



# INNOVATIVE FINANCE ISA

## What is it?

An innovative finance ISA (IF-ISA) account provides a tax free wrapper for peer to peer (P2P) lending.

IF-ISAs are only available via P2P lending platforms.

## What is P2P lending?

P2P lending matches lenders directly with borrowers without the use of a middle man (traditionally banks). This is generally facilitated by online P2P lending platforms. Borrowers can be individuals or businesses and pay back the loan over a certain period with interest. When placed in an IF-ISA, the interest earned is tax free.

All companies offering an IF-ISA must be registered with the Financial Conduct Authority (FCA) and HM Revenue & Customs (HMRC).

## Eligibility

To be eligible to invest in an IF-ISA, an investor must be an individual (i.e. not a company or trustee) who is 18 years of age or over and who is resident in the UK (or is a Crown servant serving overseas or the spouse of such an individual who accompanies their spouse abroad).

When an individual ceases to be eligible to invest in an IF-ISA, any existing IF-ISAs will continue to be exempt from UK tax, but future investments within an IF-ISA may not be made.

Each individual may effect a stocks & shares ISA, a cash ISA, an IF-ISA and /or a lifetime ISA (LISA) each tax year (subject to prescribed limits). A husband and wife, and civil partners, are treated as separate individuals so that although joint ownership of an IF-ISA is prohibited, each may fully subscribe to an IF-ISA in their own name.

## Contribution limits

The current ISA overall maximum annual contribution limit is £20,000. Any monies invested within an IF-ISA will count towards your overall annual ISA allowance.

## Taxation

Any interest received from P2P lending made within an IF-ISA will be tax free.

The value of your IF-ISA(s) will be included in your estate for Inheritance Tax purposes on your death.

## On death

If an IF-ISA saver in a marriage or civil partnership dies, on their death their surviving spouse or civil partner will inherit their ISA tax advantages and will be able to invest an additional amount in their own name equal to the value of the deceased's ISAs (or have the ISA investments moved into their own name and kept within an ISA wrapper if they are inheriting the ISA contents), on top of their usual allowance.

The value of the inherited ISA allowance will normally be the higher of the total value of the ISA savings at the date of death or the value on the date the ISA stopped being 'a continuing account of a deceased investor'.

An ISA stops being 'a continuing account of a deceased investor' when the first of the following occurs:

- The administration of the estate is completed
- The account is closed, or
- Three years after death

So, if an IF-ISA holder were to die, leaving an IF-ISA valued at £30,000 at the date of their death or when the ISA savings stopped being exempt, their spouse / civil partner is entitled to an additional ISA allowance of £30,000. Where a cash subscription is paid, the spouse / civil partner has 3 years from the date of death to use this or if later, 180 days from the completion of the administration of the estate, and it can be paid in addition to their ISA allowance (currently £20,000).

Where the IF-ISA assets are left to someone else in the will or are used to meet expenses from the estate, the spouse / civil partner is still entitled to the additional allowance and this cannot be claimed by anyone else even if they received assets from the IF-ISA.

The surviving spouse / civil partner can use the additional allowance to top up an existing ISA or open a new ISA with an ISA manager of their choice.

The subscriptions can be made to either a cash or stocks & shares ISA, in cash or the inherited non-cash ISA assets.

The claim must be made within three years of the date of death or if later, 180 days from the completion of the administration of the estate, for subscriptions in cash and within 180 days of beneficial ownership passing to the surviving spouse / civil partner for 'in specie' subscriptions.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

## Withdrawals

You may withdraw monies held in an IF-ISA at any time, subject to the normal rules of the relevant P2P agreement / platform with regards to selling loans and exiting early. All withdrawals are free of tax.

## IF-ISA risk considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- An IF-ISA is inherently different from a traditional cash ISA – an IF-ISA involves greater risk.
- Governments can and do change the rules on tax efficient vehicles, like IF-ISAs.
- An IF-ISA is not a risk free product and the return of monies invested and the level of interest received, may be at risk due to the P2P loans being made within the wrapper.
- There is no guarantee that you will get more out of an IF-ISA investment than you have paid in.
- Capital return and interest from investments held in IF-ISAs is not guaranteed.
- Placing an investment within an IF-ISA wrapper doesn't reduce the risks associated with that type of investment or guarantee returns. It is possible to lose all of the money invested.
- If you leave the UK and are longer a UK resident you can keep the IF-ISA investment with its tax advantages but can't make any new contributions.
- IF-ISA investments are liable to Inheritance Tax on death.
- Income Tax deducted at source on foreign dividends may not be recoverable. There are no further Income Taxes to be paid on investments held within an IF-ISA.
- Past performance is no guarantee of future returns.
- Please be aware that there may be occasions when an investment held within an IF-ISA may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined investments being recommended is still designed to meet your stated tolerance.
- You may withdraw monies held in an IF-ISA at any time, subject to the normal rules of the relevant P2P agreement / platform with regards to selling loans and exiting early.
- There are likely to be tax consequences if either the P2P agreement is not repaid or the P2P platform operator fails.
- There are likely to be tax consequences if you wish to withdraw a P2P agreement from an IF-ISA or if, where the option is available, you request to transfer all or part of our IF-ISA from one ISA manager to another.
- Transfers from an IF-ISA can only be made once outstanding loans have been repaid as cash.
- It may not be possible to sell or trade P2P agreements at market value on a secondary market.
- There is no protection available under the Financial Services Compensation Scheme in the event that the P2P platform operator fails.