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ISAs

Introduction

This factsheet explains the rules for saving and investing within an ISA. This factsheet provides a generic overview of ISAs and is not intended as a guide to any specific product.

What is an ISA?

An ISA is a tax wrapper. This means that cash and investments held within an ISA wrapper will qualify for more generous tax treatment than those not held within the wrapper.

There are currently five ISA products:

- a cash ISA
- a stocks and shares ISA
- a junior ISA
- a lifetime ISA; and
- an innovative finance ISA.

What is the tax treatment of funds in an ISA?

Interest and dividends received within an ISA are not subject to income tax.

When investments held within an ISA are sold, any gains will be free from capital gains tax, but losses cannot be offset against other chargeable gains made on investments held outside an ISA.

Who can invest in an ISA?

ISA products are only available to individuals, and it is not possible to hold an ISA in joint names. ISA investments cannot be held by or for trusts, companies or other legal entities.

To be eligible to invest in an adult ISA an individual has to be aged 18 or over.

Junior ISAs are also available (see section headed Can an individual invest on behalf of their children? for further details).

Unless an individual is a Crown employee or the spouse or civil partner of a Crown employee, they must also be UK resident for UK tax purposes at the time of investment. A Crown employee includes diplomats and members of the armed forces.

If an individual is unsure of their UK residency position, they should seek advice from a tax adviser or consult their local tax office.

How much can an individual invest in an ISA?

An individual currently has an annual subscription limit of £20,000. The total subscription limit can be split in any proportion between one cash, one stocks and shares and one innovative finance ISA.

The surviving spouse or civil partner of an individual who dies will be entitled to an additional subscription allowance equal to the higher of the value of the deceased individual's ISA savings at the date of their death or the date on which the account ceases to be a continuing deceased's account. The additional allowance is subject to special time limits.

Subject to the subscription limits, there is currently no overall limit to how much can be accumulated within the ISA account.

What are the time limits for the additional subscription an individual has inherited from their spouse or civil partner?

If an individual's spouse or civil partner's ISA savings included stocks and shares, they will have 180 days from the date that the estate was first distributed to make an in-specie transfer of those assets or any part of those assets.

If an individual's spouse or civil partner did not hold shares or they will be making the additional subscription partly or wholly in cash, the following time limits apply:

- no more than 3 years after the date of death; or
- 180 days after the administration of the estate is complete,

whichever is the later.

If an individual does not invest in one year, can they invest their unused allowance in later years?

Unused ISA allowances cannot be brought forward from earlier years, so any unused allowance at the end of the tax year will be lost.

Can an individual withdraw funds from their ISA?

An individual can withdraw funds from their ISA.

If the ISA is a flexible one, then it is possible to replace the funds that have been withdrawn without counting towards the annual subscription allowance, so long as both the withdrawal and "top up" both occur in the same tax year. Not all providers will offer this flexibility - please check with your product provider.

Examples

On 6 July 2025, Rafael invests £20,000 in a cash ISA. This uses up his subscription limit for an ISA for 2025-26.

On 6 December 2025, Rafael withdraws £1,000 from his cash ISA. The balance is now £19,000.

Rafael can add a further £1,000 to his cash ISA before 6 April 2026 to replace the £1,000 withdrawn.

Rafael has previous year funds of £20,000 in his cash ISA. On 12 April 2025 Rafael makes a subscription of £10,000. On 8 June 2025 he withdraws £15,000. The withdrawals are deemed to be firstly the £10,000 current year subscriptions, and secondly £5,000 of previous year funds. At this point his 'net' current year subscriptions are £nil and he can use his full 2025-26 annual subscription limit of £20,000 between his cash ISA and any other ISAs he subscribes to in 2025-26. He can replace the £5,000 previous year funds only with his cash ISA manager – at any time before 6 April 2026.

If Rafael has not made any current year subscriptions, the withdrawal of £15,000 on 8 June 2025 would all have been of previous year funds. Rafael could replace them at any time before 6 April 2026 in this cash ISA. He can use his 2025-26 year subscription allowance between one cash, one stocks and shares and one innovative finance ISA if he chooses.

What can be held in an ISA?

Subject to the provider's rules, the list of investments which can be held in an ISA product is extremely wide.

All the cash components of an ISA should be able to hold the following:

- Cash deposited in a qualifying bank or building society account or credit union;
- Cash deposited with a share account with a building society; and
- National Savings and Investments products which are designed for inclusion in ISAs.

A stocks and shares ISA may offer, in addition to the cash component, a wide range of investments including the following:

- Shares and corporate bonds listed on a recognised stock exchange. The listing can be worldwide;
- Shares listed on the Alternative Investment Market and other non-traditional stock exchanges e.g. ICAP Securities and Derivatives Exchange;

- Units or shares in unit trusts and Open Ended Investment Company trusts (OEICs) authorised by the FCA;
- Units or shares in investment trusts;
- Units or shares in UCITS (Undertakings for Collective Investment in Transferable Securities) based within the EU;
- Non-UCITS units or shares if authorised by the FCA for sale to retail investors in the UK;
- Shares transferred from an HMRC approved Save As You Earn scheme or Share Incentive plan;
- Gilts issued by the UK or EEA governments; and
- Life insurance policies.

The innovative finance ISA allows the following additional investments:

- Peer-to-peer loans; and
- Debt securities issued by companies and offered via crowdfunding platforms.

Can an individual transfer in existing stocks and shares?

Other than the in-specie transfer made following the death of the first spouse or civil partner, an individual cannot generally transfer in any shares they already hold. The only shares which an individual can transfer in directly are shares held through an approved Save As You Earn share option scheme or a Share Incentive plan.

Transfers must be made within 90 days of the shares ceasing to be subject to the plan or within 90 days of the exercise of an option within the Save As You Earn share option scheme.

Other shares must be purchased from funds held in the stocks and shares ISA. There is no restriction on selling shares and transferring the proceeds into the stocks and shares ISA to re-purchase within the ISA wrapper. However, any chargeable gains made on the sale of shares with the intention of re-investing the proceeds within an ISA may attract a capital gains tax charge if total gains for the year exceed the annual allowance.

For how long should an individual invest?

The preferential tax treatment of investments in an ISA does not depend on holding the investments for a minimum qualifying period, and continues as long as the investments are held within the ISA wrapper.

Can an individual invest on behalf of their children?

So long as an individual's child does not have a child trust fund, they can invest in a junior ISA (JISA) on their behalf. The current limit is £9,000.

Income received within a JISA from funds subscribed by parents is not treated as the parent's income under a specific exemption within the JISA regulations. The settlement legislation states that income received in the hands of a child is taxable as the parent's income if the following apply:

- The total income for the year exceeds £100; and
- The income derives from funds from the parent.

The settlement legislation will apply to cash ISAs for savers aged between 16 and 18 when funds come from parents. That said, the settlements legislation does not catch gifts from grandparents.

Investments in child trust funds can be transferred to a JISA.

What is a lifetime ISA (LISA)?

A LISA is a stocks and shares ISA which can be applied for between the ages of 18 and 40. Any savings made, up to a limit of £4,000 p.a., will receive a 25% bonus up to age 50.

The fund can be withdrawn tax free from age 60 or it can be used as a deposit towards a first home worth up to £250,000, or £450,000 in London. However, if the money is withdrawn at any other time, other than on the grounds that the saver is terminally ill, it is subject to a 25% charge.

What happens if an individual decides to move abroad in future?

Any ISAs which an individual already holds will continue to qualify for income tax and capital gains tax relief. Unless an individual is either a Crown employee working overseas or the spouse or civil partner of a Crown employee working overseas, they will not be able to make any additional investments into either their existing ISAs or into new ISA accounts, until they become resident in the UK again.

An individual may be subject to income tax and/or capital gains tax in their country of residence.

The requirement of having to be UK resident is ignored with regard to a surviving spouse or civil partner making an additional permitted subscription.

What happens when an individual dies?

Investments retained in ISAs after an individual's death will continue to retain the tax advantages until the earlier of the finalisation of the administration of their estate or three years after their death. This is referred to as a continuing deceased's account.

Any cash or investments held in ISAs will form part of the individual's estate for inheritance tax purposes. Certain shares listed on the Alternative Investment Market may also be eligible for business relief for inheritance tax purposes. Business relief reduces the value of qualifying assets when calculating the inheritance tax liability arising on gifts or following an individual's death.

Where an individual has invested in a life insurance policy, their death will trigger death benefits which their personal representatives will need to claim.

If an individual is survived by a spouse or civil partner, they will be able to make an additional permitted subscription to an ISA equal to the higher of the value of the deceased individual's ISA savings at the date of their death or the date on which the account ceases to be a continuing deceased's account.

Additional information

Further information on the ISA regime can be found on HMRC's website at:

www.gov.uk/individual-savings-accounts

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