Always Simplifying

Oury Clark

Guide to Maximising Your ISA in 2025

Why delaying your investment could cost you

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Herschel House, 58 Herschel Street,
Slough, Berkshire, SL1 1PG
T: +44 (0)1753 551111
F: +44 (0)1753 550544

10 John Street
London, WC1N 2EB
T: +44 (0) 207 067 4300
F: +44 (0) 207 067 4301

E: financialplanning@ouryclark.com
W: www.ouryclark.com

Maximising Your ISA in 2025

Why delaying your investment could cost you

Many people delay contributing to their Individual Savings Account (ISA) until the end of the tax year on 5 April each year, but acting earlier could significantly improve your chances of reaching financial goals.

Whether you're building a nest egg or saving for a specific aim, starting early with an ISA offers some key advantages. In this guide, we explain why you should consider maximising this tax-efficient savings opportunity in 2025.

Investing in an ISA earlier in the tax year gives your money a vital head start. The longer your investments stay in the account, the more they can benefit from tax-efficient compound growth. This principle becomes especially powerful when you consider that compound returns build on each other – each year's growth forms the foundation for the following year's potential gains.

Time amplifies investment returns

The mathematics of compound growth consistently benefits early investors. A £10,000 investment earning 7% annually becomes £10,700 after one year. However, if that same investment grows over five years, it reaches £14,026 – that's £4,026 in growth instead of just £700. This acceleration effect becomes even more evident over more extended periods, underscoring the value of every month of early investment.

Over time, even small returns can accumulate significantly, generating substantial wealth. This is especially crucial during periods of inflation, when the value of cash in regular savings accounts tends to decrease gradually.

Protection from escalating tax burdens

One of the compelling reasons to choose an ISA is its ability to protect your investments from rising taxes. If you hold investments outside an ISA, you may be subject to Capital Gains Tax (CGT) on profits above your annual allowance. In the government's 2024 Autumn Budget, CGT rates were increased for individuals selling assets, such as shares, with the lower rate rising from 10% to 18%. At the same time, the higher rate increased from 20% to 24%. This brought it into line with the CGT rates on residential property, which remained unchanged.

The annual CGT allowance was reduced from £12,300 to only

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£3,000 in April 2024, marking a 76% decrease. This significant reduction means investors now have to pay tax on gains much earlier than before. Previously, you could realise up to £12,300 in capital gains tax-free each year; now, any gains exceeding £3,000 become taxable. An ISA guarantees that all growth your investments achieve remains fully protected from CGT, no matter how much your portfolio increases.

Beyond capital gains: protecting your income stream

An ISA offers extensive tax benefits that go well beyond capital gains. Any income from your investments – including dividends from shares, interest from bonds or rental income from Real Estate Investment Trusts (REITs) — is tax-efficient when held within an ISA wrapper.

With the annual dividend allowance remaining frozen at only £500 for the 2025/26 tax year, this tax-efficient shield becomes increasingly valuable. Currently, shareholders pay personal tax on dividend income beyond this modest allowance. The rates are steep: 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers, and 39.35% for additional rate taxpayers.

Flexible strategies for different circumstances

Investing through an ISA fits various investment approaches and financial situations. If you've saved up a lump sum – possibly from a bonus, inheritance or property sale – investing it early in the tax year allows the entire amount to start earning tax-efficient returns over the longest possible period.

Alternatively, many investors prefer a more cautious approach through regular monthly contributions. This strategy, known as 'pound-cost averaging' or 'drip-feeding', spreads your investment purchases across different market conditions. When markets are high, your monthly contribution buys

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fewer shares; when markets fall, the same contribution purchases more shares at lower prices.

Automated investing removes emotional barriers

Even without a lump sum available, you can set up automated monthly contributions into your ISA. This systematic method offers several psychological benefits that can significantly enhance your long-term returns. Regular investing removes the pressure and anxiety of trying to 'time the market'.

Automated monthly contributions eliminate any emotional decisions, helping you stay invested through both market highs and lows. Over time, this consistency typically yields better outcomes than irregular, emotion-driven investment choices.

The 'use it or lose it' reality

The ISA allowance operates on a strict yearly cycle – any unused amount cannot be carried forward to future tax years. For 2025/26, you can invest up to £20,000 across all ISA types, but this allowance resets on 6 April 2026. Any amount not used by 5 April 2026 is lost permanently.

Acting early in the tax year offers several practical benefits beyond simply boosting investment returns. It helps you avoid the last-minute scramble that often happens in March, when financial services firms experience peak demand. This can result in processing delays, limited investment options or difficulty accessing customer support when you need advice.

Professional guidance maximises your advantage

While ISAs offer a way to achieve tax-efficient investing, finding the right strategy for your specific situation requires careful consideration and planning. Factors such as your age, risk tolerance, existing pension contributions, other investments and financial goals all influence the most suitable approach for using your ISA.

With our professional advice, we can help you navigate these complexities. We can assess whether you should prioritise Stocks & Shares ISAs for growth, Cash ISAs for stability or Innovative Finance ISAs for alternative returns. Additionally, we can ensure your ISA strategy integrates effectively with your broader financial planning, including pension contributions, mortgage payments and other savings goals.

Market timing myths and realities

Many potential investors postpone their ISA contributions, hoping to identify the 'perfect' market entry point. However, decades of market research consistently demonstrate that time in the market typically outperforms market timing. The FTSE 100, despite experiencing several major crashes since its inception, has delivered positive returns over most ten-year periods.

Missing just the ten best trading days over 20 years could cut your total returns by about 50%. Since these best days usually follow the worst days, investors who panic and sell during market turbulence often miss the subsequent recovery. Starting your ISA contributions early and maintaining consistency helps ensure you capture these crucial rebound periods.

Whether you're motivated by tax-efficient growth, flexible investment options or the desire to safeguard your income from rising tax burdens, utilising your ISA allowance now will help establish a more secure financial future. The combination of tax relief, compound growth and the discipline of regular investing creates a powerful wealth-building strategy.

Don't let another tax year slip away without maximising this valuable opportunity. Every month you delay represents potential growth and tax savings that will be lost forever. ■

Ready to maximise your ISA potential?

If you're unsure about the best investment strategy for your circumstances or need help selecting appropriate funds for your ISA, we'll provide personalised guidance tailored to your specific goals and help ensure you're making the most of this valuable tax-efficient allowance. Contact us today to discuss how an ISA can strengthen your financial future. We look forward to hearing from you.

Ready to unlock your ISA's full potential?

Navigating the world of ISAs can feel overwhelming, especially when you want to ensure every pound works harder for your future. That's where our expert guidance makes all the difference.

Contact us today and discover how we can accelerate your journey to financial success.

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