

Cash ISAs are not all the same

By Sylvia Morris thisismoney.co.uk January 10, 2024

To the untrained eye, easy-access Individual Savings Accounts, aka Isas, look roughly the same. After all, they allow you to save up to your annual allowance of £20,000 tax free — and to access your money whenever you choose.

Therefore, when picking one out of the hundreds of options available, most savers simply opt for one with a top rate or from a brand they know and trust. But it's a little-known secret that some easy-access Isas possess a quality that makes them far superior to their rivals.

Put simply, some are known as 'flexible', which means that you can take money out and put it back within the same tax year without it counting towards your annual Isa allowance.

Tax-free: Flexible Isas allow you to take money out and put it back within the same tax year without it counting towards your annual Isa allowance. Opting for Isas without this quality can mean missing out on substantial tax-free interest.

Say, for example, you had £20,000 in an ordinary easy-access Isa and took out £1,000. As you had already paid in £20,000 during that tax year you wouldn't be able to replace that £1,000, and instead would have to wait until the following tax year to put it into your Isa, missing out on tax-free interest in the meantime.

However, if you had a flexible Isa, you could take money out and put it back in as often as you wished within the same tax year.

This quality is particularly useful if your savings tend to fluctuate considerably as you put money away and spend it.

It is also helpful to those with higher balances as, if you're saving just a few hundred pounds every year, you are unlikely to breach your £20,000 annual allowance even if you regularly withdraw and replace money.

To find out if your Isa is flexible you have to trawl through the small print; most providers don't make it obvious. I've done some digging for you this week to find flexible Isas with the best rates.

The best flexible cash Isas

The top-paying accounts don't tend to be flexible but this is not always the case.

One of the best payers on the market is flexible — Zopa Bank Smart Isa at 5.08 per cent.

However, easy-access Isas that are not flexible — and which pay between 4.7 per cent and 5 per cent — include Cynergy Bank's online Isa; Family Building Society's market tracker Isa; Virgin Money's defined access Isa; Charter Savings Bank's easy-access Isa; Kent Reliance's easy-access Isa; OakNorth Bank's easy-access Isa; Newcastle Building Society's double access Isa; Shawbrook Bank's easy-access Isa; Marcus's cash Isa and Leeds Building Society's limited issue online access Isa.

The next best flexible rate is Ford Money's flexible Isa at an above average 4.4 per cent. On the High Street, Swansea Building Society (4.25 per cent) and Skipton Building Society (3.8 per cent) are good payers.

From the new tax year, which starts on April 6, there will be even more to differentiate Isas because you will be able to make partial transfers from the Isa you are paying into in the current tax year.

At the moment, if you wish to transfer your Isa you must shift the lot. However, it is not clear whether all providers will offer this freedom.