Isa and the tax year end

The tax year end provides a great opportunity for you to review your clients' portfolios and make sure they're making the most of the tax-efficient investment options available to them. In this factsheet, we look at things to think about for the tax year end in relation to Isas in the approach to the tax year end 2018-19.

If you only read one thing…

- Clients can consider maximising Isa subscriptions to use up the current year's subscription limit of £20,000. Unused amounts cannot be carried forward. Make sure your clients are fully aware they can only pay into one Isa of each type each tax year.
- Those with dividend income in excess of £2,000 may benefit from 'bed and Isa' transfers of assets with higher dividend yields into a tax-efficient wrapper.
- Clients with parental responsibility for a child could contemplate opening a Jisa or perhaps transferring an existing CTF to a Junior Isa (Jisa).
- Remember anybody can gift money directly into a child's Jisa and that income generated on funds added by parents is not caught by the parental settlement rules. Consider the scope for those aged 16-18 to take advantage of both Jisa and adult Isa subscription limits.

Your clients may want to use up their annual Isa subscription limit of £20,000 for 2018-19 before the end of this tax year. If they don't use the full limit, there is no opportunity to roll any unused amount into a future tax year – they have to 'use it or lose it'.

The annual Isa subscription limit will remain at £20,000 for 2019-20. A couple maximising their respective Isa subscription limits can therefore invest up to £80,000 between them across the 2018-19 and 2019-20 tax years. A child aged 16 or 17 can invest up to £20,000 in an adult cash Isa.

In contrast to pension contributions, no income tax relief applies to Isa subscriptions. However, income and capital gains arising within an Isa are not subject to UK tax (although there may be some irrecoverable foreign withholding tax on certain investments) and there is no tax on withdrawals.

For those with dividend income in excess of £2,000, bed and Isa transfers may be an effective way to move assets with higher dividend yields into a wrapper where those dividends will not be taxed, saving tax at 7.5%, 32.5% and/or 38.1% as appropriate. The scope for undertaking such planning must be considered alongside the capital gains consequences.

The attractiveness of Isas is further enhanced by the fact that they now retain their tax-privileged status on death and, in most cases, freedom from income tax and capital gains tax will continue during the estate administration period. In addition, surviving spouses and civil partners may also benefit from being able to make an additional permitted subscription (APS) into their own Isa based on the value of their deceased partner's Isa.

Different types of Isa

There are four different types of Isa:

- Cash
- Stocks and shares
- Innovative finance
- Lifetime (Lisa)

Your clients can invest up to their full annual Isa subscription limit in one account type, with the exception of Lisas which have a £4,000 limit. Alternatively, they can spread their subscription across one or more account types, provided they remain within the overall annual limit of £20,000.

Each tax year, a client can only save into one Isa of each type – for example, they cannot pay into two stocks and shares Isas in one tax year, but they could pay into one cash Isa and one stocks and shares Isa.

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Deadline to open a Help-to-buy Isa

Prospective first-time buyers have until 30 November 2019 to open a Help-to-buy Isa. After that, no new help-to-buy Isas can be set up, although those who have already opened a Help-to-buy Isa can continue to pay into it. Help-to-buy Isas aim to help first-time buyers save for a mortgage deposit. For every £200 saved, the government will pay a £50 bonus towards the purchase price of a property. Savers can pay in £200 each month; and in the first month they can make an additional contribution of £1,000. The government bonus is paid when the property is bought. It applies to properties up to £250,000 (£450,000 in London).

Junior Isa (Jisa)

Jisas are available to UK resident children under age 18. A child cannot have both a Jisa and a Child Trust Fund (CTF) but they could transfer an existing CTF into a Jisa. The annual Jisa limit, currently £4,260, will increase to £4,368 in 2019-20. Anybody can gift money directly into a child's Jisa. Where the parents pay money into a Jisa, the income that payment generates is exempt from being taxed on the parents under the parental settlement rules.

When a child reaches age 16, they can apply for an adult cash Isa as well and subscribe to this in addition to the subscriptions to their Jisa. This means they can subscribe an overall total of £24,368 in 2019-20.

From the start of the tax year the child turns 18, they can use their whole Jisa subscription limit of (even though the Jisa will be held for a part of the tax year only). In addition, from their 18th birthday, they can invest across the full range of Isa account types, subject to the £20,000 limit. This means they can subscribe an overall total of £24,368 in 2019-20.

For more information on Junior Isas, check our our separate Junior Isa factsheet.