ISAs – A guide to tax-efficient investing

Personal Investing

Fidelity INTERNATIONAL

Understanding ISAs: A tax-efficient way to invest

An Individual Savings Account (ISA) is one of the best ways to put money aside for the medium to long term. You get valuable tax benefits, easy access to your investments and, if you choose our Stocks and Shares ISA, you also get lots of investment choice.

Contents

This ISA guide takes you through some of the things to think about before starting to invest in an ISA. We begin with the basics and then look at your investment options before finishing with a few ways Fidelity can help you decide where to put your money.

Important information

The value of investments and the income from them can go down as well as up, so you may get back less than you invest.

While you're reading the guide, please keep in mind that the tax treatment of ISAs depends on individual circumstances and all tax rules may change in the future. If you remove money from your ISA, you cannot reuse that ISA allowance.

This information is not a personal recommendation for any particular investment. If you're unsure about the suitability of an investment for your personal circumstances, you should speak to one of Fidelity's advisers or an authorised financial adviser of your choice.

Please note that the information in this guide is correct as at April 2025. For the latest information, please visit **fidelity.co.uk/isa**

ISA basics: Six key questions

It might seem like ISAs are complicated, but they're actually not as hard as you might think. These six questions tell you pretty much everything you need to know.

What is an ISA?

It might seem a strange way to start, but we'll begin with what an ISA isn't. It's not actually an investment. Instead, it's an account that you put your investments in. Almost anything you can hold inside an ISA, you can also hold outside one. The big difference is that when you put your investments in an ISA they receive tax benefits. This means you:

- Don't pay capital gains tax on growth
- Don't pay income tax on interest (which you get from bonds, for example)
- Don't pay tax on dividend payments (which come from some shares)
- Don't even have to put ISAs on your tax return

Are the tax benefits worth it?

For most people, yes. After all, they could mean years (or even decades) of not having to pay income or capital gains tax on your investments. This can really add up – and keeping this extra money invested in your account means it could grow as well, further boosting your returns.

How much can I invest?

For the current tax year, you can invest up to £20,000 in your ISA. When the tax year ends (on 5 April), any unused allowance is lost. You then get a new allowance for the next tax year.

What's more, this allowance is per person, so a couple could save as much as £40,000. This can very quickly become a sizeable tax-efficient nest egg.

Can I invest for my children in an ISA?

There is a separate ISA account for UK-resident children called a Junior ISA. It has the same tax benefits as an adult ISA and its allowance (currently £9,000 per child) doesn't affect yours.

Parents or guardians can open and manage a Junior ISA, but the money belongs to the child and is locked away until they are 18.

Please note, if your child was born between 1 September 2002 and 2 January 2011, the Government would have automatically opened a Child Trust Fund (CTF) on their behalf. You cannot hold a Junior ISA and a CTF at the same time, but a CTF can be transferred into a Junior ISA.

What happens with an ISA when someone passes away?

When someone dies the ISA forms part of their estate for inheritance tax, however while the estate is being processed the other tax benefits regarding income and gains remain in place either until the assets are transferred to the beneficiary or three years from the date of death.

However, there is an extra ISA tax benefit for spouses and civil partners. Although they cannot inherit the actual ISA accounts, they receive an additional ISA allowance that is equal to the total value of their loved one's ISAs.

This has to be used within three years of their partner passing away or 180 days after the estate's administration is completed, if it takes longer to resolve.

When should I start?

As the saying goes, there is no time like the present. Of course, you must have the money to put aside in the first place, but the sooner you start, the more time your savings have to grow.

Time is the single biggest factor that determines growth opportunity, so the longer you have the better, although, of course, there are no guarantees.

What you can invest in

There are lots of options out there. Where you choose to put your money will depend on your needs, goals and attitude to risk.

Asset classes

There are five main 'asset classes' (or, to put it a different way, categories of investments). We've described them in order of risk from cash, at the low end, to equities (shares) at the higher end.

Cash

What is it? Bank and building society accounts that pay interest, plus cash funds offered by investment companies.

Why do people use it? Cash savings are typically very low risk, so you are very unlikely to lose money. You should also know how much interest they will pay (though this can still change with little notice).

What are the drawbacks? Generally, cash accounts don't offer much potential for income or growth as inflation will erode the value over time.

Bonds

What are they? A bond is just a type of loan. The key thing to remember is that you are the person loaning the money to a government or company.

Why do people invest in them? When you buy a bond, you should receive regular interest payments over a pre-defined period and your initial investment back at the end of the period. Many bonds are relatively secure and pay a stable income – others can be more volatile, but offer more income potential.

What are the drawbacks? There are no guarantees with bonds (though it is very unlikely that bonds issued by countries such as the UK or the US would default). Even the biggest companies can get into financial difficulties. Most bonds don't offer much protection against inflation, as the income they pay is fixed, while prices may rise.

Commodities

What are they? Raw materials and agricultural products from coal to coffee – and, of course, gold.

Why do people invest in them? Most commodities have an intrinsic value, so they are unlikely to collapse in price. They also tend to perform very differently to other investments, so holding them alongside other funds can make your returns less volatile.

What are the drawbacks? They can be difficult to invest in directly (apart from gold) and their prices can still change significantly – down as well as up. That said, they are considered lower risk than shares.

Property

What are they? Funds that mainly invest in commercial buildings, such as shops, offices and factories.

Why do people invest in them? They offer a relatively stable and attractive income that comes from rent payments on the properties they own. There is also the potential for some capital growth if the properties rise in value.

What are the drawbacks? The income is not fixed, tenants may miss payments and unoccupied properties don't receive any rent. There are also costs involved in maintaining properties. Property prices can fall as well as rise and they can be difficult to sell at times.

Equities (stocks and shares)

What are they? A stake in a company. Effectively, when you buy a share, you become a part-owner of a business.

Why do people invest in them? You benefit if the company does well, as its share price is likely to rise and it may give you some of its profits in the form of dividends. Over the long term, shares have tended to perform better than other investments – though there is no guarantee that this will continue to happen in future.

What are the drawbacks? Share prices can fall in value as well as rise – and change rapidly in a short time. Some companies go broke. In this situation, shareholders may not get anything back.

At Fidelity, you can invest in shares or other ETFs. Please see page 15 for more information.

Please note, that there are some assets that cannot be invested into directly with Fidelity however, you can invest indirectly via funds. e.g. a fund that invests in bonds or property.

Funds

Funds are pooled investments where multiple investors combine their money to be managed by professionals. These funds can focus on various assets like cash, bonds and equities or even a mix to offer a diversified portfolio. Investing in funds has a range of advantages:

Pooled power

Your fund manager may be able to put your money into investments that you wouldn't be able to access on your own – and you'll benefit from the buying power of a big company.

Start smaller

Funds allow you to invest across a wide range of investments with a small amount of money. Creating a comparable portfolio on your own could take a lot more cash.

Spread your risk

With a fund, your money can be invested in different asset classes, companies, sectors and geographic regions. This broad mix could help spread your investment risk.

Put your money with an expert manager

An actively managed fund has an expert manager who uses their experience to decide where to invest. They are supported by analysts who research companies and markets in far more detail than most private investors could manage.

Benefit from a lower-cost way to invest

Passively managed funds track the performance of particular indices, such as the FTSE 100 or the S&P 500. This means that in one low-cost investment, you can benefit from the stock-market performance of an entire country or region.

How to choose investments

With hundreds of investments on offer, it can be hard to know where to begin. These five questions could help you get started.

1. What are you investing for?

Everything begins with what you want to achieve. Once you have a clear goal in mind, it's a lot easier to make plans. That said, your goal doesn't have to be something specific. It's fine if you just want to put money aside for the future.

2. How long will you be investing for?

Your time horizon matters for two reasons. First, if you are investing for longer, you may be able to cope with more risk, as it normally means more growth potential and there's time to recover if your investments fall in value. Second, as your deadline gets closer, you may want to reduce the level of risk, as this tends to mean performance is less volatile.

3. Are you aiming for income or growth?

This is important, because some investments are much better suited to producing a regular income (such as bonds and equity income funds), while others are better if you are aiming for growth (such as other stockmarket funds).

4. How do you want to invest?

You can invest lump sums, make regular contributions or choose a combination of both. However you decide to save, the sooner you start the more time you give your investments to potentially grow, although this is not guaranteed. A lump sum gets your money invested immediately but if you worry about picking the right time to invest, as many of us do, you could alternatively drip feed your investment with a regular monthly contribution and spread it over time.

5. How much help do you need?

Our online tools and guidance are designed to help many different types of investors, by giving them the level of support they need.

- If you want to choose a Multi Asset fund and need some help, take a look at our Navigator tool on page 10
- If you like doing your own research, but want a head start on which funds to consider, try Select 50 on page 12
- If you want to build your own short list of funds that you can analyse in your own time, start with our Investment Finder on page 14

Whatever approach you choose, please make sure you understand your chosen funds before you invest, so you can be certain that they are suitable for your own personal circumstances. It's important to keep in mind that the value of investments and income from them, can fall as well as rise, so you may get back less than you invest.

Navigator

Our Navigator tool makes it easier for you to invest by giving you a Multi Asset fund to consider.

If you don't want to choose individual funds yourself, consider an investment that actually contains a selection of funds. This is known as a 'Multi Asset fund'.

Top funds chosen by our experts

In the case of the Multi Asset funds within our Navigator tool, the underlying funds are chosen by the experts in Fidelity's Multi Asset team, who have direct access to the fund companies and a team of researchers to support their decisions.

They then combine funds that invest in different asset classes and regions, which allows them to create a series of funds offering different levels of risk and potential return.

Fund management

Each Multi Asset fund is managed regularly by our team, who research investment opportunities and watch the markets. They also handle the day-to-day decisions involved in managing a diversified portfolio.

All you need to do is keep an eye on performance and, every now and then, make sure the fund is still the right risk level for your needs. If anything has changed, it's easy to switch between funds in the range – and there's no fee for doing this. The only charges are the ongoing management charges (which range from 0.20% to 1.16%), a transaction cost and our service fee, which is typically 0.35%.

Helping you make your fund choice

So, that's the ongoing management covered, but what about choosing a fund in the first place? This is where the Navigator tool comes in. It points you towards a single investment that holds a selection of funds chosen by the Fidelity Multi Asset team. This specialist group of experienced analysts and fund managers is dedicated to developing investments designed to meet a wide range of investor needs. All you have to do is visit **fidelity.co.uk/navigator** and make a few straightforward decisions. It will then show you a fund to consider based on the selections you have made within the tool.

1. **Would you prefer an income or growth fund?**

   Income funds produce regular sums that can be reinvested back into the fund or placed in 'cash within your account' and paid out at a later date. Growth funds cover a wide range of strategies, from investments targeting capital preservation to those aiming for the highest-possible performance.

2. How do you want your fund managed?

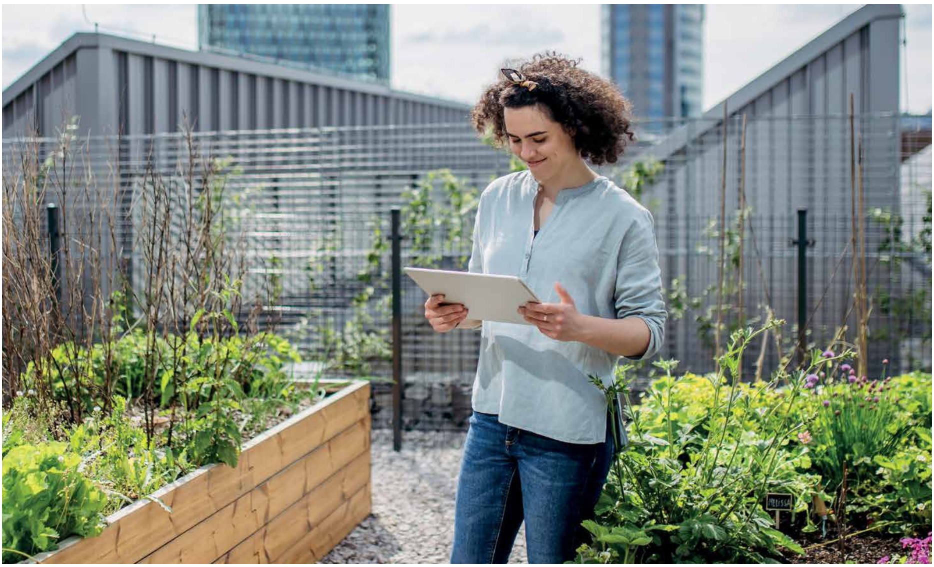
With growth and income funds, there are two ways your money can be managed. An expert focus fund is actively managed by specialists who look for the best investment opportunities. Alternatively, you can keep costs lower by having a cost focus tracker fund.

3. What level of risk would you like?

For some of our investment options within this tool you need to choose a level of risk you are comfortable with. We know this is sometimes difficult to do, so we've created short descriptions to help you. Just have a read through and you may find one that matches your views.

Important information

Please note that Navigator is not a personal recommendation in respect of a particular investment. If you need additional help, please speak to one of Fidelity's advisers or an authorised financial adviser of your choice. You should regularly reassess the suitability of your investments to ensure they continue to meet your attitude to risk and investment goals.



Select 50

Select 50 turns an extensive range of fund options into a much shorter list that is recommended by experts.

With around 50 funds on the list, you should be able to find some ideas that could meet your needs – and we have filters to help if you know what you're looking for – without having to research lots of investments just to get to the one that's right for you.

The list includes active and passive funds, investment trusts and exchange-traded funds (ETFs) from over 150 providers.

It's produced in partnership with Fundhouse, an independent fund research company. This adds independence and enhances our fund selection process.

Chosen by experts

To produce the list, investment experts analyse funds in detail; looking all the way down to individual holdings and even transactions to get a real understanding of how returns are produced.

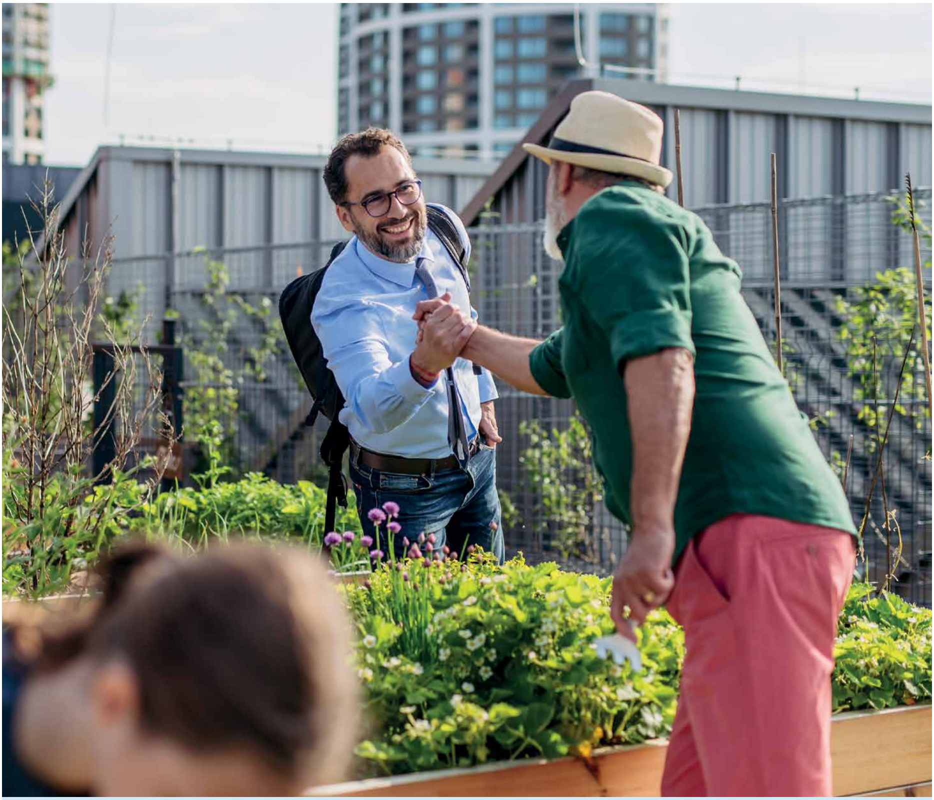
They also meet managers in person, so they can hear directly from them about what they aim to achieve and how they plan to do it.

Fund list management

Of course, the research doesn't stop when a fund makes the list. Select 50 is routinely updated every quarter and funds may be removed at any point during the year. For the latest list, please go to **fidelity.co.uk/select**

Important Information

Select 50 is not a personal recommendation to buy funds. Equally, if a fund you own is not on Select 50, we're not recommending you sell it. You must ensure that any fund you choose to invest in is suitable for your own personal circumstances.



A few companies you'll find on Select 50

Fidelity INTERNATIONAL M&G Investments Schroders Vanguard

Investment Finder

Our Investment Finder makes it easy for you to explore our full range of funds from over 6,000 investment options (including a number of different types of Funds, Shares, Exchange-Traded Funds and Investment Trusts). Just pick the type of investment you're interested in and then use our filters to create your own shortlist.

The filters cover everything from fund providers, sectors and asset classes to regions, charges and fund size – as well as more technical areas, such as management styles and risk measures.

Once you've found a few funds that fit your requirements, you can research them in more detail with our online factsheets and invest through our website when you are ready.

Find out more at **fidelity.co.uk/investmentfinder**

Looking ahead

Please remember that you need to review your investments regularly to make sure they are still suitable for your needs, goals and attitude to risk.

The easiest way to do this is through our secure website. You can find out more at **fidelity.co.uk/login**

You can hold company shares in your ISA

Our online share dealing service gives you the option of holding company shares alongside funds, cash and other investments in your ISA. You can now search, compare and invest in over 2,000 US, UK and European shares. This gives you more options to diversify your share portfolio.

You can invest in any of the stocks listed on:

- The FTSE All-Share Index
- FTSE AIM 100 Index for smaller UK businesses
- The ISEQ 20 index of Ireland's largest companies
- S&P 500
- Nasdaq

The share dealing service also covers investment trusts, exchange-traded funds (ETFs) and exchange-traded commodities. You can search through all these options using our Investment Finder (introduced on the previous page), plus you can find a selection of them on Select 50 (introduced on page 12).

The charges for buying and selling investments within our share dealing service are different from the charges on funds. There is a charge for each purchase or sale, plus stamp duty and any other market charges. This goes down for scheduled transactions such as dividend reinvestments and investments through a regular savings plan. Please read our Key Features Document for full details on our pricing. Visit **fidelity.co.uk/doingbusiness**

When you are thinking about investing in shares, it's generally a good idea to consider holding them alongside other investments in a diversified portfolio of assets.

Start your ISA today

fidelity.co.uk/isa

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