

YOUR FIRST ISA

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A plain-English guide for complete beginners

Updated June 2026 | Includes the HMRC announcements of 23 June 2026

What is an ISA?

ISA stands for Individual Savings Account. The name is a bit formal for what is, in practice, a fairly simple idea: it is a savings or investment account that the government cannot tax. Any interest you earn, any profit you make from investments, any dividends paid to you while your money sits inside an ISA, belongs entirely to you. HMRC has no claim on any of it.

ISAs have been around since 1999. They started as a relatively modest benefit for patient savers and have grown into one of the most practical financial tools available in the UK. If you have never opened one, you are almost certainly paying tax that you do not need to pay.

Why does tax on savings matter?

When your money sits in an ordinary bank account, the interest it earns counts as income. Depending on your tax band, you might pay 20%, 40% or even 45% of that interest straight to HMRC. The government does offer a small buffer called the Personal Savings Allowance, but it is not especially generous:

- If you pay basic-rate income tax, you can earn up to £1,000 in savings interest per year without paying tax on it.
- Higher-rate taxpayers (roughly anyone earning over £50,270) only get £500 of tax-free interest.
- Additional-rate taxpayers, those earning over £125,140, receive nothing at all. Every penny of interest is taxable.

With savings rates sitting around 4.5 to 5% in mid-2026, a basic-rate taxpayer with as little as £22,000 in an ordinary savings account could already be exceeding their allowance. The tax bill that follows is not enormous at first, but it compounds. Over years, it adds up.

The ISA difference. Inside an ISA, interest is not counted by HMRC at all. It does not appear on your tax return. It does not eat into your Personal Savings Allowance. The protection is permanent, not annual: money you shelter this year stays sheltered for as long as it remains in the account.

How much can you put in?

Each tax year, running from **6 April to the following 5 April**, every UK adult receives a fresh ISA allowance. For 2026/27, that allowance is **£20,000**. You can split it across different types of ISA in any combination you choose, as long as the total you deposit stays within that £20,000 limit.

The rule that catches people out is this: any allowance you do not use by 5 April simply disappears. If you save £8,000 this tax year, the remaining £12,000 does not carry forward. You cannot use it next year. It is gone. This is why financial writers keep repeating the phrase "use it or lose it" whenever ISAs come up.

Who can open one? You must be 18 or over and a UK resident for tax purposes. The Lifetime ISA (covered below) requires you to be under 40 when you open it. Children have their own separate Junior ISA with its own rules.

The different types of ISA

There are four main ISA types for adults. They suit different purposes, and in most cases you can hold more than one.

Cash ISA

A Cash ISA works like an ordinary savings account. You deposit money, it earns interest, and that interest is completely tax-free. It is the simplest type of ISA and the one most people start with, particularly when they want their savings to stay safe and accessible.

Three versions exist. Easy access accounts let you withdraw whenever you need to, and in June 2026 the best rates are around 4.4 to 4.5% AER. Fixed-rate accounts lock your money away for a set term, usually one or two years, in exchange for a guaranteed rate of up to around 4.7%. Notice accounts sit somewhere between the two: you give the bank advance warning before withdrawing, typically 30 to 90 days, and receive a rate between easy-access and fixed.

Your money in a Cash ISA held with a UK-regulated bank or building society is covered by the Financial Services Compensation Scheme up to £120,000 per person, per institution.

Stocks and Shares ISA

A Stocks and Shares ISA lets you invest in the stock market, funds, bonds, and other assets, while shielding any growth from Capital Gains Tax and any income from Income Tax. Over long periods, investments in the stock market have historically grown faster than cash savings, though the value can fall as well as rise.

This type is better suited to money you are confident you will not need for at least five years. The intention is to ride out short-term falls in the market.

Worth knowing. Investing always carries risk. You may get back less than you originally put in. If that possibility makes you uncomfortable, a Cash ISA is the better starting point.

Innovative Finance ISA

An Innovative Finance ISA (IFISA) allows you to lend your money through peer-to-peer lending platforms. You act as a small-scale lender, providing money to individuals or businesses in exchange for interest payments. Returns can be higher than cash savings, but the risks are substantially greater. If borrowers default, your money is at risk, and this type of account is not protected by the FSCS. IFISAs are not generally suitable for beginners.

Lifetime ISA (LISA)

The Lifetime ISA was built for two goals: buying your first home, or saving for retirement. You can put in up to **£4,000 per year**, and the government tops it up with a **25% bonus**, so £4,000 of contributions becomes £5,000. That £4,000 limit forms part of your overall £20,000 annual ISA allowance.

The LISA has one significant catch. If you withdraw the money for any reason other than buying a first home (up to £450,000 in value) or reaching the age of 60, you face a **25% penalty** on the full withdrawal including the bonus. This penalty is calculated in a way that can leave you with less than you originally deposited, which has caused considerable frustration and criticism since the product launched in 2017.

To open a LISA, you must be between 18 and 39. Once open, you can continue contributing until you are 50.

NEW | The First Time Buyer ISA | Announced 23 June 2026

On 23 June 2026, the government opened a public consultation on a new product called the First Time Buyer ISA (FTB ISA), planned to replace the Lifetime ISA from around April 2028. Key proposals:

- No upper age limit. Anyone aged 18 or over can open one, not just under-40s as with the current LISA.
- The 25% withdrawal penalty would be scrapped. Savers could access their own money without losing a portion of it.
- The government bonus would be paid as a lump sum at the point of exchange of contracts, rather than monthly.
- Solely for first-time buyers. The LISA doubled as a retirement vehicle; the FTB ISA would not.
- A mortgage is required to use the bonus towards a purchase.

The consultation closes 17 August 2026. The bonus rate, annual limit, and property price cap have not yet been confirmed. If you already hold a LISA, you can continue contributing to it indefinitely, even after the FTB ISA launches. Both products can be used towards the same property purchase.

Junior ISA

Parents or guardians can open a Junior ISA for a child under 18. The annual allowance is **£9,000** for 2026/27, and it sits completely separate from any adult ISA allowance, so it does not eat into your own £20,000. The money cannot be touched until the child turns 18, at which point it rolls over automatically into an adult ISA in their name.

Quick comparison

How the main options look side by side:

Type	Good for	2026/27 Limit
Cash ISA	Safe, tax-free savings with easy access	£20,000 (shared total)
Stocks and Shares ISA	Long-term growth over 5 or more years	£20,000 (shared total)
Lifetime ISA	First home or retirement (opens before age 40)	£4,000 (within £20k)
Innovative Finance ISA	Higher-risk lending (not for beginners)	£20,000 (shared total)
Junior ISA	Saving on behalf of a child	£9,000 (separate)

The changes coming in April 2027

The Autumn 2025 Budget set off a significant shake-up of ISA rules. HMRC added the technical detail on **23 June 2026**. These two changes matter whether you are a cautious saver or an investor.

1. Cash ISA limit cut to £12,000 for under-65s

From **6 April 2027**, anyone under 65 will only be able to pay up to **£12,000 per year into Cash ISAs**. The overall £20,000 ISA allowance stays the same, but the remaining £8,000 must go into a Stocks and Shares ISA, an IFISA, or (once it exists) the new First Time Buyer ISA.

People aged 65 and over are not affected. They keep the full £20,000 cash allowance.

The 2026/27 tax year is therefore the last chance for under-65s to shelter £20,000 in cash. Money saved before April 2027 keeps its full protection regardless of the new rules. Only new contributions from April 2027 onwards fall under the lower limit.

2. A 22% charge on cash kept inside non-cash ISAs

To stop savers working around the new cash limit by simply parking £20,000 in cash inside a Stocks and Shares ISA, HMRC confirmed on 23 June 2026 that a **22% flat-rate charge** will apply to interest earned on cash held within a non-cash ISA, from April 2027.

The charge applies regardless of the account holder's income tax rate. Non-taxpayers face it too. The one exception is Money Market Funds, which are treated as investments rather than cash, provided they are not the only holding in the ISA.

There is also a new transfer restriction: from April 2027, it will no longer be possible to transfer a non-cash ISA into a Cash ISA. Transfers the other way, from Cash ISA into a Stocks and Shares ISA, will remain allowed.

If you use a Stocks and Shares ISA. Cash held inside the account is fine as a temporary holding while you decide where to invest. Leaving it there long-term earning interest will attract the 22% charge from April 2027.

Opening an ISA

The process is genuinely straightforward. Most providers let you do it in ten minutes online.

- **Work out which type suits you.** Cash if you want safety and easy access. Stocks and Shares if your money can stay invested for at least five years.
- **Compare providers.** Rates and fees vary significantly. MoneySavingExpert, Moneyfacts, and Which? all maintain regularly updated best-buy tables.
- **Apply.** You will need your National Insurance number and proof of identity. Some providers have a minimum opening deposit, but many accept as little as £1.
- **Keep track of your allowance.** If you hold ISAs with several providers, you are responsible for making sure your combined deposits stay within £20,000. HMRC will issue penalties if you go over.

Withdrawals and transfers

Taking money out

Most Cash ISAs and Stocks and Shares ISAs let you withdraw at any time, though fixed-rate Cash ISAs typically charge a penalty if you leave before the end of the term. When you withdraw money, that portion of your annual allowance is normally gone for the year. The exception is a flexible ISA: some providers offer these, and they allow you to replace money you have withdrawn within the same tax year without it counting as a fresh deposit. Not all ISAs are flexible, so check before assuming yours is.

Moving to a different provider

You can transfer your ISA to a new provider at any time without losing the tax protection on your savings. The only rule that matters here: never withdraw the money yourself and pay it into a new account. That would use up your current-year allowance. Instead, ask the new provider to handle the transfer on your behalf. They contact your old provider and move the money correctly. The whole process takes up to 15 working days for cash and up to 30 for investments.

Common questions

Can I have more than one ISA?

Yes. Since a rule change in April 2024, you can open and pay into multiple ISAs of the same type in a single tax year, for example two different Cash ISAs with two different banks. The total across all of them must still stay within your £20,000 annual allowance.

Do I need to mention my ISA on my tax return?

No. Income and gains from ISAs do not appear on your tax return at all. They are invisible to HMRC.

What happens if I accidentally pay in too much?

HMRC will contact you, and you will need to withdraw the excess. There may also be a penalty charge on the over-subscribed amount. This is uncommon, but it is worth being careful if you have accounts with several providers and no easy way to check your combined total.

Is my money safe?

Cash ISAs held with UK-regulated banks and building societies are covered by the FSCS up to £120,000 per person, per institution. If you have more than £120,000 with one provider, it is sensible to split it

across two. Stocks and Shares ISAs are covered by the FSCS up to £85,000 in the event that the investment firm collapses, though this does not protect against falls in the value of your investments.

Can I open a joint ISA with my partner?

No. ISAs are individual accounts only. Couples can, however, effectively double their tax-free savings by each opening their own ISA, giving a combined household allowance of £40,000 per year.

What happens to an ISA when someone dies?

When a spouse or civil partner dies, the surviving partner receives what is called an Additional Permitted Subscription, a one-off top-up equal to the value of the deceased person's ISA. This allows the survivor to shelter that inherited amount without it reducing their normal annual allowance.

Should you open an ISA?

For most people in the UK, the answer is yes. The situations where it makes the most sense are:

- Your savings are over roughly £20,000, at which point tax on interest starts to bite at current rates.
- You pay higher or additional-rate income tax. Your Personal Savings Allowance is smaller, so the ISA protection is worth more to you.
- You are saving for something several years away, a house, retirement, or your children's future, in which case a Stocks and Shares or Lifetime ISA may produce significantly better results over time.
- Even if your savings are modest right now, starting an ISA means the account is open and growing tax-free from day one. A pound sheltered early is sheltered for good.

Key numbers at a glance (2026/27)

	Figure	Notes
Adult ISA annual allowance	£20,000	Cannot carry forward unused amounts
Cash ISA limit from April 2027	£12,000	Under-65s only. Still £20,000 this year
Lifetime ISA annual limit	£4,000	Includes 25% government bonus on contributions
Junior ISA allowance	£9,000	Separate from the adult allowance
FSCS protection (cash)	£120,000	Per person, per UK-regulated institution
Bank of England base rate	3.75%	Held at this level on 29 April 2026
Best easy-access Cash ISA rate	Around 4.5%	Rates change; always compare before opening

ISAs have been part of UK personal finance for over 25 years. The rules shift occasionally, as the April 2027 changes show, but the core benefit stays the same. Your money grows without HMRC taking a cut. If the changes coming next year have you thinking about your savings, the current tax year is a

reasonable moment to act. The full £20,000 cash allowance will not be available for under-65s much longer.

This guide is for general information only and is not financial advice. Figures are correct as at June 2026 but are subject to change. For advice specific to your situation, speak to a qualified financial adviser.