A boost to ISAs on the horizon

New regulations promise another improvement to ISAs soon.

Recent statistics issued by the Investment Association (IA) point to a declining interest in individual savings accounts (ISAs). In 2016 the IA recorded only two months in which new money flowing into ISAs exceeded existing money flowing out. Not surprisingly, the two months of net inflow were March and April, with the traditional end of tax year rush.

The tax advantages of ISAs remain unchanged, but for some investors the arrival of the dividend allowance and personal savings allowance last April mean that an ISA offers no immediate tax benefit over direct investment. As a reminder, under an ISA:

- Interest and dividends are free of UK income tax;
- There is no tax on capital gains;
- Withdrawals can be made of any amount at any time, with no tax charge;
- Unlike pensions, the contribution limit is straightforward (£15,240 in 2016/17, £20,000 in 2017/18 in total to *all* ISAs) and there is no equivalent of the lifetime allowance limiting the tax-efficient size of the fund. Indeed, some long term savers already have ISAs valued at more than the current pension lifetime allowance of £1 million.
- There is nothing to report personally to HM Revenue & Customs.

Just over two years ago regulations were introduced to make ISAs effectively inheritable between spouses and civil partners. These regulations proved overly complex and in his 2015 Autumn Statement George Osborne promised to introduce some simplifying amendments. Last month, a draft of these finally arrived. Once put into force, they will mean that in nearly every instance you will be able to inherit the full value of a spouse's / partner's ISA and the tax benefits will not be lost during the estate administration period.

If you were wondering about whether to make your end of tax year (or even start of tax year) ISA contribution, the regulations are another reminder of the ISA's benefits.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.