EARLY BIRD ISA INVESTORS CATCH THE WORM

Many 'eleventh hour' investors have rushed to complete their ISA applications over the last week or so to beat the end of tax year deadline. But it's the early birds in the new tax year that can arguably catch the best tax breaks.

There's a fresh £20,000 ISA allowance for all, now the new tax year has begun, offering the chance to protect more hard-earned cash from the taxman - you can save up to this amount any time between now and April 5, 2024.

If you're wondering whether being an early bird ISA investor is right for you, here are five reasons why it might be a good idea.

1. Reduce your tax bill

As a rule, the earlier you use your ISA allowance in the tax year, the better. This year getting in as soon as possible is particularly valuable as key allowances have halved overnight. The dividend allowance has been cut from £2,000 to £1,000 from April, and the Capital Gains Tax allowance slashed from £12,300 to £6,000 too. This means it makes sense to wrap investments in a tax shelter sooner rather than later to minimise the amount of tax you pay.

ISA early birds can shelter investments from the taxman by moving existing investments into an ISA – known as a bed and ISA.

From a Capital Gains Tax point of view, doing so gives you the freedom to sell what you want when it makes the most sense for your finances, without thinking about tax. Dividends are also tax-free in an ISA.

2. Maximise time in the market

Many investors worry about timing their investments right. But many experts believe that it's time in the market that's important. The longer you're prepared to stay invested, the greater the chance your investments will provide returns. The early bird investor benefits from an extra year's growth (hopefully) and dividends on their investment too.

3. Kick start a savings habit

Even if you don't have a lump sum handy, starting early gives you the opportunity to set up regular monthly payments into an ISA each month, and automatically spread your investments across the tax year. Investing regularly also takes the emotion out of investing: it is easy to have your investment decisions clouded by current sentiment or the short-term news events which shouldn't really matter if you are investing for the long-term.

By subscribing to a monthly savings scheme you will automatically keep on going through the ups and downs and help you become a more disciplined investor.

4. Benefit from compound growth

The sooner you start investing, the sooner you can start to benefit from compounding, which is where your returns can earn returns. In a nutshell, your money earns a return in the first year, in the second year and both the original investment and the return benefit from any growth in the second year. In the third year your investment is further enhanced by any returns achieved. This snowball effect is called compound growth.

5. Unlimited growth

Individuals have a tax-free allowance of £20,000, but there's no limit to how much the value of your investment ISA can grow. By taking full advantage of the allowance you could potentially grow a savings pot worth hundreds of thousands of pounds. Some savvy investors have managed to grow over £1 million. At the last count there were around 2,000 ISA millionaires in the UK.[1] The top 60 have pots average an impressive £6.2 million.

[1]https://investingreviews.co.uk/blog/uk-has-2000-isa-millionaires/