



Money

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Squirrel savings away in a nicer ISA

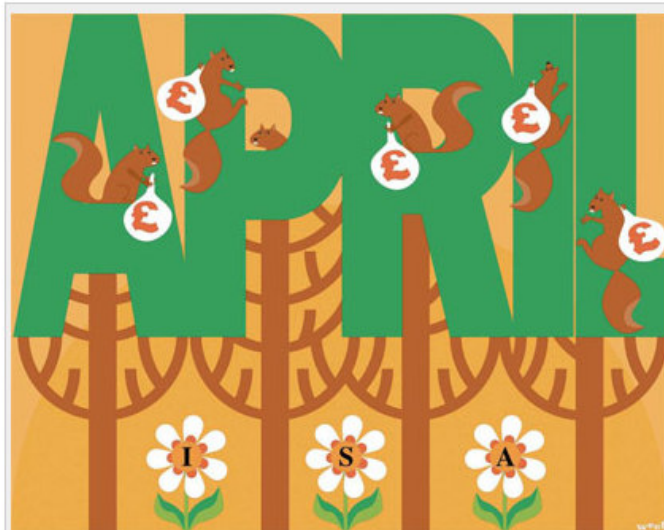


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The approach of the April ISA deadline means one thing to the banks: time to go to war over rates in a bid to woo customers. Providers know that apathetic savers often don't bother to transfer to new ISA deals even when the end of year-long bonuses mean they are earning as little as 0.1% in interest.



So they use the months leading up to the April deadline to lure customers with some of the best deals of the year. The average of the top five cash ISA rates is now 3.03% - the highest in two years - so now is the time for some savings housekeeping.

Savers can squirrel away up to £5340 into a cash ISA this year. From April 6, the following year's allowance is £5640 - but unused allowances can't be carried over. The last few weeks have seen new market-leading cash ISAs enter the market including Cheshire Building Society's Direct Cash ISA, paying 3.06% interest, and Newcastle Building Society's Bonus ISA and the AA's Internet Access ISA both offering 3.05%.

Cheshire demands at least £1000 in deposit but savers can open an ISA from Newcastle with only £1. The AA requires £500. Taking advantage of these rates, rather than waiting until just before the April 5 deadline, means accruing extra interest immediately.

However, the top deals all include that year-long bonus, which means the rate will plunge in 2013. If you opened or transferred funds to a new ISA last year, it's highly likely that that's happening to your savings now. But never withdraw funds from an ISA to reinvest in a more generous one: doing so means losing the tax-free wrapper on all the savings.

Instead, switch existing ISA balances into the best deals that allow transfers in. These include the above Newcastle deal and Marks & Spencer's Money Advantage ISA, paying 3%. Fill in a transfer form and the bank will organise the tax paperwork on your behalf.

Either £10,680 or £5340 if the same is held in a cash ISA, can also be invested in a stocks and shares tax-free wrapper. "It is surprising how many people we meet have a cash ISA but did not realise that they hold a basket of FTSE shares via a tracker fund, sold to them by 'that nice man in the bank'," says Ed Holder, independent financial adviser at Holder & Combes. Investing in funds under the ISA wrapper provides a significant boost to returns, particularly for higher-rate taxpayers.

"The key things to consider are, would you like to select the individual shares yourself (self-select) or use collective funds to outsource these decisions?," says Holder. "Be sure to check initial charges - these can range from 0% to 5.5% on the money you invest. And if you are paying initial charges, what are you receiving in return? Advice, top active fund management - or nothing?"

Other charges to compare include annual management costs and any extra switching, annual or quarterly fees.

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