Making the most of your ISA

A guide from Assetz Capital

www.assetzcapital.co.uk/invest - 0800 470 0430

What is an ISA?

An ISA is an Individual Savings Account. Put simply, an ISA allows you to save or invest your money without paying any income tax – although as you might expect, there are limits.

The ISA isn't an investment or saving itself, but instead is a wrapper which sits around your cash, providing protection from the tax that would typically be due. Anyone in the UK over the age of 16 has an ISA allowance and can make use of this tax-efficient savings vehicle.

ISAs are actually quite new. They were introduced by the then chancellor Gordon Brown in 1999 as a way of encouraging people to save more. While the initial reaction wasn't wholly positive – with many pining for the return of PEPs (Personal Equity Plans) and TESSAs (Tax-Exempt Special Savings Accounts) – it didn't take long for the ISA to become an established means of savings for the majority of the population. It's probably the best financial handout you'll get from the government.

HM Revenue and Customs figures from 2017-18 show £69 billion in Adult ISAs, an increase of £7.8 billion compared to 2016-17 (see the next section for an explanation of the different types of ISAs). These are big numbers.

It's worth remembering that the ISA isn't the only means of tax-free savings. In April 2016 the government introduced the Personal Savings Allowance, which means you can earn up to £1,000 in interest a year without paying tax on it (the limit depends on your income tax band).

But an ISA is chosen by many savers and investors, in part due to much higher subscription limits. It remained constant for 10 years at £7,000, but then grew in line with inflation to its current level of £20,000. There's now an estimated 1,000 ISA millionaires, those who have likely invested up to the limit – and wisely! – each year.

Your £20,000 can be split across the different types of ISA.
Read on to find out more about these different types.

What types of ISAs are there?

There are lots of different ISA types, all catering to different needs. Some people opt for just one, whereas others split their ISA allowance across different types.

Cash ISA

- Offered by banks and building societies.
- Typically provide the lowest headline returns, but also seen as lowest risk.
- Access times vary, as do fixed or variable rates.

Stocks and Shares ISA

- Offered by investment platforms, stockbrokers and banks.
- Underlying investment is either collective investments, trusts, bonds or individual shares.
- Typically advertise higher returns, but also carry a degree of risk and volatility.
- Access times vary, as do actual returns.

Innovative Finance ISA

- Offered by peer-to-peer lending businesses and other innovative finance providers.
- Underlying investment is either businesses or consumers looking to borrow.
- Typically advertise healthy target returns, but also carry a degree of risk.
- Access times vary, as do actual returns.

Help to Buy ISA

- Offered by banks and building societies.
- Can only be used to buy your first home.
- Typically provide similar returns to Cash ISAs, but government boosts total savings by 25%. There's a deposit limit of £200 a month.

Lifetime ISA

- Offered by fund supermarkets, stockbrokers and banks and building societies.
- Can only be used to buy your first home or save for later life.
- Acts like the stocks and shares or cash types, but the government boosts total savings by 25%. There's a deposit limit of £4,000 a year.

Junior ISA

These are applicable to those under 18

(£4,821 annual limit)

Adult ISA

These are applicable to those aged 16 and over

(£20,000 annual limit)

The best ISA for you will depend on what your financial goals are, what your risk appetite is and whether you need quick access to your cash.

Although the annual £20,000 limit can be spread across the different ISAs, you can only open one of each type per year. However, transfers from previous years ISAs don't count towards your allowance. Even if you have opened an ISA in this tax year and paid new funds into it, you can still transfer in funds from previous ISAs. Read more about transfers below.

Transferring your ISA

The ability to transfer your ISA gives the savvy investor lots of opportunity to search for value. Once you've got an ISA set up you can transfer it from one provider to another at any time.

Remember, you can spread your ISA limit across multiple ISA types. The only restriction is that you can't open more than one ISA of the same type in a single year.

It's also worth bearing in mind that transfers-in of ISAs from previous years do not count towards your current year's allowance, so you can transfer an unlimited amount of funds from previous years.

For example, you could invest the maximum balance of £20,000 into each of three different IFISAs and two Cash ISAs over five years, all with different providers. If you wanted to, you could then transfer the whole £100,000 – along with the interest you have accrued – to a different IFISA provider. There are lots of options to help you get a great return.

Here are a few things to remember before you embark on a transfer:

- Make sure you transfer rather than withdraw your funds. If you withdraw first, that figure would then count towards your £20,000 annual allowance when you open a new ISA.
- Check that your new provider accepts transfers.
- If you want to transfer money you've invested in an ISA during the current year you have to transfer all of it.
- You can transfer all or part of your ISA subscription from the previous year.

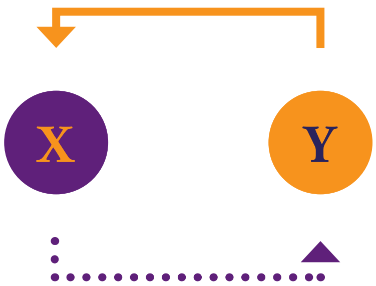
How does an Innovative Finance ISA work?

After being introduced in 1999, the ISA landscape remained relatively unchanged for a number of years. There has always been the option of simple Cash ISAs – offered predominantly by banks and building societies – and Stocks and Shares ISAs, for the savvier investor that is familiar with the stock market. Other variations have been added too, like the more recent Lifetime ISA and Help to Buy ISA.

Then, in 2015, George Osborne announced the biggest shake-up to the ISA to-date by introducing the Innovative Finance ISA (IFISA). This allowed investors to earn tax-free returns on peer-to-peer lending.

But what is peer-to-peer lending?

Peer-to-peer lending is simple



X requires money

Y has money

Y lends to X

X pays Y back

The difference here is, Y is never a bank. Instead, Y is a person or group of people.

And because Y is never a bank, it means there is direct benefit from the majority of the interest that X pays – a lot fairer, we feel, than going through typical mainstream channels like banks. Unlike a bank though, there is a risk of loss for Y if X can't repay the loan.

These loans take place via a peer-to-peer lending platform. These are essentially online marketplaces that match those looking to lend money with those looking to borrow. They take a small portion of the repaid interest, but most is passed on to the investors. There are over 50 in the UK alone, all varying in scale and the types of loans they offer.

Peer-to-peer lending platforms that have been authorised by the Financial Conduct Authority (FCA) are able to offer IFISAs. The IFISA works like any other ISA wrapper, meaning your returns are tax-free and they contribute to your overall £20,000 annual limit.

There is a range of potential interest rates available depending upon your risk appetite. Assetz Capital is one of the few peer-to-peer lenders that offers IFISA wrappers across both automated investment accounts (where your investment is automatically diversified across multiple loans in order to spread the risk) and manual lending accounts where you pick each individual loan.

At the time of writing, target returns range from 4.1% per annum in our automated range to over 10% per annum in the manual lending account. The idea is that you can pick your ideal IFISA investment account to match your financial goals.

It's fair to say that peer-to-peer lending has so far been a choice for those 'in the know'; early adopters looking for fair returns and understanding the risks. However, the IFISA has the potential to lift the peer-to-peer industry to the mainstream and showcase its benefits to a much wider audience.

Its potential as a different type of investment – designed to suit the modern world and providing asset class diversification for investors – is massive.

Getting started

Once you've looked at the different types of ISA available,
you should ask yourself a number of questions - including:

- Do I want more predictable returns or is volatility ok?
- Am I happy to effectively lose money after inflation in exchange for less risk?
- Would I exchange more risk for greater target returns?
- Am I saving for a house?

Then it's worth searching online for providers of your chosen ISA type(s).
Make sure you hunt out the offer that works best for you.

If you're interested in the IFISA, visit **www.assetzcapital.co.uk/ifisa** to find out more.

A note from Assetz Capital

Peer-to-peer lending is a simple concept. But in an era of economic uncertainty, with returns often falling behind inflation, its impact on the finance industry, and even society as a whole is enormous – with the potential to be even bigger in the years to come.

Meanwhile, opportunities for those looking to achieve fair returns on their savings and investments may seem few and far between, with investors traditionally facing a choice between the often lower returns of Cash ISAs and the volatility of Stocks & Shares ISAs.

We see the IFISA a crucial third option in the ISA mix, and one that offers a real opportunity to help the population win the race against inflation, making everyone's money work harder and smarter.

We're driven by a desire for fairer growth for all. It's why we created Assetz Capital in 2013, and why we've been able to grow to the point where we have over 32,000 in our investor community who have earned over £60 million in gross interest while lending over £0.7 billion to UK businesses.

Peer-to-peer lending empowers those involved. It strips out the need for the large financial institutions, giving control back to the people. It democratises finance. And in an environment of low interest rates and SMEs being frozen out when looking for credit, it is a solution that addresses a number of critical issues.

Ultimately – along with other forms of alternative finance – it can be one of the key engines of economic growth, at a time when the UK economy is not being kind to the vast majority of people.

Stuart Law,

CEO at Assetz Capital

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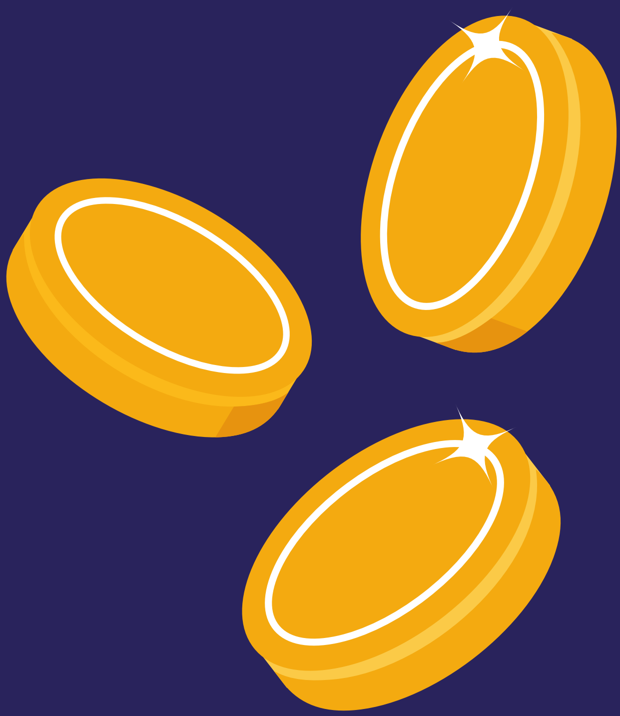

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