

Early bird investors

Does the early bird get the ISA worm?

If you're an investor looking to maximise your Individual Savings Accounts (ISA) returns, it's worth considering investing your ISA allowance as soon as possible each year, as soon as it becomes available on 6 April. Not only will this help ensure that your money is protected from taxes right off the bat, but it also means that your investment has more time to grow in the market. This can result in a bigger ISA pot in the long run.

Of course, this strategy may not be right for everyone, and there are risks to investing in the market. It's important to carefully consider your investment goals, risk tolerance and overall financial situation before making any investment decisions. However, for many investors, investing their ISA allowance early on can be a smart move that pays off over time.

HIGHLY EFFICIENT WAY TO PROTECT INVESTMENTS FROM TAX

An Individual Savings Accounts (ISA) is a highly tax-efficient way for people to protect their investments from tax. In the 2022/23 tax year, everyone in the UK had an annual Capital Gains allowance of £12,300, which was reduced to £6,000 in the Autumn Statement on 17 November 2022. This will reduce further to £3,000 from April 2024.

However, when you invest into an ISA, you can enjoy tax-efficient returns and don't need to declare any interest from an ISA or any income or capital gains made from it when completing your annual tax return.

MAKE SURE YOU USE YOUR FULL ISA ALLOWANCE

The maximum amount that can be invested into an ISA in the 2023/24 tax year is £20,000. This allowance hasn't changed since April 2017 when it was increased from £15,240 and is higher than the £7,000 maximum allowance offered in 2008. However, any unused allowance will not carry over to the next tax year, meaning that it's essential to make sure you use your full ISA allowance during the current tax year if possible.

Investing early can certainly offer many benefits, including an extra year of tax-sheltered growth. However, it's important to be aware that investing outside of an ISA can come with tax risks. The halving of the dividend tax allowance this tax year means that you may end up paying tax on dividends earlier in the year if you hold investments outside of an ISA.

TAKE ADVANTAGE OF POUND COST AVERAGING

Starting an ISA early in the tax year provides many benefits when investing, particularly when it comes to setting up regular monthly payments into a Stocks & Shares ISA. By doing so, you can take advantage of pound cost averaging, which is a process of drip-feeding money into an investment over time in order to reduce the impact of market ups and downs.



The idea behind pound cost averaging is that when you invest a fixed sum every month, you'll buy more units when an investment's price falls, which can provide the potential for greater profits if they then rise.

ESTABLISHING A REGULAR INVESTMENT PLAN EARLY ON

Of course, the opposite can also be true – if prices rise, you'll buy less. However, over time, pound cost averaging can help to smooth out the ups and downs in an investment's value, reducing the risk of dramatic swings in your portfolio.

By establishing a regular investment plan early on, you'll also be able to take advantage of the full tax year for your investments, allowing you to spread your investments across the entire year. This can help to reduce the risk of investing all of your money at a time when the market may be overvalued.

GOOD NEWS IS THAT YOU CAN TRANSFER YOUR ISA

Transferring an existing ISA could also be a practical option if you're looking for a more competitive deal or want to consolidate your investments. The good news is that you can transfer your ISA at any point during the tax year, but it's essential to take note of some things before you do.

For instance, you need to transfer the whole ISA, so you cannot partially transfer your existing Stocks & Shares ISA for the current tax year. It's wise to check with your current provider if they impose fees for transferring out. Taking this step can help you avoid unnecessary costs and ensure that you get the most out of your investment.

CONSISTENTLY MAX OUT YOUR ISA ALLOWANCE EACH YEAR

The old adage holds true when it comes to investing: time in the market is more important than timing the market. This means that the longer your money is invested, the more time it has to grow and potentially compound over time.

Investing in an ISA can be a great way to grow your savings pot beyond the limits of a tax-efficient allowance. It's important to consistently max out your ISA allowance each year, if affordable, and enjoy generous investment returns. Even if you don't have a large lump sum to invest, you can still benefit from regular, small contributions from the beginning of the new tax year. So start saving and investing today and see how far you can go! ■

READY TO PUT YOUR 2023/24 ISA ALLOWANCE TO WORK NOW?

If you're considering using your ISA allowance this year, don't wait until the last minute. Invest early and give yourself the best chance of maximising your returns. Whatever your investment goals, we'll help you to grow your wealth in a way that's right for you. So why wait? Let us help you make the most of your ISA allowance today. To find out more please contact us.

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THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, SO YOU COULD GET BACK LESS THAN YOU INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

