



Making the most of ISAs

Key guides



Making the most of ISAs

Individual Savings Accounts, universally known as ISAs, began as relatively simple savings plans 26 years ago, but since then the rules surrounding them have become ever more complex – and may yet become more so. While there have been calls to make the regime simpler and more accessible, until recently governments had shown relatively little interest in ISAs. Then in the Autumn 2023 Statement the then Chancellor simplified some of the administrative complexities but also removed one investment opportunity. Subsequently, in the March 2024 Budget, the Treasury launched a consultation on a new 'UK ISA' which, as its name suggests, would be focused on UK investment. However, in the Autumn Budget 2024 Rachel Reeves, the new Chancellor, announced that she would not pursue the idea and, at the same time, froze ISA subscription limits at their current levels through to 2029/30. Five months later, in her Spring Statement, she suggested she was looking at options to "get the balance right between cash and equities" in ISAs.

The government's website says there are currently only four categories of ISA – cash ISAs, stocks and shares ISAs, innovative finance ISAs, and Lifetime ISAs – but variants exist for specific investment needs.

This guide will explain how the main variants work, in order of their original launch date.

Please note that all examples included in this guide are fictitious.

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The main categories of ISA

Despite the different choices available, all ISAs have several features in common. For example, they all enjoy tax privileges, a consequence of which is that the amounts that you can invest in each type, and in all ISAs, are generally subject to annual limits. ISAs may only be run by HM Revenue & Customs (HMRC) approved ISA managers.

Planning point

Make the most of ISAs – they are all free of UK income tax and capital gains tax.

The ISA family can be divided up in several ways – hence the differing headcount. One way of looking at it is to consider them in terms of when they first became available:

- **Basic ISA** The original ISA lives on as a plan with two investment components: stocks and shares or cash. The two are interchangeable, so you can transfer from a stocks and shares ISA to a cash ISA, or vice versa.
- **Junior ISA (JISA)** The JISA is available to children under 18 who do not already have a Child Trust Fund (CTF) account. Again, both cash and stocks and shares variants are available.
- **Lifetime ISAs (LISA)** The LISA, launched in April 2017, is aimed at encouraging saving for first home purchase or retirement by adults under the age of 40. It provides investors with a government bonus but comes with penalties if funds are withdrawn before age 60, other than for a first home purchase. The choice of LISA providers is much smaller than for the Basic ISA.

You will incur a LISA government withdrawal charge (currently 25%) if you transfer the funds to a different ISA or withdraw the funds before age 60 (other than for purchasing your first home) and you may therefore get back less than you paid into a lifetime ISA. By saving in a LISA instead of enrolling in, or contributing to an auto-enrolment pension scheme, occupational pension scheme, or personal pension scheme: (i) you may lose the benefit of contributions from your employer (if any) to that scheme; and (ii) your current and future entitlement to means tested benefits (if any) may be affected.

- **Help to Buy ISA** This type of ISA is no longer available to new investors. In practice, it was a variant of a cash component basic ISA, aimed at first home buyers. The plan has been replaced by the Lifetime ISA (see above), but existing investors can continue making contributions until November 2029.

ISA eligibility

ISA investors must be resident in the UK, or a non-resident Crown employee working overseas and subject to UK tax on their earnings. Spouses and civil partners of eligible non-resident Crown employees can also contribute if they are themselves non-resident.

An ISA can only be arranged on an individual basis (so cannot be held jointly) and it cannot be held in a trust. However, ISAs can effectively be inherited by a surviving spouse or civil partner (see 'Inheritance' below).

Age eligibility for starting an ISA depends upon the type of plan, as shown in the table below.

ISA eligibility 2025/26

Type of ISA	Opening age range	Notes
Basic ISA	18 upwards	Children aged 16 or 17 who hold a Cash ISA opened before 6 April 2024 may continue to subscribe to that ISA.
Junior ISA	Under age 18	Investors cannot also have a Child Trust Fund (CTF). Broadly speaking, this means JISAs are available to any child who was born after 2 January 2011, or who was born during the CTF government provision, but whose CTF monies have been transferred into a JISA.

Lifetime ISA	18–39	Contributions cannot be made from age 50 onwards.
Help to Buy ISA started before 1/12/19	16 upwards	No new plans can be started, but existing investors can continue to contribute. Help to Buy bonus must be claimed by 30 November 2030.

Planning point

There is nothing to report about ISAs on your tax return.

ISA investment and account structures

ISAs, JISAs and LISAs currently have two possible investment components:

1. The stocks and shares component

Shares listed on any recognised stock exchange and certain other exchanges, such as the alternative investment market (AIM), can be held in the stocks and shares component of an ISA. Some, but not all, AIM shares are eligible for inheritance tax (IHT) business relief after two years of ownership, although the rate of relief is halving to 50% from 2026/27.

- All Financial Conduct Authority (FCA) authorised retail funds – i.e. virtually any unit trust, open ended investment company (OEIC) or undertakings for collective investment in transferable securities (UCITS), including exchange traded funds (ETFs) – are eligible for ISA investment.
- Corporate bonds and EEA government securities are also eligible investments, regardless of the term to maturity.
- Cash can be held in the stocks and shares component without restriction.
- The stocks and shares component can also include life assurance, although this is now extremely rare.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances. The value of investments can fall as well as rise. You may get back less than you invested.

2. The cash component

This may be invested in bank or building society deposits as well as money market unit trusts that hold deposits rather than securities. National Savings & Investments offers two variable rate cash ISA products, the Direct ISA and the Junior ISA. At the time of writing there were only handful of providers that offered a cash component LISA.

Innovative Finance ISA

The Innovative Finance ISA was launched in April 2016, although regulatory approval and supply/demand issues meant a slow start from which it never recovered. These ISAs permit investment in cash and three specialist financial products:

- *Peer-to-peer (P2P) loans* – loans arranged to other people or businesses without an intermediary bank being involved.
- *Crowdfunding debentures* – investing in a business by buying its debt.
- *Long Term Asset Funds (LTAFs) and other funds with extended redemption periods* – investing in long-term illiquid assets, such as infrastructure and private equity.

In the first two instances, the businesses involved are usually unlisted and small. Whereas the Financial Services Compensation Scheme protects up to £85,000 of deposits held in the cash component of basic ISAs, there is no such protection for peer-to-peer loans or crowdfunding debentures. A restriction limiting investment to sophisticated or high-net-worth individuals generally applies to crowdfunding.

Financial Conduct Authority (FCA) reforms to the innovative finance sector have prompted the P2P market to contract significantly, with the largest participants no longer offering retail products.

LTAFs and other funds with extended notice periods first became available in ISAs from April 2024 and are targeted at experienced investors who are willing to accept their limited liquidity and potentially higher risk.

ISA account investment limits

For 2025/26 the ISA subscription rules mean that, subject to eligibility, you can subscribe to:

1. One or more basic ISAs with a stocks and shares component.
2. One or more basic ISAs with a cash component or, if started before 1 December 2019, a single Help to Buy ISA (a small number of providers incorporate both types within the one ISA wrapper).
3. One or more Innovative Finance ISAs.
4. A single LISA

A one-only limit applies to each type of JISA as well as the LISA.

Planning point

The total contributions limit across all ISAs for adults is £20,000 per tax year for 2025/26.

Example – Using ISA limits 2025/26

Lindsay is 37 and on 19 April 2023 started a LISA with a subscription of £4,000. If she wants to maximise her ISA investment in 2025/26 to use the full £20,000 limit, her options include:

Type of ISA	Option 1 Amount £	Option 2 Amount £	Option 3 Amount £	Option 4 Amount £
Basic – cash	16,000	Nil	5,000	10,000
Basic – stocks and shares	Nil	10,000	4,000	3,000
Innovative Finance	Nil	6,000	7,000	3,000
Total	16,000	16,000	16,000	16,000

In 2025/26 Lindsay can arrange one or more of each type of ISA.

The maximum overall investment across all ISAs in 2025/26 is £20,000. However, there are sub-limits for LISAs, JISAs and existing Help to Buy ISAs:

- For **LISAs** the maximum subscription is £4,000 per tax year.
- For **JISAs**, the maximum contribution is £9,000.
- The maximum **Help to Buy** subscription for an existing plan is £200 a month.

Transfers

The ISA transfer rules are complex (albeit simplified last year) and leave discretion for providers on whether to accept transfers in, although they are obliged to allow full transfers out. Funds transferred between ISAs or between the cash and stocks and shares components generally do not count as fresh subscriptions.

Transfers may involve costs and/or penalties and may result in lost bonuses. Any transfer should only be undertaken after seeking expert advice.

Flexibility

Some, but not all, ISA providers take full advantage of the legislation and allow you to withdraw and replace cash sums during the same tax year without the replacement counting as a fresh subscription. This flexibility is not available for LISAs or JISAs and is severely restricted in the case of Help to Buy ISAs.

Example – Using ISA flexibility

Graeme had a cash ISA worth £60,000, having invested the maximum £20,000 subscription in early May 2024. Seven months later he was in the process of moving home and needed £40,000 cash to complete his purchase. He had this amount in a fixed term deposit which was due to mature in March 2025, but he did not want to pay an interest penalty to gain early access. Instead he used the flexibility his ISA flexibility to withdraw the sum he needed in December 2024 and then replenished his ISA with the monies from his maturing deposit before 6 April 2025.

Planning point

ISAs are effectively inheritable by a surviving husband/wife or civil partner.

Inheritance

ISA rules allow the value of any ISA to be inherited and used as an “additional permitted subscription” (APS) by a surviving spouse or civil partner. Generally speaking, the ISA tax benefits remain during the administration period and all investments plus any subsequent growth or return form part of the APS.

The ISA’s tax advantages are thus able to outlive the original ISA owner, with their ISA holdings and tax benefits normally being transferable in full to the survivor. This can have important estate planning benefits, effectively turning what is an individual investment into a joint investment. In some circumstances the inheritability of ISAs will mean that pension arrangements can be left untouched, which may prove useful for inheritance tax planning.

Tax treatment of ISA investments

All ISAs enjoy the same tax treatment on invested funds.

Stocks and shares component

All capital gains and dividends are free of UK tax. Foreign withholding taxes may apply, however. Dividends received within an ISA are ignored when considering your available dividend allowance (£500 in 2025/26). Outside of an ISA the tax on dividends exceeding the dividend allowance currently ranges from 8.75% for basic rate taxpayers to 39.35% for additional rate taxpayers.

Interest received on bond and cash investments is tax free and does not count towards your personal savings allowance.

If AIM and similar shares are held in an ISA, the normal IHT business relief rules apply. Broadly speaking, these currently mean that many AIM shares benefit from 100% IHT relief after they have been held for two years, but from April 2026 the rate of relief will halve to 50%.

Cash component and Innovative Finance ISA investments

All interest, dividend income and capital gains are UK tax free.

LISA

Additional tax benefits apply to LISAs and Help to Buy ISAs (started before 1 December 2019). LISAs offer eligible investors a 25% tax free government bonus on their subscriptions until they reach age 50. So, for example, if you subscribe the maximum of £4,000 in a tax year, the government will add an extra £1,000 to your LISA.

This generosity comes with strings attached. If you withdraw funds from a LISA before you reach age 60, a penalty will apply to the amount withdrawn unless:

- your LISA is at least 12 months old and you are using the funds towards a first-time purchase of a home valued at up to £450,000 (anywhere in the UK); or
- you have become terminally ill.

The standard penalty rate is 25%, a figure that applies to both the government bonus and encashment penalty. As the example below shows, the 25% exit charge is not just

the clawback of the 25% bonus but includes also any returns on the bonus and an additional 6.25% charge on the contribution made by the saver.

Example – The LISA penalty

Harry made a contribution of £3,000 to a LISA in March 2023, to which the 25% government bonus of £750 was added. Over the following two years, the LISA grew in value to £4,000. If Harry decided to withdraw £1,000 to spend on a new computer in March 2025, he would have received only £750 after the 25% penalty had been deducted.

Help to Buy ISA – started before 1 December 2019

The extra tax benefits for the Help to Buy ISA only apply if the funds are used to finance a first-time buyer's home purchase. The maximum value of the property to be bought is £250,000 (£450,000 in London). Purchases may be made on a joint basis, meaning that a couple could each use a Help to Buy ISA to buy the same property.

For eligible first-time buyers, the government provides a tax free bonus equal to 25% of the ISA's value. The bonus is subject to a minimum of £400 (implying a minimum ISA value of £1,600) and a maximum of £3,000 (for ISAs valued at £12,000 or more). No bonus payments will be made after 1 December 2030 or on transfer to a LISA (see above).

If the Help to Buy ISA funds are not used for first-time property purchase, there is no bonus payable, but the normal cash component tax freedom for interest still applies. The Help to Buy ISA was withdrawn for new investors from 1 December 2019, but existing investors can continue to contribute until November 2029.

Planning point

Making a choice between ISAs and your pension is not a straightforward decision and needs expert advice.

How we can help

Investment is a specialist area and can only be conducted by authorised advisers. We can:

- Advise you whether ISAs make sense for you in terms of your particular needs and objectives.
- Advise which ISA variants are most suited to your circumstances.
- Review your existing ISA holdings to see if they still meet your aims and circumstances.
- Advise you on whether to bring Child Trust Fund investments under the JISA umbrella and the opportunities this offers.
- Advise you on the options to deal with a maturing or matured Child Trust Fund.
- Explain the relative advantages and disadvantages of LISAs and pensions.
- Set out the way in which ISAs can form part of your estate planning arrangements.
- Advise you on strategies to minimise the tax on your investments outside ISAs.

- Review your investments from time to time as agreed, to ensure that they continue to match your needs and circumstances.

Your capital is at risk if you make peer-to-peer loans or invest in crowdfunding debentures. Any such lending is likely to be highly illiquid, meaning that you may not be able to access your monies until the loan is repaid, assuming there is no default.

The value of investments and the income they produce can fall as well as rise. You may get back less than you invested.

For ISAs investors do not pay any personal tax on income or gains, but ISAs do pay unrecoverable tax on income from stocks and shares received by the ISA managers.

Tax treatment varies according to individual circumstances and is subject to change.

Stocks and Shares ISAs invest in corporate bonds; stocks and shares and other assets that fluctuate in value.

Alternative Investment Market (AIM) Business Relief schemes (BR) invest in assets that are high risk and can be difficult to sell such as shares in unlisted companies. The value of the investment and the income from it can fall as well as rise and investors may not get back what they originally invested, even taking into account the tax benefits.

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