

Saving the smart way

It is hard to believe that huge numbers of people still do not have an individual savings account (ISA). According to research over two-thirds of those eligible do not have a cash ISA and only one in seven has a stocks and shares ISA. Others are failing to make full use of the ISA allowances available and so are paying money unnecessarily to the tax man. As the current tax year comes to a close, make sure you review your savings portfolio to ensure you have made the most of your allowances.

Why save into an ISA?

One of the key benefits of having an ISA is that you do not pay income or capital gains tax on your savings, which is not the case with ordinary savings or investment products. This is particularly advantageous to higher rate tax payers. For example, if they earned £500 interest on a standard savings account, they would have to give 40% of this interest – £200 – to HM Revenue and Customs. Had this money been placed in a cash ISA savings account, they would have kept the full £500.

Anyone with an income in excess of £150 000, who is affected by the additional rate tax, will see any interest taxed at 50%, so ISAs could be of particular benefit to them.

Are all ISAs the same?

There are two types of ISA – cash and stocks and shares. Cash ISAs are available to UK residents over the age of 16 years. Most cash ISAs resemble bank or building society accounts but can also be bought through investments such as unit trusts, which invest in cash funds. Stocks and shares ISAs are available to UK residents over the age of 18 years. They are usually made up of one or more investment fund or individual stocks and shares.

Wesleyan Medical Sickness provides specialist financial advice for doctors
Telephone: 0808 100 1884
Website www.wesleyanmedicalsickness.co.uk

Is there a limit to the amount I can invest?

Because of the tax advantages of ISAs, there is also a limit on the amount you can invest each year. The limit for the current tax year is £10 200, increasing to £10 680 from 6 April 2011. The full allowance can be placed into a stocks and shares ISA, or half into a cash ISA and the remainder into a stocks and shares ISA.

Which is the best ISA for my needs?

Your choice of cash or stocks and shares ISA will depend on a number of factors. You need to think about how long you want to save for, what your saving objectives are and the amount of risk you are

'As the current tax year comes to a close, make sure you review your savings portfolio to ensure you have made the most of your allowances.'

prepared to take with your money. If you are looking for a short-term investment or you want easy access to your funds, then a cash ISA is probably the best option for you. People often use them to maintain an emergency fund for example.

However, if you want to save for the longer term, to build a nest egg for your pension or children's university fees for example, then share-based investments may prove a better option. We have seen periods in the past when the stock market has run into difficulty but history has shown that shares have tended to outperform cash investments over the long term, although past performance can not necessarily be taken as a guide to future performance.

You may have concerns about investing in shares because of the volatile market conditions in recent years. One way of limiting the impact of short-term peaks and troughs, that can reduce the value of your investments, is to save on a regular basis. This gets you into a good habit of putting money aside every month or so and means that you avoid having to try and second-guess the market to decide the best time to make a lump sum investment.

However, if you feel confident that the market is on an upward curve there are advantages to making a lump sum investment as your capital will have the potential for immediate growth.

For many people who feel that investing in the stock market directly is too risky, then a stocks and shares ISA which invests in professionally managed funds is a different approach.

How do I choose the right ISA?

There are many companies offering ISA products and it can be hard to know how to choose the right one for your needs.

One of the main things to consider before you commit any money is the financial strength of a provider. Financial strength means that a company can meet its ongoing guaranteed or promised commitments and it is usually measured by the amount of money a provider has left over after it has met all of its liabilities. A company's size is no indication of financial strength and smaller mutuals can often fare much better than banks or insurance giants in this regard.

Shop around

With rising inflation, VAT increases and interest rates at an all-time low, it is now more important than ever that you shop around and make the most of your money by using your ISA allowance. If you already have an ISA, check that it is still competitive as providers often draw customers in with headline rates which are not sustained over the years. Take the time to compare providers and transfer your existing ISA if there are better alternatives available.

Do not wait until it is too late

Putting money into an ISA over a number of years can save you a significant amount in interest or protect growth achieved on your investments. Time is running out to take advantage of this year's full allowance; if you miss this deadline resolve to start planning early for the next tax year. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.