

Tax Free Investment and Savings with an ISA

Take a look around at the best buy savings tables in recent times and you'll see that the savings rates offered to people with money to invest are pitifully low. This is of course because of the current economic climate and low base rates. The amount of interest you can earn on your savings these days is barely enough to keep up with inflation, and in some cases you're effectively paying your bank to store your money in your account for you, as the value of your deposit falls in real terms. This situation is even worse when you consider that tax needs to be paid on the already meagre amount you're earning off your investment - which for many in the UK who have sufficient funds to invest is a full 40% of the return. With this in mind, does a long term investment earning good returns completely free of tax sound attractive? UK investors have precisely this option in the form of the Individual Savings Account, or ISA as it's more commonly referred to. Under this government backed scheme, savers can deposit up to Â£7,200 a year into an account from a variety of providers, and pay no income tax or capital gains tax on the returns. Up to Â£3,600 of deposits a year can be in the form of cash deposits which earn interest in much the same way as a normal savings account, while the next Â£3,600 up to your annual limit must be invested in stocks and shares (managed by your account provider). Alternatively, the full amount of your yearly deposit allowance can be invested in stocks and shares. Which combination of cash or stocks and shares you choose depends largely on your attitude to risk - stocks and shares will generally perform better over the medium to long term, but as we're seeing at the moment markets can go down as well as up, and so therefore can your investment. The advice of an independent financial professional is always a good idea if you're unsure which of the options is best for you. Although the amounts involved might not seem to be very significant considering the annual investment limit, over a period of years your investment can grow into a considerable sum if your full allowance is used - and it will be quietly sitting there earning a tax-free return on the cumulative amount deposited along with compounding the interest paid back into the account. It is therefore a great way to save long term, for retirement for example - and who doesn't like the phrase 'tax-free'?

About the Author

Nicholas writes for Your Banking Guide where you read more about [tax-free ISA](#) options, as well as [compare high interest savings accounts](#). [ISA-Banking](#)

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