



## ISAs inheritability becomes law

### ***ISAs can now be inherited in limited circumstances.***

In last December's Autumn Statement, one of George Osborne's surprise announcements was that ISAs would become inheritable by surviving spouses and civil partners. As pension funds can now pass down through generations, the ISA move was a logical step. It was also one of those measures which all Chancellors like: a change which sounds very beneficial, but actually costs little.

The announcement initially caused some confusion because it appeared almost to have been as unexpected to HMRC as anyone else. Eventually some clarity emerged and in the early part of 2015 HMRC issued draft regulations. Two points stood out:

- Inheritance would *not* mean simply changing the name of the ISA's owner. Instead the mechanism would operate by saying the surviving spouse/civil partner could make a contribution equal to the value of the deceased's ISA *at the date of death*. That is not too difficult for cash ISAs, but for stocks and shares ISAs fluctuating values could create problems: the contribution permitted may be more or less than the ISA's value by the time estate is wound up.
- Although shares and fund holdings could be transferred as part of the contribution, the transfer had to be to an ISA with the deceased's ISA provider unless they were no longer accepting new contributions.

Fortunately that second point was changed as a result of responses to the draft, although sadly the awkward at-death contribution basis remains. Revised regulations were passed by parliament in its dying days and came into force on 6 April 2015 (for deaths on or after 3 December 2014).

Inheritability adds to the appeal of ISAs and further complicates the pension versus ISA debate. If you can afford it, from an estate planning viewpoint it may now be better to draw retirement income from your ISAs and leave your pensions to accumulate untouched outside the IHT net.

*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. The value of tax reliefs depends on your individual circumstances. Tax laws can change.*