Chiene+Tait
CHARTERED ACCOUNTANTS

Comment on...

New Individual Savings Accounts (NISAs)

The Individual Savings Account (ISA) has been a tax efficient vehicle for many years and has helped individuals build and preserve wealth free of income tax and capital gains tax. It is a useful tool in planning for retirement and has greater flexibility/easier access than regular pension schemes, although ISA funds do count as part of the chargeable estate for inheritance tax (IHT) purposes. About 23 million adults, roughly half the UK adult population, have an ISA.

The ISA has now undergone a makeover. From 1 July 2014, all ISAs, both existing accounts and accounts opened after that date, will be renamed "New ISAs" (NISAs). There will be increased savings limits, increased flexibility and fewer restrictions on the type of investments that are permitted within the wrapper.

The NISA allowance will be £15,000 for 2014/15 and this can be invested in cash, stocks and shares or any combination of the two. In addition, it will be possible to transfer amounts held in stocks and share ISAs opened during any tax year to a cash NISA (and vice versa from a cash ISA to a stocks and shares NISA.)

There is no requirement to report to HMRC the income or capital gains on trades arising within the NISA. The income does not count for age related personal allowance restriction (although the age-related allowance is being phased out in any case) but it does count as income for the purpose of the IHT relief for habitual gifts out of surplus income.

The limit for Junior NISAs (available to those children who were not eligible for the Child Trust Fund) has been raised to £4,000 and again, this can be invested in cash, stocks and shares or a combination of both. Junior NISAs can be funded by parents and grandparents to make use of the £3,000 annual IHT exemption or to take advantage of the IHT relief for gifts out of surplus income.

Over the years, this can be a useful savings tool for future educational requirements, gap year travels or house deposits. Money cannot be withdrawn until the child is 18 at which time the account converts to an adult NISA. The downside is that the child will have full access to the NISA at age 18 and will have complete control of what, by then, may be a substantial amount of money.

On the whole, the changes which have come into effect on 1 July 2014 are a boost for savers. With current low interest rates, the imposition of tax makes returns negligible and so the increase in tax-free savings is to be welcomed.