs invested in shares listed on alternative investment markets that may qualify for Business Relief).

On death

If an ISA saver in a marriage or civil partnership dies, on their death their surviving spouse or civil partner will inherit their ISA tax advantages and will be able to invest an additional amount in their own name equal to the value of the deceased's ISAs (or have the ISA investments moved into their own name and kept within an ISA wrapper if they are inheriting the ISA contents), on top of their usual allowance.

The value of the inherited ISA allowance will normally be the higher of the total value of the ISA savings at the date of death or the value on the date the ISA stopped being 'a continuing account of a deceased investor'.

An ISA stops being 'a continuing account of a deceased investor' when the first of the following occurs:

- The administration of the estate is completed
- The account is closed, or
- Three years after death

So, if an ISA holder were to die, leaving an ISA valued at £30,000 at the date of their death or when the ISA savings stopped being exempt, their spouse / civil partner is entitled to an additional ISA allowance of £30,000. Where a cash subscription is paid, the spouse / civil partner has 3 years from the date of death to use this or if later, 180 days from the completion of the administration of the estate, and it can be paid in addition to their ISA allowance (currently £20,000).

Where the ISA assets are left to someone else in the will or are used to meet expenses from the estate, the spouse / civil partner is still entitled to the additional allowance and this cannot be claimed by anyone else even if they received assets from the ISA.

The surviving spouse / civil partner can use the additional allowance to top up an existing ISA or open a new ISA with an ISA manager of their choice.

The subscriptions can potentially be made to either a cash, stocks & shares ISA, innovative finance ISA or Lifetime ISA, in cash or the inherited non-cash ISA assets.

The claim must be made within three years of the date of death or if later, 180 days from the completion of the administration of the estate, for subscriptions in cash and within 180 days of beneficial ownership passing to the surviving spouse for 'in specie' subscriptions.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Withdrawals

You can withdraw cash or assets held in ISAs at any time and there is no minimum length of time you need to hold them first. All withdrawals are free of tax.

You can withdraw either some or all of your investment.

If the ISA has adopted the 'flexible ISA' rules, it is possible for cash to be withdrawn from a cash ISA or any cash held in a stocks & shares or Innovative Finance ISA (including from the sale of investments) and up to that amount can be reinvested in ISAs in the same tax year without the replaced funds counting towards the annual ISA subscription limit. Withdrawals of current year subscriptions can effectively be replaced in any current year ISA.

ISA risk considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- Governments can and do change the rules on tax efficient vehicles, like ISAs.
- An ISA is not a risk free product and the value of the ISA investment may be at risk due to the investments held within the wrapper.
- ISAs can grow but depending on market conditions you may not realise the initial sum invested. There is no guarantee that you will get more out of an ISA investment than you have paid in.
- Income generated from investments held in ISAs is variable and is not guaranteed.
- If income taken:
- The capital value of the fund may be eroded if withdrawals taken exceed the net growth of the fund
- The level of income provided / required may not be sustainable
- If you leave the UK and are no longer a UK resident then you can keep the ISA investment with its tax advantages but you can't make any new contributions to the ISA.
- ISA investments are liable to Inheritance Tax on death (except those eligible for Business Relief).
- Income Tax deducted at source on foreign dividends may not be recoverable. There are no further Income Taxes to be paid on investments held within an ISA.
- Past performance is no guarantee of future returns.
- If growth is low, charges may eat into the capital invested.
- The price of units and the income from them can fall as well as rise.
- There remains the possibility that you could lose income or growth following a rise in market conditions while the transfer remains pending.
- You will be disposing of your OEIC/unit trust which may cause capital gains tax to be incurred on any gain made if your total capital gains in the tax year exceed the annual exempt amount of £3,000.
- Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended is still designed to meet your stated tolerance.