ISAs and investment tax

A simple wrapper can prevent income, gains and withdrawals complicating your tax position.

The 2026/27 ISA allowance

Eligible adults can subscribe up to **£20,000** across their ISAs in 2026/27. Interest, dividends and gains within an ISA are normally free of UK Income Tax and CGT. Withdrawals are not taxable income and do not normally increase adjusted net income. There is no upfront Income Tax relief, and the ISA is not generally exempt from IHT. These are current-year limits, not an assumption about future-year rules. [1,12]

Wrapper	Key allowance / feature
Cash ISA	Can form part or all of the £20,000 current-year adult ISA allowance; access and rate depend on the account
Stocks and shares ISA	Same shared adult allowance; investment values can fall
Lifetime ISA (LISA)	Up to £4,000 within the £20,000 allowance; 25% government bonus, with eligibility/access conditions
Junior ISA	£9,000 total in 2026/27; belongs to the child and normally locked until 18
Innovative finance ISA	Within adult limit; lending and liquidity risks can be substantial

Transfer, do not accidentally withdraw

Use the receiving provider's ISA transfer process to retain the wrapper. Cashing out and paying into a new account can use fresh allowance or lose shelter. Transfers of existing ISA money generally do not use new subscription allowance. A flexible ISA may allow withdrawals to be replaced in the same tax year without using more allowance, but only within the relevant rules and provider terms. Not every ISA is flexible. [2,3]

Worked example: interest inside and outside an ISA

A basic-rate taxpayer with an already-used Personal Allowance has £25,000 earning an illustrative 5%: **£1,250 interest**. With no other savings income and a £1,000 Personal Savings Allowance, £250 is taxed at 20% = **£50**. The same qualifying interest inside a cash ISA is tax-free. Compare the actual net rates and access terms; an ISA with a worse interest rate is not automatically better. A new £25,000 subscription would exceed one year's £20,000 ISA limit, so this ISA balance assumes prior-year money too. [1,8]

Family and estate points

ISA allowances are individual, not joint. Junior ISA subscriptions from anyone count towards the child's £9,000 limit; the child can normally control the account at 16 and withdraw at 18. A surviving spouse/civil partner may receive an additional permitted ISA subscription allowance on death, but that does not itself create an IHT exemption or mean they inherit the same assets. [7,12,13]

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Savings interest and dividends

Nil-rate allowances do not make the underlying income disappear.

2026/27 outside an ISA	Tax treatment
Personal Savings Allowance	£1,000 basic-rate / £500 higher-rate / £0 additional-rate
Starting rate for savings	Up to £5,000 at 0%; reduced £1 for £1 of non-savings income above the Personal Allowance
Savings rates after available reliefs	20% / 40% / 45% in 2026/27
Dividend allowance	£500 at 0%; income still uses tax bands
Dividend rates above allowance	10.75% basic / 35.75% higher / 39.35% additional in 2026/27

Look at the whole year

Interest can move you into a higher tax band and reduce your savings allowance. Interest and dividends within nil-rate allowances still normally count in ANI, affecting Personal Allowance, Child Benefit and childcare tests. Add accounts and investments together; the allowance is not per bank or per shareholding. Taxable interest usually follows entitlement/receipt rules, which can be significant for fixed-term accounts. [8-10]

Example 1: a higher-rate saver

Assume all taxable interest remains within the higher-rate band, the Personal Allowance is used and no starting rate is available. Interest of £2,000 less £500 Personal Savings Allowance leaves £1,500 taxed at 40% = **£600**. Net interest is **£1,400**. A move into the additional-rate band could remove the £500 allowance altogether. [8]

Example 2: higher-rate dividends

Assume £10,000 dividends all fall within the higher-rate band, the Personal Allowance is used and no other dividends were received. £10,000 - £500 allowance = **£9,500**. At the 2026/27 higher dividend rate of 35.75%, tax is **£3,396.25**. Net dividends are £6,603.75. The full £10,000 still counts towards the relevant income measures. [9]

A low-income saver may have an extra 0% band

With £15,570 non-savings income and a full £12,570 Personal Allowance, £3,000 reduces the £5,000 starting rate to £2,000. If the saver receives £2,500 interest, the first £2,000 may use the starting rate and the remaining £500 the Personal Savings Allowance, giving no tax on the interest. Check the whole income mix and income ordering. [8]

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Lifetime ISAs and practical planning

Useful tax features, but access rules and ownership matter.

Lifetime ISA basics

You normally make your first payment aged 18-39 and can contribute up to £4,000 a year until 50, receiving a 25% bonus. This uses part of the £20,000 adult ISA allowance. Charge-free withdrawals generally require a qualifying first-home purchase, age 60, or qualifying terminal illness. A qualifying first-home purchase normally needs a property costing no more than £450,000, a mortgage, conveyancer involvement and at least 12 months since the first payment. [4,5]

Withdrawal charges: a 2026 change matters

Most non-qualifying withdrawals still face a **25% charge on the amount withdrawn**. For example, £2,000 paid in plus a £500 bonus gives £2,500; a 25% charge of £625 leaves £1,875 - £125 less than the original saving, before returns. A special **20% charge** applies from 29 October 2026 to relevant first-home withdrawals for properties above the £450,000 cap, subject to the specific conditions. On the same £2,500, 20% is £500, leaving £2,000. Do not assume every withdrawal qualifies for the reduced charge. [5,6]

Choosing the wrapper is only one decision

Cash may suit short-term needs but inflation can erode purchasing power. Investments can fall and need an appropriate time horizon. Do not use high-risk or illiquid assets simply because they sit in an ISA. For retirement, compare a LISA with workplace pension employer contributions, pension tax relief, access restrictions and your expected future tax position. [1,4]

Reporting and tax planning

Banks usually send interest details to HMRC, but you remain responsible for checking the bill. Dividend reporting is not necessarily automatic. Use the correct HMRC route and Self Assessment where required. Moving existing investments into an ISA may require a sale outside it and create CGT; the ISA shelters future returns, not an existing external gain retrospectively. [3,10,11]

Before the tax year ends

Check unused ISA allowance, access needs, savings/dividend estimates, spouse ownership and capital gains. Keep subscriptions within limits, use formal transfers and do not sacrifice emergency cash merely to use an allowance. Ask Mather & Murray Financial to compare the after-tax outcome across savings, ISAs, pensions and investment bonds.

Primary sources | Checked 24 November 2026

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