



## MAKE THE MOST OF YOUR OPPORTUNITIES IN THESE TAXING TIMES

In these austere times, tax give-aways are pretty hard to find. In an otherwise gloomy picture for Britain's taxpayers, your annual Individual Savings Account allowance is one bright spot – an increasingly valuable tax break and investment opportunity that should not be overlooked.

With this in mind, it is surprising to learn that, according to research by Fidelity in October last year, two-thirds of eligible UK adults are not currently making use of their ISA allowance and with it the chance to save free of any further liability to personal income tax and completely free from capital gains tax.

Alongside pensions, ISAs are the most tax-efficient way to save and invest for the future and should be a fundamental building block towards long-term financial wellbeing. Of course, the favourable treatment of ISAs may not be maintained and is subject to changes in legislation, but recent government announcements have hinted at its recognition of the important part ISAs can play in solving Britain's savings crisis.

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## Annual ISA limit for tax year set to increase each year in line with inflation

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The annual ISA limit for this tax year is £10,200 and it was confirmed in October that the allowance is set to increase each year in line with inflation. So from the new tax year the allowance will increase to £10,680 – a level which is nearly 50% higher than the £7,200 limit of just two years ago.

This means a couple will be able to put away £21,360 next tax year with no further tax to pay on dividends or interest income and no capital gains tax liability at all. Put another way, assuming a realistic annual inflation figure of 3.5%, a 35 year old saving the full allowance each year until their 65<sup>th</sup> birthday could invest over £532,000.



The important thing to remember about the tax reliefs that come with ISAs is that if you do not use them, you lose them. If you miss the end of tax year deadline, that's it until next year.

Unlike a pension, there is no tax relief on the money invested into an ISA, but the tax advantages achieved over time are similar. The main difference is that ISAs are far more accessible – you can make withdrawals at any time and these may be taken regularly to provide an income; whereas with a personal pension you have to wait until you are 55 before you can get your hands on your savings.

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## The Government announced plans to introduce a Junior ISA for children under the age of 16

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When confirming the increased allowance, the Government also announced plans to introduce a Junior ISA for children under the age of 16 to replace the now defunct Child Trust Funds. Whilst many commentators were concerned about the withdrawal of government funding that this change represented, the proposed introduction of the new scheme in the autumn is particularly timely given that the axe is also falling on further education spending. As the cost of a university education looks set to rise to around £21,000 for a three-year course, the Junior ISA will provide parents and grandparents with a means to help children avoid starting their adult working life with a debt the size of a small mortgage.

All of this highlights the importance of making the most of your current valuable tax break. ISAs offer a tax-efficient and convenient gateway to the equity markets and also a useful short or medium term account for cash. You can invest a maximum of £5,100 in a cash ISA – half your annual allowance – but in this environment of ultra-low interest rates it is perhaps no surprise to learn that the average cash ISA rate is at its lowest level since their introduction in April 1999.

As a consequence of this and a greater degree of confidence on the part of investors, sales of stocks & shares ISAs are at their highest since 2001 (source: Investment Management Association, January 2011). You can invest



your full annual allowance in a stocks & shares ISA and many investors, prepared to accept more risk than the cash alternative, are recognising that this may be the way to take better advantage of this tax break. You can also transfer existing cash ISAs into a stocks & shares ISA, although it is important to remember that you cannot transfer them in the opposite direction.

We all like to think that we work hard for our money and pay our taxes, but you don't owe the HM Revenue & Customs any more than you need to. With straightforward planning you can make sure you pay as little tax as you need; and making the most of your ISA allowance is a good place to start.

**COMPLIMENTARY GUIDES**

INHERITANCE TAX	WEALTH MANAGEMENT	RETIREMENT PLANNING
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