

# THE SMARTA GUIDE TO

# TAX

## Part 5: Individual Savings Account (ISAs)

# CONTENTS

The Smarta Guide to Tax is split into 8-parts

Part 1: The Main Taxes

Part 2: Registering & paying tax

Part 3: Capital allowances

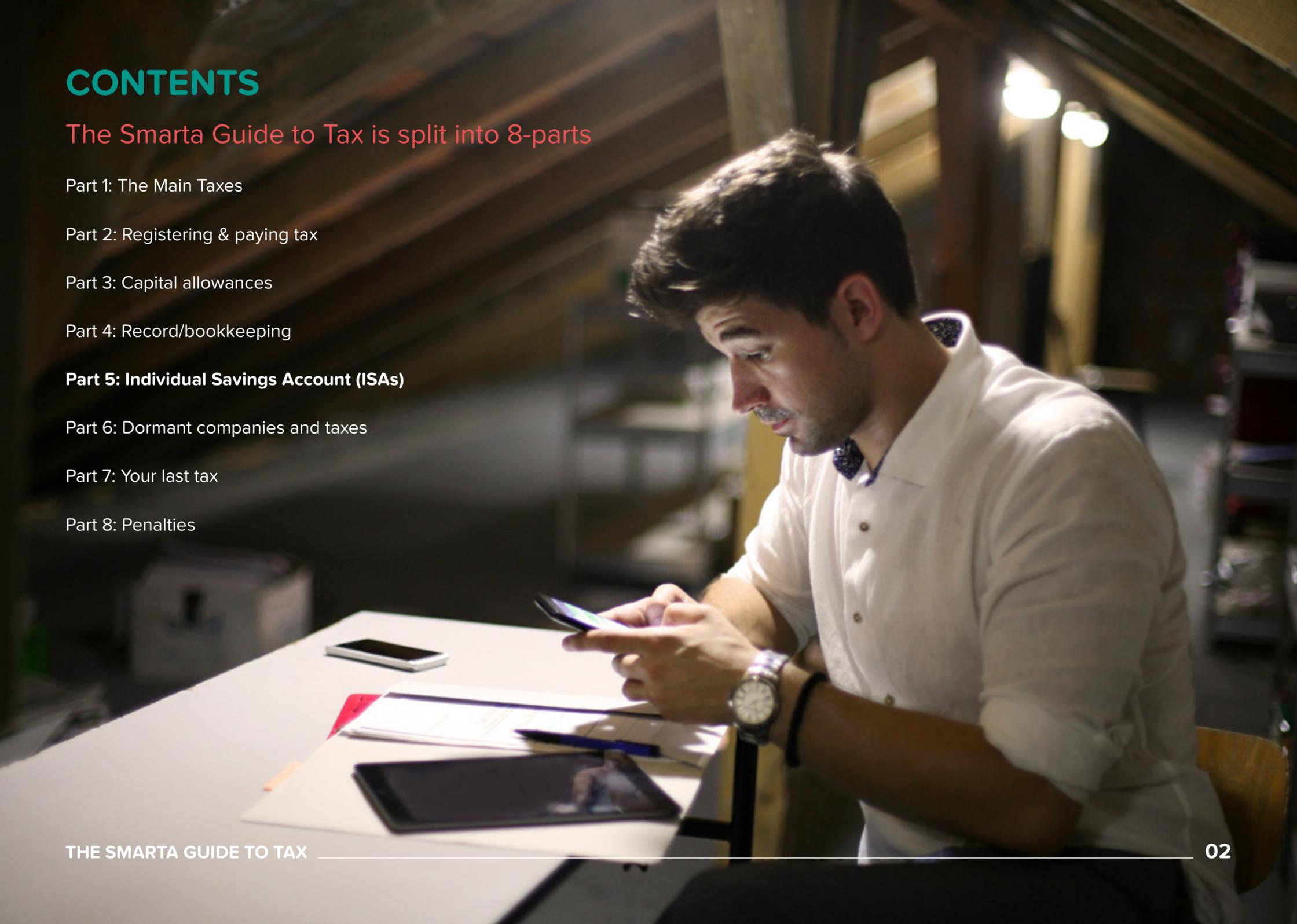
Part 4: Record/bookkeeping

**Part 5: Individual Savings Account (ISAs)**

Part 6: Dormant companies and taxes

Part 7: Your last tax

Part 8: Penalties



**Taxes are simply unavoidable and, if you're a small business owner, it's best that you know your way around them and their millions of acronyms.**

Although there are multiple taxes, each with their own rules and regulations making it seemingly impossible to comprehend these mandatory financial charges; we have put together this comprehensive 8-part guide on all things tax. It covers both the basics and the more complex aspects of the world of taxation and is essential reading for any and all small business owners. Whether you're an expert on tax or a novice to the subject, we hope this guide will have something for you.

If you need further support on your business' tax or accounting, then contact [Smarta Tax Services](#) today.

Smarta also offer further aid for small businesses. We have a thoroughly in-depth and expansive blog site ([www.smarta.com](http://www.smarta.com)) with all the information and help you could possibly need when starting up your own company. Additionally, we offer the Smarta Business Builder, a monthly subscription service that provides you will all the tools you would need to start, manage and grow your business. If you're looking to register as a limited company, then Smarta Formations is one of the simplest and quickest ways to incorporate your business.

## INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

Now, if you are looking to squirrel away some of your income or investments entirely tax-free then opening an ISA may be the scheme for you. Many people believe ISAs to be overtly complexed with lots of strings attached, but this is not the case. In this section we are going to guide you through all things ISA.





## Individual Savings Accounts (ISAs)

Firstly, there are four main types of ISA you can have: a cash ISA, a stocks and shares ISA, an innovative finance ISA, one of the Lifetime ISAs, and/or a Junior ISA for someone under the age of 18. There is an annual limit of £20,000 on all ISAs and, if you have more than one account open, this is a combined total. The Lifetime ISA is limited further to £4,000 per tax year. Furthermore, at the end of each tax year your ISAs won't close and any savings you have will be kept tax-free as long as you retain a positive balance in the account.

In order to obtain an ISA, you have to be 16 for a cash ISA, 18 for a stocks and shares and/or innovative finance ISA, between 18 and 40 for a Lifetime ISA, and a UK resident. As a servant to the Crown – i.e. a diplomat – or the civil partner/spouse of a servant to the Crown, you can also open an ISA without living in the UK.

A cash ISA is mainly used to hold bank savings or savings from a building society. Stocks and shares ISAs can be used to store any shares a business may have, both corporate (i.e. from a bank) or government bonds, and any investment funds. The innovative finance ISAs are primarily used for peer-to-peer loans: loans that you personally provide other people or businesses without the use of a bank as an intermediary. We will come onto the uses of Lifetime and Junior ISAs later.

ISAs can be obtained from several governmental organisations and non-governmental organisations (NGOs) such as crowd-funding companies, as well as banks, building societies and unions. Moreover, each provider will have their own methods for helping you set up the different types of ISA so you should contact them directly when looking to start saving some cash tax-free.



Regardless of whatever provider you choose to work with, ISAs should allow you to withdraw however much money you want, whenever you want without losing the tax-free benefits. Additionally, some providers offer flexible ISAs that allow you to take cash out of your account and put it back in the same tax year without adjusting the balance of your account, therefore, not diminishing your annual limit.

You should also be able to transfer your ISA from one provider to another at time, even within one tax year without losing any benefits; you can even move savings from one type of ISA to another. Note that while you can transfer any amount of money within an ISA from previous years, this tax year's savings must be transferred in their entirety. For example, if your cash ISA has £24,000 saved and £20,000 of that total is from previous years, you can move as much or as little of it as you want; however, the £4,000 saved in the current tax year must be transferred entirely. Again, for information on how to transfer the contents of an ISA, you should contact your provider.

As previously mentioned, in most cases you can only open an ISA if you are living in the UK and so this begs the question of what happens to your money if you move abroad. While the balance of your ISA will remain with all tax-free benefits attached, you will no longer be able to add to the ISA. If you ever return to the UK, you can recommence inputting savings to your ISA.

Upon death, the value of your ISA will not be subject to Income Tax or CGT, however, it does become a part of your personal estate and so could incur Inheritance Tax. If you are in a particularly charitable mood, you could tell your provider to transfer your savings to them after your death. Furthermore, if you spouse or civil partner dies, you can inherit their ISA tax-free.



## Lifetime ISA

The Lifetime ISA works slightly different from every other type of savings scheme as its intended purpose is to be used as an account to save for 'big purchases' in your life, such as the deposit on a house or the purchase of a car. Having a Lifetime ISA still provides you with all the tax-free benefits, however, you can only open an account between ages of 18 and 40, and only input to the ISA up until you are 50. You can keep the ISA open if you are older than 50, but you will only be able to withdraw money. Additionally, you can only input £4,000 annually, which leaves you with £16,000 to be used up with another form of ISA.

The Lifetime ISA does come with another benefit as the government will add a 25% bonus to the balance of your account, up to £1,000. So, each year, you could be gaining an extra £1,000 for free. Nonetheless, there is a down-side, usually you have to pay a 25% charge if you are withdrawing any amount of money, however, this does not apply if you are buying your first house, over the age of 60 or – on a more morbid note – terminally and suspected to die within 12-months.

In order to put your savings to use when buying your first home, further rules apply. To use the Lifetime ISA in the purchase of a house, the building must cost £450,000 or less, you can't have bought property within the last 12-months, you must use a solicitor to handle the transaction, and you must be applying for a mortgage. If only some of these rules apply to you, sadly, you will not be able to use your tax-free Lifetime ISA to help pay for your first property.

On the surface, the Lifetime ISA appears to be a useful savings account, however, we would suggest that it is only best to use this scheme for long-term savings; to maximise your balance you should make sure you get an annual bonus of £1,000 and refrain from withdrawing any money until you are over 60 and do not have to incur any tax or other fees.



## Junior ISA

As a business owner or employee at a company, you might want to start saving for any children that you may have so that they will have an easy time purchasing their first car or house. Using a Junior ISA is a tax-free way to store some funds for their later life.

A Junior ISA is for anyone aged below 18. It has a current annual limit of £4,128 for the 2017/18 tax year. You can setup either a cash ISA or stocks and share ISA and neither will incur taxation.

For any child aged under 16, their parents or guardians must open the account for them, but only the child can withdraw any funds at the age of 18 or older. If you are aged between 16 and 17 you can open your own Junior ISA that you will also be able to access from your 18th birthday onwards. Much like either other type of ISA, there are lots of different providers to choose from.

A Junior ISA largely operates like any other form of ISA. You can open both a cash ISA and a stocks and shares account, however, the £4,128 limit is a combination of the two so you will not get double the annual balance.

## Further reading and references

In this section, we have put together a list of the best resources that are set to help you and your small business grow, and answer any further questions you might have about taxation.

### **[Smarta Tax Services](#)**

Smarta Tax Services will provide you with a personal experience with a dedicated Accountant that will ensure you keep track of day to day operations of your business, and you've completed all areas required to comply with HMRC and Companies House. Our trusted accountancy software allows transparency and you'll have 24/7 access online, so you can keep track of your business performance.

### **[www.smarta.com/blog/](http://www.smarta.com/blog/)**

Smarta's blog has thousands of articles to help you in your business endeavours. We would recommend our content on how to find accountant, helping your business with tax.

### **[www.gov.uk](http://www.gov.uk)**

The UK's government's website also has guides to help you and your business, additionally, here, you can use HMRC's online portal to pay tax.

### **[www.which.co.uk/money/tax](http://www.which.co.uk/money/tax)**

Which? also offers many different guides to help you save and spend money appropriately; their few guides on taxation go into intimate detail.

### **[The Daily Telegraph Guide to Tax](#)**

Every year the Daily Telegraph publish an in-depth

guide to taxation with all the dates and changes made to the taxation for that specific. Usually, they are published in May so, it is worth looking out for the 2018 edition in a few months.

### **[www.uktaxcalculators.co.uk](http://www.uktaxcalculators.co.uk)**

This site is updated yearly to accurately calculate the amount of any form of tax your business may own.

### **[www.taxguideforstudent.org.uk](http://www.taxguideforstudent.org.uk)**

The Tax Guide for Students is a site that provides information for university students on taxation, how much they should be paying and if they appeal to HMRC for any reductions. The information they create will be extremely beneficial if you are a student looking to start your own business whilst in education.

### **[www.taxcafe.co.uk](http://www.taxcafe.co.uk)**

Tax Café is an award-winning website that focusing on the UK tax system – it is of particular use for information about property tax and letting.

### **[www.moneysavingsexpert.com](http://www.moneysavingsexpert.com)**

Martin Lewis offers plentiful advice on all things monetary including tax. Although his guides are quite simple and largely aimed at families, it's worth a look.

### **[www.cartaxguide.co.uk](http://www.cartaxguide.co.uk)**

It does what it says on the tin: the Deloitte Car Tax Guide offers users all the information they could want about the taxation of company cars, including a calculator to help you avoid penalties for inaccuracy.

### **[The Bloomsbury Professional Tax Guide 2017/18](#)**

Published bi-annually, The Bloomsbury Professional Tax Guide provides a more complex analysis of UK and global taxation.

### **[www.taxaid.org.uk](http://www.taxaid.org.uk)**

TaxAid offers help to anyone with tax-related problems; while their site has blogs on tax, they also provide volunteer helpline advisors who can sort out your problems over the phone.

### **[www.searchaccountant.co.uk](http://www.searchaccountant.co.uk)**

This directory allows you to search for the best accountants up and down the UK, to help with your business's tax returns.

### **[www.tax.org.uk](http://www.tax.org.uk)**

The Chartered Institute of Taxation is British NGO whose members are all highly qualified in dealing with any tax-related issues.

## Glossary of acronyms

**HMRC:** Her Majesty's Revenue and Customs

**VAT:** Value-added tax

**GST:** goods and services tax

**NI:** National Insurance

**NICs:** National Insurance Contributions

**PAYE:** pay as you earn

**FPS:** Full payment submission

**CGT:** Capital Gains Tax

**SDLT:** Stamp Duty Land Tax

**PLC:** Private Limited Company

**UTR:** Unique taxpayer reference

**LLP:** limited liability partnership

**PSC:** personal service company

**AIA:** Annual investment allowance

**ISA:** Individual savings account

**NGO:** non-governmental organisation

**DOR:** Debt Order Relief

**NT:** Nil Tax Code

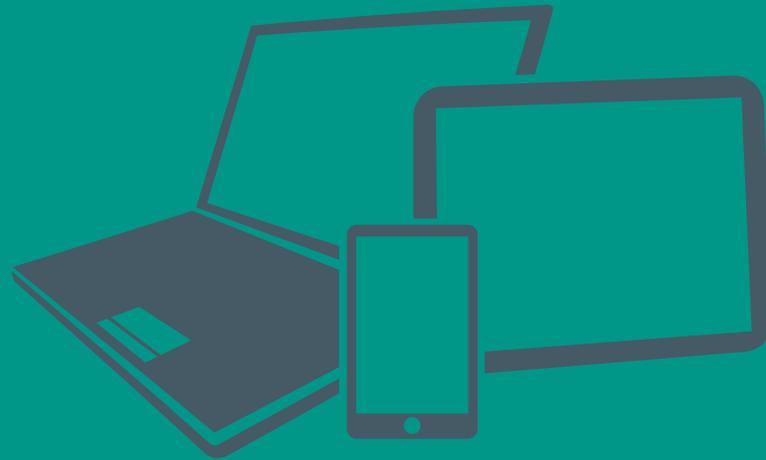
**IPA:** Income payment agreement

**IPO:** Income payment order

**PLR:** Potential loss revenue

**TTP:** time-to-pay

**CIS:** Construction industry scheme



Find out more at  
[tax.smarta.com](https://tax.smarta.com)

**\$martat**  
TAX SERVICES