Cash defies low interest rates

New statistics from HMRC show that cash is still a popular ISA investment, despite ultra-low interest rates.

In early summer, the Financial Conduct Authority published a report looking at easy access cash interest rates for savings account and cash ISAs. The regulator surveyed the lowest rates on offer from 32 major providers and summarised its findings in the following table:

Range of lowest interest rates available on easy access cash ISAs at 1 April 2016

	Branch access		***No branch access***	
	Open accounts	**Closed accounts**	**Open accounts**	**Closed accounts**
Maximum	1.40	1.50	1.40	1.50
Minimum	0.10	0.05	0.50	0.25
Median	0.70	0.50	1.00	0.75

As these figures are now six months and one base rate cut out of date, the current numbers are likely to be even lower.

In spite of these low rates, recently released statistics from HMRC show that in the last tax year nearly £3 out of every £4 of ISA subscriptions were placed in the cash component. Overall total investment in ISAs is about 50/50 between the cash component and the stocks and shares component, but that reflects the fact that until July 2014 there were lower limits for cash investment.

If you hold cash ISAs, ask yourself:

- What interest rate am I currently earning? Be warned this might be going down soon because of the August base rate cut.

- Do I need an ISA to get tax-free interest on my cash? The personal savings allowance, introduced in this tax year, allows you to receive £1,000 of tax-free interest if you are a basic rate taxpayer (£500 if you are a higher rate taxpayer). At current interest rates, that represents a substantial deposit.

You can switch from a cash ISA to a stocks and shares ISA (and vice versa) and making the move now could significantly increase the income your ISA produces.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.