British Isa brings investors an extra £5k tax-free to boost UK shares

By Tanya Jefferies
Updated: 08:08 07 Mar 2024

- **Move will extend the Isa allowance from the current £20,000**
- **It is expected to benefit those who already max out their limit**

A new British Isa will give savers the chance to invest an additional £5,000 a year tax free in UK assets, the Chancellor announced today.

The move to get investors to 'buy British' will extend the stocks and shares Isa allowance from the current £20,000, and is expected to appeal to people who already max out their limit and tho who want to focus on domestic investments.

But the announcement instantly triggered questions over what counts as a British company - could it be any firm listed on the UK stock market - and how many people would have £25,000 of new money to invest each year and thus be able to benefit.

Why have a British Isa?

The consultation on a new British Isa comes alongside other measures to boost UK financial markets and the wider economy.

Chancellor Jeremy Hunt's Mansion House reforms are aimed at using people's pension savings to boost UK growth, and it emerged at the weekend that pension funds will be forced in future t reveal how much of savers' cash they invest in British businesses.

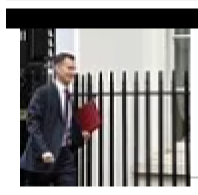
Meanwhile, the British Isa is expected to see pushback from some financial experts, one of whom dubbed it 'likely a politically motivated stunt ahead of upcoming elections, rather than a well-considered strategy aimed at sustainable economic growth'.

Another stressed that the consultation must create an 'unambiguous definition of what qualifies as a UK investment' within a British Isa.

Meanwhile, investors could arguably get better returns by investing globally rather than skewing their holdings towards domestic markets.

And many savers do not use their full Isa allowance at present, or put their money in cash Isas rather than stocks and shares Isas. So, the target audience might be better off, experienced investors who already have significant portfolios.

RELATED ARTICLES



Pension funds forced to reveal how much they invest in British businesses

Chancellor should make savers put 25% of pensions in UK, says ROS ALTMANN

HOW THIS IS MONEY CAN HELP

What the Budget means for you - plus use our tax calculator

'Isas represent a significant pool of savings and the Chancellor is hoping he can encourage people to buy British,' said Mike Ambery, retirement savings director at Standard Life.

'The big question is whether today's incentive will be enough to encourage people to invest at home.

'Rising interest rates have made the returns on cash Isas much more attractive and among those who are willing to invest, there are many markets to choose from with the US in particular having performed strongly in recent years.

'One factor working in the Chancellor's favour is the growing number of people with cash savings outside of an Isa many of who will now be paying tax on the interest.

'As with the wider 'Mansion House' scheme, the emphasis on UK growth has the potential to benefit us all but it's crucial that good outcomes for savers remain at the centre of any investment decisions irrespective of the investment type selected.

'As ever, maintaining a diversified portfolio of savings and investments is a sensible way to work towards both short and longer-term financial goals.'

Budget reaction podcast

On this bonus episode of the This is Money Podcast, Simon Lambert is joined by Charles Stanley Direct's Lisa Caplan and Garry White for a quick run through what was in the Budget.

Investment experts Lisa and Garry talk us through the main Budget points and what they mean for people.

Join us on Friday for the full Budget episode where the This is Money Podcast team will dissect Jeremy Hunt's plan and reveal the devils uncovered in the details.

Press play to listen to the episode on the player above, or listen and catch all our podcasts here at Apple Podcasts, Audioboom and Spotify or visit our This is Money Podcast page.

What is a 'UK investment'?

Steven Cameron, pensions director at Aegon, said: 'The new British Isa will appeal to those who currently max out their Isa limits, providing scope for an extra £5,000 tax-free saving.

'It will also offer transparency, appealing to those who wish to be certain their investment is staying within the UK.

'It will be important the forthcoming consultation creates an unambiguous definition of what qualifies as a UK investment within a 'British Isa'.

> *All UK-listed shares, including investment companies, should be eligible for the UK Isa*
>
> **Richard Stone, chief executive of the Association of Investment Companies**

'Investors should however be mindful about putting all their 'eggs in one basket'.

'Diversifying across different asset types and geographical locations can be an important way of managing investment risk, something which should be emphasised to potential investors.'

Richard Stone, chief executive of the Association of Investment Companies, said: 'All UK-listed shares, including investment companies, should be eligible for the UK Isa.

'We have more than 350 UK-listed investment companies, including more than a third of the FTSE 250. These companies provide access to diversified portfolios of equities, as well as hard-to-access assets like private companies, infrastructure and property.'

More Videos...

Chancellor announces new 'British ISA' to support businesses

How many investors will benefit?

Rachael Griffin, tax and financial planning expert at Quilter, said: 'The Government has gone ahead with opening a consultation into the creation of a British Isa, despite receiving criticism befc the Budget.

[redacted]
implementation challenges and serves to further complicate the once-simple Isa brand.

'So few people use their total Isa allowance in a given tax year too so the allure of £5,000 more is only appealing to much higher net worth people.

'The reality is we need to better incentivise the millions languishing in cash Isa accounts to be put to work in the stock market.

'While the British Isa is presented as a strategic move to bolster the UK stock market and economy, it is fraught with potential pitfalls and may not address the root causes of the challenges facing the UK's financial sector.

'The measure is likely a politically motivated stunt ahead of upcoming elections, rather than a well-considered strategy aimed at sustainable economic growth.'

> Essential guide to Isas: What you need to know about tax-free saving and investing

An increase in core £20k allowance 'preferable'

'Anything that increases the amount people can invest tax efficiently, should be broadly welcomed in these taxing times,' says Jason Hollands, managing director of Bestinvest.

'But an increase in the core Isa allowance, which has been frozen at £20,000 since 2017/18, would have been far more preferable than yet another type of Isa with a restricted range of investments.

'The British Isa is a undoubtedly a victory for the City stockbrokers and bankers who have lobbied hard for it amid a drought in IPO and deal fees and a worrying sapping of companies listed in London to New York.

'Proponents claim it might drive £200 billion extra cash into UK equities over five years, but it is hard to reconcile such a figure with the fact that the existing, larger Isa £20,000 allowance attracted a lesser amount into Stocks & Shares over the last five years according to data disclosed by HMRC.

'A relatively modest number of people fully utilise their existing £20k allowance and a logical step for those who will be in a position to do so and also make use of the British Isa will be to comr less to UK equities in their main allowance to compensate.'

Julie Hammerton, partner and head of Hymans Robertson Personal Wealth, said: 'The introduction of a British ISA is unlikely to be a meaningful way to fulfil the policy objective of boosting UK growth.

> *"Stipulating that the extra £5,000 goes towards a British Isa has the potential to be at odds with the old saying "don't put too many eggs in the one basket"*
>
> **Julie Hammerton, partner and head of Hymans Robertson Personal Wealth**

'While it's great to see a long-overdue rise to the Isa allowance, encouraging people to save more in a tax efficient way, stipulating that the extra £5,000 goes towards a British Isa has the potential to be at odds with the old saying "don't put too many eggs in the one basket".

'A key tenet of investing is diversification. Investing across different countries is a way to reduce investment risk by avoiding excessive concentration in any one market.'

Hammerton added: 'If you were designing the Isa regime from scratch, you wouldn't have six different types of Isa, and certainly not seven.

[redacted]
people investing in Isas in the UK, only 12,000 invest in this.'

Compare the best DIY investing platforms and stocks & shares Isas

When it comes to choosing a DIY investing platform, stocks & shares Isa or a general investing account, the range of options might seem overwhelming.

Every provider has a slightly different offering, charging more or less for trading or holding shares and giving access to a different range of stocks, funds and investment trusts.

When weighing up the right one for you, it's important to to look at the service that it offers, along with administration charges and dealing fees, plus any other extra costs.

To help you compare the best investment accounts, we've crunched the facts and pulled together a comprehensive guide to choosing the best and cheapest investing account for you.