

Never look a gift horse in the mouth again with the moneyfacts.co.uk Beginner's Guide to ISAs!

What exactly is an ISA? How does it work? And why should I invest into one?

Well here's the moneyfacts.co.uk beginner's guide to ISAs, a one page factsheet to help you understand everything you need to know...

What is an ISA?

In practice, squirrelling away money can be a difficult task. So, after doing the hard part of saving your cash, you want to make sure you get the best returns.

Normally returns on savings and investments are taxed, but ISAs - short for Individual Savings Accounts - aren't taxed, and so can earn you a lot more.



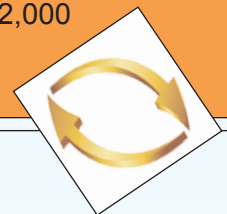
There's two types of ISA:

- **Cash ISAs** allow you to save money and earn tax-free interest on your savings.
- **Investment ISAs** (also known as stocks and shares or equity ISAs) allow you to invest money in a range of things, such as shares and investment funds. This is a tax efficient method of making an investment when compared to investing outside of an ISA as you don't have to pay Capital Gains Tax or Income tax on your investment, although you will pay a 10% tax credit on any share dividends you receive. **You should note that investments can fall as well as rise in value - money held in an equity ISA is no exception to this rule.**



The ISA rules, in a nutshell...

1. Anyone over the age of 16 can save into a cash ISA (you need to be at least 18 to open an investment ISA), providing you live in the UK.
2. You can only invest up to £10,680 in ISAs in the 2011-12 tax year (which runs from 6 April 2011 to 5 April 2012). If you don't use your ISA allowance, you lose it!
3. You can place up to £10,680 into an investment ISA, although if you do, you can't make any contributions to your cash ISA pot. You can place up to £5,340 into a cash ISA in the 2011-12 tax-year which means if you wanted to, you could also place up to £5,340 into an investment ISA.
4. You can only open one cash ISA and one investment ISA per tax year - these needn't be with the same provider. You can hold several cash or investment ISAs from previous years if you wanted (so you don't just have to have only one of each).
5. You can transfer your accumulated cash ISA funds into a new cash or investment ISA as you wish (although remember that you can only open one cash ISA and one investment ISA each tax year). **However, you can only transfer your equity ISA pot to another equity ISA (you can't transfer it to a cash ISA).**
6. If you make a withdrawal from your ISA, you can't replace it later. For example, if you saved £5,340 into a cash ISA on 6 April, then withdrew £2,000 on 7 April, you wouldn't be able to replace this money later.



What to do next?

Compare the best cash ISAs

Compare the best investment ISAs

Read more about ISAs

Transferring your ISA

When you transfer your ISA be sure not to physically withdraw the money yourself. There's a special process that needs to be followed in order to preserve your ISA's tax-efficient status. You will need to complete a short form, then your current and new ISA providers will liaise with each other and under current rules your transfer should go through within **15 working days**.