For professional advisers only

Adviser factsheet

nucleus

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ISAs – the basic rules

Individual Savings Accounts (ISAs) are a key part of a client's financial planning.

Since their inception in 1999, ISAs have gradually become more complicated with the addition of new types such as innovative finance and lifetime, new 'products' such as Junior ISA (JISA) and help-to-buy ISA, and new features such as flexible ISA and additional permitted subscriptions (APS).

This factsheet gives a broad overview of the rules to help advisers navigate the ISA regime.

The different types of ISA include:

- Cash
- Stocks and shares
- Innovative finance
- Lifetime

As well as these four types, there are two other 'ISA products' – JISA and help-to-buy ISA. A JISA can be a cash or a stocks and shares ISA – the child can have one or both types of JISA in the same tax year. And a help-to-buy ISA is a cash ISA.

To help you compare the different types of ISA, see factsheet (0360) for more information. We also have a factsheet providing the main details of JISAs (0452).

The 'one ISA per type each tax year' rule

Each tax year, a client can only save into one ISA of each type. This means they can't pay into two stocks and shares ISAs in one tax year, but they could pay into one cash ISA and one stocks and shares ISA.

Where the client transfers their current year subscriptions from one ISA type to another, for that tax year, it's counted as saving into the receiving ISA type.

Example

Diane paid £10,000 into a cash ISA in the 2023-24 tax year. She then transferred this cash ISA to a stocks and shares ISA with ABC company. Diane can now start saving into another cash ISA for this tax year. And although she can continue saving into her stocks and shares ISA with ABC company, she can't save into a new stocks and shares ISA with another ISA provider.

The following do not count as subscriptions when considering the 'one ISA per type each tax year' rule (except for lifetime ISA):

- APS
- Flexible ISA replacement subscriptions
- Help-to-buy ISA reinstatement subscriptions
- Defaulted cash ISA subscriptions

If a withdrawal from a lifetime ISA is returned, it won't count for the purpose of the 'one ISA per type each tax year' rule, if it is paid back because:

- A house purchase fell through; or
- it was a defaulted lifetime ISA subscription.

Subscribing to an ISA

Clients can pay into an ISA if they are:

- aged 16 or over for a cash ISA;
- aged 18 or over for a stocks and shares ISA or an innovative finance ISA;
- aged over 18 but under 40 to open a lifetime ISA. Once open, clients can continue paying into a lifetime ISA until the day before their 50th birthday; or
- contributing to a JISA on behalf of a child aged 17 or under.

Generally, clients have to be resident in the UK.

All subscriptions made, and to be made, have to belong to the client. So someone else can gift the money to the client and the client can pay it in.

The 'continuous subscription' rule

The continuous subscription rule means that if the client doesn't pay into an ISA for the tax year to which the application relates, then the application will remain valid for one more tax year. But if they don't subscribe in that subsequent tax year, then they have to apply afresh before subscriptions can restart. For example, if an investor subscribes in tax year 2021-22, but not in 2022-23, then they will have to complete a new ISA application before any further subscriptions can be made in 2023-24. This is except for lifetime ISAs and JISA's, where clients do not have to make a fresh application.

Overall subscription limit

The ISA subscription limit for 2023-24 tax year is £20,000. The client can pay up to this overall limit into any combination they want of the different ISA types (sticking to the one type each tax year rule).

However, as part of this overall subscription limit, the lifetime ISA maximum payment is £4,000.

The JISA allowance is £9,000 in 2023-24. Clients aged 16 to 18 can pay £20,000 into a normal cash ISA as well as paying into a JISA for the same tax year – meaning a total of £29,000.

For non-flexible ISAs the subscription limit applies to the total amount of money paid into the ISAs in a tax year. If the client subsequently withdraws some money this doesn't reduce the amount that is counted as the subscription for that tax year.

There is no ability to carry forward any unused ISA subscription limit – if the client doesn't use all their allowance in a tax year, then they lose it.

Generally, the following don't count towards the overall annual subscription limit:

- APS
- Flexible ISA replacement subscriptions
- Help-to-buy ISA reinstatement subscriptions
- Defaulted cash ISA subscriptions (although this will count towards the lifetime ISA payment limit of £4,000)

Voiding and repairing

Two or more ISA types in one tax year

Generally, where an individual has paid into two (or more) of the same ISA type in one tax year then HMRC will declare the second ISA to be invalid. The second ISA has to be 'repaired' by returning the subscriptions to the individual. Tax (at the individual's marginal rate) has to be paid on any investment growth relating to this money (no withdrawal charge is paid if it is a lifetime ISA, but government bonus must be returned to HMRC).

Exceeding the overall subscription limit

If the individual has paid in more than the overall subscription limit, then the ISA is 'repaired' by returning to the individual the excess subscriptions which cause the limit to be breached (ie the last ISA subscriptions to be paid). Tax (at the individual's marginal rate) has to be paid on any investment growth relating to this money.

However, if one of the ISAs is a lifetime ISA, then (as long as the current payment limit hasn't been exceeded) the excess subscriptions will be removed from one of the other ISA types and not from the lifetime ISA – even if the lifetime ISA was first subscribed to later in that tax year than the other ISAs.

Exceeding the current payment limit

If the individual exceeds the lifetime ISA payment limit, the lifetime ISA must be repaired. The excess subscriptions must be returned to the individual (without incurring a withdrawal charge). Any government bonus that has been paid must be returned to HMRC.

Lifetime ISA

A client who is younger than age 40 can pay up to the current payment limit of £4,000 into a lifetime ISA and receive a government bonus of 25% of the payments. The £4,000 will also count towards the overall ISA subscription limit. Generally, any withdrawals from the lifetime ISA (unless after age 60 or to pay towards purchase of a first house worth £450,000 or less) will be subject to a 25% withdrawal charge. Our factsheet on lifetime ISA (0349) gives more details.

Flexible ISA

A flexible ISA is one which allows the client to replace cash they have withdrawn without the replacement counting towards their annual subscription limit. (Lifetime ISAs or JISAs cannot be offered as flexible ISAs.) ISA managers can choose whether to offer flexibility or not.

Death of an ISA account holder

Tax treatment on death

Since 6 April 2018, when an ISA account holder dies the ISA manager treats the ISA as a 'continuing account' – meaning the ISA can continue to benefit from ISA tax advantages (any interest, dividends or gains in respect of investments will continue to be exempt from tax), even though the owner has died.

Additional permitted subscriptions (APS)

When an ISA account holder dies, it's possible for their spouse or civil partner to inherit an additional ISA subscription to use, whether or not the surviving spouse inherited the deceased ISA account holder's assets.

The value of the APS allowance is the higher of:

- the value of the deceased account holder's ISA fund at the date of death; or
- the value of the deceased account holder's ISA when either the ISA is closed or their estate is settled.

The APS can be paid into an ISA with the ISA manager who held the deceased ISA account or another ISA manager.

The surviving spouse can only pay the APS into a new lifetime ISA if they are under age 40. The APS will count towards the lifetime ISA payment limit of £4,000.

Transferring an ISA

Clients can choose to transfer freely between cash, stock and shares and innovative finance ISAs.

Transfers from cash, stocks and shares, and innovative finance ISAs can be made to a lifetime ISA, as long as the amount transferred doesn't exceed the lifetime ISA current year payment limit of £4,000. Transfers can be made from lifetime ISAs to other types of ISA but they will be liable to a withdrawal charge. There will be no withdrawal charge where a transfer is from one lifetime ISA to another lifetime ISA.

The client can transfer their ISA by making a transfer application to a new ISA manager (as long as they accept transfers in). Any amounts transferred won't count towards the overall subscription level (but see above for the current year payment limit for lifetime ISA).

In the case of innovative finance ISA, a transfer out is not possible unless all the current year's subscriptions are transferred, in other words by liquidating the peer-to-peer loans and crowdfunding debentures or transferring 'in specie'.

Where current year's subscriptions are transferred they are treated for all ISA purposes as if they had been made to the receiving ISA manager. This means the client is regarded as never having subscribed to the original ISA. This might mean they are able to open a new ISA of the same type as the transferred ISA without breaking the 'one ISA per type each tax year' rule.

Closing an ISA

Clients can choose to close ISAs. ISA managers may re-open an ISA where it was closed earlier in the same tax year and the client wants to resume subscriptions.

An ISA doesn't need to be closed because the investor no longer satisfies the residence condition – the ISA can remain open, however the client cannot subscribe to the ISA (unless it is to pay APS, flexible ISA replacement subscriptions or help-to-buy ISA reinstatement subscriptions).

If you only read one thing

- There are four different types of ISA. Clients can only subscribe to one ISA per type in each tax year.
- There is an overall subscription limit (to all ISA types) of £20,000 (2023-24). As part of this, the lifetime ISA payment limit is £4,000.
- The junior ISA allowance is £9,000. Clients aged 16-18 can pay £20,000 into a normal cash ISA as well as paying into a JISA for the same tax year – meaning a total of £29,000 (2023-24).
- Where the overall subscription limit is exceeded, then HMRC will 'repair' the ISA by returning the excess money back to the client. Tax has to be paid on the returns relating to this return.
- Clients who are younger than 40 can pay up to £4,000 a year into a lifetime ISA and receive a government bonus of 25% of the payment. There is a 25% charge on withdrawals (unless they are after age 60 or to pay towards the purchase of a first house).
- When an ISA account holder dies, it's possible for their spouse or civil partner to inherit an additional ISA subscription to use. The value of the APS is the higher of the value of the ISA at date of death, or at the date the ISA was closed or the administration of the estate was completed.
- ISAs can be freely transferred between cash, stocks and shares and innovative finance ISAs. There are different rules about transfers to and from lifetime ISAs.

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