

Making sense of ISAs

Your guide to tax-free saving



COVENTRY
Building Society



What is an ISA?

The world of ISAs (which is short for Individual Savings Accounts), can often be thought of as a little confusing. But in reality, ISAs offer a great, tax-free way to save and make the most of your money.

Whether you're saving for a once-in-a-lifetime holiday, building up a deposit for a home or just creating a sunny day fund, they can be a great way to help you grow your money quickly – this is because any interest or investment income you earn isn't taxed.

In this guide, we've pulled together important information about ISAs to help you understand them a little more, including how they work and how to make the most of your tax-free savings.

We can also send you this leaflet in large print, Braille or on audio CD. Call us on **0800 121 8899** and we'll be happy to help.

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How do ISAs work?

ISAs have grown in popularity since they were launched just over 25 years ago to encourage people to save. Around 22 million people have an ISA in the UK. This is probably because any interest or investment income you earn through an ISA isn't taxed.

To open an ISA, you must be 18 or over (unless you're opening a Junior ISA where you can be under 18 or a Lifetime ISA where you must be 18 or over but under 40). You must also be a resident in the UK or a member of the armed forces or a Crown servant (or their spouse/civil partner if you do not live in the UK).

Here are a few other important things you should know about ISAs:

One

You can save up to £20,000 into ISAs each tax year. This is called your annual ISA allowance and is set by the government. This is lower for Junior ISAs where the allowance is £9,000, and Lifetime ISAs where the limit is £4,000.*

Your annual allowance applies each tax year – starting from 6 April and ending 12 months later on 5 April.

Two

If you don't use your full annual allowance in a tax year, any remaining allowance won't roll over into the next tax year. However, the good news is your allowance will reset every 6 April when the new tax year begins.

Three

If you're over 18, you can split your annual allowance across different types of ISAs per tax year. However, the combined amount you pay into your ISAs in a tax year must stay within your annual allowance.

Four

While you can open multiple ISAs in the same tax year, you'll only be able to pay some or all of your current ISA annual allowance in to one cash ISA with us. Other providers may allow payments to multiple cash ISAs in the same tax year, within the £20,000 annual allowance.



* Correct for 2024/2025 tax year.

Why are ISAs important?

As we've already mentioned, ISAs are often appealing as they can help you earn tax-free interest on your savings.

Savings in other types of accounts you have are covered by your Personal Savings Allowance (PSA). This is an amount of interest you can earn on your non-ISA savings before it's subject to any tax. Your individual allowance depends on your income and whether you're a basic rate, higher rate or additional rate taxpayer.

Income Tax band	Personal Saving Allowance
Basic rate	£1,000
Higher rate	£500
Additional rate	£0



Here's a scenario of the PSA in action:

Sarah is employed and is a basic rate taxpayer. Over a number of years, she's grown her savings account balance and now has £30,000, which is currently earning a fixed interest rate of 4%.

After 12 months, Sarah has earned £1,200 in interest on the £30,000 she's saved. The PSA for those on the basic income rate is £1,000. Therefore, £200 of the interest Sarah has earned falls outside of the allowance and is subject to the basic income tax rate of 20%. This means Sarah would pay £40 on the £200 of interest. HMRC will change Sarah's tax code in order to collect the £40 she owes through her salary automatically.

However, saving money in an ISA is completely tax-free. Even as your savings in an ISA build up over the years and the interest you earn grows, you won't pay any tax on it.



What types of ISAs are there?

There are five main types of ISAs currently available, and they all have different features, depending on what you're saving for. Below, we've explained a little more about each of the five types of ISAs you'll find:

- Cash ISAs
- Junior ISAs
- Lifetime ISAs
- Stocks and shares ISAs
- Innovative finance ISAs.



Cash ISAs

Cash ISAs are the standard type of ISA for adults – and you'll find a variety of cash ISA accounts to suit your circumstances, depending on your saving needs. These include:

- **Easy access ISAs** allow you to save and earn interest, while also letting you withdraw funds as often as you want.
- **Limited access ISAs** often let you take advantage of a slightly better interest rate than an easy access ISA, in return for less access to your money. These products usually allow a limited number of withdrawals without charge each year. If you make any further withdrawals in a year you'll be charged based on the amount withdrawn.
- **Fixed rate ISAs** are good to help you earn interest on lump sums that you don't need to access for a while. However, they don't come with any flexibility because they're not designed to allow withdrawals within the fixed term. You can only withdraw funds before the end of the fixed term by closing the account which typically will incur a charge.
- **Regular saver ISAs** are designed to let you put aside some money every month to build up a pot of savings, rather than saving a larger lump sum in one go.

Some cash ISAs can also be flexible, allowing you to withdraw money and replace it later without it impacting your annual allowance. More information on how a flexible ISA works can be found on page 14.

Cash versions of Junior ISAs and Lifetime ISAs are also available. We've explained a bit more about these in the following two sections.

Junior ISAs

Money saved into a Junior ISA (or JISA) can become a valuable nest egg that will grow in value until a child's 18th birthday, at which point the account is converted into an adult ISA.

Some things to keep in mind

- You can save up to £9,000 each tax year into a JISA. This can be split between a Junior cash ISA and Junior stocks and shares ISA if desired - but they can only have one of each account.
- If you're a parent or guardian, you can set up a JISA for your child until they turn 17. If your child is 16 or 17, they can open a JISA on their own.
- When your child turns 16, they can choose to take over managing their JISA themselves. However, they can only access the funds once they turn 18.



Child Trust Funds

Child Trust Funds were a long-term tax-free savings account opened by the government for children born between September 2002 and January 2011. You cannot have a Junior ISA as well as a Child Trust Fund.

If you want to open a Junior ISA you'll need to ask the provider to transfer the trust fund into it.

Lifetime ISAs

Lifetime ISAs (or LISAs) are designed to help people save for their first home or for later life.

Here's a few things to keep in mind about LISAs:

- Both cash and stocks and shares versions of LISAs are available.
- You can open a LISA if you're aged between 18 to 39. The amount that you can save tax-free into a LISA is up to £4,000 each year, until you're 50. The government will add a 25% bonus to the amount you save each year, up to a maximum of £1,000 per year. When you turn 50, you will not be able to pay into your LISA or earn the 25% bonus. Your account will stay open and your savings will still earn interest or investment returns.
- The amount you save in a LISA counts towards your overall £20,000 annual ISA allowance. This means if you saved the full £4,000 into a LISA in a tax year, you could only put another £16,000 in your other ISAs during that same tax year.
- There are very specific rules around withdrawals that you should consider. You can only take money out of your LISA without incurring a charge if you're buying your first home, if you've reached the age of 60 or if you're terminally ill with less than 12 months to live. If you make a withdrawal at another time, you'll be charged 25% of the value of the amount being taken out. That would mean paying a £25 fee for withdrawing £100.

Stocks and shares ISAs

Funds you add to a stocks and shares ISA are usually invested in assets, such as company shares, that are traded on the stock market, investment funds or trust which select a range of investments. Other potential investments include corporate bonds or government bonds. These are essentially loans to either companies or governments, which pay those loans back with interest added on.

Some things to keep in mind:

- If you're considering a stocks and shares ISA, you should be aware that your money will be invested, which means the value of your ISA could rise or fall and your capital could be at risk.
- Whatever your stocks and shares ISA is invested in, any gains will be tax-free, and the same £20,000 annual allowance applies.
- Most providers charge fees each year to manage the ISA and to buy and sell investments within it. Stocks and shares ISA holders can usually take their money out at any time, but this could mean the loss of some investment income.

Innovative finance ISAs

Innovative finance ISAs are designed to include more long-term, less-liquid investments (i.e. investments which can't easily or quickly be turned into cash), and cash. This means lending money directly to individuals or businesses, who then pay that loan back with interest.

These products are a way of backing companies with a high-growth potential, but because they tend to be younger firms, there is a risk of losing money. If a business you have lent to through your innovative finance ISA goes bust, then you won't get your money back.

Crucially, these types of ISAs are not covered by the Financial Services Compensation Scheme, which protects consumer deposits up to £85,000 per person, per financial institution. It can be sensible to discuss innovative finance ISAs with an independent financial adviser before opening one.

Which ISAs does Coventry Building Society offer?

As a provider of cash ISAs for over 25 years, we've been named number one for customer experience for our savings (autumn 2024) by Fairer Finance. We offer a variety of ISAs, providing you with choice when it comes to saving for your goals. Take a look at our [website](#) for the ISAs which are currently available.

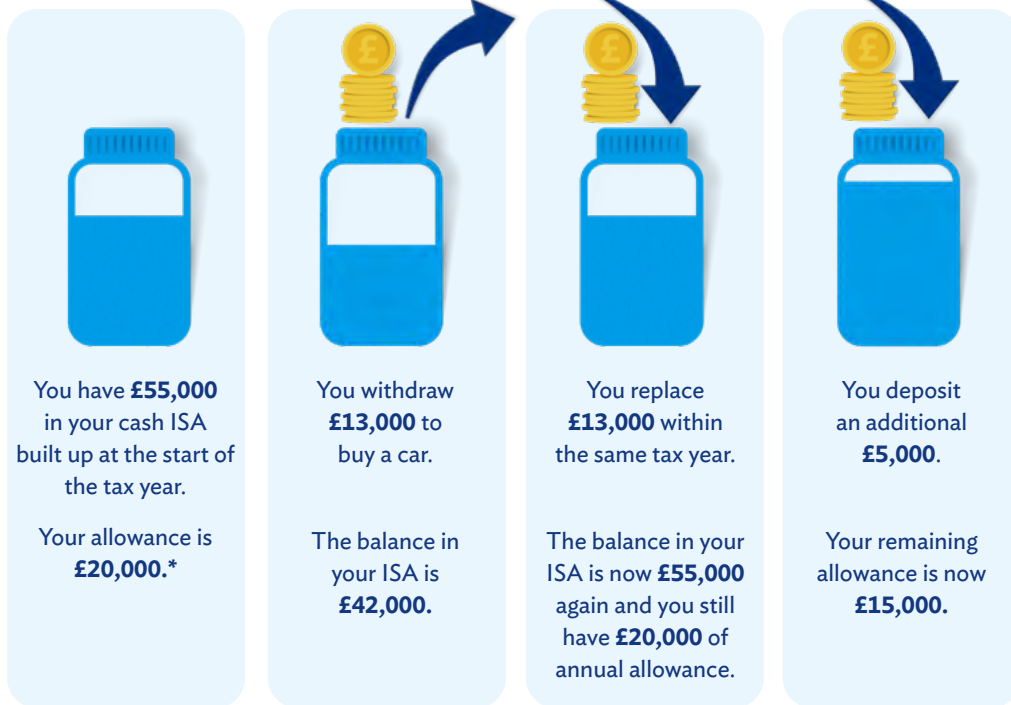
Some of our ISAs also benefit from flexibility, meaning they're the perfect solution for savers who might want access to their cash. As an added benefit, if you withdraw any of your money from a flexible ISA, it can be replaced in the same tax year without impacting your £20,000 annual allowance.

On the flipside, our fixed cash ISAs give you the certainty of a fixed interest rate for agreeing to leave your money in the account for longer. This means that even if rates in the market change, your rate remains fixed until the end of the term. We do not offer stocks and shares ISAs, Lifetime ISAs or innovative finance ISAs.



We're proud to have been awarded a gold ribbon and named number one for customer experience for our savings (autumn 2024) by Fairer Finance.

How does a flexible ISA work?



*Correct for 2024/2025 tax year.

If you had been using a non-flexible ISA, your remaining allowance would have been £2,000 instead of £15,000 as the £13,000 deposit would have counted towards your annual allowance.

You can withdraw funds from previous tax years and the current tax year. However, if you want to replace your withdrawal, you'll need to do so within the same tax year.

Barry's Story:

Barry has had an easy access ISA for five years now. He wants to buy a new car and has budgeted for £13,000.

Barry has a total of £55,000 in his flexible easy access ISA. He hasn't added the full £20,000 per year but still tops up his ISA with a significant amount each year. He hasn't paid anything into his ISA during this tax year yet.

Barry withdraws £13,000 for the car, leaving him with a balance of £42,000 in his ISA.

This tax year, Barry can pay back the £13,000 he took out, as well as deposit his annual ISA allowance of £20,000 - a total of £33,000 during this tax year. This is because the £13,000 was withdrawn and repaid during the same tax year, therefore doesn't count towards the current year's allowance. If Barry then adds a further deposit of £5,000, his remaining allowance drops to £15,000.



Which of the ISAs Coventry Building Society offers is right for me?

Before you open an ISA, it's important to have a think about what you want to get out of your ISA.

- If your priority is having the certainty of a fixed interest rate and you're happy to not access your money for a set period of time, then our fixed rate ISAs could be one option.
- If you want to be able to access your money when you need to, then our limited access or easy access ISAs could be better for you. These accounts usually offer different interest rates depending on how often you think you might want to access your money charge-free. Our accounts that offer unlimited access tend to have lower interest rates than those which allow a limited number of charge-free withdrawals per year.

You can find out more about our range of cash ISAs by visiting our [website](#).

Why choose Coventry Building Society?

At Coventry Building Society we offer a number of different cash ISAs, depending on the level of access you think you might need to your money. This includes flexible easy and limited access ISAs, or fixed ISAs where you lock away your savings and benefit from a fixed interest rate.

As an ISA provider our incredible customer service means that whatever your needs, we're here to help. You'd be choosing a company who cares about making a difference and continues to make a positive impact for the communities around us.

If you're ready to explore opening a new ISA or want to transfer your savings to us, explore our range of ISAs on our [website](#).

Transferring an ISA

Transferring your ISA means following a few steps to move your money from one ISA product to another, while keeping the tax-free benefit. You can move ISAs from one provider to another, or switch your savings between different ISAs with the same organisation. It's important to know that the ISA provider you move to initiates the ISA transfer.

We've pulled together lots of information to explain how ISA transfers work in our [Making sense of ISA transfers guide](#). It explains what to consider before making any decisions to transfer, and when it might be the right time to rethink your ISA saving strategy.

Keeping track of your ISAs

Once you've picked your ISA, make sure you monitor your account's progress to make sure your money is working hard for you.

Depending on the type of ISA you have, there are different events which could impact your account, like how fast the economy is growing, whether interest rates are rising or falling, and finance-related announcements by the government. For example, when the government presents its Spring and Autumn Budgets, changes can also be made that affect savers, and it's worth checking whether any of these events impact your ability to save in any way. For instance, if the annual ISA allowance – currently at £20,000 – changes, that could have an impact on how you use your ISA to reach your savings goals.

Other useful information

What do I need to open an ISA?

You'll just need your National Insurance Number. If you're a new customer, you might also need to provide identification to be verified.

Can I open multiple ISAs in one tax year?

Yes, you can. While you can have multiple ISAs which add up to your annual £20,000 ISA allowance, you can only pay into one cash ISA with us per tax year. You can split previous years' ISA balances between multiple products with us and other providers.

Which ISAs can I transfer to you?

You can transfer existing cash or stock and shares ISAs into a cash ISA. You can also transfer a Junior ISA to us.

Does my ISA lose its tax-free status when I transfer it?

No, as long as you follow the ISA transfer process. Just make sure you let us know the details of which ISA you'd like to transfer in, and we'll sort it all for you.

When is my interest paid?

This depends on the product you have chosen, but it is usually either monthly or annually. Dependent on the type of ISA account, interest can either be added to the ISA account or paid to another account (if paid to another account, any additional interest you earn from this may be subject to tax).

Can I open a joint ISA?

No. ISAs are individual savings accounts.

How many ISAs can I have and can I mix and match?

While you can have multiple ISAs which add up to your allowance in one tax year, you'll only be able to pay some or all of your current ISA annual allowance in to one cash ISA with us.

Can I carry over any unused ISA allowance to the next tax year?

No. While you're not able to carry forward any unused ISA allowance from previous tax years, your tax allowance resets each year. So you have another £20,000 allowance in the next tax year. This means if you add £17,000 to your ISAs this year (and have £3,000 left in your allowance), you can add £20,000 in the next tax year, but not £23,000.



Where to find out more

[Cash ISA product page](#)

[Making sense of ISA transfers guide](#)

[ISAs explained page](#)



Contact us

At a branch

For details of our opening hours, visit [thecoventry.co.uk](https://www.thecoventry.co.uk)

Online [thecoventry.co.uk](https://www.thecoventry.co.uk)

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For more information, visit our website [thecoventry.co.uk](https://www.thecoventry.co.uk), call us on **0800 121 8899** Monday to Friday 8am-7pm or Saturday 9am-2pm, or pop into a branch.

Calls to 0800 numbers are free from the UK. Calls may be monitored or recorded to help improve our service and as a record of our conversation.

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