Happy new tax year!

The new tax year began on Saturday, making today the first working day of the brand new year 2019/20.

Michael Kennedy

08 April, 2019 01:00

Michael Kennedy

THE new tax year began on Saturday, making today the first working day of the brand new year 2019/20.

Spring has certainly sprung and, as usual, it brings with it a whole new start for savers - for instance, a bright brand new allowance for saving into an Individual Savings Account or Isa. If you already have one or more Isas, then this year's allowance remains at £20,000 that you can shelter from the taxman. If you don't have an Isa, could this be the year for opening your first?

There are six types of Isa these days, with varying levels of complexity.

making financial advice a must before you make your choice. “Och, you would say that anyway”. Would I? Just have a wee read.

The £20,000 figure applies to adult Isas, which fall into three categories: cash, stocks and shares, and ‘innovative finance'. More about those in a moment. There are several other Isa products. For the children you could open a Junior Isa, the only category where the amount you can save has risen this year, to £4,368. Anyone can put in a few pounds for your child, offering a great alternative to conventional presents at Christmas and birthdays. Another great thing is that they can't blow it right away: your children can't access their cash until they turn 18 - just in time for university, or that first car. (Warning: you'll find it doesn't cover the petrol to come and see you. If cars ran on beer you'd be grand, but they don't.)

Since Isas were introduced back in 1999, the cash Isa has been the most popular, because you can save tax-efficiently but still have your money close at hand. And they're a safe way to save, protected by the Financial Services Compensation Scheme, but interest rates haven't exactly been thrilling lately, and cash Isas haven't produced very impressive returns. It's no surprise, then, that the number of adult Isa accounts subscribed to fell from 11.1m in 2016/17 to 10.8m in 2017/18.

If you need to keep your money handy, for emergencies for example, then you might prefer an instant access cash Isa, where you can draw money out just like from a current account. However, as I say, interest rates on offer are nothing to get excited about: the Halifax Isa Saver Variable, for instance, currently offers just 0.6 per cent. Are you still awake?

The best returns from cash Isas are at the fixed-rate end of the market, but you do have to lock your cash in for a year or more. This week's best deal is Principality Building Society, which offers 2.13 per cent per year fixed, if you have at least £500 to pay in and you can leave them there for five years.

Now, to give you the full picture I should also point out that the personal savings allowance, which came along in 2016, allows a basic rate taxpayer to earn £1,000 in interest, tax free, each year, while higher rate taxpayers can earn £500. You can earn these amounts in any type of savings account, and so if your money is likely to generate less than those thresholds, the attractiveness of an Isa is reduced. However, any interest earned in a cash Isa doesn't count towards this personal savings allowance, so the cash Isa might still be worth a look.

The stocks and shares Isa has seen a surge in popularity lately, as savers eschew cash to seek the (historically) higher returns that come from stock market investments. The latest numbers show there were 250,000 new ones opened in 2017/18 alone. Stock market investments do tend to rise and fall, of course, and so this Isa is better suited for saving medium to long term, to give your pennies time to grow.

Then there's the ‘Innovative Finance Isa' which is a crowdfunding model where you're investing in projects that may carry a high risk, but have the potential for a high return. Not for the faint-hearted, but if you can handle a storm in a teacup, it could be your cup of tea.

Then there's the Lifetime Isa. The Lifetime Isa is a particularly complex one, in fact the former pensions minister Ros Altmann said lately that “the Lifetime Isa is unsafe to sell without advice.”

Lifetime Isas aim to replace Help to Buy Isas, but the rules have been called ‘confusing'. People aged 18 to 39 can save up to £4,000 a year, on which they receive a 25 per cent government bonus. Money in Lifetime Isas can only be used on a first property purchase, or must be held until age 60 to be withdrawn, tax-free, for retirement.

What many do not realise is that if you need to withdraw your money from your Lifetime Isa before you are 60, you face an excruciating 25 per cent penalty charge. This is not just the government taking back the bonus you received – it can take a bite out of the cash you paid in as well. Let's assume you save £8,000 over several years, and get your £2,000 government top-up taking you to £10,000. Then the car senses that you have money, so as usual it packs up, and to replace it you suddenly need your cash, so you have no choice but to incur the 25 per cent penalty. However, it's 25 per cent of £10,000, which at £2,500 leaves you with £7,500 – £500 less than you paid in. Ouch.

In a hard place, an Isa is probably the best savings plan currently available, to you and your children. Is this your Isa year? Do you feel like joining the Isa club for the first time? Or, if you're an existing member, fancy adding a new type of Isa to your armoury?

Just remember what Ros Altmann says. Advice is nice!

:: Michael Kennedy and Shaun Doherty are independent financial advisers and pensions specialists, and can be contacted on 028 71886005. Further information is available on the Facebook page “Kennedy Independent Financial Advice Ltd” and the website www.mkennedyfinancial.com