The £20,000 ISA Allowance: Are You Making The Most Of It?

ISAs have been a familiar part of UK financial planning for decades, but changes coming in the next tax year could make it worth taking another look at how you use them.

The overall ISA allowance remains **£20,000 for the 2026/27 tax year**. However, from **6 April 2027**, the annual cash ISA limit is due to reduce to £12,000 for most people, while the overall ISA allowance remains £20,000. Those aged 65 and over will retain the £20,000 cash ISA allowance.

So, if you currently hold substantial amounts of cash within ISAs, is now a good time to review your approach?

Why ISAs Remain Useful

One of the biggest advantages of an ISA is simplicity.

Interest, dividends and investment gains within an ISA are generally sheltered from UK Income Tax and Capital Gains Tax.

That can make ISAs an important part of a broader investment strategy, particularly when tax allowances outside ISAs have become increasingly limited.

For example, the Capital Gains Tax annual exempt amount is currently just £3,000, while investment income can also become taxable once relevant allowances are exceeded.

Over time, this can make tax-efficient investment wrappers increasingly valuable.

Cash Or Investments?

The upcoming cash ISA changes could also prompt a bigger question: How Much Of Your Long-Term Wealth Really Needs To Be Held In Cash?

Cash has an important role in financial planning.

An emergency fund, money for an upcoming purchase or funds needed within the next few years may all be appropriate in cash.

But money that isn't needed for many years is a different proposition.

Historically, cash has often felt like the "safe" option. However, over longer periods, inflation can gradually reduce what that money can buy.

For someone investing for 10, 15 or 20 years, the objective isn't simply to avoid investment fluctuations. It is also to give their money an opportunity to grow ahead of inflation.

Don't Invest Simply Because The Rules Are Changing

The answer isn't automatically to move money from a Cash ISA into a Stocks & Shares ISA.

Investment decisions should reflect your circumstances, objectives and attitude towards risk.

If you are likely to need the money in the short term, cash may remain entirely appropriate.

If you are investing for the long term and can accept fluctuations in value, investing may have a role.

The important thing is to make the decision deliberately rather than simply leaving everything in the same place because it has always been there.

Make Use Of Your Allowances

Your annual ISA allowance is a "use it or lose it" allowance.

You can contribute up to £20,000 across your ISAs during the 2026/27 tax year, subject to the usual rules.

For couples, there is also an opportunity to make use of both individuals' allowances, potentially sheltering up to £40,000 between them each tax year.

For people with significant savings and investments, using ISAs consistently over many years can make a meaningful difference to the amount of wealth held in a tax-efficient environment.

Look Beyond The ISA Itself

A good investment strategy isn't simply about choosing an ISA.

It is about understanding how your pensions, ISAs, investments, savings and property work together.

For example, someone approaching retirement might use a combination of pension withdrawals and ISA withdrawals to manage their taxable income.

Someone building wealth may use pensions for retirement, ISAs for flexibility and taxable investments for additional long-term capital.

There isn't a single right combination.

A Useful Question To Ask

Rather than asking, "What should I do about the ISA changes?", a better question might be:

"Is my current mix of cash, investments, pensions and tax-efficient savings still right for my financial goals?"

The upcoming changes provide a useful reason to ask that question.

And sometimes, a financial review doesn't result in a major change at all. It simply provides reassurance that what you're already doing remains appropriate.

If you're unsure whether your cash, ISAs, pensions and investments are working together in the right way, we're always happy to talk it through.

A conversation with the ML Financial Associates team could give you some clarity and reassurance.