



EADON & CO



# INDIVIDUAL SAVINGS ACCOUNTS

## A BEGINNER'S GUIDE

# WHAT ARE INDIVIDUAL SAVINGS ACCOUNTS?

**Individual Savings Accounts (ISAs) are a common type of investment fund that allow you to invest your money without having to pay tax on any interest or capital gains.**

Currently, you're allowed to deposit up to £20,000 into these types of account each tax year: this maximum amount is per person, not product, so people with multiple ISAs are free to divide up this allowance between separate funds.

On the other hand, if you don't use your total allowance within the 12-month period – which ends on 5th April 2025 - it doesn't roll over, so it's a 'use it or lose it' situation.

ISAs come in a variety of types, including **Cash ISAs** – which are functionally similar to a regular savings account but with added tax efficiency – and **Stocks & Shares ISAs**, which allow tax-free investment in stocks, shares and funds.

With the right choice of fund, Stocks & Shares ISAs could be a fantastic tool for making your money work harder for you than simply having it sitting in the bank.

**That's why at Eadon & Co, we'll work closely with you to find perfect fund choice for your needs - with just the right level of risk for your current situation and long-term goals.**

## FLEXIBLE ISAS: ACCESS YOUR FUNDS ANYTIME

For **standard ISAs** (the non-flexible kind), the £20,000 yearly cap applies even if you decide to withdraw some funds later, meaning you can't top the value back up without it counting towards your annual allowance.

For this reason, we always recommend **flexible ISAs**, as they let you take money out and put it back in addition to your annual deposit cap. For example, if you had £40,000 in your ISA, you could withdraw this amount, replace it in the same tax year and still deposit an extra £20,000 as part of your allowance.



# WHY CHOOSE A STOCKS & SHARES ISA?

As a safe haven away from income and other forms of taxes, it's no surprise that ISAs form a crucial part of many savers' investment plans.

And with a flexible account, you'll be able to put money in and take it back out whenever you like – so you'll never have to commit to 'locking your money away' to benefit.



**BUILD UP ANNUALLY:** The £20,000 annual allowance makes ISAs ideal for growing your portfolio slowly over time: as long as you're over the age of 18, you can start saving today and there's no upper age limit on contributions.



**TAX-FREE SAVING:** Investments stored in ISAs pay no income or capital gains tax, meaning you don't have to worry about any wealth gained through appreciation being confiscated. You won't even need to declare them on your tax return!



**FLEXIBILITY:** Flexible ISAs allow users to take funds back out of your account when you need to - ringfencing your money from the tax man whilst ensuring you won't ever be penalised from accessing capital you've gained fair and square.



**LONG-TERM GROWTH:** Thanks to compound interest and reinvested dividends, ISAs present a significant opportunity for appreciation over the years - great for building responsible saving habits, and allowing you to reap the rewards of a comfortable retirement down the line.



**TRANSFERABLE ALLOWANCE:** If the worst should happen, a surviving spouse or civil partner can inherit your ISA allowance alongside their current balance, safeguarding those tax-free benefits for your family after you've gone.



## **FLEXIBLE STOCKS & SHARES ISA: A CASE STUDY**

**Alex and Sam recently got in touch with us here at Eadon & Co: they've been prudent with their savings, making the most of the generous interest rates on offer with their bank.**

Their fixed term is coming to an end - and so is the 5.2% interest rate they were previously benefitting from. Their local branch has unfortunately closed, which prompted them to reach out to us.

They're both young, working hard and contributing into their workplace pension schemes. They want to invest, although don't want to 'lock' their money away.

**So, we got to work seeing what arrangements could fit the bill...**



# FLEXIBLE STOCKS & SHARES ISA: A CASE STUDY

**Alex has just turned 30 and Sam is 31. Neither of them have ever invested in an ISA before.**

After getting to know them both a little better, we put some of their hard-earned savings to work – but crucially, we made sure to leave some funds available to them to cover any unexpected expenditures that could arise.

In the end, we established a new flexible Stocks & Shares ISA for each of them: £20,000 for Alex and £9,000 for Sam.

Alex told us that he ‘likes taking a punt’ and although (understandably!) doesn’t want to ‘lose it all’, he’s willing to take more risk.

However, Sam is a little more cautious with her money, seeing herself as ‘middle of the road’ when it comes to investment risk.

After some consideration, we recommended that Alex invests in our Growth Portfolio; we agreed this would place him at a level of risk that he can both tolerate and afford.

Sam, meanwhile, has invested into our Balanced Portfolio. This is likely to be less volatile and - with their remaining cash savings - provides a great balance.

Importantly, it also keeps everything tax efficient and accessible for them.

**Going forward, Sam and Alex will be able to compare performance – again, flexibility is key – and funds can be switched and changed at anytime at no extra cost.**

And of course, we’ll continue to keep track of everything, ensuring that their money is always invested in the right place and working hard for them.





# UNDERSTANDING COMPOUND INTEREST

One of the main reasons why investing with ISAs can prove so lucrative over the long term, compound interest is essentially ‘interest on interest’.

This is where interest earned over the previous period is added to the saver’s total value and then factored into the next interest calculation, making your fund value grow faster over time.

For example, if you began with £1,000 with a 5% interest rate over three years:

In year one, you’d grow your value by 5% of this amount, or £50, giving you **£1,050**.

In year two, your fund would grow by 5% of this amount, or £52.50, giving you **£1,102.50**.

In year three, your fund would grow by 5% of this amount, or £55.13, giving you **£1,157.63**.

**As you can see, the longer you invest in your ISA, the more interest you gain year on year, as the previous year’s interest is added to the principal amount.\***

\*This example is for illustration purposes only and is not representative of all returns.

The price and value of any investments and any income from them can fluctuate and may fall, so you may get back less than the amount you invested.





# WHAT COULD AN ISA DO FOR YOU?

Whether you're saving for yourself or a loved one, investing your savings in a secure, competitive, tax-free fund – which you're free to access at any time – opens up a world of benefits and possibilities for the future:

1

## SAVE FOR SOMETHING SPECIAL

If you're looking to splash out on something in particular in future – be it a wedding, once-in-a-lifetime holiday, deposit for a first home or home improvements – your ISA lets you store your funds safely without having to worry about any tax penalties on the interest.

2

## SUPPORT YOUR PENSION

A Stocks and Shares ISA can act as an additional retirement savings pot alongside your primary pension, giving you another handy avenue for tax-free growth. And what's more, you'll be able to draw from it, no questions asked, as an alternative source of funds once you've met your annual withdrawal threshold on your pension without incurring any tax penalties.

3

## DIVERSIFY YOUR PORTFOLIO

With such a varied number of funds and assets available to explore, Stocks and Shares ISAs are an ideal medium for building a diversified portfolio. And as always, your financial adviser will be able to help you find the perfect balance of risk vs reward depending on your current situation and goals.



**Whatever you're saving for, it doesn't take much to start investing the smart way – and every little bit helps.**

With no set-up fee, you can start from as little as **£25 a month**. Or you can get the ball rolling with a **one-off deposit of £500**, whichever you prefer.

Get in touch with our experts to learn more about the benefits of tax-free saving and begin your investment journey today\*.

\*The price and value of any investments and any income from them can fluctuate and may fall, so you may get back less than the amount you invested. Rules for Lifetime ISAs may differ.

This information is for education purposes only - it does not constitute financial advice and should not be acted upon without taking professional advice.




## COMING SOON: JUNIOR ISA

For young savers, Eadon & Co are currently negotiating preferential rates for Junior ISAs (JISAs) to help give your children the best possible start in life.

## CONTACT US

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