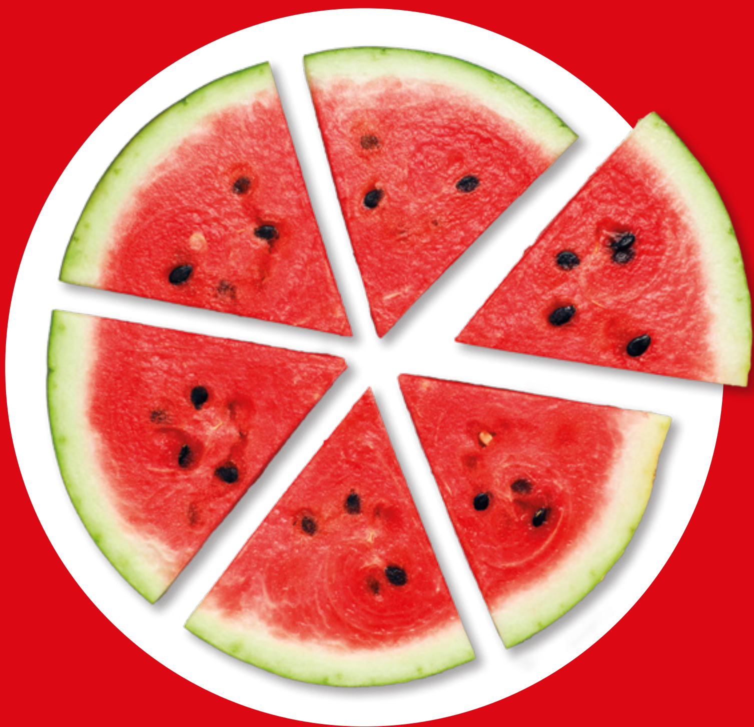
The Association of Investment Companies

Getting more from your savings

A guide to ISAs



www.theaic.co.uk

ISAs have always been a popular choice for tax-free saving. Today, more than 20 million people in the UK have one.

However, recent changes mean that ISAs are even more generous and flexible than before. This guide explains why and how investment trusts can help you get the most out of them.

New to investment trusts?
Read 'A guide to getting started' to learn the basics

Available at www.theaic.co.uk or by calling 020 7282 5555

Introduction

ISAs were launched in 1999 and have become one of the most popular ways to save. It's easy to see why. ISAs allow your savings to grow free from tax. You pay no income or capital gains tax on the investments you hold in them and you don't even have to declare the ISA on your tax return.

ISAs allow you to save using two main types of investments:

- **Cash**

  This includes bank and building society savings accounts and National Savings. These provide a very safe home for your money but can offer limited income and growth prospects.

- **Stocks and shares**

  This includes shares and collective funds such as investment trusts, unit trusts and other similar funds. These are more risky, but offer the chance of better returns over the long term.

  If you cannot afford to lose the money you put into an ISA, or think you might need your money quickly, you should not invest in investment trusts and should probably stick with cash investments.

This guide is aimed at UK resident individuals aged over 18 who are eligible to take out an ISA.

Take your pick
ISAs allow you to save using two types of investment: 'cash' or 'stocks and shares'

ISAs – the basics

ISAs let you invest up to £20,000 in cash or stocks and shares – or a mixture of both

ISAs are not an investment in their own right. They are a way of saving which protects your money from tax. The main features of ISAs are:

- **Limits**

  You can save up to £20,000 in an ISA each tax year.

- **More choice**

  You can invest your full annual allowance in cash, stock and shares or any combination of both.

  You don't have to keep all your money with one provider, but you can only take out one cash and one stocks and shares ISA each tax year. You can choose how much you save in each as long as you do not exceed the £20,000 annual limit.

- **Flexibility**

  You can generally choose when and how much you save, stop saving at any time and start up again at a later date. You can also normally get your money back at any time, or move your ISA to another provider, though there may be costs in doing so.

Lifetime ISA

A Lifetime ISA enables people under the age of 40 to contribute up to £4,000 in each tax year, which counts towards their annual £20,000 ISA limit. The government will then provide a 25% bonus on these contributions at the end of every tax year. This means that people who save the maximum each year will receive a £1,000 bonus each year from the government. Savers can make Lifetime ISA contributions from the age of 18 up to the age of 50.

Over their lifetime, savers will be able to make contributions of £128,000 matched by the government for a maximum bonus of £32,000. These tax-free funds can be used to buy a first home worth up to £450,000 once at least 12 months has passed from opening the account. They can also be withdrawn from the Lifetime ISA once the saver is aged 60 or over.

Opening a Lifetime ISA is very similar to saving into any other ISA. Eligible investments are the same as for a cash or stocks and shares ISA. If you withdraw your Lifetime ISA before age 60 and you are not using the money to buy a first home, you will be charged a 25% withdrawal charge unless you're terminally ill, with less than 12 months to live.

ISAs for investment trusts

The main way in which you can invest in investment trusts using ISAs is via a 'self-select' ISA.

- **A 'self-select' ISA**
  These are ISAs which are run by independent providers and which normally offer access to a wide range of different investments. There are many ISAs offered by online platforms, which provide a convenient way to buy and hold several different investments in one place, and the charges for holding investment trusts can be lower than for other funds.

You can find more details about the charges of different platforms in the 'Invest & engage' section of the AIC website.

More for you
Because there's no tax to pay, ISAs let you keep more of the returns you make

Why consider investment trusts for your ISA?

Investment trusts offer a range of valuable features to ISA investors.

Long-term performance
Investment trusts can be more risky, particularly in the short term, but often outperform in the long term. Their closed-ended structure allows managers to plan ahead, and they do not have to worry about holding cash to meet redemptions.

A wider choice of investments
Investment trusts offer a wider choice of investments than other types of investment fund. This can help you choose a level of risk that you are happy with, or build a balanced portfolio over time.

Potential for a higher or growing income
If you are looking for a regular income from your ISA, and can accept the risks, investment trusts have some unique advantages that can allow them to generate a higher or growing income. Bear in mind that the income is not guaranteed, and your capital is at risk, so investment trusts are not a substitute for cash savings accounts.

Investment trusts offer a unique combination of features that can benefit both income and growth investors

The ability to gear

Investment trusts can borrow money to make additional investments (‘gearing’). Gearing increases the risks, but can boost income and capital profits over the long term. Bear in mind that not all investment trusts use gearing and most only use modest levels.

A chance to invest regularly

You can invest small sums in investment trusts on a regular basis. Investing regularly not only helps to build up a portfolio over time, it also helps to smooth out some of the ups and downs in the market.

Things to consider

Are investment trusts the right choice for your ISA? Here are some considerations to get a taste of what's right for you:

When will you need access?

Although ISAs normally allow you access to your money when you want, investment trusts expose your money to risk. You don't want to find yourself having to sell investments at a time when the market has just fallen.

If you are likely to need the money at short notice (e.g. for an emergency) then you should not invest in investment trusts.

How much risk do you want to take?

Generally, the longer the period you intend to invest, the more risk you can take on, as your investments have time to recover from any setbacks in the short term. Investment trusts are primarily intended as long-term investments. You should be prepared to hold them for at least five years, and preferably ten or more.

If you cannot afford to lose money, you should not invest in investment trusts.

Income, capital growth or both?

ISAs protect your investments from tax, whether your aim is for long-term capital growth or for generating an income. The AIC website (www.theaic.co.uk) can help you narrow down your search for an investment trust that is right for you.

The 'Compare investment companies' section of our site lets you sort investment trusts according to your investment preferences. You can search by geographical region or country, by asset class (smaller companies, emerging markets or infrastructure, for example), or by management group. You can then make a decision that suits your needs. If in doubt, seek professional advice.

Expert selection
An independent financial adviser can help identify trusts that best fit your needs

How much will you be charged?

You should check how much the ISA provider will charge you for buying and holding investments. Being shares which are traded on stock markets, investment trusts can be cheaper to hold than other funds over the long term, though you will incur dealing costs and possibly stamp duty.

Where to start?

If you are happy with the risks, and are making your first stocks and shares investments, you may want to start with an investment trust that invests in a range of sectors, spreading your risk, perhaps one that invests in global or UK shares.

Some of the oldest, and most popular, investment trusts can provide easy access to the stock market and are often very cost effective. Over time, as you build up your portfolio, you can add some more specialist funds if you want.

Do you need advice?

Investing can be complicated. You should consider taking independent financial advice if you are not sure about how to invest and what type of investments might be best for you.

Key things to remember

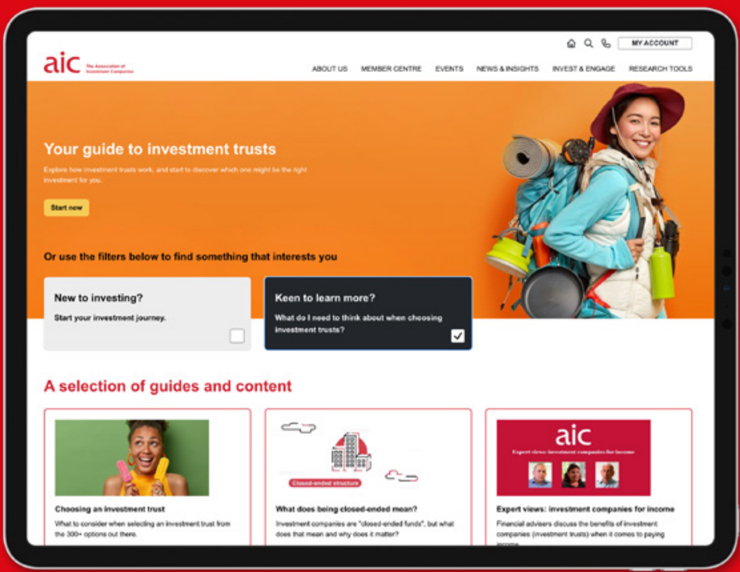
- ISAs allow you to invest up to £20,000 a year in both cash and stocks and shares. How much you invest in each is up to you.
- There is no income or capital gains tax on your investments.
- Investment trusts offer a wider choice of investments than other funds and have some unique advantages when it comes to delivering a higher or growing income.
- Investment trusts are primarily intended as long-term investments. You should be prepared to hold them for at least five years, and preferably ten or more.
- With investment trusts, your income and capital is at risk and may fall as well as rise. You may not get back the full amount invested, and for higher-risk investment trusts, you may get back nothing at all.
- You should not invest in investment trusts if you need a guaranteed income or if you cannot afford to lose your capital.
- If you are uncertain about whether, or which, investment trusts might be suitable for your ISA, you should take independent financial advice.

Don’t forget
Investment trusts are long-term investments and you should be prepared to hold them for at least five years

Fresh thinking
Start discovering how investment trust ISAs could add a new dimension to your portfolio

Visit the AIC website to learn more about investment trusts, find and compare trusts and create your own ‘watchlist’

www.theaic.co.uk



The AIC is a company registered in England and Wales, registered number 4818187.

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August 2024

Issued by the Association of Investment Companies.