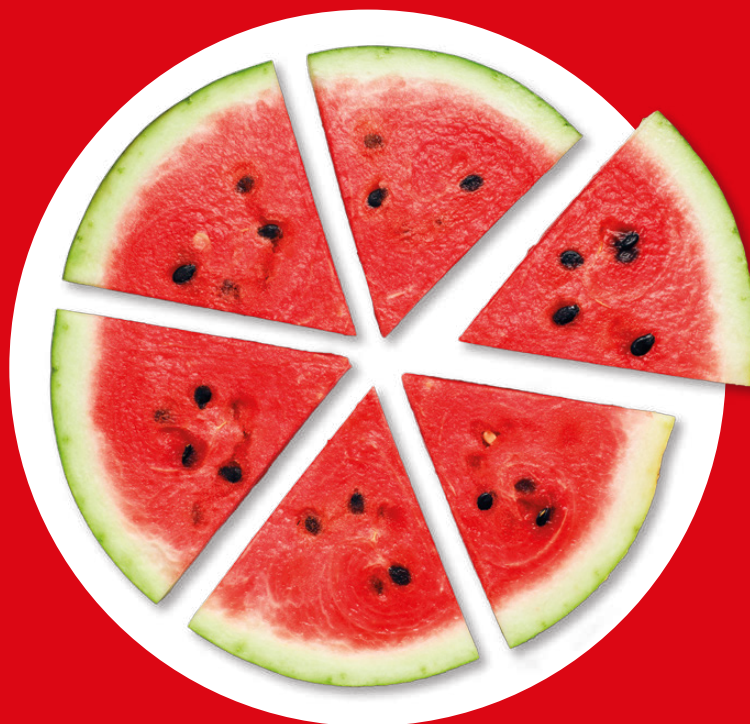


# Getting more from your savings

A guide to ISAs



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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 companies can help you get the most out of them.

### **New to investment companies?**

Read 'A guide to getting started'  
to learn the basics



Available at [www.theaic.co.uk](http://www.theaic.co.uk) or by calling 0800 707 707

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## 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 companies, unit trusts and other similar funds. These are more risky, but can 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 companies 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'

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## ISAs – the basics

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**

From 6 April 2017 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 with each.

- **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.

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

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## Lifetime ISA

From April 2017, people under the age of 40 are able to open a Lifetime ISA and contribute up to £4,000 in each tax year. 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 will be able to 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 at any time from 12 months after opening the account. They can also be withdrawn from the Lifetime ISA once the saver is aged 60 or over.

Opening a Lifetime ISA will be very similar to saving into any other ISA. Eligible investments will be 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 companies

There are two main ways you can invest in investment companies using ISAs:

- **An investment company ISA scheme**

These are ISAs which are run by the managers of investment companies. They can be very cost effective and flexible, but often limit you to choosing investment companies run by that manager.

- **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 brokers, and the charges for holding investment companies can be lower than for other funds.

Visit the AIC  
website for details  
of investment  
company ISAs

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

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## Why consider investment companies for your ISA?

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



### Long-term performance

Investment companies 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 companies 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 companies 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 companies are not a substitute for cash-based investments.



### **The ability to gear**

Investment companies 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 companies use gearing and most only use modest levels.



### **A chance to invest regularly**

Investment company ISA schemes will normally allow you to invest small sums on a regular basis. Saving on a regular basis not only helps to spread the cost, it also helps to smooth out some of the ups and downs in the market.

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

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## Things to consider

Are investment companies 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 companies expose your money to risk. You therefore don't want to find yourself in a position of 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 companies.

### 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 companies are primarily intended as long-term investments. You should be prepared to hold them for at least 5 years, and preferably 10 or more.

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



### Income, capital growth or both?

ISAs can be used for long-term capital growth or for protecting income from tax. The AIC website ([www.theaic.co.uk](http://www.theaic.co.uk)) can help you narrow down your search for an investment company that is right for you.

The 'Find and compare investment companies' section of our site lets you sort investment companies according to your investment needs. You can search by 'Income', 'Growth and Income' or 'Growth' depending on your needs. You can then refine your search by geographical area, asset class or management group.





### How much will you be charged?

You should check out how much the ISA provider will charge you for buying and holding investments. Being shares which are traded on stock markets, investment companies can be cheaper to hold than other funds over the long term, though you will need to 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 will probably want to start with a generalist investment company which invests in a wide range of different sectors. Some of the oldest, and most popular, investment companies 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.

### Expert selection

An independent financial adviser can help identify investments that best fit your needs

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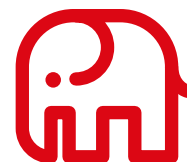


### Do you need advice?

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

- From 6 April 2017, 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 companies 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 companies are primarily intended as long-term investments. You should be prepared to hold them for at least 5 years, and preferably 10 or more.
- With investment companies, 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 companies, you may get back nothing at all.
- You should not invest in investment companies if you need a guaranteed income or if you cannot afford to lose your capital.
- If you are uncertain about whether, or which, investment companies might be suitable for your ISA, you should take independent financial advice.



**Don't forget**  
Investment  
companies are long-  
term investments  
and you should be  
prepared to hold them  
for at least 5 years

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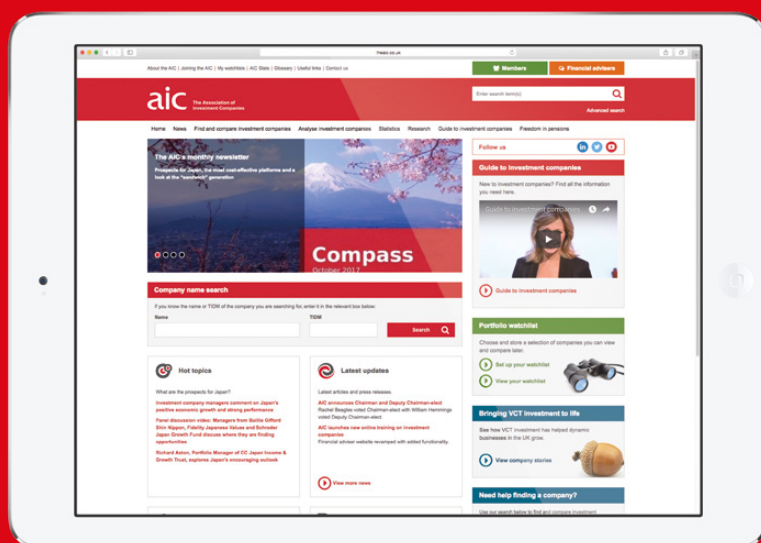


**Fresh thinking**  
Start discovering how  
investment company  
ISAs could add  
a new dimension  
to your portfolio

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Visit the AIC website to learn more about investment companies, find and compare companies and create your own 'Watchlist'

**www.theaic.co.uk**



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

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**November 2017**

Issued by AIC Information Services Limited. A company registered in England and Wales, registered number 01910539