

What is an ISA?

An ISA (Individual Savings Account) is not an investment in its own right but rather a wrapper which can be used to shelter your investment from the taxman. Tax on ISA investments can be significantly less than would be levied on an equivalent investment made *outside* of a tax wrapper. The tax treatment is shown below:

| | All Taxpayers | Basic Rate Taxpayers | Higher Rate Taxpayers |
|-----------------|-----------------------------|-------------------------------------|---------------------------------------|
| | ISA | Outside ISA | Outside ISA |
| Cash | Tax free | Interest taxed at 20% | Interest taxed at 40% |
| Stocks & Shares | Largely Tax Free* No CGT | 10% tax on dividends + possible CGT | 32.5% tax on dividends + possible CGT |

*10% tax on dividend income (ACT) applies to most funds. Higher rate taxpayers are exempt from paying the extra 22.5% tax on dividends from equity investments.

*For corporate bond funds and distribution funds, which pay out fixed interest distributions, the fund manager can reclaim 20% tax.

The Main ISA tax benefits:

- ✓ No capital gains tax (CGT) to pay – profits are not taxed!
- ✓ Income from an ISA will not affect your tax band (nor will it affect your age allowance, the additional personal tax allowance on reaching 65).
- ✓ You do not have to declare ISAs, or their gains, on your tax return!



Types of ISA:

Cash ISAs (previously known as ‘Mini’ cash ISAs) are similar to a standard savings account - except the interest is tax-free. To achieve the same returns on a cash ISA paying 3% interest, a basic-rate taxpayer would need a savings account offering 3.75% interest, while higher rate taxpayers would require 5% interest.

Stocks & Shares ISAs (previously known as ‘Maxi’ ISAs) - are usually invested into an investment fund where the fund manager assumes the responsibility of choosing the investments. The returns on your investment depend on the collective performance of your fund(s).

How do I invest? Each tax year (6th April to 5th April) everyone over the age of 16 has an ISA allowance (18 for stocks & shares ISA). The current limit is £7,200 for most people (but £10,200 for anyone who will be 50+ before 5th April 2010) and can be invested:

- Up to the full allowance into a stocks & shares ISA; no cash ISA, or
- An amount up to 50% of the full allowance into a cash ISA; the balance invested in a stocks & shares ISA

ISA Quick Facts:

- ✓ Use it or lose it! Unused allowances do not roll over - and are lost forever.
- ✓ ISAs retain their tax allowances in future years. Sizeable ISA portfolios can be accumulated over time.
- ✓ The ISA tax advantages are lost forever on withdrawal.
- ✓ Cash ISAs can be switched into Stocks & Shares ISAs – but not vice-versa!

What could I use my ISA for?

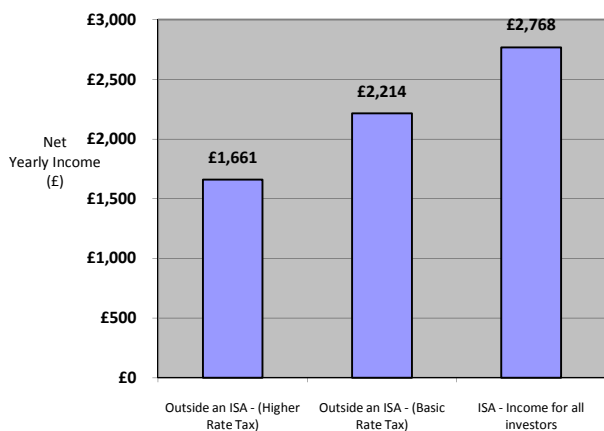
Long Term Savings: The real tax advantages of a stocks & shares ISA don't accrue in the early years but rather 15+ years in the future when you want to make use of the tax free 'pot' you have accumulated. With the right planning, ISAs can be suitable savings vehicles for:

- Retirement Savings
ISAs can complement pensions and provide a very tax efficient retirement income – see below for more details
- Future large expenses e.g.
 - House deposit
 - School fees
 - University expenses

An example: Using ISAs for Retirement Saving:

Investing in a stocks & shares ISA for capital growth is one way of enhancing your retirement fund.

Assuming a £7,000 stocks & shares ISA grows at a rate of 7% per annum (net of all charges), after 25 years the original investment would have grown to £55,360. If this is then switched into a corporate bond fund yielding 5%, the following levels of income would be generated:



Existing PEPs and ISAs?

Legacy Schemes:

- ✓ TESSAS, Toisas and Mini ISAs no longer exist; they are all now 'Cash ISAs'
- ✓ PEPs and Maxi ISAs also no longer exist; they are both now 'Stocks & Shares ISAs'

How can MPL help?

If you have been taking advantage of your ISA allowances, you may have accumulated a substantial ISA 'pot' – and one that should be reviewed periodically to ensure your savings continue to work for you. MPL can help you make the most of your tax free savings.

MPL can also make it easier for you to track your investments by consolidating them into one account – ask a consultant for more details.

In addition to recommending an ISA for the current tax year, MPL can help you review & consolidate your existing ISA investments.

Contact us on:

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