

# ask the experts

We answer your questions on Isas

## INITIAL QUERY

**?** What exactly is an Isa?

Isa stands for individual savings account. An Isa isn't an actual product but rather a scheme that enjoys favourable tax treatment and which lets you save money in three different types of investment – cash, stocks and shares and life insurance. There are different types of Isa (called maxis and minis) and limits on the amount you can invest.

If you invest in a cash Isa, the interest is tax-free. The main tax advantage of investing in a stocks and shares mini Isa is that your fund grows free of capital gains tax.

## WITHIN LIMITS

**?** How much can I invest?

The maximum you can invest currently in any one tax year is £7,000 in a maxi Isa or up to £3,000 into a cash mini Isa, £3,000 into a

From April 2005 the insurance element merges into the stocks and shares component, increasing the limit for stocks and shares minis to £4,000.

The limits apply to what you pay in, not your balance. So, if you pay £1,000 into a cash Isa and withdraw £500, you can pay in only another £2,000 during the same tax year. During any one tax year you can pay into either one maxi Isa or three mini Isas. But you can't invest in two mini Isas of the same type (two cash Isas, say) in the same tax year.

## I'VE GOT TWO

**?** I paid £1,000 into one mini cash Isa and then opened another with £2,000 in the same tax year. Will I lose my money?

Nothing will happen to your first Isa, but your second Isa is invalid, even though you're within the £3,000 cash



The amount of money you can invest in a mini cash Isa is set to shrink

## Confusion over new Isa limits

**?** I keep hearing rumours that the rules about how much money I can invest in an Isa are about to change. Can you tell me a bit more about what is going to happen and when the changes are due to come in?

A great deal of confusion surrounds future limits and nothing's yet been confirmed. From April 2006, the limit for maxi Isas was due to fall to £5,000 and the mini cash Isa limit to £1,000. However, the Chancellor

announced plans in his recent pre-budget report to extend the limits that will apply from April 2005 (see 'Within limits', left), to 2009, subject to consultation.

We welcome this change of heart, especially where cash Isas are concerned. At a time when personal borrowing is at dangerously high levels and the government is pledged to encouraging us to save, it simply doesn't make sense to cut the cash Isa limit by two thirds.

**An Isa isn't a product but a scheme that enjoys favourable tax treatment**

stocks and shares mini Isa and £1,000 into a life insurance mini. With a maxi Isa, you can, theoretically, split your allowance across the three components (but the limits for cash and life insurance still apply), although most providers offer just the stocks and shares option. But the limits are set to change – see 'Confusion over new Isa limits', right.

limit. However, it's not all bad news. Your second Isa can be 'repaired'. The Inland Revenue will send your Isa manager a 'notice of repair'. When that happens, your second Isa will once again enjoy the tax advantages and the interest will be exempt from tax. Any interest paid before the date of the notice of repair will be taxed.

## AND I WANT TWO

**?** I already have a mini Isa. Can I have a maxi Isa as well?

Yes, you can, provided you don't take out the maxi Isa in the same tax year as you opened the mini. Tax years run from 6 April of one year to 5 April of the following year. So, if you opened your mini Isa between 6 April 2004 and 5 April 2005, the earliest you can open a maxi Isa is 6 April 2005.

## AGE CONCERN

**?** My daughter's just turned 16. Can she invest in an Isa?

It depends on the type of Isa. Your daughter can invest in a mini cash Isa. But she can't take out a stocks and shares Isa or an insurance Isa till she's

18. We've heard that some banks and building societies are saying that legally you have to be 18 to take out a cash Isa. This is wrong – the minimum age is 16, though providers can choose to impose a higher minimum age.

## TIME TO SWITCH

**?** When my Tessa matured, I moved my £9,000 into a Tessa-only Isa. That was eight months ago. Can I switch it to a cash Isa?

You can't switch in the same tax year so you'll have to wait until 6 April 2005. The usual Isa switching rules apply – the transfer has to be made between your providers. If you just withdraw the

money from your old account and take it to your new provider, it will be treated as a new investment and count against your current year's Isa limits.

## MORE INFO

### Which? reports

The third Isa (Mar 2003, p38)  
Ask the experts (Apr 2003, p18)  
Switch without hitch (Feb 2004, p42)

### Useful websites

Which? Extra  
[www.which.co.uk/cashisas](http://www.which.co.uk/cashisas)  
Financial Services Authority  
[www.fsa.gov.uk](http://www.fsa.gov.uk)  
Inland Revenue  
[www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

• For Best Buy mini cash Isas, see p36