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A complete guide to ISAs

Aldermore

What's inside

Introduction

Having an ISA is one of the most tax-efficient ways to grow your savings.

Buying a house? Saving for the future? An ISA could help you to make a significant contribution towards your saving efforts.

So what are the need-to-knows when it comes to ISAs? If you want to find out more, or if you're just narrowing down your ISA choices, this guide will help.

Read on, as the Aldermore savings team walk you through the world of ISAs – including the different types and benefits, as well as helpful insights to make the decision process a little easier.

Head to our website for more information about our ISAs.

What is an ISA?

An ISA is an Individual Savings Account. ISAs differ to other kinds of savings accounts because they offer tax-free interest on your savings. You can deposit up to £20,000 each year into an ISA without paying tax on the interest earned.

Savings accounts in general allow you to earn interest on the money that is deposited within them.

However, savers are bound by the Personal Savings Allowance (PSA) which means:

- Basic rate tax payers can earn up to £1,000 in savings interest before paying tax. Higher rate tax payers can earn up to £500. After this, any further money is subject to tax.
- Additional rate tax payers (45%) don't receive a Personal Savings Allowance.

This is where having an ISA, rather than a normal savings account, becomes especially beneficial.

Different types of ISA

ISAs come in many forms, with varying rules and terms to suit different types of account holders. Here's a rundown of the main types you're likely to encounter.

Cash ISA

These are similar to savings accounts and allow you to deposit and withdraw money. Cash ISAs are the most accessible and are a great way to get started with tax-free savings. Cash ISAs can be fixed or variable, and whichever one you choose will determine if you're penalised for early withdrawals (more on that below).

One type of cash ISA is a limited access ISA – for those who can confidently keep money away without accessing it, a limited access ISA can be beneficial. Different providers will have different rules on this, like with the Aldermore Single or Double Access Reward ISAs, for example. If you withdraw less than once or twice (product dependent) in the year, you reap the benefit of a higher interest rate on your remaining savings.

Junior ISA

Junior ISAs are great for parents hoping to give their children a small pot of money to use when they're ready. These accounts can be opened and kept in place for a child under the age of 18. When they come of age, they are allowed to withdraw the money kept inside.

Stocks and shares ISA

Instead of being invested in a deposit account earning interest, funds would typically be invested in shares, funds or investment trusts which can benefit from capital growth and might provide income in the form of dividends . These are commonly used if the goal is to put money away for a longer term or you have a higher risk appetite.

Innovative finance ISA

These ISAs are similar to stocks and shares ISAs, except the money is invested in peer-to-peer lending and crowdfunding. As one of the newer forms of ISA, these are less common than others.

Lifetime ISA

Lifetime ISAs have become the natural replacement for the now defunct Help to Buy ISA. These ISAs are used for either the purchase of a first home or to save for retirement. If used for the intended purpose, the government grants a 25% bonus on top of the funds kept within them.

What is a Reward ISA?

A Reward ISA is a type of limited access ISA that 'rewards' the account holder for not exceeding the withdrawal limits on the account.

For example, if you have a Aldermore Double Access Reward ISA, and you only withdraw money twice in a year, the funds left in the account will continue to accrue interest at a higher rate. If you withdraw three times or more, however, your interest rate will decrease.

What are the benefits of a Reward ISA?

A higher interest rate

As long as money is stored and kept within a Reward ISA and not accessed more than permitted, account holders can enjoy a larger return on their savings.

Better financial discipline

Working within the restrictions of a limited access account is a great way to take a more conscious effort with your savings. This is especially useful if you sometimes struggle with impulse buying, as the limited number of withdrawals at higher rates can help you think twice before spending.

Tax efficiency

Opening an ISA allows savers to maximise the tax efficiency of their savings. Once their yearly tax-free savings allowance is reached, an ISA can be opened to continue the saving process while avoiding tax.

Long-term saving

Reward ISAs are generally preferable for anyone looking to save for an extended period. These funds are ones that are seldom touched and, when combined with a high rate of interest, can mean more returns.

Saving for big emergencies

While Reward ISAs do have a higher interest rate for fewer withdrawals, this doesn't mean they can't be withdrawn from in an emergency.

Recent changes to ISA rules

In 2024, the government introduced new changes to the rules surrounding ISAs. Here's an overview of some of the main changes that were brought in so that you are fully prepared when it comes to opening an ISA in 2025.

1. More flexibility to open and pay into ISAs with different providers

Previously, savers could only open and pay into one type of ISA per provider in each tax year, but these rules changed in 2024. The new rules mean that you can now use your current year's ISA allowance to open ISAs with different providers.

This change offers cash ISAs savers the chance to go after competitive rates more easily, or pick and mix different accounts, such as opening an Easy Access account, Notice account, or a Reward ISA, to name a few. But remember, if you pay into multiple ISAs, you'll need to keep track of your contributions so you don't exceed your ISA allowance of £20,000.

2. Partial transfers between providers for current year subscriptions

The previous rules operated on an 'all or nothing approach' to current year ISA transfers – this meant that you had to transfer your entire ISA of that type from the current tax year, or nothing at all.

The changes introduced in 2024 mean that, depending on the offering of your bank, you are able to decide how much you want to transfer, no matter when you made the subscription.

3. No need to reapply for existing ISAs each year

Those with ISAs were previously required to in essence, reapply for ISAs they already hold when there has been a gap of one tax year where no funds have been paid in.

From 6th April 2024, this rule has been removed. This should reduce the potential for confusion and cut down on unnecessary red tape.

4. New 18+ age limit for all adult ISAs

This rule only directly impacts cash ISAs, where the minimum age for opening an account was previously 16 years old.

From the 2024/25 tax year, the 18+ rule mirrors other adult ISAs. 16 and 17-year olds will continue to be able to open and save into a junior ISA.

For those under the age of 18 that currently have an adult cash ISA, their accounts will not be affected by these new rules until the account holder turns 18.

ISA transfers and withdrawals

So, now we know how much you can put into an ISA and the types of accounts available. But, what happens when you want to take that money out? And how do you transfer in to an ISA to get the process started? We'll explain all below.

How do I transfer money into an ISA?

Putting money into an ISA is as simple as moving money into any other kind of savings account – you just need to remember not to exceed your yearly ISA allowance. Sometimes savers may wish to transfer all or part of their ISA into a different one. This can be with the same provider, or a new one.

The ISA transfer process has a few main steps:

1. **Shop around for your next ISA**
   First, you must find a desired destination for the funds you're moving. This could be a different type of ISA with the same provider, or a move to a different provider.
2. **Pause scheduled payments**
   Normally, the ISA transfer process will re-route any incoming payments from your existing account toward your new one. However, for extra peace of mind, you may wish to place a temporary pause on any standing orders that are due in the near future.
3. **Reach out**
   After deciding on your new provider, or choosing a product from your existing provider, you must contact them to initiate the transfer, either by applying for an account, or calling customer services. Some providers may have transfer options in their mobile banking, too.
4. **Start the transfer**
   Your new provider may ask you to fill in a form that further clarifies the kind of transfer you wish to initiate, and will ask for details of the account that you're transferring away from. These are usually provided via an ISA transfer form and will differ between providers.

How long does it take to transfer an ISA?

ISA transfers aren't protected like current account switches, and there are really only two timelines to bear in mind:

- Cash ISAs will typically take 15 days to transfer
- Other types of ISA can take as long as 30 days

Reasons to transfer

Having explained the ISA transfer process, let's now look at some reasons why you'd want to do so:

Simplifying your finances

Find yourself accidentally depositing funds to the wrong ISA? Transferring and consolidating your ISAs can remove confusion and make your finances much clearer.

Accessing better rates

If your current ISA's interest rate is lagging behind, transferring to a different provider or account type can allow you to access different rates.

A fully automated process

Most of the ISA transfer process is automated. Once the forms are filled out, your provider(s) will handle everything else, including transferring the funds and closing accounts.

How do I withdraw money from an ISA?

Taking money out of an ISA is relatively straightforward. Account holders simply instruct their providers on how much money they wish to withdraw, as well as where they would like the money to go, and when they would like this to happen.

One of the main rules which applies to all types of ISAs is the yearly ISA allowance. As of 2024/25, this allowance is £20,000, which means that individuals can't put more than £20,000 into their ISAs per year.

All deposits made into an ISA count towards this, even if you withdraw them.

For example: If you were to deposit £12,000 and then withdraw £2,000, you would have £10,000 left in your ISA, with a total of £8,000 left in your allowance. However, if your ISA is flexible, your allowance would be £10,000, which is the amount left in the allowance, plus the £2,000 you withdrew previously.

Help and support from Aldermore

Aldermore has been helping people and businesses manage their savings over 15 years. We've got thousands of happy customers, so why not join them and open an account with Aldermore today.

For more information on our ISAs, savings accounts, and other banking services, visit our website.

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Aldermore Savings' documentation is available in Braille, large print and audio versions.