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|  ISA vs Pension.  What's Best? |

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| **Let the contest commence!****ISAs vs Pensions****The two best ways to save for retirement**. ISAs and Pensions work differently, each with their own set of rules.So, how do you know which one will be right for you?We’ve taken a closer look at both to help you decide which suits you best.  |
|   |
| **ISAs and Pensions compared****ISA*** The accumulated savings fund grows tax-free
* No Capital Gains Tax or Income Tax is payable when savings are accessed
* No tax relief is given on payments into an ISA
* An ISA forms part of your estate, unless left to an exempt beneficiary such as a spouse or civil partner.
* No additional tax is payable (unless inheritance tax applies)
* The earliest age you can make payments and have access into an ISA is aged 16 for cash ISAs and 18 for stocks and shares ISAs (also called investment ISAs). There is no maximum age limit. Children under the age of 18 can have a junior ISA opened on their behalf from birth
* Investment is allowed in cash, shares, government and corporate bonds and a wide range of Investment Funds.
* The maximum annual allowance for the 2020/21 tax year is £20,000. Unused annualallowance cannot be carried forward. There is no maximum overall saving amount
* Employers or any other person cannot make payments into your ISA

**Pension*** Tax relief at source is given on contributions into your pension for amounts up 100% of your annual earnings or £40,000  (whichever is the least)
* The most that can be added to your pension in a year is £40,000. This is reduced to £10,000 if you are drawing down on your pension
* The accumulated pension fund grows tax free
* No Capital Gains Tax is payable when pensions are accessed
* Usually 25% of your pension can be taken tax-free either as income or lump sums. Income Tax is charged on the remaining amount when it’s taken from the pension
* Your pension fund is not normally counted when working out the taxable value of your estate for inheritance tax
* There’s a lifetime allowance limit on the amount that you can contribute to your pensions. The limit is currently £1,073,100. Any amounts above this limit you pay an extra tax charge when accessing your pension
* The earliest you can usually access a pension is age 55, although earlier access is possible in the case of ill health
* Payments to your pension can be made from birth to age 75
* If you are employed and earn enough, your employer must enrol you into a pension scheme. In most cases they’ll also pay into your pension scheme for you

As you can see from this comparison, ISAs and pensions are actually quite similar, but the opposite way around.  So what might tip the balance in favour of one or the other?Why choose an ISA?ISAs are the most flexible form of tax-efficient savings plan available.  The investment growth is enhanced as the funds inside the ISA grows tax free and tax free to you as the investor.  This makes the ISA ideal for providing a tax free retirement income and an excellent alternative or addition to a pension.Your ISA funds can be accessed at any time, but investment ISAs are usually taken out for the medium to long-term (3-5 years plus). Although the ISA forms part of your estate the ISA can be transferred to your spouse or partner without losing its tax free status.Why choose a pension?If you don’t need access to your money before you turn 55, the advantage of a pension is that you get tax relief at source at your marginal rate on the payments you make into it. You don’t get tax relief when you make payments into an ISA.   If you are employed and eligible, your employer must enrol you into a pension scheme and, in most cases, will pay into the scheme on your behalf.  Employer payments boost your own contributions and could, in a sense, be regarded as free money to you.If you are self-employed, or run your own company, then paying into a pension is very sensible. It provides a means of legally transferring funds from your business to your own pension plan to provide an income in your retirement.  You would benefit from personal tax relief at source on personal contributions or corporate tax relief if the contribution was paid by your company. The new Pensions Freedom now gives considerable flexibility on receiving the benefits from you pension, and of course, pensions are not subject to IHT which means you can leave your pension to your spouse or children.We consider the contest a draw.  They are both excellent investment plans for saving towards for your future.  So our recommendation is to make investments into both, side by side. Stay safe, take careIt's still out there!Best WishesRay Jenkins |

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