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ISA Changes 2027 – What It Means for Your Investments

The UK government has announced significant ISA tax changes, with reforms taking effect from April 6, 2027. The overall £20,000 annual allowance remains, but new rules have been introduced to cap Cash ISA limits and restrict cash holdings within Stocks & Shares ISAs. We explain the changes and look at the implications for investors.

About Royal London

Royal London Asset Management is part of the Royal London Group, the UK's largest mutual life, pensions and investment company. We manage a range of investment solutions designed to help clients achieve stable, risk-aware returns — including our well-established short-term liquidity and cash strategies.

We recognise that many of our clients use the Royal London Short Term Money Market Fund as a first step on the investment ladder within a Stocks & Shares ISA, given its lower risk profile, high liquidity and cash-like characteristics.

With new Stocks & Shares ISA rules coming into effect from 6 April 2027, we set out what this means in practice when choosing Royal London funds within an ISA.

What is changing about ISAs?

The government is introducing changes to encourage more investing in an ISA rather than holding cash. **From April 2027, the overall ISA allowance will remain £20,000 per year, however the Cash ISA limit will reduce to £12,000 for those under 65. Therefore investors can either invest £12,000 in a Cash ISA and the remaining £8,000 in a Stocks & Shares ISA, or they can invest the full £20,000 in a Stocks & Shares ISA.**

Alongside this, new rules will apply to how 'uninvested cash' and 'cash-like' assets are treated within a Stocks & Shares ISA. (Please note there are differences between cash and 'cash-like' investments in terms of risk and reward. 'Cash-like' investments include Money Market Funds, which seek to act as secure, short-term financial products).

What do the ISA changes mean for investors?

The most relevant changes apply within Stocks & Shares ISAs. Where cash is left uninvested within this type of ISA, it will be subject to a 22% tax charge on any interest earned. This reinforces that ISAs are intended for tax-efficient investing rather than holding significant 'uninvested cash' balances.

Money market funds, including the Royal London Short Term Money Market Fund, are now classified as 'cash-like' assets. Importantly, this does not change their eligibility. They remain fully investable within a Stocks & Shares ISA and continue to seek to offer liquidity and stability.

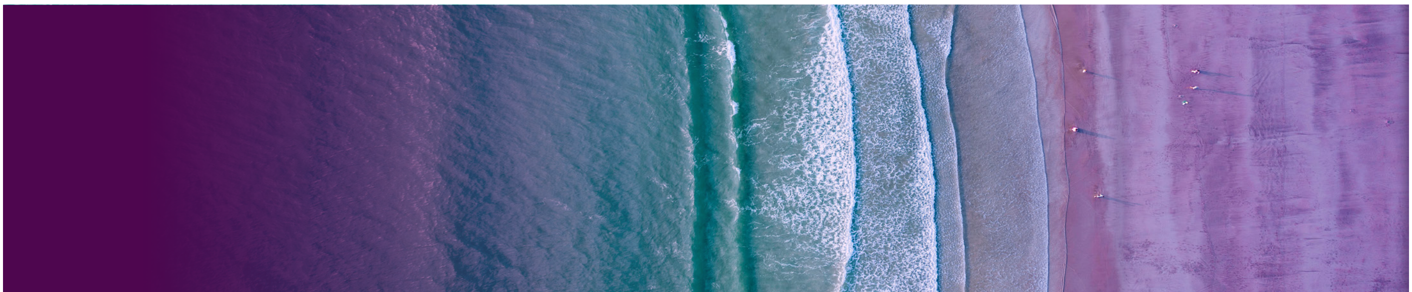
The key consideration is how they are used. For example, a Stocks & Shares ISA 100% invested in money market funds may be treated as 'cash-like' and therefore subject to a 22% tax charge. However, where money market funds are held as part of a broader, diversified investment strategy alongside other assets such as fixed income investments, including short-dated bond funds, or equities, then they will continue to benefit from the usual tax-efficient ISA treatment. All other Royal London ISA-eligible funds remain unaffected.

Key takeaway

In practice, these changes do not alter the role that money market funds play in client portfolios. In our view, they remain a sensible and effective first step when investing in an ISA, particularly for clients moving out of a Cash ISA.

The main shift is towards ensuring that Stocks & Shares ISAs are used as diversified investment portfolios, rather than being held entirely in 'uninvested cash' or 100% in 'cash-like' assets.

For more information, including performance details, on the Royal London Short Term Money Market Fund, please visit our website.



Risk warnings

Investment risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

EPM techniques: The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

Interest rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Counterparty risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

Inflation risk: Where the income yield is lower than the rate of inflation, the real value of your investment will reduce over time.

Money market fund risks: A money market fund is not a guaranteed investment, and is different from an investment in deposits. The principal invested in the fund is capable of fluctuation and the risk of loss of the principal is to be borne by the investor. The Fund does not rely on external support for guaranteeing the liquidity of the Fund or stabilising the NAV per share.

Contact us

For more information about our range of products and services, please contact us.

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Important information

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For more information on the fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on **www.rlam.com**.

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