ISAs

Guidance Notes for ISA Managers

HM Revenue & Customs
GUIDANCE NOTES FOR ISA MANAGERS

These notes provide general guidance for ISA managers on how to operate the ISA schemes. They replace all previous HM Revenue & Customs guidance.

The notes are not binding and do not affect any person’s right of appeal. Nor are they a full statement of the law as it applies to ISA managers. ISA managers should refer to the relevant legislation where appropriate.
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INTRODUCTION

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What is an ISA?

1.1 ISA stands for Individual Savings Account. ISAs first became available on 6th April 1999. Guidance of the ‘Junior ISA’, which became available from 1 November 2011 is at Chapters 18 – 30.

What was a PEP?

1.2 PEP stands for Personal Equity Plan. PEPs first became available in January 1987. The last date on which an investor could subscribe to a PEP was 5 April 1999, but PEPs in existence at that date were allowed to continue. PEPs in existence at 5 April 2008 were reclassified as stocks and shares ISAs.

Who are the Guidance Notes for?

1.3 The Guidance Notes are for ISA managers. They provide guidance on how to operate the ISA scheme. They replace all guidance given in previous editions of the Guidance Notes for ISA Managers, the Guidance Notes for PEP Managers, and PEP and ISA Bulletins and all other guidance issued before July 2014. Former PEP managers may wish to retain their Guidance Notes for PEP Managers because aspects of PEPs prior to 6th April 2001 have not been reproduced in these notes.

1.4 Blank

HMRC contact address and phone numbers

1.5 HMRC administers the ISA scheme through its Savings Schemes Office (SSO) office at St John’s House, Liverpool.

If you have any queries about the operation of the ISA scheme, you can write to:

HMRC
Specialist Personal Tax
Savings Schemes Office S0708
PO Box 201
Bootle
L69 9AJ

1.6 The telephone and fax numbers are

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<tr>
<td>All other enquiries</td>
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<td>03000 547377</td>
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1.7 The e-mail address is savings.audit@hmrc.gsi.gov.uk.
1.11 An ISA is a scheme of investment managed in accordance with the ISA regulations under terms agreed between the ISA manager and the investor. The ISA manager holds investments and claims repayment of income tax deducted at source, by submitting claims to SSO Services Team 1. Claims in respect of insurance products are made by the insurer providing insurance cover (who may be different to the ISA manager).

1.12 Investors apply to subscribe to an ISA. The investor can subscribe to two types of ISA. The two types are designated as:

- cash ISAs, and
- stocks and shares ISAs

1.17 Investors do not pay any tax on any of the income they receive from ISA savings and investments. Nor do they pay any tax on capital gains arising on ISA investments. (However, losses on ISA investments cannot be allowed for Capital Gains Tax purposes against capital gains outside an ISA).

The legislation

1.18 The main legislation is in

- Sections 694, to 701 Income Tax (Trading and Other Income) Act 2005, and


Investor enquiries

1.19 Managers should initially direct investors who have questions about ISAs to the ISA helpline – 0300 200 3312.

The Helpline is open from 8.00am to 8.00pm Monday to Friday; and 8.00am to 4.00pm on Saturdays and Bank Holidays.

1.20 Investors can also find further guidance on the HMRC website at http://www.hmrc.gov.uk/isa/faqs.htm
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Who can manage ISAs?

2.1 Only persons (including companies) approved by SSO can manage ISAs.

To obtain approval to manage an ISA a person

- must be eligible to manage an ISA (see paragraph 2.3) and
- must make an application to SSO (see paragraph 2.13)

2.2 Blank

Eligibility to manage an ISA

2.3 The following are eligible to manage either type of ISA depending on their FCA permissions.

- an authorised person within the meaning of section 31(1)(a) or (c) of, or Schedule 5 to, the Financial Services and Markets Act 2000 who has permission to carry on one or more of the activities specified in Articles 14, 21, 25, 37, 40, 45, 51 and 53 and, insofar as it applies to any of those activities, Article 64 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2000, or

- a **European institution** that carries on one or more of those activities

- a **credit union** that is authorised person within the meaning of section 31(1)(a) of the Financial Services and Markets Act 2000 who has permission to carry on one or more of the activities specified in Article 5 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001

- the **Director of Savings**

- a **building society**

- a person falling within section 991(2)(b) or (c) of Income Tax Act 2007 (a bank),

- an **insurance company within the meaning given by section 431(2) Income and Corporation Taxes Act 1988**

- an **incorporated friendly society**

- a **registered friendly society**, and

- an **assurance undertaking** that is not an insurance company within the meaning given by section 431(2) Income and Corporation Taxes Act 1988, an incorporated friendly society, or a registered friendly society

Definitions

2.4 "**European institution**" means an EEA firm of the kind mentioned in paragraph 5(a) to (d), (f) and (h) of Schedule 3 to the Financial Services and Markets Act 2000 which is an authorised person for the purposes of that Act as a result of qualifying for authorisation under paragraph 12(1) to (4), (6) and (7) of that Schedule
"Credit union" means a society registered as a credit union under the Industrial and Provident Societies Act 1965 or the Credit Unions (Northern Ireland) Order 1985

"The Director of Savings" has the same meaning as in the National Debt Act 1972

“Building society” means a building society within the meaning of the Building Societies Act 1986, or the Irish Building Societies Act 1989

"Insurance company within the meaning given by section 431(2) Income and Corporation Taxes Act 1988" includes

- an insurance company that is authorised by the Treasury insurance Directorate to carry out insurance business within the UK

- an insurance company that is incorporated in, or formed under the law of, an EEA member state other than the UK, whose head office is in a member state, which is authorised in accordance with Article 6 of the First Long Term Insurance Directive, and is carrying on an insurance business in the UK through a branch or agency in the UK


"Registered friendly society" means a society within the meaning of the Friendly Societies Act 1992. It includes a society treated as a registered friendly society by virtue of section 96(2) of that Act.


Exclusions

2.5 Managers must not be prevented from acting as such by

- any requirement imposed under section 43 of the Financial Services and Markets Act 2000, or

- any prohibition imposed by, or under any rules made by the Financial Services Authority under that Act

2.6 It is not possible for individuals to manage their own ISAs, even if they would otherwise be eligible as an ISA manager.

2.7 to 2.9 Blank

Tax representatives

2.10 A manager who is approved as

- a European institution or a relevant authorised person and who does not have a branch or business establishment in the UK, or
• a European institution or a relevant authorised person and who does have a branch or business establishment in the UK, but does not intend to carry out all his functions as a manager at that branch or business establishment, or

• an assurance undertaking falling in the final bullet point of paragraph 2.4

must either

• appoint a tax representative

• make arrangements with SSO for some other person to ensure that his duties as a manager are met, or

• make other arrangements with SSO to ensure that his duties are met

2.11 A tax representative must be

• an individual who is resident in the UK or a company that has a business establishment in the UK

• entitled to act on behalf of the manager in relation to the duties prescribed under the regulations

• responsible for ensuring that the manager meets the duties prescribed under the regulations, and

• personally liable where the manager fails to meet the prescribed duties, as if the duties imposed on the manager were jointly and severally imposed on him and the manager

2.12 The appointment of a tax representative is treated as terminated where SSO has reason to believe that the tax representative

• has failed to ensure that the manager met his prescribed duties, or

• does not have adequate resources to ensure that the duties are met.

SSO will notify the manager of the termination, specifying the date on which the termination is effective.

Applications for approval as an ISA manager

2.13 A person who wishes to be an ISA manager must apply to SSO for approval. Application forms can be downloaded from the HMRC website at http://www.hmrc.gov.uk/isa/isa-pep-approvals.htm. The forms also have the address to which the application should be submitted.

2.14 The applicant must provide

• his full registered name or legal title

• his full address, including postcode, to which all communications should be sent

• the nature of his business
• the capacity in which eligibility is claimed (see paragraphs 2.3 – 2.5)
• the tax district and reference number to which he submits tax returns or accounts
• the name telephone number and e-mail address of one or more individuals appointed to act as liaison officers, to provide day-to-day contact with SSO
• details of the form in which returns of information will be submitted (see paragraph 14.6)
• details of the types of ISA to be offered, and
• confirmation that the FCA have granted the necessary authorisations.

2.15 UK insurers should send a copy of their notice of authorisation from the Treasury Insurance Directorate or the Friendly Societies Commission. Foreign insurers should send a copy of their authorisation under Article 6 of the First Long Term Insurance Directive.

2.16 SSO will normally respond to any application for approval within 14 calendar days and will
• notify successful applicants in writing
• allocate a reference number for use in all future communications, and
• include the new ISA manager in the next edition of the list of approved ISA managers (see paragraph 2.19)

2.17 The terms of approval may include conditions designed to ensure that the provisions of the ISA regulations are satisfied. Approval is valid from the date of the notice issued by SSO. Where SSO decide not to approve a person they will explain the reasons in writing.

2.18 Managers must provide the information in paragraph 13.8 before their first claim to SSO.

List of approved ISA managers

2.19 The HMRC website contains a list of approved ISA managers (at http://www.hmrc.gov.uk/isa/isa-managers.pdf The list is updated quarterly.

Subsequent changes information provided in the application

2.20 Where any of the information provided on the application subsequently changes, managers should inform SSO in writing as soon as possible. If the manager is incorporated, and changes his name, then a copy of the certificate of incorporation on change of name should be sent to SSO. A pdf copy can be emailed to savings.audit@hmrc.gsi.gov.uk
SSO must also be informed of any change of liaison officer, either by the retiring liaison officer, or by an authorised signatory.

2.21 An ISA manager approved for one type of ISA only must notify SSO in writing before they can manage the other type of ISA.
For Example
ABC Ltd has applied for, and received approval, to manage the cash ISA.
If they decide to offer a stocks and shares ISA they must first notify SSO.

2.22 to 2.23 Blank

Ceasing to be a manager

2.24 A person will cease as a manager where
- SSO withdraw approval (see paragraph 2.25)
- he voluntarily ceases (see paragraph 2.27), or
- he no longer qualifies as a manager (see paragraph 2.28)

Withdrawal of approval by SSO

2.25 SSO may withdraw approval from an ISA manager if they have reason to believe that
- he is failing, or has failed to manage his ISAs in accordance with the regulations, or
- he is not qualified to act as an ISA manager

2.26 SSO will issue a notice of withdrawal of approval, which will specify
- the type of ISA from which approval is withdrawn,
- the date from which the approval is withdrawn, and
- the reason for the withdrawal.

The notice will explain how to make an appeal against the withdrawal. Managers may appeal within 30 calendar days of the date the notice is issued.

Voluntary cessation

2.27 A manager who intends to stop managing ISAs must give notice of his intention to SSO and to each investor not less than 30 calendar days before the intended date of cessation. The notice to investors must inform them of their right to transfer their ISAs to another manager (see chapter 11).

Involuntary cessation

2.28 A person ceases to qualify as an ISA manager when he is no longer eligible (see paragraph 2.3), or when
- in the case of an individual, he becomes the subject of a bankruptcy restrictions order or an interim order or, in Scotland, his estate is sequestrated, or he makes an arrangement or composition with his creditors, or
• in the case of a company, a resolution has been passed or a petition has been presented to wind it up, or

• in the case of a European institution, a relevant authorised person or an assurance undertaking (as defined at paragraph 2.4), action corresponding to that in the next bullet point has been taken by or in relation to the institution, person or undertaking under the law of an EEA State, or

• in the case of a building society, or person falling within section 991 Income Tax Act 2007
  ➢ it ceases to be a building society or to be a person falling within section 991 Income Tax Act 2007, as the case may be
  ➢ its directors have made a proposal under Part 1 of the Insolvency Act 1986 for a composition in satisfaction of its debts or a scheme of arrangement of its affairs
  ➢ an Administration Order is made in relation to it, or
  ➢ a receiver or manager of its property has been appointed.

2.29 A manager who has ceased to qualify must inform SSO and each investor within 30 calendar days of the date he ceased to qualify. The notice to investors must inform them of their right to transfer their ISAs to another manager (see paragraph 11.1).

Returns required on cessation as a manager

2.30 A manager who has ceased to manage ISAs must submit

• an annual return and claim form (see paragraph 13.25)
• a return of information (see paragraph 14.1)
• an annual return of market value statistical information (see paragraph 15.1), and
• an annual return of subscription statistical information (see paragraph 16.1)

for the period from the previous reporting date to the date of cessation.

2.31 In the case of involuntary cessation or withdrawal of approval the person appointed to terminate the scheme should perform these duties.
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Who can subscribe to an ISA?

3.1 To be eligible to subscribe to an ISA an investor must

- be an individual
- be aged 16 or over if subscribing to a cash ISA, or 18 or over if subscribing to a stocks and shares ISA
- be resident in the United Kingdom or, if not so resident, be performing duties as a Crown employee serving overseas and paid out of the public revenue of the United Kingdom (typically a serving member of the armed forces, or a diplomat), or be married to, or in a civil partnership with, such a person (the residence qualification – see paragraphs 3.6 – 3.13)
- not have subscribed to another ISA of the same type in that tax year (but see paragraph 11.12a where an ISA is transferred to an ISA of the other type i.e. cash to stocks and shares or stocks and shares to cash) and
- not have exceeded the overall subscription limit (if 18 or over).

3.2 to 3.5 Blank

The residence qualification

3.6 To subscribe to an ISA the investor must meet the residence qualification described in paragraph 3.1. Managers should note that husbands, wives and civil partners do not necessarily have the same residence status.

3.7 The United Kingdom (UK) means England, Wales, Scotland and Northern Ireland. It does not include anywhere outside the UK. In particular, it does not include the Channel Islands or the Isle of Man.

3.8 Investors must declare in their applications to subscribe (paragraph 4.14) that they meet the residence qualification.

Investors are also under an obligation to notify the ISA manager if they cease to meet the residence qualification because they have become non-resident, have ceased to perform duties as a Crown employee serving overseas, or have ceased to be married to, or in a civil partnership with, such a person.

An existing ISA need not be closed, but no further subscriptions to the ISA can be made unless and until the investor meets the residence qualification again.

See paragraph 3.10 for cases where the residence position is not confirmed.
3.9 Under the new residence rules, from 6 April 2013 an individual is either UK resident or not resident for the whole of a tax year. The individual can determine their status by using the guidance at http://www.hmrc.gov.uk/international/rdr3.pdf

If they are resident they can apply for an ISA (see paragraph 4.14) and they will be able to subscribe to that ISA for the whole of the tax year. If they are not resident in a later tax year, they can no longer subscribe to the ISA until they are once again UK resident.

If the investor has a continuous application in place and they have been non-resident, there will always be a gap year as the period of non-residence must last for a whole tax year and no subscriptions will be possible for that gap year. If the investor becomes UK resident again at a later date they will need to make a fresh ISA application.

3.10 When an ISA Manager is notified of a new address overseas, but the investor has not made a declaration that he is non-resident, the ISA Manager can continue to accept subscriptions on the basis of the existing (resident) declaration for the remainder of the tax year of leaving the UK. Subscriptions should not be accepted for the following tax year until the investor has confirmed in writing that they expect to be resident in the UK, where appropriate by completing a fresh application.

As managers will need to flag that subscriptions must not be accepted in the following tax year, they can adopt one of two possible approaches.

1. From the date that they receive notification of the non-UK address, they can tell the investor that any further subscriptions will be refused unless the investor confirms they expect to be resident in the UK for the tax year of departure, or

2. They can tell the investor they will continue to accept subscriptions for the tax year of departure unless the investor tells them they expect to be non-resident for the tax year.

3.11 If the investor declares in-year that he is not resident, all subscriptions made in that year must be removed from the ISA. These cannot be reinstated after the year end if the investor later establishes they were, in fact, resident.

If the investor informs the manager that they left the UK in an earlier tax year and became

- not ordinarily resident (before 6 April 2013), any subscriptions, including any income and/or growth relating to those subscriptions, made after the date they left the UK should be removed from the ISA
- not resident (after 5 April 2013), all subscriptions, including any income and/or growth relating to those subscriptions, made in tax years in which they were non-resident must be removed from the ISA

3.11a If the investor declares in-year that he expects to be non-resident, as this is not a categoric declaration of non-residence no subscriptions should be removed (voided) on the strength of such a notification. Only if the investor subsequently confirms later in the year that they are non-resident should any subscriptions made in that year be removed.
3.12 Many ISA managers are large organisations with a number of different departments carrying out different functions. Provided ISA managers do not place unnecessary "Chinese walls" in the way of communication between departments, SSO will not regard information that has not reached the department responsible for operating the scheme as information in the possession of the ISA manager.

3.13 Investors who are unsure of their residence status should refer to the Statutory Residence Test guidance at http://www.hmrc.gov.uk/international/rdr3.pdf

An online residence indicator is being developed.

The “one-ISA-of each-type-a-tax-year” rule

3.14 In each tax year, ISA investors may subscribe to

- one cash ISA and
- one stocks and shares ISA

They may not subscribe to two (or more) cash ISAs, or two (or more) stocks and shares ISAs in the same tax year.

Where the investor transfers current year subscriptions from a cash ISA to a stocks and shares ISA or from a stocks and shares ISA to a cash ISA, the subscriptions are treated as if they were made to the receiving ISA. For example, if current year stocks and shares subscriptions are transferred to a cash ISA, they are treated as if they were made to the cash ISA so the investor is free to subscribe to a stocks and shares ISA following the transfer – subject to the overall subscription limit (see paragraph 11.12a)

3.15 to 3.16 Blank

Investors’ tax returns

3.17 Investors do not have to declare income or gains in an ISA on their tax returns, unless the ISA subscription has been made void (see paragraphs 12.23 - 12.54).

3.18 Blank

3.19 Capital losses in respect of ISA investments are disregarded for the purposes of capital gains tax.

3.20 Corresponding deficiency relief is not allowed on life insurance policies within an ISA.

Death of an investor

3.21 Interest, dividends or gains in respect of investments in a ISA that arise after the date of death of the investor are not exempt from tax (but see paragraphs 12.12 - 12.18). However, there is no loss of exemption on interest or dividends payable or gains which arise on disposals made before the date of death (paragraphs 12.7 - 12.10).
3.22 A life insurance policy within an ISA will pay out on the death of the investor. The policy remains part of ISA business until a valid claim is made. Any interest paid by the insurer because of a delay in paying the claim is not exempt from tax and must be paid or credited under deduction of tax at the basic rate where appropriate.
CHAPTER 4

APPLICATIONS AND TERMS AND CONDITIONS

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Applications to subscribe to an ISA

4.1 Investors must apply to subscribe to an ISA. Applications are valid for

- subscriptions made in the year of application, and
- subscriptions made in each successive year following the year of application, in which the applicant subscribes to the ISA

This allows, for example, a continuous subscription by direct debit or standing order, provided at least one payment is made in each tax year (but see paragraph 4.17 where the application is valid for one year only).

The frequency, amount, and method of payment are matters for the ISA manager and the investor.

4.1a Subject to paragraph 4.2, a continuous application made before 6 April 2008 will continue to be valid after that date.

4.2 Applications cease to be valid at the end of a tax year in which the investor fails to make a subscription. Where this happens, the investor must make a fresh application before subscriptions can re-commence.

4.2a Investors must also complete a modified application – a Transfer Application - where an ISA is transferred to a new ISA manager (see paragraph 11.15a). For bulk transfers (see paragraph 11.19a).

4.3 Applications can be made in writing, electronically or by telephone.

4.4 to 4.5 Blank

4.6 Where an investor has made an application to subscribe, but no subscription is made in the tax year to which the application relates, the application will remain valid for a subscription in the next tax year (unless the application is valid for one year only – see paragraph 4.17).

For Example

Mrs Kumar applies to subscribe to an ISA on 31 March 2013 “for 2012-2013 and subsequent years”. No subscription is made in 2012-2013.

The application remains valid for subscriptions in 2013-2014. If no subscriptions are made in that tax year the application ceases to be valid at midnight on 5 April 2014. If Mrs Kumar then wishes to subscribe for 2014-15 or a later tax year she must make a fresh application.

Investors under 18

4.7 An investor can open a cash ISA in the tax year in which they become 16, but only on or after their 16th birthday.

4.8 An investor can open a stocks and shares ISA in the tax year in which they become 18, but only on or after their 18th birthday.
Applications in writing

4.9 Applications in writing must be made on an application form. ISA managers should produce their own application forms. These must contain the information, declaration and authority set out below. We recommend that managers use the wording in the specimen application forms at paragraphs 4.38 – 4.39.

4.10 Applications in writing include faxes of signed application forms, scanned copies of signed application forms attached to e-mails and e-mail applications with electronic signatures. Electronic signatures are defined in the Electronic Communications Act 2000.

4.11 Applications must specify the first tax year to which they relate. They must also include a declaration by the applicant that the application is to subscribe to a cash ISA or a stocks and shares ISA, as the case may be;

For example the application could read

“I apply to subscribe for a cash ISA for the tax year 20   /    and each subsequent year until further notice.”

4.12 Strictly, the regulations require that the declaration for all investors includes the statement that the applicant is 16 years of age or over. However, investors must be 18 years of age or over before they can open a stocks and shares ISA. Managers may therefore amend the stocks and shares ISA declaration by replacing ‘16 years of age or over’ with ‘18 years of age or over’. This convention has been used in the declarations in this chapter.

Personal Information

4.13 Applications must contain the investor’s

- full name (which does not have to include a middle name or initial - so an application showing Mr John Joseph Bloggs, Mr John J Bloggs or Mr John Bloggs is acceptable but Mr J J Bloggs or Mr Bloggs is not)
- permanent residential address, including postcode
- national insurance number, or confirmation that he or she does not have one (ISA managers should provide a 9 character box to accommodate the format of the number – AB123456C – (paragraph 5.14), and
- date of birth (ISA managers should provide an 8 character box so that their investors provide the date in the format DDMMCCYY).

Declaration

4.14 Applicants must make a declaration that the information given in the application is correct. The following declarations will satisfy the requirements of the regulations.

For a stocks and shares ISA

“I declare that

- All subscriptions made, and to be made, belong to me
- I am 18 years of age or over
• I have not subscribed, and will not subscribe, more than the overall subscription limit in total to a cash ISA and a stocks and shares ISA in the same tax year

• I have not subscribed, and will not subscribe, to another stocks and shares ISA in the same tax year that I subscribe to this stocks and shares ISA, and

• I am resident in the United Kingdom for tax purposes or, if not so resident, either perform duties which, by virtue of Section 28 of Income Tax (Earnings & Pensions) Act 2003 (Crown employees serving overseas), are treated as being performed in the United Kingdom, or I am married to, or in a civil partnership with, a person who performs such duties. I will inform [ISA manager's name] if I cease to be so resident or to perform such duties or be married to, or in a civil partnership with, a person who performs such duties”

If the investor is uncertain of their residence position they cannot make an ISA application until they can give an assurance that they are UK resident in the year in which the application is made (see also paragraph 3.9). The ISA must not be opened on a provisional basis.

For a cash ISA

“I declare that

• All subscriptions made, and to be made, belong to me

• I am 16 years of age or over

• I have not subscribed, and will not subscribe, more than the overall subscription limit in total to a cash ISA and a stocks and shares ISA in the same tax year

• I have not subscribed, and will not subscribe, to another cash ISA in the same tax year that I subscribe to this cash ISA, and

• I am resident in the United Kingdom for tax purposes or, if not so resident, either perform duties which, by virtue of Section 28 of Income Tax (Earnings & Pensions) Act 2003 (Crown employees serving overseas), are treated as being performed in the United Kingdom, or I am married to, or in a civil partnership with, a person who performs such duties. I will inform [ISA manager's name] if I cease to be so resident or to perform such duties or be married to, or in a civil partnership with, a person who performs such duties”

4.15 Declarations must also contain

• a declaration that the information given is correct to the best of the investor’s knowledge and belief

• an agreement by the investor to the ISA terms and conditions, and

• the investor’s signature.

Authority

4.16 Applications must include certain authorities. The following authorities will satisfy the requirements of the regulations
“I authorise [ISA manager’s name]

- to hold my cash subscription, ISA investments, interest, dividends and any other rights or proceeds in respect of those investments and any other cash* (If the ISA is a cash ISA invested in a deposit account, alternative wording could be used, such as ‘to hold my cash subscriptions and any interest earned on those subscriptions’)

- to make on my behalf any claims to relief from tax in respect of ISA investments.”

* Policies of life insurance should be held by the investor where the ISA manager is the insurer providing life insurance cover.

**Applications for a single tax year only**

4.17 Managers may produce application forms that allow applicants to subscribe for a single tax year only. If they do, the wording should be changed to read as follows.

- “I apply to subscribe to a cash ISA for 20   /    only”, or

- “I apply to subscribe to a stocks and shares ISA for 20   /    only”,

Where a single year application form is used for a fixed term ISA, the investor will need to complete a fresh application form if they wish to subscribe in the year of maturity or thereafter.

**Composite application forms**

4.17a Managers must produce separate application forms for cash ISAs and stocks and shares ISAs: composite application forms (that would permit investors to choose between a cash ISA or a stocks and shares ISA) are not acceptable.

**Applications not in writing**

4.18 Where an application is made other than in writing; for example, by telephone, unsinged e-mail or fax, or orally, the investor is required to provide the same information, make the same declaration and provide the same authority and other information as for a written application. The investor’s signature is not required. A telephone checklist is contained at paragraph 4.42.

4.19 There are 2 stages to the not in writing process – the application and then the notification of the declaration. On receipt of the application, the ISA manager must create a ‘written record’ (which includes a record made by electronic means) and notify the applicant of its contents. Notification can be done in one of several ways.

- if the application is made over the phone, or in face-to-face contact, the declaration can be read back to the applicant as part of the application process

- if the application is made over the internet, a copy of the declaration can be relayed back to the applicant as part of the notification process. (The applicant should be given the option to print or save a copy.)

- in all cases, a copy of the declaration can be e-mailed, faxed or posted to the to the applicant
The declaration must confirm all the details provided by the investor in the application (this includes the name, address, date of birth and NINO of the investor). It will satisfy the requirements of the regulations if it takes the same format as a written ISA application form, prefaced by the statement, 'This declaration records the terms of the application made by the applicant named below'.

The ISA manager must keep a record of the date that the investor was notified of the declaration's contents. This may simply be a flag on the investor's record on the manager's computer system which indicates that the investor has successfully completed the ISA application process and 'confirmed' or 'accepted' the details in the declaration prepared following an internet application. Managers may want to offer a 'print' facility for internet declarations.

4.20 The application is valid from the date the ISA manager creates the declaration. On notifying the applicant of its contents (which should take place within 5 business days of the date on which the declaration is created), the ISA manager should advise the applicant that he or she should notify any corrections to the ISA manager.

4.21 Notifications of corrections need not be made in writing.

4.22 Where corrections are notified the ISA manager must amend the declaration. The amended declaration will take effect from the date on which the original declaration was created unless paragraph 4.23a applies.

An example of an amendment could be where the investor notifies the manager that part of his NINO or date of birth has been transposed. The manager should change the information he holds but a revised declaration need not be issued.

4.23 Blank

4.23a If, in the original application, the investor declared that he or she did not have an a National Insurance number and the manager becomes aware that, in fact, the investor did have a National Insurance number at that time, the manager should

- void the ISA with effect from the date the original declaration was made (see paragraph 12.47), and
- make a revised declaration, which will re-validate the ISA from the date on which it is created (see paragraph 4.20), and notify the investor of its contents

Applications made through third parties (see also paragraphs 5.24 – 5.28)

4.24 Applications may be made through third parties such as an Independent Financial Adviser (IFA). Such applications must be authorised by the investor, but they can be passed to the ISA manager by the third party.

4.25 Where an application in writing is made through a third party, the application must be signed by the investor.

4.26 Where an application not in writing is made through a third party, managers may accept the application if they have no reason to believe (by reference to information in their possession) that the application has not been authorised by the investor.

4.27 Where “bulk” applications not in writing are passed on by a third party, ISA managers must ensure that
• each investor’s personal details are complete, and
• the type of ISA each investor is applying for is clear

Unless ISA managers have information to suggest the contrary, ISA managers may accept that authorities and declarations are satisfied by a statement from the IFA.

4.28 In all circumstances where applications not in writing are made through a third party, ISA managers must make a written declaration on behalf of the investor and notify the investor of its contents in accordance with paragraph 4.19. The declaration can be e-mailed, faxed or posted to the investor by the ISA manager.

**ISA terms and conditions**

4.29 An ISA is a scheme of investment managed in accordance with the ISA regulations by the ISA manager under terms agreed between the ISA manager and the investor (ISA terms and conditions).

4.30 ISA managers’ ISA terms and conditions must specify in writing that

• the ISA investments will be, and must remain in, the beneficial ownership of the investor and must not be used as security for a loan (paragraphs 10.48 – 10.57)

• except for cash deposits/National Savings products in cash ISAs and insurance policies held with an insurer who is also the ISA manager, the title to the ISA investments will be registered
  ➢ in the name of the ISA manager, or
  ➢ in the name of the ISA manager’s nominee (see below), or
  ➢ jointly in the name of the ISA manager and the investor, or
  ➢ jointly in the name of the ISA manager’s nominee and the investor

“Nominee” has its everyday meaning - a person or entity who is named or appointed by another (the nominator) to act on its behalf in a limited capacity or in a specific matter in accordance with any legal or regulatory requirements.

• except for cash deposits/National Savings products in cash ISAs and for insurance policies held with an insurer who is also an ISA manager, share certificates or other documents evidencing title to ISA investments will be held by the ISA manager or as the ISA manager may direct

• except for cash deposits/National Savings products in cash ISAs the ISA manager will arrange, if the investor elects, for the investor to receive a copy of the annual report and accounts issued by every company or other concern in respect of shares, securities or units which are held directly in the ISA (if the investor receives these automatically this fact should be stated in the ISA terms and conditions)

• except for cash deposits/National Savings products in cash ISAs and insurance policies, the ISA manager is under an obligation (subject to any provisions made by or under any other enactment), if the investor so elects, to arrange for the investor to be able
to attend shareholders’, securities holders’ or unit holders’ meetings to vote, and
to receive, in addition to the annual report and accounts, any other information issued to shareholders, securities holders or unit holders

- the ISA manager will satisfy himself that any person to whom he delegates any of his functions or responsibilities under the terms agreed with the investor is competent to carry out those functions and responsibilities (paragraph 10.1)

- the ISA manager must notify the investor if, by reason of any failure to satisfy the provisions of the ISA regulations, an ISA has, or will, become void

either (where the manager allows partial transfers)

- on the instructions of the investor and within the time stipulated by the investor, an ISA, or part of an ISA, shall be transferred to another ISA manager in accordance with the ISA regulations relating to transfers

or (where the manager does not allow partial transfers)

- on the instructions of the investor and within the time stipulated by the investor, an ISA, with all rights and obligations, shall be transferred to another ISA manager in accordance with the ISA Regulations relating to transfers

(Managers may place a minimum period on the time stipulated by the investor for transfer. This period, which should represent whatever reasonable period the manager requires for practical implementation of transfer requests, must not exceed 30 days and must be consistent with requirements relating to transfers between cash accounts – see paragraph 11.15c.)

(The timescale for cash ISA to cash ISA transfers is outlined in paragraph 11.15c. Cash ISA managers do not need to mention the investor’s right to stipulate the transfer timescale as long as the 5-day transfer-out period is quoted. This will also apply to cash ISA to stocks and shares ISA transfer if the cash ISA manager adopts the 5-day period for these transfers too.)

either (where the manager allows partial withdrawals)

- on the instructions of the investor and within the time stipulated by the investor, all or part of the investments held in the ISA and proceeds arising from those investments shall be transferred or paid to the investor

or (where a manager does not allow partial withdrawals)

- on the instructions of the investor and within the time stipulated by the investor, all the investments held in the ISA and proceeds arising from those investments shall be transferred or paid to the investor

(Managers may place a minimum period on the time stipulated by the investor for transfer. This period, which should represent whatever reasonable period the manager requires for practical implementation of withdrawal requests, must not exceed 30 days.)
4.30a Managers should note that where an investor requests a transfer or withdrawal and the ISA holds units or shares in a UK UCITS (paragraph 7.19), a non-UCITS retail scheme (paragraph 7.27a) or a recognised UCITS (paragraph 7.33), dealings in which have been suspended in accordance with COLL 7.2 (or any direct foreign equivalent), the minimum period specified by the manager may be extended to 7 days after the suspension ends. It is not necessary to include a mention of possible suspension in the terms and conditions (see paragraph 4.30).

4.31 A failure to include any of the above in the ISA terms and conditions will invalidate all ISAs opened under those terms and conditions. HMRC Audit will seek a recovery where they find that an ISA manager has omitted any of the ISA conditions, even if they are applied in practice.

Enquiries and further advice

4.32 ISA managers may use the wording in the specimen application forms at paragraphs 4.38 – 4.39. SSO will be pleased to advise whether application forms and/or ISA terms and conditions meet the statutory requirements.

4.33 to Blank

Imaging application forms and written declarations

4.35 ISA application forms, transfer forms and ISA written declarations can be stored in an imaged form, and the originals destroyed. The optical images will be regarded as applications for the purposes of the ISA rules provided:

- the imaged application form (and any hard copy printouts) is legible
- on being given notice in writing by SSO, the manager will make available within such time as specified in the notice a hard copy of the imaged document, and
- on being required to do so by SSO, the manager will, within a reasonable time, provide a hard copy of the imaged documents.

Retention of forms

4.36 Managers must retain the written application form or an imaged copy of it (see paragraph 4.35). As an alternative to retaining the written form, the manager can apply the ‘not in writing’ procedures outlined in paragraphs 4.19 – 4.23 when they receive a written application. The manager must make a written declaration using the information provided on the form and send this to the investor who then has 30 days to notify any corrections. The other requirements of paragraphs 4.19 – 4.23 must be met. The original paper declaration can then be destroyed.

4.37 Blank
4.38

Application Form (stocks and shares ISA)

Full name

Permanent residential address

Date of birth

Do you have a National Insurance (NI) Number?

Tick one box

Yes  No

If Yes you must enter it here

You should be able to find your NI number on a payslip, form P45 or P60, a letter from the HM Revenue & Customs, a letter from the DWP, or pension order book.

I apply to subscribe for a stocks and shares ISA for the tax year 20      /       and each subsequent year until further notice.

I declare that

- all subscriptions made, and to be made, belong to me;
- I am 18 years of age or over;
- I have not subscribed and will not subscribe more than the overall subscription limit in total to a cash ISA and a stocks and shares ISA in the same tax year;
- I have not subscribed and will not subscribe to another stocks and shares ISA in the same tax year that I subscribe to this stocks and shares ISA, and
- I am resident in the United Kingdom for tax purposes or, if not so resident, either perform duties which, by virtue of Section 28 of Income Tax (Earnings & Pensions) Act 2003 (Crown employees serving overseas), are treated as being performed in the United Kingdom, or I am married to, or in a civil partnership with, a person who performs such duties. I will inform [ISA manager's name] if I cease to be so resident or to perform such duties or be married to, or in a civil partnership with, a person who performs such duties.

I authorise [ISA manager's name]

- where the ISA manager is not an insurer-manager to hold my cash subscription, ISA investments, interest, dividends and any other rights or proceeds in respect of those investments and any other cash

or

- where the ISA manager is an insurer-manager to hold my cash subscription, any other proceeds in respect of my ISA investments and any other cash;

and

- to make on my behalf any claims to relief from tax in respect of ISA investments.

I agree to the ISA terms and conditions.

I declare that this application form has been completed to the best of my knowledge and belief.

Signed ............................................................... Date ................................................... .
Application Form (cash ISA)

Full name

Permanent residential address

Postcode

Date of birth

Do you have a National Insurance (NI) Number?

Yes No

Tick one box

If Yes you must enter it here

You should be able to find your NI number on a payslip, form P45 or P60, a letter from the HM Revenue & Customs, a letter from the DWP, or pension order book.

I apply to subscribe for a cash ISA for the tax year 20__/____ and each subsequent year until further notice.

I declare that

- all subscriptions made, and to be made, belong to me;
- I am 16 years of age or over;
- I have not subscribed and will not subscribe more than the overall subscription limit in total to a cash ISA and a stocks and shares ISA in the same tax year;
- I have not subscribed and will not subscribe to another cash ISA in the same tax year that I subscribe to this cash ISA, and
- I am resident in the United Kingdom for tax purposes or, if not so resident, either perform duties which, by virtue of Section 28 of Income Tax (Earnings & Pensions) Act 2003 (Crown employees serving overseas), are treated as being performed in the United Kingdom, or I am married to, or in a civil partnership with, a person who performs such duties. I will inform [ISA manager's name] if I cease to be so resident or to perform such duties or be married to, or in a civil partnership with, a person who performs such duties.

I authorise [ISA manager's name]

- where the ISA manager is not an insurer-manager to hold my cash subscription, ISA investments, interest, dividends and any other rights or proceeds in respect of those investments and any other cash
- where the ISA manager is an insurer-manager to hold my cash subscription, any other proceeds in respect of my ISA investments and any other cash;

and

- to make on my behalf any claims to relief from tax in respect of ISA investments.

I agree to the ISA terms and conditions.

I declare that this application form has been completed to the best of my knowledge and belief.

Signed............................................................... Date ................................................... .
Application Form (cash ISA)
Application Form (cash ISA)

4.40 to Blank
4.41
Telephone Application

1. What is your name?
   (Forename, middle initials, and surname)

2. What is your permanent residential address?
   (Full address of the place you habitually reside, which must include postcode)

3. What is your date of birth?
   (Day/Month/Year)

4a. Do you have a National Insurance number?  (Tick one)  Yes  No

4b. If yes, what is your National Insurance Number?
   (Investors can find this on a pay slip, form P45 or P60, a letter from the HM Revenue & Customs, a letter from the DWP, or pension order book.)

5. What tax year do you wish to subscribe to?
   (Tax years run from 6 April to 5 April)

6. What type of ISA do you wish to subscribe to?
   
   STOCKS AND SHARES
   Do you declare that you have not subscribed and will not subscribe more than the overall subscription limit in total to a cash ISA and a stocks and shares ISA in the same tax year?  
   Do you declare that you have not subscribed and will not subscribe to another stocks and shares ISA in the same tax year that you subscribe to this stocks and shares ISA? 
   Do you declare that you are 18 years of age or over? 

   OR

   CASH
   Do you declare that you have not subscribed and will not subscribe more than the overall subscription limit in total to a cash ISA and a stocks and shares ISA in the same tax year? 
   Do you declare that you have not subscribed and will not subscribe to another cash ISA in the same tax year that you subscribe to this cash ISA? 
   Do you declare that you are 16 years of age or over?
Do you declare that

(tick box)

All subscriptions made, and to be made, to the ISA belong to you.

You are resident in the United Kingdom for tax purposes

This link will take you to the residence rules
http://www.hmrc.gov.uk/international/rdr3.pdf

Or, if not

You perform duties which by virtue of S28 of the Income Tax (Earnings & Pensions) Act 2003 (Crown employees serving overseas) are treated as being performed in the United Kingdom, or if not you are married to, or in a civil partnership with, a person who carries out those duties.

You will inform [ISA Manager’s name] if you cease to be so resident or to perform such duties, or to be married to, or in a civil partnership with, a person who performs such duties.

By applying for an ISA you authorise us to carry out certain functions on your behalf. Details of these will be sent to you, with the terms and conditions of this ISA.

We will send you (or use one of the methods described in paragraph 4.19) a copy of the application you have made.
# OPENING AN ISA

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- Address 5.11
- Date of Birth 5.12
- National Insurance Number (NINO) 5.13 to 5.22
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**Applying for an ISA on behalf of someone else** 5.24 to 5.29
When can an ISA be opened?

5.1 Before an ISA can be opened the investor must agree to the manager’s terms and conditions and apply to subscribe.

5.2 Before a manager can open an ISA, he must hold

- a valid application, which he has accepted (paragraphs 5.8 and 5.9), and
- a valid subscription (paragraphs 6.1, 6.6 – 6.11 and 6.19 – 6.34)

An ISA therefore begins from the later of

- the date on which the ISA manager accepts the application form, and
- the date on which the subscription is made (paragraph 6.9)

This means that a manager may accept an application before a subscription is made, but if he does the ISA does not begin until a subscription is made.

5.3 The manager should record the date he accepted the application (which may not be before the date of application) in his records.

5.4 An ISA application received near the end of the tax year will be regarded as opened in that tax year if

- the ISA manager has accepted the application before the end of the tax year and
- the subscription is made before the end of the tax year

If the account is not physically set up until after the end of the tax year the ISA should be shown as opened on 5th April. We therefore recommend that ISA managers make arrangements to examine, before the end of the tax year, all applications received to ensure that they are complete (but see paragraphs 5.19 – 5.22), and that a valid subscription has been made.

For Example

Mr Howarth works for ABC Ltd, an ISA manager. On the 5th April he is delegated by ABC Ltd to remain behind after normal hours to receive late ISA applications. He opens all late applications, and carries out the tests required, noting the applications that can only be opened provisionally. He finds an unsigned cheque attached to one application, which means that the ISA cannot be opened as no subscription has been received.

Cancellation

5.5 Subject to paragraph 5.7, ISA managers may, in their terms and conditions, allow investors the right to cancel their cash subscription to an ISA, or packaged product within an ISA, within a set period after the receipt by the investor of the notice of the right to cancel. Provided that this period – the cancellation period - does not exceed 30 days (after the notice has been received), investors who cancel their subscription within the cancellation period are exempt from UK income and capital gains tax on any income or gains arising from the subscription in the period.
Strictly investors who withdraw their subscriptions from an ISA by exercising their right to cancel have made a subscription to an ISA. But where the subscription is cancelled within the set period, investors will be treated as though they have not subscribed to an ISA.

5.6 Where a subscription is cancelled within the set period, ISA managers should
- notify investors that the cancelled subscription does not count as a subscription to an ISA, and
- exclude the cancelled subscription from their annual return of information (paragraph 14.5).

Where a subscription is cancelled after the set period, ISA managers should
- notify investors that the cancelled subscription counts as a subscription to an ISA (and that they cannot subscribe to another ISA of the same type in that tax year), and
- include the cancelled subscription on their annual return of information (paragraph 14.5)

Where a purchase of a packaged product in an existing ISA is cancelled, the ISA remains valid and the subscription may then be used to purchase other qualifying investment(s).

Withdrawal

5.7 Instead of providing cancellation rights, ISA managers may allow investors the right not to proceed with the ISA contract (in FCA terminology, a pre-contractual right to withdraw). The withdrawal period is 7 calendar days from the receipt by the ISA manager of the application to open an ISA.

Where withdrawal rights are offered:
- the ISA can only begin on the expiry of the withdrawal period, therefore the application must be received by the ISA manager by 29 March of the tax year for which the application is made
- during the withdrawal period the client money rules of the ISA manager’s regulatory body will apply to the cash subscription, and
- any interest which is paid at the end of the withdrawal period will not be exempt from tax and will count towards the subscription limit if it is paid into the ISA.

Investors who exercise their right to withdraw from the ISA contract are free to subscribe to another ISA in the same tax year.

Completion of applications

5.8 ISA managers should examine applications and ensure they are fully completed.

5.9 Applications may be accepted provided the ISA manager has no reason to believe that the investor
- is not, or might not be, entitled to subscribe to an ISA (paragraph 3.4), or
• has given false information in the application

Name

5.10 Applications must contain the investor’s full name (which does not have to include a middle name or initial). So an application showing Mr John Joseph Bloggs, Mr John J Bloggs or Mr John Bloggs is acceptable but Mr J J Bloggs or Mr Bloggs is not.

Address

5.11 Applications must contain the investor’s permanent residential address. ISA managers may hold other addresses on their systems for correspondence purposes.

Applications with an incomplete address, or with a “PO Box” or “care of” address, are not acceptable. But where the address is a retirement home, nursing home, hospice or hospital, this address can be accepted. BFPO addresses can also be accepted.

In strictness, investors who do not have a permanent residential address (because, for example, they live on a houseboat that does not have a home mooring) cannot subscribe to an ISA. However, by concession we will allow such investors to subscribe to an ISA. In place of the permanent residential address the investor should provide a correspondence address. And the manager should obtain confirmation that the investor does not have a permanent residential address and keep that confirmation with the application.

The permanent residential address should include the postcode (see paragraph 4.13). Where, exceptionally, an investor does not have a postcode, for example where the investor lives on a new estate and a postcode has not been allocated, the application can be accepted. Confirmation that a postcode does not exist must be obtained and kept with the application. And the postcode must be obtained as soon as it is allocated.

Date of birth

5.12 Applications must contain the investor’s date of birth (paragraph 4.13).

Where, exceptionally, the investor does not know his or her date of birth, the year of birth must be given.

National Insurance Number (NINO)

5.13 Applications must contain the investor’s NINO, or confirmation that he or she does not have one (paragraph 4.13).

5.14 NINOs consist of nine characters (for example AB123456C). Characters 1 & 2 must be alpha and must be one of the issued National Insurance Number prefixes. (A list can be found at on the HMRC website at Appendix 2 of the latest Quality Standard Validation Specification - http://www.hmrc.gov.uk/ebu/qual_stand_06.pdf.) Characters 3 - 8 must be numeric. Character 9 must be alpha in the range A-D or a space.

Manager’s validation checks are limited to checking that the format is AB123456C and that the final character is an A-D or a space.
5.14a NINOs can usually be found on

- pay slips (provided in respect of current employment and pensions received from former employers)
- forms P60 (provided at the end of each tax year in respect of current employment and pensions received from former employers)
- forms P45 (provided by employers when someone leaves a job)
- notices of coding, tax returns or other letters from the investor's tax office
- letters from the Department of Work and Pensions (DWP)
- unemployment benefit books
- pension books (on the front cover) and
- medical cards issued in Scotland.

An investor may only have a NINO that is an old format and consequently not in the format above. Such investors should be treated as though they do not have a NINO.

5.15 Where an investor does not have a NINO, has a NINO that is in an old format (paragraph 5.14), or has a temporary NINO (paragraph 5.16) and the ISA manager’s system requires the capture of a NINO, the manager should use the "universal dummy NINO" – XX999999X. **No other dummy or substitute NINO should be used**, but see paragraph 28.1 for Junior ISAs.

5.16 Some individuals are given temporary NINOs - usually where they have recently commenced employment and have lost their NINO, or where they have returned from a period abroad. A temporary NINO number consists of 'TN' plus date of birth plus gender (for example, TN110948M or TN161054F).

And sometimes HMRC letters to taxpayers include a 'temporary reference' consisting of two numbers, one letter and five numbers (for example, 63T12345).

Investors who enter a temporary NINO or a temporary reference on their application form should be treated as though they do not have a NINO.

5.17 Blank

5.18 ISA managers may find it useful to include the following text on applications to ask applicants whether or not they have a NINO

“Do you have a National Insurance Number?

Tick one box

Yes       No

If Yes: you must
Enter it here:

(If you do not know it, you should be able to find your NI number on a payslip, form P45 or P60, a letter from the HM Revenue & Customs, a letter from the DWP, or pension order book)"
Where an application is received without all the personal information (paragraphs 5.10 – 5.13), ISA managers may, if they wish, open the ISA on a provisional basis.

Where an ISA manager opens an ISA on a provisional basis, the ISA will be valid from the date it was opened provided that, within 30 calendar days of that date the ISA manager obtains the missing personal information.

The missing information can be provided either by the investor, by the investor's agent, or from the manager’s own records, and should be added to or retained with the application form. If the application form is amended the person making the entry should initial the amendment.

ISA managers should

- explain to the investor that
  - the application could not be accepted because it did not contain all the personal information required under the ISA rules
  - before the application can be accepted, the investor must provide the missing personal information
  - in the meantime, an ISA has been opened on a provisional basis, but
  - if the missing personal information is not received within 30 calendar days of the date on which the ISA was opened, it will be cancelled and all tax exemptions lost, and
- void the ISA where the missing personal information is not received within 30 calendar days of the date on which it was opened (paragraph 12.47).

ISA managers must enter complete details of personal information on returns of information (paragraph 14.1).

Signature

Applications made in writing must contain the signature of the investor or the person holding the power of attorney for the investor.

The signature of a Power of Attorney will only be acceptable if

- The investor is physically incapable of signing the return, in which case the signatory must be an attorney acting under a general or enduring power (see paragraph 5.26). If the person is merely unavailable to sign the return, for example because of absence abroad, the signature of the attorney is not acceptable (see paragraph 5.27).
- A registered lasting power of attorney is in place (see paragraph 5.24).

Whether or not a person acting in a capacity has the authority to sign the application should be established before the application is accepted.

A photocopy or fax of a signature is not acceptable and a name that is printed is not an acceptable signature.
Applying for an ISA on behalf of someone else

5.24 Strictly, all ISA applications must be made by the investor. But an ISA manager may accept an application from someone holding a Lasting Power of Attorney (LPA) which has been registered with the Public Guardians Office and which gives the attorney the power to make the decision to open an ISA.

Once registered, an LPA is effective whether or not the donor of the power has mental capacity.

5.24a The ISA manager must

- see the LPA (or a certified copy of it) and retain a copy for their records in case the account is queried by HMRC auditors,
- check any restrictions on the LPA to see that it is broad enough to cover the opening of an ISA.

5.24b If the ISA manager has any queries about the registration of the LPA or the scope of it, these must be referred to the Court of Protection which is the ultimate arbiter of all matters relating to persons who lack mental capacity and on questions which arise in relations to an LPA.

Alternatives to a registered LPA that can be used to open an ISA

In England and Wales, an Enduring Power of Attorney made and signed before October 2007 that has been registered with the Public Guardians Office.

In Scotland, an equivalent registered authority can be used, for example an Intervention Order or a Guardianship Order.

In Northern Ireland, an Enduring Power of Attorney that has been registered with the High Court (Office of Care and Protection)

5.24c Managers may accept applications signed under a General Power of Attorney where the investor is unable to sign the application because he or she is a member of the armed forces on active service in a war zone (for example, Afghanistan)

5.25 An application may also be made by the parent, guardian, spouse, civil partner, son or daughter of an individual who lacks mental capacity. ISA managers should

- ask the person making the application to confirm that the investor lacks mental capacity, and to state the nature of their relationship with the investor
- ask to see documentation to show that the investor lacks mental capacity. Suitable documentation would include letters or payment books that show the applicant is entitled to disability living allowance, severe disablement allowance or incapacity benefit, and
- make a (brief) note with the application of the documentation seen, and retain the written statement with the application.

5.26 If the investor is physically incapable of signing the return, the signatory must be an attorney acting under a general or enduring power. Whether or not a person acting in a capacity has the authority to sign should be established before the application is accepted.
5.27 These are the only circumstances in which a manager may accept an application from someone other than the investor. In particular, a manager may not accept an application where (for example) the investor is capable of completing the application form, but is merely too busy, or is on holiday abroad (unless that person has given a Lasting Power of Attorney which has been registered).

5.28 In all cases ISA managers must report the full name (which does not have to include a middle name or initial) (paragraph 4.13), permanent residential address (including postcode), date of birth and NINO of the incapacitated person on returns of information (paragraph 14.16).

5.29 Once an ISA has been opened on behalf of an investor (as outlined in paragraphs 5.24 to 5.28), there are no particular ISA rules about who can operate that (opened) account on behalf of the investor. If the manager receives a mandate from the investor they should treat it in the same way as they would if it related to a non-ISA account.
CHAPTER 6

ISA SUBSCRIPTIONS

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Subscription limits

6.1 The overall subscription limit for the tax year 2013-14 is £11,520 and for 2014-15 will be £11,880. From 1 July 2014 the limit will be £15,000.

For the period up to 30 June 2014, up to half of that limit (£5,940 for 2014-15) can be saved in a cash ISA (the cash ISA savings limit). The remainder of the £11,880 can be invested in a stocks and shares ISA with either the same or a different provider.

So, for example, in the tax year 2014-15 an investor could subscribe

- £5,940 to a cash ISA and £5,940 to a stocks and shares ISA
- £2,000 to a cash ISA and £9,880 to a stocks and shares ISA
- Nothing to a cash ISA and £11,880 to a stocks and shares ISA

From 1 July 2014, the overall ISA limit of £15,000 can be split between a cash ISA and a stocks and shares ISA as the investor wishes. So, for example the investor could subscribe

- Nothing to a cash ISA and £15,000 to a stocks and shares ISA
- Nothing to a stocks and shares ISA and £15,000 to a cash ISA
- £7,500 to a cash ISA and £7,500 to a stocks and shares ISA
- £2,000 to a cash ISA and £13,000 to a stocks and shares ISA

After 1 July 2014, an investor aged under 18 can only subscribe to a cash ISA but will be able to subscribe up to the new single limit of £15,000.

Managers’ systems must ensure that

- up until 1 July 2014, no more than the cash ISA savings limit can be subscribed to a cash ISA in a tax year and that no more than the overall limit can be subscribed to a stocks and shares ISA in a tax year
- from 1 July 2014 no more than the overall limit can be invested to either a cash or a stocks and shares ISA
- investors do not subscribe to a disallowed combination of ISAs with them (see paragraph 3.14), and
- where the investor subscribes to both a cash ISA and a stocks and shares ISA with them, the amount subscribed does not exceed the overall subscription limit.

6.1a Where, as a result of mergers, amalgamations or takeovers, an ISA manager finds himself operating two (or more) systems that do not communicate with each other, with the result that he cannot comply with the requirement in paragraph 6.1, we would expect that if the systems are updated, the new system will comply with paragraph 6.1.
In the meantime, managers may adopt one of the following three procedures.

1. Carry out cross-checks between the two systems at regular intervals to identify oversubscriptions and subscriptions to a disallowed combination of ISAs. Where they find that

   ➢ the investor has subscribed to a disallowed combination of ISAs (and the cross-check takes place within 60 days of the first subscription in the tax year to the second ISA) they may treat the second ISA as being opened provisionally pending the cross-check and void it without contacting HMRC.

   ➢ the investor has exceeded the overall subscription limit, (and the cross-check takes place within 60 days of the over-subscription) they should remove the over-subscription from the ISA without contacting HMRC

2. Carry out cross-checks between the two systems as above and advise any investor found to have subscribed to a disallowed combination of ISAs, or exceeded the overall subscription limit, that HMRC will contact them in due course.

3. Do nothing, and let HMRC find the investors who have subscribed to a disallowed combination of ISAs, or exceeded the overall subscription limit on examination of managers’ end of year information returns.

6.1b Managers are not required to establish the amount subscribed to ISAs held with other managers. Investors who subscribe to ISAs held with different managers are responsible for ensuring that they do not subscribe to a disallowed combination of ISAs, and that they do not exceed the overall subscription limit.

Managers who become aware that an investor has subscribed to a disallowed combination of ISAs with different managers, or has exceeded the overall subscription limit, should advise the investor that HMRC will contact them in due course.

6.2 to 6.3 Blank.

6.4 Subscription limits apply only to the amount subscribed, and the amount subscribed is not reduced if an investor makes a subsequent withdrawal. An investor who has not subscribed up to the limit in any year cannot carry forward the difference and add it to the subscription limit for the next year.

**For Example**

Mrs Cole subscribes £4,000 to her stocks and shares ISA in June 2012. She withdraws £2,000 in July. She can only subscribe a further £7,280 to the stocks and shares ISA before 5th April 2013 because she has already subscribed £4,000, and the subscription limit is £11,280. If she does not subscribe any further amount before 5th April 2013 she cannot carry forward the ‘unused’ subscription of £7,280 to the next year.

6.5 From 1 July 2014, investors who become 18 during a tax year may subscribe up to the subscription limit to a cash ISA before their 18th birthday. After their birthday they may also subscribe to a stocks and shares ISA. The overall subscription limit available is reduced by the amount already subscribed to the cash ISA before the birthday.
For Example

Mr Edwards opens a cash ISA on 10th April 2014. He will be 18 years old on the 5th August 2014. He can subscribe up to the cash ISA limit before 1 July 2014 and then after 1 July 2014 he can add further subscriptions to his cash ISA up to the ISA limit of £15,000. After his 18th birthday, and before 6th April 2015, he can subscribe, subject to the available headroom, to either a stocks and shares ISA or the cash ISA.

Cash subscription

6.6 Investors can subscribe cash to either type of ISA. They must subscribe with their own cash, and this includes payment by cheque, direct debit, charge card, credit card, telegraphic transfer and standing order. Cash subscriptions from third parties can be accepted without question unless the ISA manager holds information that shows that the cash does not belong to the investor.

Parents who give money to their children (aged under 18) to invest in their cash ISA need to be aware that if gifts from a parent produce more than £100 gross income in a tax year, the whole of the income from the gifts is normally taxed as that of the parent. The child’s gross income includes income from cash ISAs, but excludes income from Junior ISAs, which is specifically excluded – see paragraph 18.1.6

6.7 Cash subscriptions from the investor’s employer may be accepted where the employer confirms that the payment will be treated as a relevant payment to an employee for the purposes of the PAYE Regulations and a payment of earnings for the purposes of Class 1 NIC.

6.8 The ISA regulations allow investors to subscribe by lump sum, or by regular or irregular periodic payment, provided the subscription limits are not exceeded. The ISA manager may impose conditions, such as a minimum lump sum subscription. (See paragraph 9.10 in relation to payments to insurance policies).

Date of subscription
6.9a Where the ISA manager has an instruction from the investor and is in control of the collection of the payment, the date of subscription is the date the manager is instructed to collect the payment provided

(i) the instruction was accepted and
(ii) the payment is received in due course.

This will cover:

- cheques – the date of subscription is the date on which the cheque is received and accepted by the ISA manager, provided the cheque clears in due course.

  If the cheque does not clear, the date of subscription depends on whether the original cheque can be re-presented, or whether it must be returned to the investor.

  (a) If the manager can re-present the original cheque without having to return it to the investor, the date of subscription is the date on which the cheque was received and accepted by the ISA manager (it has just taken longer to clear).

  (b) If the manager has to return the cheque to the investor, the investor has not made a subscription and the amount of the failed subscription will not count towards the ISA subscription limit. If the investor submits an amended or replacement cheque the date of subscription will be the date on which the amended (or replacement) cheque is received and accepted by the ISA manager.

- direct debit – the date on which the ISA manager is authorised to draw on the direct debit, provided that the cash transfer takes place in due course. If that date is earlier than the date on which the direct debit mandate is received and accepted by the ISA manager the date of subscription is the later date (but see paragraphs 6.10 and 6.11 where the investor makes a claim under the Direct Debit indemnity Scheme).

For Example

Mr Philips submits a direct debit authorisation to his ISA manager in March 2013. The ISA manager is authorised to draw £100 on the 10th of each month as a subscription to Mr Philip’s ISA, starting on 10th April 2013. Despite the authorisation being received in the tax year 2012-2013, the ISA subscriptions are made in 2013-2014.

On 1st April 2014 Mr Philips sends another direct debit authorisation to his ISA manager for a single lump sum subscription of £3,000, to be drawn on 1st April 2014. The ISA manager only receives this on 7th April 2014, and so the subscription cannot be made for 2013-2014.

- debit card, charge card or credit card – the date on which authorisation is given by the investor,

- transfers from a non-ISA account held with the same manager (as the manager is in control of the payment into the ISA)
In the 4 cases above, if, due to manager error, there is a delay between accepting the instruction/authorisation and the collection of the subscription, the date of the subscription should be treated as the original date intended for the subscription (even if this was in an earlier tax year) provided the manager had accepted the instruction by that date. Where the subscription is backdated to an earlier year and the annual information return for that year has been submitted, there is no need to make an additional report.

6.9b Where the collection of the payment depends upon another body so that the ISA manager is not in control (and may be unaware that a payment will be made), the date of subscription is the date the ISA manager receives the payment. This will cover standing orders and telegraphic transfers (where the instruction to pay sits with someone other than the ISA manager).

6.9c If the payment instruction has been received and accepted by the ISA manager but due to manager error there is a delay before the sum is applied to the ISA, any compensation paid to cover lost growth and/or income, can be added to the ISA without counting as a fresh subscription (in accordance with paragraph 10.38). (This differs from the situation described in paragraph 10.39 as in that case the instruction has not been accepted.)

Direct debit indemnity scheme

6.10 Where money is taken out of an account by direct debit by mistake, the account holder can claim the return of the money. The account holder’s bank repays the money to the account holder, and claims back that amount from the recipient bank. In effect the transaction is unwound.

This might happen where a subscription is made under direct debit to an ISA in year 1 and the ISA manager mistakenly continues to draw on the direct debit in year 2. In these circumstances the investor might make a claim under the direct debit indemnity scheme.

6.11 Where an investor makes a successful claim under the direct debit indemnity scheme the subscriptions unwound are treated as if they had never been made (in the same way as for a failed cheque -see paragraph 6.9). If any income tax has been claimed from SSO in respect of income earned by the unwound subscription it must be repaid. And any interest paid by the manager on cash on deposit may be subject to deduction of income tax.

A subscription may not be unwound unless a successful claim is made under the indemnity scheme – it is not sufficient for the investor to simply claim that they subscribed in error.

For Example

Mrs Wright subscribes to a stocks and shares ISA by direct debit in 2012-13. When she examines her bank statement for May 2013 she realises that a further debit has been taken out by the ISA manager by mistake. This means that she has subscribed to the stocks and shares ISA for 2013-14. She successfully claims a refund of the amount debited under the indemnity scheme. She is therefore regarded as never having subscribed to the stocks and shares ISA for 2013-14 and is not restricted in her choice of ISA for that tax year.

Generation of a cash subscription by the disposal of existing investments
6.12 The direct transfer of shares into an ISA is allowed only where the shares were issued to the investor under a Schedule 3 SAYE option scheme, approved profit sharing scheme or a Schedule 2 Share Incentive Plan (paragraph 6.19).

6.13 Investments held by an investor outside an ISA can be sold, and the proceeds subscribed to an ISA. Investors and ISA managers should note that the sale of the investments is a disposal for capital gains purposes.

6.14 The ISA subscription can be used to buy back the same investments within the ISA provided certain conditions are met. This is a ‘Share Exchange’ (sometimes called ‘Bed and ISAing’).

6.14a For any acquisition of investments in an ISA, the conditions that must be satisfied are as follows.

(a) The investments must not be purchased from the investor, or from the investor’s spouse or civil partner.

(b) The investments must be bought at the open market price (paragraph 10.7).

(c) Any stamp duty or stamp duty reserve tax (SDRT) paid on the purchase of the ISA investments must be paid out of cash held in the ISA.

(d) The funds generated by the disposal of the investor’s shares must be available to meet the purchase on settlement day (see paragraph 6.14b)

6.14b Where sale and purchase instructions are given on the same day, the settlement date for the sale transaction could be later than the settlement date for the purchase. For example, the sale could be carried out on a T+4 deal while the purchase will be made on a T+2 deal resulting in a 2 day deficit period on the manager’s systems.

Where instructions are given at the same time to match a purchase with a sale, any short period in which the account goes into deficit on the ISA manager’s systems will not breach the ISA rules.

6.14c The subscription date can be the date on which the investor’s units or shares are sold, the settlement date for the purchase or any date in between that the investor chooses, provided condition (d) is met.

6.15 A new ISA opened in this way can therefore be opened in the tax year in which the investor’s shares/units are sold.

For Example

1 Mr. Patel holds 1,000 ord. shares in ABC plc outside his ISA. He instructs his ISA manager to sell the shares, and buy them back in his ISA (Bed and ISAing). The ISA manager sells the shares on the stock market on 15th July 2012, and uses the proceeds to buy shares in the same company. The subscription to the ISA takes place on 15th July 2012 (but see 6.14c for alternative possible dates).

If Mr Patel had waited until, say, 3rd April 2013 to make the transaction, the Share Exchange could still be a 2012-13 subscription as the subscription date is the date on which the shares were sold (3 April 2013). If the settlement day falls in the tax year 2013-14 this would also allow the transaction to be treated as a 2013-14 subscription.
2 Mr Jones holds 1000 ordinary shares in XYZ plc outside his ISA. On 5th April 2013, he instructs his ISA manager to sell the shares, and buy shares in DEF plc in his ISA (not a Bed and ISA). He has also completed (and his manager has accepted) an ISA application for 2012-13. The ISA manager sells the XYZ shares on the stock market on 5th April 2013, but is unable to buy the DEF shares until the following day (6th April 2012). The subscription to the ISA could take place on 5th April 2013 (but see paragraph 6.14c for alternative possible dates).

If Mr Jones ISA application had been for 2013-14, the subscription date could be in the new tax year.

6.16 An investor cannot directly transfer an existing insurance policy into an ISA. However, an existing policy can be surrendered, and the proceeds used to subscribe to an ISA. The surrender would be a chargeable event and the investor may be liable to a taxable gain, unless it is a ‘time served’ qualifying policy. A subscription could also be made from the proceeds of a part-surrender. Part-surrenders may also be chargeable events.

6.17 The proceeds from the surrender or part-surrender of an insurance policy can be subscribed directly to the investor’s ISA if the investor agrees. This also applies where the ISA manager has delegated his ISA functions to an insurer. The insurer may, with the investor’s agreement, retain the surrender proceeds and reinvest them in the ISA. The chargeable event rules will still apply where funds are retained for reinvestment.

6.18 Insurers can write a life insurance policy with an option to substitute an ISA policy. Exercise of the option would be a chargeable event, unless the policy was a ‘time served’ qualifying policy. The investor may be liable to a taxable gain.

**Subscription by transfer of shares**

6.19 Shares can be directly transferred into an ISA if they have been acquired by the investor from a Schedule 3 SAYE option scheme or a Schedule 2 Share Incentive Plan. Shares cannot be directly transferred into an ISA in any other circumstances. (Share Incentive Plans were previously known as Approved Employee Share Ownership Plans.) (Shares could formerly be transferred from an approved profit – sharing scheme but this is no longer the case.)

6.20 Shares or depositary interests representing shares that have emerged from an Schedule 3 SAYE option scheme or a Schedule 2 Share Incentive Plan may be replaced by other investments prior to transfer to an ISA following a company reorganisation or reconstruction. The ISA rules only allow shares or depositary interests to be transferred into an ISA. Other investments, such as loan notes, cannot be transferred. So if the shares or depositary interests representing shares are replaced by investments other than shares or depositary interests the replacement investments cannot be transferred into an ISA. See paragraph 7.62 for the action to be taken following a change in investments after transfer has taken place.

6.21 **The market value** of the shares at the date of transfer counts as the amount subscribed to the ISA. The total of the share value and any other cash subscribed to the ISA must not exceed the subscription limit. ‘Date of transfer’ is the date the manager accepts the shares and will usually be when the manager receives the share certificate.
For Example

Mr. Smith holds 500 ord. shares in XYZ Ltd outside his ISA, acquired from an approved SAYE option scheme. He transfers them into his stocks and shares ISA on 10th October 2012, when their market value is £4,200. He can subscribe an additional £7,080 (the annual subscription limit of £11,280 less the value of the shares) in the tax year 2012-13, of which up to £5,640 can be subscribed to a cash ISA.

6.22 The investor may be able to transfer registered title to shares in an Schedule 3 SAYE option or Schedule 2 Share Incentive Plan directly from the registrar or trustees of the scheme to the ISA manager or the ISA manager’s nominee.

6.23 Schedule 3 SAYE option scheme shall be construed in accordance with the SAYE code (see S516(3) ITEPA 2003). Approved profit-sharing schemes are defined in Chapter IV of Part V of the Income and Corporation Taxes Act 1988. Schedule 2 Share Incentive Plan shall be construed in accordance with the SIP code (see S488(3) of ITEPA 2003).

6.24 ISA managers can obtain further information from the Share Schemes web pages at www.hmrc.gov.uk/shareschemes.

Documentary evidence of shares from Schedule 3 SAYE option schemes and Schedule 2 Share Incentive Plans

6.25 The trustees of the SAYE option scheme or Share Incentive Plan may provide ISA managers with evidence that the shares have been transferred from the schemes. If not, the investor must provide documentary evidence of this to the ISA manager.

6.26 to 

6.28 Blank

6.29 Under the Share Incentive Plan the trustees give the employee notice of the award where they award free, partnership and or matching shares for the employee. The trustees give the employee notice of the acquisition where they acquire dividend shares for the employee. ISA managers may accept a copy of any of these notices as sufficient evidence that the shares have been transferred from this type of scheme.

6.30 ISA managers should not allow transfer of shares into an ISA prior to the receipt of those shares by the investor; even where the investor holds shares equivalent to those that will emerge.

For Example

Mr. Tan holds 1000 ord. shares in XYZ Ltd outside his ISA. He is waiting to receive 1000 XYZ Ltd ord. shares from a savings-related share option scheme. He cannot transfer the 1000 XYZ shares into his ISA until he receives the shares from the scheme.

Time limit for transfer of shares from SAYE option schemes and Share Incentive Plans

6.31 Investors must transfer shares from a Schedule 3 SAYE option scheme into an ISA within 90 days of the exercise of option date.

6.32 Blank
6.33 Investors must transfer shares from a Schedule 2 Share Incentive Plan into an ISA within 90 days after the shares ceased to be subject to the plan.

6.34 Where a withdrawal period applies (see paragraph 5.7), the transfer of the shares to the ISA cannot take place until after the end of the withdrawal period.

**For Example**

Mrs. Okoro has 200 ordinary shares in XYZ Ltd appropriated to her on 1st May 2012 under an approved SAYE option scheme. The release date is therefore 1st May 2012. She transfers them to her ISA manager on 16th May 2012. The ISA manager applies a 7-day withdrawal period for her stocks and shares ISA. The shares are therefore not transferred into the ISA until 24th May 2012. If Mrs Okoro had waited until 28th July to transfer the shares she would not be able to transfer them into her ISA, because the withdrawal period would take her past the 90-day limit.

6.35 Blank

**Valuation of shares transferred from SAYE option schemes or Share Incentive Plans**

6.36 For market value of listed shares, see paragraph 10.8. ISA managers must agree the value of unlisted shares with Shares and Assets Valuation (SAV) before a transfer can be accepted.

Their address is

HMRC Shares and Assets Valuation
Ferrers House
PO Box 38
Castle Meadow Road
Nottingham
NG2 1BB

Fax number: 03000 562705

If you have any general valuation queries, advisers at the SAV enquiry line - 0845 601 5693 – will try to assist where possible.

The enquiry line is open from 8.00am to 4.00pm Monday to Friday.

6.37 Shares and Assets Valuation will need the following information to provide a valuation:

- a copy of the company’s accounts for the last three financial years before the proposed date of transfer, and any subsequent interim statement or declaration of interim dividend for the company’s current financial year,
- a copy of the rules of the SAYE option scheme, or Share Incentive Plan
- an estimate of the value of the shares, with a brief explanation of how that estimate was made, and
- details of any recent arms-length transactions in the shares (including the date of each transaction, the amount of shares sold, and the price paid for each share).
6.38 If the documents and information have been supplied to Shares and Assets Valuation for a previous valuation, reference to that valuation may be sufficient. Shares and Assets Valuation will advise.

6.39 For non-EU shares the value is, normally, the closing price in sterling for the day on which the investor applies to transfer the shares to his or her ISA.

6.40 Shares may be transferred into an ISA pending agreement of their value. If the agreed value takes the shares (and any cash subscribed) over the subscription limit then excess shares, and a matching proportion of any dividends received, must be taken out of the ISA and returned to the investor to hold outside the ISA. The ISA manager must repay any tax credits claimed in respect of the excess shares to SSO, normally by deducting the amount overclaimed from the next claim.

Company reconstructions

6.41 Shares held on behalf of an investor in a Schedule 3 SAYE option scheme or a Schedule 2 Share Incentive Plan may be replaced by new shares because of a company reorganisation or reconstruction. If the new shares are equated with the old shares for the purposes of capital gains tax, then the new shares can be transferred into an ISA as if they were the original shares.

6.42 Where the reconstruction takes place after the shares have been transferred into an ISA, please refer to paragraph 7.62 for guidance.

Stock dividends

6.43 Stock or ‘scrip’ dividends received by trustees of an approved profit sharing scheme must be passed directly to members of the scheme. The dividends cannot be transferred into an ISA and should be declared on the members’ individual tax returns.

6.44 Blank

6.50

Subscriptions that do not count towards the annual subscription limits

Defaulted cash account subscription (cash manager in default)

6.51 Where a cash ISA manager is declared in default by either the FCA or the Financial Services Compensation Scheme (FSCS), the investor may make a single defaulted cash account subscription outside of the annual subscription limits to either a cash ISA or a stocks and shares ISA held by that investor. A defaulted cash account subscription can be made whether or not any compensation is paid to the investor.

6.52 The maximum defaulted cash account subscription is the amount held in the cash account immediately before the default (including any accrued interest). If the defaulted cash account subscription made is less than the maximum allowed, the investor cannot make a later defaulted cash account subscription to make up any, or all, of the shortfall.

6.53 The defaulted cash account subscription must be made in a single payment within 180 days of the default occurring. For defaults occurring in the period 6 April 2011 to 7 August 2012, the defaulted cash account subscription must be made by 3 February 2013.
6.54 The investor must give the following information to the ISA manager accepting the defaulted cash account subscription

- the amount held in the defaulted cash account immediately before the default occurred (including accrued interest), and
- where subscriptions were made to the defaulted cash account in the tax year in which the defaulted cash account subscription is being made
  - the amount of those subscriptions, and
  - the date of the first subscription

For Example

Investor A has a cash ISA with manager X who is declared in default on 30 August 2012 when the account balance (including interest) was £6,250.

Investor A can make a single defaulted cash account subscription of up to £6,250 to either a new or existing cash or stocks and shares ISA without it counting towards the ISA subscription limits. He does not have to wait for any compensation if he has other savings available, but if he subscribes less than £6,250 he cannot make a later defaulted cash account subscription to make up any shortfall.

The defaulted cash account subscription must be made within 180 days of 30 August 2012.

Investor A uses existing savings to make a single subscription of £5,000 with stocks and shares ISA manager Y. He must show manager Y evidence of his account balance with manager X on the date of default (30 August 2012), and provide details of the amount of any subscriptions made to manager X in 2012-13 and the date of the first of those subscriptions.

The evidence investor A could show to manager Y might include

- his ISA statement for 2011-12 accompanied by information showing the later monthly payments
- a copy of a passbook
- a letter from FSCS confirming the account balance at the date of default

6.55 Defaulted cash account subscriptions do not count towards the annual subscription limits and should not be included as subscriptions on annual returns of information (Chapter 14). Details of current year subscriptions, including the date of the first subscription, made to the defaulted cash account manager should be included, as they would be if the account was a transfer in.

6.56 There is no requirement for ISA managers to accept defaulted cash account subscriptions.

Defaulted investment subscription (compensation paid in respect of a stocks and shares component)
6.57 Where an investor with a stocks and shares ISA receives a payment outside the ISA wrapper by way of compensation that is paid in respect of the poor performance, loss, depreciation (or risk of depreciation) of a qualifying investment, the investor may make a single defaulted investment subscription outside of the annual subscription limits. Before 1 July 2014 the defaulted investment subscription must be made to a stocks and shares ISA held by that investor, but from 1 July 2014 the defaulted investment subscription can be made to either a stocks and shares ISA or a cash ISA held by the investor. This does not include compensation paid for poor customer service. If compensation is not paid, or is paid inside the ISA wrapper, a defaulted investment subscription cannot be made.

If the compensation is paid in respect of an investment held in a Junior ISA, the defaulted investment subscription can be made to the stocks and shares Junior ISA held by that investor or to a cash Junior ISA.

6.58 The maximum defaulted investment subscription is the amount of the compensation that was paid. If the defaulted investment subscription made is less than the maximum allowed, the investor cannot make a later defaulted investment subscription to make up any, or all, of the shortfall.

6.59 The defaulted investment subscription must be made in a single payment within 180 days of the compensation being paid. For compensation paid in the period 6 April 2011 to 7 August 2012, the defaulted investment subscription must be made by 3 February 2013.

6.60 The investor must give the following information to the stocks and shares ISA manager accepting the defaulted investment subscription

- evidence of the amount of the compensation payment and the date it was paid
- details of the investment in respect of which the compensation was paid
- the full name, address and postcode of the stocks and shares ISA manager who held the investment in respect of which the compensation was paid, and
- the full name, address and postcode of the person who paid the compensation

6.61 Defaulted investment subscriptions do not count towards the annual subscription limits and should not be included as subscriptions on annual returns of information (Chapter 14).

6.62 There is no requirement for ISA managers to accept defaulted investment subscriptions.

**Defaulted investment subscription in respect of a Lehman Brothers investment**

6.63 An investment is a ‘Lehman Brothers investment’ if;

- it was held in a stocks and shares ISA on 15 September 2008 (the date Lehman Brothers filed for bankruptcy)
- Lehman Brothers acted as the sole counterparty for that investments, and
- the investment was not sold or disposed of on that day
6.64 The maximum amount of the defaulted investment subscription that can be made outside of the subscriptions limits is the greater of

- the value of the investment on 15 September 2008, or
- the total compensation payments that have been made to the investor in respect of the investment.

6.65 Any compensation paid in the period from 15 September 2008 to 7 August 2012 is treated as a single payment of compensation paid on 8 August 2012. A single defaulted investment subscription can be made in respect of this sum within 180 days of 8 August 2012 (by 3 February 2013). If the defaulted investment subscription made is less than the maximum allowed, the investor cannot make a later defaulted investment subscription to make up any, or all, of the shortfall unless he receives a later payment of compensation.

6.66 For each payment of compensation made after 7 August 2012, a further defaulted investment subscription outside of the subscription limits can be made within 180 days of that payment being made. The maximum amount that can be subscribed (see paragraph 6.64) will be increased by the amount of the new compensation payment. In calculating the maximum that can be subscribed, any earlier defaulted investment subscriptions made in respect of the Lehman Brothers investment must be taken into account:

For Example

Mr X had Lehman backed investments with a value of £10,000 in his ISA on 15 September 2008. He received compensation of £6,000 in 2010 which is treated as being made on 8 August 2012 for the purpose of making a defaulted investment subscription. Within 180 days of 8 August 2012 he can subscribe up to the greater of

- the 15 September 2008 value (£10,000) or
- the compensation received between 15 September 2008 and 7 August 2012 (£6,000)

in a stocks and shares ISA outside of the annual subscription limits. Mr X makes a defaulted investment subscription of £7,000 in September 2012.

In October 2012, Mr X receives a further £5,000 compensation. Within 180 days of the payment being made he can make a defaulted investment subscription of up to the greater of;

- the 15 September 2008 value (£10,000) less reinstatements made to date (£7000), i.e. £3000 or
- the total compensation received (£11,000) less reinstatements made to date (£7000), i.e. £4000

in a stocks and shares ISA outside of the annual subscription limits. He makes a defaulted investment subscription of £1,000 in November 2012.

In July 2013 Mr X receives a further compensation payment of £1,000. Within 180 days of the payment being made he can make a defaulted investment subscription of up to the greater of
Chapter 6  ISA Subscriptions

- the 15 September 2008 value (£10,000) less reinstatements made to date (£8000), i.e. £2,000 or
- the total compensation received (£12,000) less reinstatements made to date (£8000), i.e. £4,000

in a stocks and shares ISA outside of the annual subscription limits. He makes a defaulted investment subscription of £3,000 in August 2013.

In this example, compensation of £12,000 has been received and defaulted investment subscriptions of £11,000 made outside the annual subscription limits. No further defaulted investment subscriptions can be made unless a further compensation payment is made.

6.67 The investor must give the following information to the stocks and shares ISA manager accepting the defaulted investment subscription:

- evidence of the amount of the compensation payment and the date it was paid
- details of the investment in respect of which the compensation was paid
- the full name, address and postcode of the stocks and shares ISA manager who held the investment in respect of which the compensation was paid
- the full name, address and postcode of the person who paid the compensation
- the value of the Lehman Brothers investment on 15 September 2008
- the date and amount of any earlier defaulted investment subscriptions that have been made in respect of this investment and
- the name, address and postcode of the stocks and shares ISA manager to whom those earlier defaulted investment subscriptions were made

6.68 Defaulted investment subscriptions do not count towards the annual subscription limits and should not be included as subscriptions on annual returns of information (Chapter 14).

6.69 There is no requirement for ISA managers to accept defaulted investment subscriptions.

**Defaulted investment subscription in respect of a Keydata investment**

6.70 An investment is a 'Keydata investment' if

- the investment was held in a stocks and shares ISA on 8 June 2009
- on that day Keydata Investment Services Ltd was either the ISA manager or administered the account for another ISA manager, and
- the investment was not sold or disposed of on that day
6.71 The maximum amount of the defaulted investment subscription that can be made outside of the subscriptions limits is the greater of

- the amount of the ISA subscriptions that were used to purchase the Keydata investment, or

- the total compensation payments that have been made to the investor in respect of the investment

6.72 Any compensation paid in the period from 8 June 2009 to 7 August 2012 is treated as a single payment of compensation paid on 8 August 2012. A single defaulted investment subscription can be made in respect of this sum within 180 days of 8 August 2012 (by 3 February 2013). If the defaulted investment subscription made is less than the maximum allowed, the investor cannot make a later defaulted investment subscription to make up any, or all, of the shortfall unless he receives a later payment of compensation.

6.73 For each payment of compensation made after 7 August 2012, a further defaulted investment subscription outside of the subscription limits can be made within 180 days of that payment being made. The maximum amount that can be subscribed (see paragraph 6.71) will be increased by the amount of the new compensation payment. In calculating the maximum that can be subscribed, any earlier defaulted investment subscriptions made in respect of the Keydata investment must be taken into account:

For Example

Mr Y had a Keydata investment in his ISA on 8 June 2009 which was purchased with ISA subscriptions totalling £15,000. He received compensation of £8,000 in 2010 which is treated as being made on 8 August 2012 for the purpose of making a defaulted investment subscription. Within 180 days of 8 August 2012 he can subscribe up to the greater of:

- the amount used to purchase the investment (£15,000) or

- the compensation received between 9 June 2009 and 7 August 2012 (£8,000)

in a stocks and shares ISA outside of the annual subscription limits. Mr Y makes a defaulted investment subscription of £9,000 in September 2012.

In October 2012, Mr Y receives a further £8,000 compensation. Within 180 days of the payment being made he can make a defaulted investment subscription up to the greater of

- the amount used to purchase the investment (£15,000) less defaulted investment subscriptions made to date (£9,000), i.e. £6,000, or

- the total compensation received (£16,000) less defaulted investment subscriptions made to date (£9,000), i.e. £7,000

in a stocks and shares ISA outside of the annual subscription limits. He makes a defaulted investment subscription of £6,000 in November 2012.
In July 2013 Mr Y receives a further compensation payment of £1,000. Within 180 days of the payment being made he can make a defaulted investment subscription of up to the greater of

- the amount used to purchase the investment (£15,000) less defaulted investment subscriptions made to date (£15,000), i.e. £NIL or
- the total compensation received (£17,000) less defaulted investment subscriptions made to date (£15,000), i.e. £2,000

in a stocks and shares ISA outside of the annual subscription limits. He makes a defaulted investment subscription of £1000 in August 2013.

In this example, compensation of £17,000 has been received and defaulted investment subscriptions of £16,000 made outside of the annual subscription limits. No further defaulted investment subscriptions can be made unless a further compensation payment is received.

6.74 The investor must give the following information to the stocks and shares ISA manager accepting the defaulted investment subscription:

- evidence of the amount of the compensation payment and the date it was paid
- details of the investment in respect of which the compensation was paid
- the full name, address and postcode of the stocks and shares ISA manager who held the investment in respect of which the compensation was paid
- the full name, address and postcode of the person who paid the compensation
- the amount of the ISA subscriptions used to purchase the Keydata investment
- the date and amount of any earlier defaulted investment subscriptions that have been made in respect of this investment and
- the name, address and postcode of the stocks and shares ISA manager to whom those earlier defaulted investment subscriptions were made

6.75 Defaulted investment subscriptions do not count towards the annual subscription limits and should not be included as subscriptions on annual returns of information (Chapter 14).

6.76 There is no requirement for ISA managers to accept defaulted investment subscriptions.
CHAPTER 7
STOCKS AND SHARES ISAS

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Qualifying investments for stocks and shares ISAs

7.1 Blank

7.2 The investments that managers may purchase, make or hold in a stocks and shares ISA ('qualifying investments') are

- shares (paragraph 7.4)
- securities issued by companies (paragraph 7.8)
- government securities (paragraph 7.17)
  - Core Capital Deferred Shares (CCDS) (paragraph 7.13c)
- securities issued by certain multilateral organisations (paragraph 7.18a)
- units or shares in a UK UCITS (paragraph 7.19)
- units or shares in a qualifying non-UCITS retail scheme (paragraph 7.27a)
- shares and securities in qualifying investment trusts (paragraph 7.28)
- units or shares in a recognised UCITS (paragraph 7.33)
- shares emerging from a Schedule 3 SAYE option scheme or a Schedule 2 Share Incentive Plan (paragraph 7.41)
- depositary interests (paragraph 7.42)
- cash (paragraph 7.49).
- units in a collective investment schemes specified as stakeholder products (paragraph 7.53)
- policies of life insurance made after 5 April 2004 that satisfy the requirements of Chapter 9 – and if acquired before 1 July 2014 subject to the 5% test (see paragraph 7.39)
- policies of life insurance issued before 5 April 2004 that had previously qualified for the separate insurance component
- investments held in a PEP at 5 April 2008 that were qualifying investments under regulation 6(2)(m) of the Personal Equity Plan Regulations 1989 (but see paragraph 7.3)

7.2a Blank

7.3 All PEP investments held at 5 April 2008 qualify as ISA investments on 6 April 2008. Where any of those investments subsequently change, for example where there is a change in the nature of the investments, or a change in the place of listing, the investments will continue to qualify as ISA investments only where
the investments satisfy the ISA qualifying investment rules, or

for investments that have been held continuously since before 6 April 2001, the investments continue to satisfy the pre-6 April 2001 PEP qualifying investment rules

Shares

7.4 Shares, other than shares in an investment trust (see paragraph 7.28), are qualifying investments if

- they are issued by a company (paragraph 7.5) that is incorporated anywhere in the world

- they are
  
  - either officially listed on a recognised stock exchange (paragraph 7.74),
  
  - or are admitted to trading on a recognised stock exchange in the EEA (paragraph 7.75)

- and (if acquired after 6 October 2005 and before 1 July 2014) they satisfy the 5% test (paragraph 7.39)

7.5 "Company" means any body corporate having a share capital other than

- an open-ended investment company within the meaning of section 236 of the Financial and Services and Markets Act 2000

- a UK UCITS (paragraph 7.19), a non-UCITS retail scheme (paragraph 7.27a), or a recognised UCITS (paragraph 7.33),

- an industrial and provident society registered under the Industrial and Provident Societies Act 1965, and

- a body corporate that is a 51 per cent subsidiary (paragraph 7.6) of an industrial and provident society.

7.6 "51 per cent subsidiary" has the meaning given by section 838 of the Income and Corporation Taxes Act 1988.

7.7 Qualifying shares do not include, for example,

- shares that are not officially listed on a recognised stock exchange

- nil paid rights (purchased in the market by the manager)

- warrants to subscribe for shares (but see paragraph 7.31), or

- futures and/or share options

These investments are not qualifying investments and may not be held in a stocks and shares ISA (but see paragraphs 7.3 and 7.41)

Securities
Securities (see paragraph 7.13) other than securities in an investment trust (see paragraph 7.28b), are qualifying investments if

- they have been issued by a company (paragraph 7.5) that is incorporated anywhere in the world

- they satisfy at least one of the three conditions in paragraph 7.10 and

- they satisfy the condition in paragraph 7.12 if they were acquired before 1 July 2014

The three conditions of which at least one must be satisfied are that

- the securities are listed on the official list of a recognised stock exchange (paragraph 7.74), or

- the shares in the company issuing the securities are so listed, or

- the company issuing the securities is a 75 per cent subsidiary (paragraph 7.11) of a company whose shares are so listed

“75 per cent subsidiary” has the meaning given by Section 838 of the Income and Corporation Taxes Act 1988.

The condition that must be satisfied is that, for securities acquired before 1 July 2014, at the date on which the security is purchased by the ISA manager, the terms on which it was issued

- do not require the loan to be repaid or the security to be re-purchased or redeemed within the period of five years from that date, or

- do not allow the holder to require the loan to be repaid or the security to be re-purchased or redeemed within the period of five years from that date, except in circumstances that are neither certain nor likely to occur

This test is not applied to securities acquired on or after 1 July 2014.

For securities acquired before 1 July 2014, managers must apply the 5 year test to each purchase, even where, for example, the security purchased is of the same type as securities already held in a stocks and shares ISA.

“Security” means any loan stock or similar security of a company whether secured or unsecured. Qualifying securities may therefore include

- loans

- loan stocks (whether secured or not)

- debentures, and

- Eurobonds

Managers may hold securities in registered or bearer form.
7.13a For the purpose of the ISA legislation, the European Investment Bank (Banque Européenne d’Investissement) can be regarded as a company. The normal rules on qualifying securities therefore apply to securities issued by the bank.

7.13b Similarly, Permanent Interest Bearing Shares (PIBS) issued by UK Building Societies can be regarded as issued by a company. The normal rules on qualifying securities therefore apply to PIBS.

7.13c Core Capital Deferred Shares (as defined in the Building Societies (Core Capital Deferred Shares) Regulations SI 460/2013) issued by a UK Building Society can be purchased within an ISA on or after 1 July 2014.

7.14 Securities acquired before 1 July 2014 must have a minimum residual term of five years when purchased by an ISA manager (paragraph 7.12). However, for these securities there is no objection to

- terms that allow the company issuing the securities to redeem the loan, whether to re-finance advantageously or in response to changes to withholding or other taxes
- terms that allow the company issuing the securities, or an associate, to repurchase the securities in the market
- call options, typically exercisable, in the case of Euro-convertible bonds, at the five year point by the company issuing the securities, giving them the right to redeem, subject to the holder’s prior right to convert the bond into the underlying ordinary equity
- other similar terms that allow the company issuing the securities to force conversion by serving a notice of intended redemption when a particular percentage of other holders have converted (to tidy up the issue) or the share price has reached a specified price for a specified interval (to cut the borrowing cost), or
- terms that allow the holder to redeem where the borrower defaults, or appears close to insolvency, breaches covenants or other terms written into the bond, changes the nature of its business or exceeds pre-set borrowing limits.

7.15 While securities acquired before 1 July 2014 must have a minimum residual term of five years when purchased by an ISA manager, the manager is not required to hold the securities for five years.

7.16 Managers may find the flowchart at paragraph 7.76 useful in order to determine whether a security is a qualifying security. The flowchart relates solely to securities and not other investments that may or may not be qualifying investments.

**Government securities**

7.17 Government securities are qualifying investments if they are

- gilt-edged securities (“gilts”)
- gilt strips
- securities issued by or on behalf of a government of any EEA State, and
- strips of securities issued by or on behalf of a government of any EEA State
that, if acquired before 1 July 2014, have at least 5 years to run to maturity when purchased by the manager (paragraph 7.14). The 5 year test does not apply to Government securities acquired on or after 1 July 2014.

For example

5% Treasury Gilt 2018 is a qualifying government security as it has more than 5 years to run to maturity.

If it is stripped it will produce (as at 1 July 2011) 14 outstanding gilt coupon strips, and one gilt principal strip. The earliest gilt coupon strip will redeem on 7 September 2011 and the last on 7 March 2018. The principal strip will also redeem on 7 March 2018. At 1 July 2011 only the principal strip and the coupon strips dated 7 September 2016 onwards are qualifying investments as they have more than five years to maturity.

Managers must apply the 5 year test to each purchase made before 1 July 2014, even where, for example, the gilt purchased is of the same type as gilts already held in a stocks and shares ISA.

Securities issued by multilateral organisations

7.18a Securities issued by a multilateral institution (paragraph 7.18b) are qualifying investments if

- the security is listed on the official list of a recognised stock exchange, and
- the security satisfies the condition in paragraph 7.12 if it was acquired before 1 July 2014.

7.18b “Multilateral institution” means an institution that is listed in Part I of Annex 2 to the DAC Statistical Reporting Directive (approved by the Development Assistance Committee of the Organisation for Economic Co-operation and Development).

UK UCITS

7.19 Units or shares in a UK UCITS (paragraph 7.20), or a part of a UK UCITS, are qualifying investments if the units or shares satisfy the 5% test (see paragraph 7.39) if they were acquired before 1 July 2014. The 5% need not be applied to units or shares acquired after that date.

7.19a An “authorised unit trust” is a unit trust scheme where an order under section 243 of the Financial Services and Market Act 2000 is in force.

7.19b “Open-ended investment company” (OEIC) means a company incorporated in the UK to which S236 FSMA 2000 applies.

7.20 “UK UCITS” means a collective investment scheme authorised under section 31(1)(a) of the Financial Services and Markets Act 2000 that complies with the requirements to be a “UCITS scheme” for the purposes of the Collective Investment Schemes Sourcebook (see in particular COLL 1.2.2).

7.21 “Collective investment scheme” has the meaning given by section 235 of the Financial Services and Markets Act 2000.

7.22 (The FCA also authorise collective investment schemes as Qualified Investor Schemes (QIS) but these do not qualify for the ISA.)
Qualifying non-UCITS retail schemes

7.27a Units or shares in a non-UCITS retail scheme (NURS) are qualifying investments if

- the instrument constituting the scheme provides for redemption of the units or shares at least fortnightly (see paragraph 7.27d), and

- the units or shares satisfy the 5% test (see paragraph 7.39) if they were acquired before 1 July 2014. The 5% is not applied to units or shares acquired after that date.

7.27b “NURS” for the purposes of stocks and shares ISAs only, means

a) a collective investment scheme (see paragraph 7.21) to which, or to whose authorised fund manager and depositary, COLL 5.1, 5.4 and 5.6 apply, or

b) a non-UK scheme that is recognised by the Financial Services Authority under section 270 or 272 of the Financial Services and Market Act 2000 that would be such a scheme if it were a UK scheme.

In particular, a non-UCITS retail scheme operating as a Fund of Alternative Investment Funds (FAIF) as referred to in COLL satisfies this definition.

7.27c Schemes that apply ‘limited redemption’ (as defined in the Financial Services Authority COLL Handbook) will not be eligible for an ISA. Nor will any scheme that has a Financial Services Authority waiver to its normal redemption rules.

But this does not remove firms’ abilities to defer redemption, provided this is within the rules set out in the Financial Services Authority sourcebook.

Shares and securities in investment trusts

7.28 Shares in an investment trust are qualifying investments if the investment trust satisfies the requirements for investments (see paragraph 7.29).

7.28a Securities (see paragraph 7.13) in an investment trust are qualifying investments if

- the security satisfies at least one of the three conditions in paragraph 7.10 and

- the security satisfies the condition in paragraph 7.12 if it was acquired before 1 July 2014, and

- the investment trust satisfies the requirement for investments (paragraph 7.29)

7.28b A company is an “Investment trust” if it is such a trust for the purposes of Section 1158 of the Corporation and Taxes Act 2010.

7.29 The requirement for investments is satisfied if not more than 50% in value of the investments held by the investment trust are securities that are not

- qualifying securities (paragraph 7.10) or

- government securities (paragraph 7.17)
There is no requirement that any securities held be otherwise eligible for a stocks and shares ISA. For example, the 50% test would not prevent an investment trust from investing more than 50% of its funds in stocks and shares that are not listed on recognised stock exchanges, or long-dated government securities issued by non-EEA states.

7.30 Warrants in an investment trust are not qualifying investments unless, exceptionally, they are attached to shares purchased by an ISA manager in the course of a public offer (see paragraph 7.31).

7.31 Where managers apply for shares in an investment trust using cash within a stocks and shares ISA, they may retain in the ISA any warrants attached to the shares acquired in the course of the public offer.

7.32 Any warrants received subsequently (for example, new issues of warrants offered to existing shareholders only) cannot be held in a stocks and shares ISA. They must either be sold or re-registered into the investor’s own name (paragraph 7.65).

**Recognised UCITS**

7.33 Units in or shares of a recognised UCITS (paragraph 7.34) or a part of a recognised UCITS are qualifying investments if the units or shares satisfy the 5% test (see paragraph 7.39). *If the units or shares are acquired after 1 July 2014 the 5% test is not applied.*

7.34 "Recognised UCITS" means a collective investment scheme (see paragraph 7.21) that

- is constituted in an EEA state other than the UK
- is a “recognised scheme” within the meaning of Section 264 of the Financial Services and Markets Act 2000, and
- complies with the requirements to be a “UCITS scheme” for the purposes of the Collective Investment Schemes Sourcebook (see in particular COLL 1.2.2)

7.35 The EEA consists of the 27 member states of the European Union (EU), plus Iceland, Liechtenstein and Norway. A list of the member states of the EU can be found at [http://europa.eu/about-eu/countries/index_en.htm](http://europa.eu/about-eu/countries/index_en.htm)

7.36 to 7.38 Blank

**The 5% test (for purchases made before 1 July 2014)**

7.39 The 5% test is satisfied if, at the date of purchase

- there was no guarantee or agreement that the investor would receive 95% or more of their purchase price at any time in the next 5 years, or
- the nature of the investments held did not significantly limit the risk to the investor’s capital to 5% loss or less at any time in the next 5 years

All information available at the time – sales literature, terms and conditions, etc – must be taken into account in determining whether the test is satisfied.
7.40 The test compares the price paid by the investor for the units, shares or policies with the amount receivable on the sale of the units, shares or policies. It therefore applies after any initial, charges, periodical charges, stamp duty and disposal charges. If the amount receivable by the investor is certain or near certain to be 95% or more of the purchase price then the 5% test is not satisfied.

**For Example**

The DEF fund sells shares at £1, and they can be sold at the end of the first year for a guaranteed price of 96p. The shares fail the 5% test, and can only qualify for the cash component of ISA.

The GHI fund offers units for £1, with initial manager’s fees of 3%. Investors are guaranteed to be able to sell the units at 95% of their initial value after 3 years. The investor has paid £1 to acquire a 97p unit, and is guaranteed to receive 95% of that (or 92.15p). The units pass the 5% test (the actual loss to the investor is 7.85%) and qualify for stocks and shares ISAs.

The JKL fund offers shares that are guaranteed to return 100% of the initial purchase price after 5 years and 1 day. The shares qualify for stocks and shares ISAs because the 5% test only applies to returns within 5 years of purchase.

7.40a The 5% test also applies where there is no guarantee, but where the investments held by the fund or UCITS are such as to significantly reduce the risk of capital loss to 5% or less. An example of such a fund is a money market scheme as the risk is significantly reduced. Such investments would only qualify for cash ISAs. A fund that falls in the ‘money market’ sector of the IMA’s sector definition is also likely to fail the test.

**For Example**

The MNO fund was a money market scheme, and has converted to a Chapter 5 UICITS, having the same investment portfolio and strategy. Its units can only qualify for cash ISAs.

**Shares emerging from a Schedule 3 SAYE option scheme or a Schedule 2 Share Incentive Plans**

7.41 Shares acquired by employees, which have emerged from a Schedule 3 SAYE option scheme or a Schedule 2 Share Incentive Plan are qualifying investments for stocks and shares ISAs (paragraph 7.2) and may be transferred directly into a stocks and shares ISA (see paragraph 6.19). This applies even where the shares would not otherwise be qualifying investments (for example, because they are not listed on a recognised Stock Exchange).

**Depositary interests**

7.42 UK regulation requires securities to be electronically settled (in CREST). For companies registered outside the UK, this is achieved through a DI mechanism. The DI is effectively an electronic ‘wrapper’ around the ordinary share, to facilitate securities to be held electronically rather than in paper form. A company applies for DIs representing ordinary shares to be admitted to CREST with effect from its admission to the market.
7.43 When checking the details of international shares officially listed on the LSE or admitted to trading on the Alternative Investment Market (AIM), the descriptor of each security will identify the listed/traded instrument e.g. ordinary shares. Reference to ‘(DI)’ in the descriptor simply confirms that the shares are settled electronically through CREST, and therefore is not relevant in determining ISA eligibility (because it is the shares that are listed/admitted to trading, not the DI).

**Depositary receipts / American Depositary Receipt / American Depositary Share**

7.43a **Depositary Receipts** (DRs) are a type of security and should not be confused with DIs. A DR can be held in an ISA providing the underlying shares represented by the DR are in the beneficial ownership of the holder and are themselves ISA qualifying. It is irrelevant for ISA purposes whether the DR is listed or traded on a RSE. Where the listed/traded instrument is a depository receipt, for example a Global Depository Receipt (GDR), the descriptor will clearly state this. This can be checked on the UKLA Official List for listed investments.

**American Depositary Share/American Depositary Receipt.** An American Depositary Share ("ADS") is a vehicle for foreign corporations to list their ordinary equity on an American stock exchange. Foreign corporations are not permitted to make direct secondary listings on American stock exchanges, so this form of indirect ownership has been devised. ADSs enable U.S. investors to buy the securities of a foreign company without the accompanying risks or inconveniences of cross-border and cross-currency transactions.

ADSs are dollar denominated and each share represents one or more underlying shares in the foreign corporation. An American Depositary Receipt (ADR) is a physical certificate evidencing ownership in one or several ADSs. The terms ADR and ADS are often used interchangeably.

The decision of the First Tier Tribunal in the Stamp Duty Reserve Tax case of HSBC Holdings and Bank of New York Mellon v Commissioners for HMRC, UKFTT 163 (TC) has shown that in some cases where an ADR is involved, beneficial ownership may not rest with the underlying investor.
Where a DR is issued in the UK the HMRC view is that the holder of a DR is the beneficial owner of the underlying investment(s), so the DR can be a qualifying investment.

Where a DR is issued outside the UK the question of whether the holder of the DR is the beneficial owner of the underlying investment(s) will be determined by reference to the law of the territory in which the DR is issued. Information on beneficial ownership may be provided to investors by the depository. Where the relevant law means that the holder of a DR is not the beneficial owner of the underlying investment(s), the DR cannot be a qualifying investment that can be held in a stocks and shares ISA.

Where beneficial ownership of the underlying investment(s) cannot conclusively be determined by reference to the law governing the arrangements relating to the issue of the DRs, for tax purposes HMRC will continue to determine beneficial ownership according to its understanding of the principles of UK law. This means that HMRC will continue to apply its longstanding practice of regarding the holder of a DR as holding the beneficial interest in the underlying investment(s).

ISA managers should therefore check the terms & conditions and any other documentation related to the DR for any reference to the beneficial ownership of the underlying investment(s). In the absence of any conclusive information to show that the holder of the DR is not the beneficial owner of the underlying investment(s), the ISA manager can assume that the holder of a DR is the beneficial owner, so the DR can be a qualifying investment.

7.44 Where the holder of the DR is the beneficial owner of the underlying investment(s), a practical test that managers can apply to determine whether the DR is a qualifying investment is to look through the DR to the underlying investment(s) represented by the DR. This might require looking through intermediaries. If all the underlying investments (other than cash) would be qualifying investments for a stocks and shares ISA if held directly by the investor, the DR will be a qualifying investment.

If the investor holds an ADS/ADR that is traded on a US stock exchange the underlying investment is the shares represented by the ADS/ADR. If these shares are officially listed on a recognised stock exchange (see paragraph 7.74), the ADS/ADR will be a qualifying investment for stocks and shares ISA (provided that the 5% test is satisfied – see paragraph 7.39).

In some cases the investor cannot hold shares directly, for example, when the shares are issued in the form of a Global Note. The test should then be applied as if the investor were capable of holding the shares.

7.45 Shares emerging from a Schedule 3 SAYE option scheme and a Schedule 2 Share Incentive Plan can be transferred to a stocks and shares ISA. DIs representing such shares can also be transferred into an ISA. This includes the case where the shares are converted to DIs before they emerge from the scheme. The 90-day transfer period applies to DIs in the same way as to shares (paragraph 6.31).

7.46 The ISA regulations list investments that can be held in an ISA. They do not list those that cannot be held. In the same way, we cannot produce a complete list of DIs that do not qualify. The following lists a few DIs that would not qualify
• DIs representing short term loan notes
• DIs representing cash, and
• DIs representing a basket of investments where any of the investments would not qualify for an ISA

**Cash**

7.47 An investor’s cash subscription and any other cash held in a stocks and shares ISA may be held only in sterling (but see paragraph 7.48) and must be deposited in

• an account with a deposit-taker, or
• a deposit account or a share account with a building society

that is designated as an ISA account.

In practice, managers can operate a single account – which may also hold other savings products, such as cash ISA, feeder fund and current account balances - provided

• the account is designated as an ISA account, and
• the monies relating to each investor’s ISA are recorded and can be accounted for separately.

7.48 Where a manager is a European Institution or relevant authorised person (paragraph 2.10), cash may be held in the currency of the EEA state in which he has his principal place of business.

7.49 Cash may be held in an ‘adult’ stocks and shares ISA, and before 1 July 2014, can only be held for the purpose of investment in qualifying investments (paragraph 7.2).

Where, before 1 July 2014, a manager believes that cash in an ‘adult’ stocks and shares ISA is not being held for the purpose of investment in qualifying investments he should follow the guidance at paragraph 10.32.

7.50 Investors are not liable to UK income tax on interest paid on cash on deposit held in a stocks and shares ISA.

7.51 Interest paid on cash on deposit held in a stocks and shares ISA is not subject to the Tax Deduction Scheme for Interest and should be credited by the deposit-taker or building society without deduction of tax. But before 1 July 2014 it is subject to a flat rate charge of 20%, which should be accounted for by the ISA manager and paid to HMRC (paragraphs 13.16 or 13.31). Managers should not include details of the interest on their Section 17/18 Returns. The flat rate charge does not apply after this date.

This treatment also applies to interest credited on or after 6th April 2008 to former PEPs that were reclassified as stocks and shares ISA on that date, irrespective of whether some or all of the interest may have accrued before that date. The flat rate charge does not apply after 30 June 2014.
The treatment of interest arising on cash on deposit where

- an investor dies is explained in paragraphs 12.11 and
- a ISA is made void is explained in paragraph 12.29

Units in collective investment schemes specified as stakeholder products

Units in a collective investment scheme (see paragraph 7.21) specified as a stakeholder product by regulation 5 of the Stakeholder Products Regulations are qualifying investments but if they were acquired before 1 July 2014, the units must satisfy the 5% test (see paragraph 7.39).


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Shares being brought to listing

Managers may apply for shares being brought to listing on an investor’s behalf, using cash from within a stocks and shares ISA provided

- the shares are being issued in a public offer
- the shares will be qualifying shares (paragraph 7.4) or shares in a qualifying investment trust (paragraph 7.28) within 30 calendar days of the date on which they are allotted or allocated, and
- the shares are not allocated in connection with the allocation of other shares, securities or units

A public offer is an offer open to the public at large. It includes

- an offer for sale, or
- an offer for subscription

It does not include

- an intermediaries offer, or
- a placing

Blank

An “offer for sale” is an invitation to the public by, or on behalf of, a third party to purchase securities of the issuer. It may be in the form of an invitation to tender at or above a stated minimum price.

An “offer for subscription” is an invitation to the public by, or on behalf of, an issuer to subscribe for securities of the issuer. It may be in the form of an invitation to tender at or above a stated minimum price.
An “intermediaries offer” is a marketing of securities by means of an offer by, or an behalf of, the issuer to intermediaries for them to allocate to their own clients. Where shares are offered through a limited number of intermediaries but any member of the public is able to apply for shares using the named intermediaries, the offer is open to the public at large and will be treated as a public offer rather than an intermediaries offer.

A “placing” is a marketing of securities to specified persons or clients of the sponsor or any securities house assisting in the placing, which does not involve an offer to the public or to existing holders of the issuer’s securities generally.

7.59 If the application for shares is funded by monies from both inside and outside a stocks and shares ISA, the shares acquired should be apportioned accordingly. This also applies to the return of monies due to an offer being over-subscribed.

**Shares paid for in instalments**

7.60 Managers must meet any instalment due after the shares are in a stocks and shares ISA from funds within that ISA, (possibly by making a cash subscription to that ISA). The instalment payments may not be funded from cash held in any other ISA, or from cash outside the ISA.

7.61 Where an investor has subscribed the maximum for the tax year in which a subsequent call is due, ISA managers will have to sell sufficient investments within the stocks and shares ISA to pay the call.

**Changes to investments held in a stocks and shares ISA**

7.62 The most common examples of a change to an investment are

- takeovers
- demergers
- capital reorganisations (other than a rights issue or bonus issue)
- rights issues, and
- bonus issues

7.63 Investors may take up any offer to shareholders in respect of investments held in a stocks and shares ISA. Whether the resulting investments can be held in the ISA will depend on whether they are qualifying investments (paragraph 7.2).

7.64 Where the new investments are qualifying investments, they can remain in a stocks and shares ISA.

7.65 Where the new investments are not qualifying investments, managers must, within 30 calendar days of the date on which they became non-qualifying investments, either

- sell them (in which case the proceeds can remain in the stocks and shares ISA), or
- transfer them to the investor to be held outside the ISA.
7.66 Complex reorganisations often involve more than just the issue of one set of new investments. There could, for example, be a bonus issue of shares, which are replaced in turn by other shares, which are then sold, or converted to other investments. If the intermediate investments are not qualifying investments for a stocks and shares ISA then, strictly, the final investments, or cash proceeds, cannot be held in a stocks and shares ISA even if the final investments themselves are eligible.

7.67 However, where ineligible investments are issued as an intermediate stage, and those investments are short-lived, or are automatically replaced by cash, SSO will consider whether it is possible to look through the intermediate stages and apply the guidance at paragraph 7.2 to the initial and final investments alone. If a reorganisation involves intermediate ineligible investments managers should submit full details to savings.audit@hmrc.gsi.gov.uk, and if possible well before the planned reorganisation date.

7.67a Where there are income and capital options available to an ISA investor, the ISA manager can select the income option (whether by choice or default) if any resulting (non-qualifying) deferred shares will be either cancelled or purchased for a negligible amount at some stage in the future (albeit not within the usual 30 days).

Rights issues and other offers to shareholders

7.68 ISA managers may use only

- cash within a stocks and shares ISA, or
- further cash subscribed within the subscription limits (paragraph 6.1)

...to take up rights issues and other offers for qualifying investments within the ISA.

An investor may give an ISA manager sufficient cash to take up the offer outside the ISA, provided the ISA manager immediately transfers the investments to the investor to be held outside the ISA.

7.69 Blank

7.70 Any proceeds received from lapsed rights in respect of an investment held in an ISA (or a JISA) may be paid into the ISA (and must be paid into the JISA). The payment is not a subscription and does not count towards the annual subscription limit.

Bonus issues

7.71 Managers may add to a stocks and shares ISA, bonus issues of shares or units received in respect of an investment held in the ISA, provided they are qualifying investments. Such bonus issues do not count towards the ISA subscription limit.

7.72 Where they are non-qualifying investments, managers should follow the guidance at paragraph 7.65.

7.73 However, where the bonus issue is derived from, and the shares are of the same type as, those transferred from a Schedule 3 SAYE option scheme, approved profit-sharing scheme or a Schedule 2 Share Incentive Plan, these may be added to the ISA even though they are non-qualifying.
Recognised Stock Exchanges

7.74 "Recognised stock exchange" means

a) any market of a recognised investment exchange which is for the time being designated as a recognised stock exchange for the purposes of Section 1005 of the Income Tax Act 2007 by an order made by the Commissioners for HM Revenue and Customs, and

b) any market outside the United Kingdom which for the time being so designated.

It includes the London Stock Exchange and any such stock exchange outside the UK as is designated in an Order of HMRC.

A list of stock exchanges that have been designated as “recognised stock exchanges” can be viewed on the HMRC website at http://www.hmrc.gov.uk/fid/rse.htm.

The phrase "listed on a recognised stock exchange" in respect of shares and securities is now defined at section 1005(4) Income Tax Act (ITA) 2007 and means shares and securities which are admitted to trading on that exchange and included in the official UK list maintained by the Financial Services Authority as the UK Listing Authority or are officially listed in a qualifying country outside the UK in accordance with provisions corresponding to those generally applicable in EEA states.
7.75 Shares admitted to trading on EEA markets included in Tables 1 and 2 of http://www.hmrc.gov.uk/fid/rse.htm can qualify for the stocks and shares ISA if they satisfy the other requirements in paragraph 7.4.

**Interaction with other tax reliefs**

Company shares which became newly eligible for ISA inclusion as a result of this change will remain eligible for the Enterprise Investment Scheme (EIS), the Venture Capital Trust (VCT) scheme, and Inheritance Tax Business Property Relief (BPR). However, if an investor already holds company shares which are traded on a newly qualifying market these cannot simply be moved into an ISA. If an investor sells an investment that currently qualifies for EIS, VCT or BPR, and their ISA manager uses the proceeds to purchase a replacement holding of the same shares for investment in an ISA, the effect would be that:

- for **EIS**, the sale of the original holding will be a disposal for the purpose of the provisions for withdrawal of EIS Income Tax reliefs. The new holding will qualify for EIS relief only if it is **new** shares in a qualifying company

- for **VCT**, the sale of the original holding will be a disposal for the purpose of the provisions for the recovery of VCT tax reliefs. The new holding will qualify only for dividend relief and Capital Gains Tax exemptions under the VCT rules

- for **BPR**, there would be two ownership periods, one for the original holding and one for the ‘new’ holding in the ISA wrapper. Provided the combined ownership period was more than two years, BPR would be available on the replacement holding.
7.76 QUALIFYING SECURITY CHECK

START

Is the investment a security (paragraph 7.8)?)

YES

Is the security issued by a company (paragraph 7.5) or a qualifying investment trust (paragraph 7.30)?

YES

Are the shares in the company issuing the securities listed on the official list of a recognised stock exchange (paragraph 7.74)

YES

Are the securities listed on the official list of a recognised stock exchange (paragraph 7.74)

NO

Is the company issuing the securities a 75% subsidiary (paragraph 7.11) of a company whose shares are listed on the official list of a recognised stock exchange (paragraph 7.74)

This box only applies if the security was acquired before 1 July 2014

At the date on which the security is first held under an ISA do the terms on which it was issued

(a) require the loan to be repaid or the security to be re-purchased redeemed within the period of five years from that date?

OR

(b) allow the holder to require the loan to be repaid or the security to be re-purchased or redeemed except in circumstances which are neither certain nor likely to occur within the period of five years from that date (paragraph 7.12)?

YES

NO

QUALIFYING
## CHAPTER 8

### CASH ISAS

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Qualifying investments for cash ISAs

8.1 Qualifying investments for the cash ISA are

- cash deposited in
  - a deposit account or share account with a building society,
  - a deposit account with a credit union or
  - a deposit account with a bank other than of a type at section 991(a), (d) or (e) Income Tax Act 2007 (including for this purpose a credit union – see paragraph 8.3a).

that is designated as an ISA account


- alternative financial arrangements falling within S47 and 49 FA 2005 (paragraph 8.3b)

- securities, other than National Savings certificates, premium savings bonds, National Savings stamps and National gift tokens, issued under the National Loans Act 1968 or the National Savings Bank Act 1971, on terms that provide for them to be held in the cash component of an ISA

- money market funds as defined in COLL 5.9.5

- short-term money market funds as defined in COLL 5.9.3

- If acquired before 1 July 2014, units or shares in
  - a UK UCITS scheme (paragraph 7.20), or
  - a non-UCITS retail scheme (paragraph 7.27a), or
  - a recognised UCITS (paragraph 7.33)

that would otherwise have been eligible for the stocks and shares ISA but failed the 5% test (paragraph 7.39)

- If acquired before 1 July 2014, units in a collective investment scheme specified as a stakeholder product by regulation 5 of the Stakeholder Product Regulations that would otherwise have been eligible for the stocks and shares ISA (paragraph 7.53) but failed the 5% test (see paragraph 7.39)

- If acquired before 1 July 2014, shares in a company (paragraph 7.5) that would otherwise have been eligible for the stocks and shares ISA but failed the 5% test (paragraph 7.39)

- If acquired before 1 July 2014, policies of life insurance made after 5 April 2004 (paragraph 9.1) that would otherwise have been eligible for the stocks and shares ISA but failed the 5% test (paragraph 7.39)
8.2 In practice, managers can operate a single account – which may also hold other savings products, such as stocks and shares ISA, feeder fund, and current account balances - provided

- the account is designated as an ISA account, and
- the monies relating to each investor’s ISA are recorded and can be accounted for separately.

8.3 The Tax Deduction Scheme for Interest does not apply to income arising on investments held in the cash ISA.

8.3a A ‘Credit Union’ is a society registered as a credit union under the Industrial and Provident Societies Act 1965 or the Credit Unions (Northern Ireland) Order 1985. A Credit Union regulated by the FCA and subject to the Financial Services Compensation Scheme can provide ISA cash component products.

8.3b An ‘alternative finance arrangement’ is an arrangement falling within S47 and 49 FA 2005 (savings products providing similar types of return to a deposit savings account). It covers products such as Shari’a accounts that do not pay interest.

8.4 to 8.5 Blank

8.6 Connected Accounts

Where at any time, a cash ISA is connected with another savings account that is not an ISA, a Junior ISA or a Child Trust Fund, it will cease to be a qualifying investment and where appropriate, income tax at the basic rate should be deducted from any interest paid or credited to the account from that date.

8.7 A cash ISA is connected with another account if either was opened with reference to the other, or with a view to

- enabling the other to be opened on particular terms, or
- facilitating the opening of the other on particular terms

and the terms on which the cash ISA was opened would have been significantly less favourable to the investor if the other had not been opened.

8.8 HMRC will accept that an account is not a connected account if it is a “feeder” account opened to enable investors to fund future deposits into an ISA, provided that the interest on the feeder account is in line with the interest paid on the ISA manager’s other savings accounts. Such feeder accounts should not be included on ISA managers’ returns of information.

8.9 HMRC will not use the ‘connected accounts’ rule in cases where the terms of the connected accounts are the same. For example, where an ISA manager offers an instant access cash ISA paying interest at x% on condition that the investor invests £10,000 in an instant access deposit account paying interest at x%, the ‘connected accounts’ rule would not be applied. But where an ISA manager offers a cash ISA paying interest at (x + 5)% on condition that the investor invests £10,000 in a deposit account paying interest at (x - 5)% the ‘connected accounts’ rule would be applied.
# CHAPTER 9

## LIFE INSURANCE POLICIES IN ISAs

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Qualifying Investments

9.1 Insurance policies that qualify to be held in the ISA (see conditions below) initially fall into the stocks and shares ISA, as with other types of collective investment, but, if acquired before 1 July 2014, were subject to the 5% test at paragraph 7.39. Policies that satisfied the 5% test qualified for the stocks and shares ISA and those that don’t qualified for the cash ISA. From 1 July 2014, insurance policies qualify for the stocks and shares if it satisfies the requirements set out in this chapter.

Where the conditions of the policy provided the investor with an option or options to change the policy terms the potential impact of those options were taken into account when ascertaining whether the 5% test was satisfied. In particular, the test was not confined to the terms of the policy at the outset and the test was applied on the assumption that each option in the policy would be exercised by the investor at any time.

Policies of life insurance

9.2 A policy of life insurance (as determined under general law) is eligible to be included in the ISA if the following conditions are satisfied.

a. The policy is on the life of the ISA investor (paragraph 9.4).

b. The policy’s terms and conditions state that

- the policy may be owned or held only as a qualifying investment for an ISA
- the policy shall terminate automatically if it ceases to be owned or held in the ISA (paragraph 9.5)
- the policy, or the rights conferred by the policy or any share or interest in the policy or rights respectively, other than the cash proceeds from termination or part surrender of the rights conferred, cannot be transferred to the investor, and
- the policy, the rights conferred by the policy and any share or interest in the policy or rights respectively, are not capable of assignment or assignation (other than that the policy may be transferred from one ISA manager to another in accordance with the normal rules on ISA transfers – see chapter 11)*, and the rights may vest in the personal representatives of a deceased investor (paragraph 3.22).

* Title to the policy and any policy documents should be transferred to the investor as part of the transfer arrangements.

c. The policy evidences or secures a contract of insurance that either falls within paragraph I or III of Part II of Schedule 1 to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, or would fall within either of those paragraphs if the insurer was a company with permission under Part 4 of the Financial Services and Markets Act 2000 to effect or carry out contracts of insurance (for example, if the body is an EU insurer providing insurance on a services basis and subject to home state authorisation in accordance with Article 6 of the First Council Directive 79/267/EEC) (paragraph 9.8).

d. The policy is not
a contract to pay an annuity on human life

a personal portfolio bond within the meaning of section 516 of Income Tax (Trading and Other Income) Act 2005, or

a contract, the effecting and carrying out of which constitutes “pension business” within the meaning of Section 431B(1) of the Taxes Act

e. After the first payment in respect of a premium in relation to the policy has been made, there is no contractual obligation on any person to make any other such payment (paragraph 9.10).


9.3 Where an ISA policy fails any of the conditions at paragraph 9.2, the policy must be removed from the ISA (paragraph 9.27).

9.4 A policy of life insurance for the ISA must be on the life of the ISA investor alone. Joint life, multiple life and life of another policies are not permissible as a qualifying investment for the ISA. No special policy documentation is needed for ISA purposes other than that normally required under general law to evidence a contract between the policyholder and the insurer.

9.5 Where

- the conditions relating to policy loans (paragraph 9.18) or connected policies (paragraph 9.14) have been fouled, or
- any of the qualifying conditions including those applicable to the investor or the ISA manager are not satisfied, for example where an investor was not eligible to subscribe to the ISA (paragraph 3.4)

the ISA is “void” and the policy should automatically terminate (paragraph 9.30).

9.6 ISA managers may set a minimum limit for subscriptions, which if not reached would allow the insurer to terminate the policy (for example, a minimum limit of £500 premiums to be paid within 3 years).

9.7 ISA policies may give higher returns where

- a certain limit has been reached, or
- further or regular subscriptions (premiums) are paid

9.8 An ISA policy may satisfy the requirement that it falls within paragraph I or III of Part II of Schedule 1 to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (paragraph 9.2) if it includes subsidiary benefits such as a sickness, critical illness, accident or waiver of premium benefit. Payment of subsidiary benefits would not require a policy to terminate.
9.9 Subject to the connected policy rules (paragraph 9.14), an ISA policy may incorporate an option to take out another policy, whether an ISA policy or a non-ISA policy, without the need for further medical evidence. See paragraph 9.1 with regards to the 5% test and the option.

9.10 Where ISA subscriptions are applied as premiums under an ISA policy, and the subscriptions are payable in instalments, there must be no obligation to pay any instalment (or any premium) other than the first one. But this does not prevent subscriptions being made by direct debit or standing order arrangements. Regular premium policies including 'qualifying policies' (Schedule 15 ICTA 1988 defines a 'qualifying policy') are not permissible investments.

9.11 The ISA may comprise a number of policies of life insurance. A cluster of policies may be issued in respect of a single subscription. Separate policies may be issued each year. This may have advantages if any invalid subscriptions are made and policies have to be terminated or if an investor wants to transfer part of the investment to a new ISA manager. The policies should be genuinely independent and free-standing.

9.12 The rights conferred by an ISA policy must be in the beneficial ownership of the investor. They cannot be put into trust.

9.13 Where a policy is surrendered or has paid benefits on maturity, ISA managers may use the proceeds to take out one or more new policies. Proceeds used in this way will not count towards the subscription limit.

Connected policies

9.14 An ISA policy must not be connected with any other policy or contract of insurance. An ISA policy is connected with another policy or contract of insurance if either was made with reference to the other, or with a view to

- enabling the other to be made on particular terms, or
- facilitating the making of the other on particular terms, and

the terms on which the ISA policy was issued would have been significantly less favourable to the investor if the other insurance had not been issued.

9.15 HM Revenue and Customs will accept that an ISA policy is not connected with another policy if

- a "feeder" insurance is used to enable investors to fund future ISA policy premiums and the initial charges that would otherwise apply to the ISA policy are waived, or
- an existing insurance is surrendered and an ISA policy is substituted and the initial charges that would otherwise apply to the ISA policy are waived

9.16 There is no requirement to apply discontinuation penalties or a Market Value Adjustment.

9.17 The connected policy rule is aimed at preventing the avoidance of tax by, for example, shifting value from a taxable insurance policy or contract to an ISA policy. HM Revenue and Customs will not use this provision in cases where the terms of the policies are the same.
For Example - a valid ISA policy

An insurer may offer an ISA policy

- with an allocation rate of 100 plus x%
- paying a bonus rate of y%, and
- with an establishment charge of z%

on condition that the investor takes out a taxable policy of life insurance with a minimum premium of £10,000.

Such a policy may be a qualifying investment for the cash ISA because of the guaranteed return available on the ISA policy (see paragraph 7.39).

Note - The rates and charges may vary depending, for example, on the total amount invested. For example, “x” may be 1 for a total of £5,000, 2 for a total of £10,000, provided the same percentage applies to both policies. The rates or charges, where only the ISA policy is taken out, may be less (for example, an allocation rate of only 100%).

For Example – an invalid ISA policy

An insurer could not offer an ISA policy with an allocation rate of 105 plus x% on condition that the investor takes out a policy of life insurance with a minimum investment of £10,000 with an allocation of 95 plus x%.

An insurer could not offer an ISA policy with a bonus rate of y plus 5% on condition that the investor takes out a policy of life insurance with a minimum investment of £10,000 with a gross of tax bonus rate of y minus 5%.

An insurer could not offer an ISA policy with an establishment charge of z minus 5% on condition that the investor takes out a policy of life insurance with an establishment charge of z plus 5%.

Note - The increase in the allocation or bonus rate or the establishment charge does not need to correspond exactly with the decrease in the rate or charge applicable to the other policy for policies to be connected. So in the first example, where the allocation rate would be 100% if only the ISA policy was effected, the policies would be connected if the allocation rate for the ISA policy was 105% and the rate for non-ISA policy was 104%.

Loans

9.18 No sum may be lent at any time, at or after the making of the insurance, to or at the direction of the investor by or by arrangement with the body for the time being responsible for the obligations under the policy (but see paragraph 9.19).

9.19 In practice, if a loan is made and it is formally secured upon a policy or contract that is not the ISA policy there is no requirement to terminate the ISA policy. But note the connected policy rules (paragraph 9.14) and the chargeable event rule (paragraph 9.36).
9.20 An insurer cannot arrange a mortgage loan for an investor unless the loan is secured upon a policy or contract that is not the ISA policy. This would not prevent another company in the same group as the insurer granting a mortgage loan to the investor provided this was not arranged by the insurer, but see paragraph 10.48 about using an ISA as security for a loan.

9.21 to 9.25 Blank

9.26 Voiding and removing policies of life insurance in ISAs

9.26 A policy of life insurance is a qualifying investment for the stocks and shares ISA or the cash ISA provided it meets the qualifying conditions (paragraphs 9.1 & 9.2). The qualifying conditions must be written into the contractual terms of the policy.

**Wrong sort of policy**

9.27 A policy of life insurance which does not satisfy the qualifying conditions (paragraph 9.2) - the wrong sort of policy - does not qualify as an ISA investment and will automatically terminate. There is no provision under any circumstances for 'repairing' the policy and allowing it to continue.

9.28 Examples of the wrong sort of policy include, a policy

- on a life or lives other than that of the account investor
- that does not include in its contractual terms the terms and conditions regarding ownership and termination, or
- that does not constitute the right sort of insurance business or the right sort of policy

9.29 Insurers should not provide the wrong sort of policy as an ISA investment.

**Policy in a void ISA**

9.30 Where the policy meets the qualifying conditions (paragraph 9.2) but it is found that

- a subscription is invalid
- the application to subscribe is incorrect
- the policy is connected with another policy (paragraph 9.14), or
- the conditions relating to policy loans are fouled (paragraph 9.18)

the policy must terminate, unless it has already been surrendered, matured or paid out on death before the failure is discovered.

9.31 The policy will terminate in accordance with the contractual terms, on notice of the failure coming to the ISA manager.

The policy does not terminate

- when the failure actually occurred, which may have been at inception or some time subsequently, or


- on notice of the failure coming to the insurer (unless the insurer is also the ISA manager).

9.32 Where there is a failure, the policy is in a void ISA and must terminate. A policy that ended on surrender, maturity or death was in a void ISA if the qualifying conditions were fouled at any time during its existence.

9.33 Where the ISA manager is not the insurer, ISA managers must notify the insurer of the failure within 30 days of it coming to his notice. Notice may be given in writing or in some other way. Because the policy terminates when notice comes to the ISA manager, not when the insurer learns of the failure, which may be later, information should be passed on without delay. Otherwise the insurer may be exposed to an investment risk, for example, if the market were to crash between the date the policy terminates and the date the insurer is notified by the ISA manager.

9.34 Where an insurer is notified of, or identifies, a failure the information should be passed on to the ISA manager.

9.35 A policy in a void ISA remains part of the ISA business of the insurer throughout its existence. The condition that the policy must only be owned or held as a qualifying investment for an ISA is treated as being satisfied throughout the period from inception to either the notice of the failure coming to the ISA manager or the policy ending on surrender, maturity or death, as appropriate.

**Chargeable events**

9.36 The special rules that tax gains on policies of life insurance, often known as the chargeable event rules, are used to recover tax reliefs that were not due on a policy in a void ISA. Tax liability may arise on the forced termination of the void policy and on any previous chargeable events that took place before the failure or before the ISA manager learns of the failure.

9.37 Where the ISA manager learns that a policy is held in a void ISA, the policy must terminate if it has not already come to an end on death, surrender or maturity. In either case, what is called a “termination event” arises. This is the earliest of

- the failure coming to the notice of the ISA manager, and
- the coming to an end of the policy.

9.38 A termination event arising as a result of a failure is deemed to be a chargeable event, namely the surrender of all the rights under the policy. The gain on a termination event must be calculated as if the policy was fully surrendered on the date of the termination event, that is when the failure came to the notice of the ISA manager, or the date on which the policy ended if that occurred earlier.

The exemption from tax on chargeable event gains on ISA policies does not apply to gains on termination events or any excess events which have arisen as a result of part surrenders of the policy before the termination event. But the exemption remains for the actual full surrender (as opposed to the deemed full surrender on the termination event) or maturity of the policy, or the death of the investor.

An example of gain calculations on a policy in a void ISA is given below in paragraph 9.49
9.39 Insurers must tell the investor about gains treated as arising by reason of a termination event and excess events that have occurred in connection with a policy in a void ISA. The insurer must send this information within three months of the insurer receiving notice of a failure, either in writing from the ISA manager or some other person, or in some other way. It may be necessary for the insurer to submit a number of certificates to a particular investor if there have been one or more excess events as well as a termination event.

9.40 The insurer must include the following information on each certificate which it sends to the investor:

- Policy or contract number

- Nature of event

- Date of event (which for termination events will be the date on which it occurred and for excess events the last day of the insurance year in which the relevant part surrender or part surrenders were made)

- Amount of the gain

- Number of years for top-slicing relief

The insurer does not need to issue a certificate to the investor when no gain arises by reason of a chargeable event. If there is a corresponding deficiency as a result of the event (paragraph 9.48), the insurer may also report the amount of the deficiency to the investor, if it wishes.

9.41 In order for the investor to complete his or her SA return, the investor will also need to know the amount of tax deducted (at the basic rate – 20% in 2014-15) in respect of each gain. The manager is required to report separately the amount of tax deducted – see paragraph 13.31.

However, there is no objection to the insurer including on the certificate it sends to the investor the amount of tax deducted in relation to the gain being reported. This would mean that all the information the investor would need to complete the SA return would be set out in one document. But insurers should note that tax deducted is completely separate from “tax treated as paid” which insurers report on gains from UK policies not held in ISAs and which must not be reported on certificates for gains on policies in ISAs. Gains on policies in ISAs do not attract tax treated as paid.

9.42 Exceptionally an insurer may also have to report a gain on a void policy to HM Revenue and Customs. The insurer is only required to report the gain to HMRC when the amount of the gain exceeds half the basic rate limit for the year of assessment in which the event took place (i.e. gain more than £17,300 in 2007-08).

9.43 Should the insurer be required to send a certificate to HMRC, it must include on the certificate the information set out in paragraph 9.40 plus the name and address of the investor. The insurer should send the HMRC certificate to SSO (see paragraph 1.5).

The time-limit for reporting a gain on a void policy to HMRC is **the later of**

- three months after the end of the tax year in which the event happened and
three months from the date that the insurer first becomes aware of the termination event, either in writing or in some other way

No certificate is required where the gain is not more than half the basic rate limit for the tax year in which the event took place.

9.44 Insurers that are not also the ISA manager may wish to copy the information certificate to the ISA manager or provide the ISA manager with information about the gains in some other way. ISA managers should though be able to calculate gains from information in their own possession.

9.45 ISA managers must normally account for tax on any gains on a void policy at the basic rate in force for the year of assessment in which the chargeable event occurred. But SSO will recover tax due directly from the investor where

• there are insufficient funds left in the ISA, or

• an ISA has been closed before the ISA manager is aware that a recovery may be necessary

ISA managers must still provide details to investors – see paragraph 9.40 - within 30 days of it coming to the ISA manager's notice.

9.46 ISA managers must keep a record of gains arising on void policies on a tax year basis.

9.47 Where appropriate, ISA managers should account for the tax by deducting the amount due from their next claim to SSO (paragraph 13.29).

9.48 Corresponding deficiency relief will be due to an investor if there are gains on excess events as a result of earlier part surrenders that exceed the overall gain on a policy in a void ISA. It is a relief that may reduce an individual's liability to tax at the higher rate. It is not a relief from tax at the basic rate. Insurers are aware that large part surrenders may lead to this sort of result and may wish to bear it in mind in structuring their products and deciding what response they should make to a request for a large part surrender.

9.49 Example of gains calculations on a policy in a void ISA

Transactions

• Policy taken out 10 September 2005 and held within an ISA. It is not a cash-like policy under the 5%-test and so is held in a stocks and shares ISA (see paragraph 9.1)

• Premiums of £1,000 paid into this policy on 10 September each year until 2008, that is, a total of £5,000

• Withdrawal of £500 through a part surrender on 3 March 2007

• It comes to notice of ISA manager (who is also the insurer) on 15 November 2008 that the ISA rules have been breached because investor has invested in a stocks and shares ISA with another provider earlier in the same tax year (say on 1 July 2008). The surrender value of the policy on 15 November 2008 is £6,000

• Under the terms of the policy, it is terminated soon after on 22 November 2008
Consequences

- The part surrender of £500 gives rise to an excess event on 9 September 2007 (the end of insurance year). The gain is £350 (£500-[5%×1000+5%×2000]). As the ISA is valid at that time, the ISA tax exemption still applies to this gain, although the subsequent voiding of the ISA will bring it into charge later.

- A ‘termination event’ arises on 15 November 2008 (the day that the ISA manager receives notice of the failure). This is deemed to be a surrender chargeable event on that day and a chargeable event gain must be calculated as if the policy had been fully surrendered on that day.

- The taxable gain on termination event is:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surrender value on 15 Nov 2005</td>
<td>6000</td>
</tr>
<tr>
<td>plus earlier withdrawal</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>6500</td>
</tr>
<tr>
<td>less total premiums paid</td>
<td>5000</td>
</tr>
<tr>
<td>less gain on earlier excess event</td>
<td>350</td>
</tr>
<tr>
<td></td>
<td>1150</td>
</tr>
</tbody>
</table>

- This event and gain, and the earlier excess event and gain of £350, which is now taxable, must be reported to the investor on chargeable event certificates by 14 February 2009 (three months from the termination event).

- The ISA manager must deduct tax at the basic rate of 20% from the gains on the termination event (£1150) and the excess event (£350), a total of £300, pay it to HMRC and report the amount to the investor.

- There are no taxable consequences of the actual termination of the policy on 22 November 2008. Together, the taxable gains on the termination event and the excess event account for the tax on the gains on the policy.
CHAPTER 10

MANAGING AN ISA

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<table>
<thead>
<tr>
<th>Topic</th>
<th>Sections</th>
</tr>
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<tr>
<td>Charge by way of equitable mortgage</td>
<td>10.50 to 10.51</td>
</tr>
<tr>
<td>Mere equitable charge</td>
<td>10.52 to 10.55</td>
</tr>
<tr>
<td>Stock lending</td>
<td>10.56 to 10.58</td>
</tr>
<tr>
<td>Child Maintenance Deduction Orders</td>
<td>10.59</td>
</tr>
</tbody>
</table>
Delegation of the manager's functions

10.1 Managers may arrange for a third party to carry out some or all of their administrative functions. But where administrative functions are delegated, managers remain responsible for the operation of the ISA.

For Example

An ISA manager who is not a deposit taker may choose to delegate the administration of his cash ISAs to a deposit taker. The ISA manager could receive subscriptions from the investor and hold them in an account with the deposit taker. Alternatively the ISA manager and the investor may arrange for the investor to pay subscriptions direct to the deposit taker. The account with the deposit-taker would be in the name of the investor. But the ISA manager would remain responsible for ensuring that subscription limits are not breached.

10.2 Managers may offer non-discretionary ISAs, where the investor makes investment decisions. In these circumstances, managers remain responsible for ensuring that investments purchased are qualifying investments.

Investment rules

10.3 Managers must make purchases out of cash held in the ISA at the time the investments are paid for and must not allow an ISA to go into a cash deficit (but see paragraph 10.4).

However, where instructions are given at the same time to match a purchase with a sale, any short period in which the account goes into deficit on the ISA manager’s systems will not breach the ISA rules.

For Example

An investor instructs the ISA manager to sell shares in company A and use the proceeds to purchase shares in company B. The sale is carried out on a T+4 deal while the purchase is made on a T+2 deal, resulting in a 2 day deficit period on the manager’s systems. This deficit is not regarded as breaching the ISA rules.

10.4 Where a manager also acts as the manager of an authorised unit trust, subscriptions to be used to purchase units in that authorised unit trust may be deposited in an account that is not designated as an ISA account.

10.5 Managers may not purchase investments from

- the investor, or
- the investor’s husband, wife or civil partner

so that they become investments in an ISA to which the investor subscribes or has subscribed.

10.6 Managers who offer non-discretionary ISAs may act on investment instructions given by the investor on the telephone, provided paragraph 10.3 is satisfied.

The open market price rule

10.7 Managers must buy and sell ISA investments at the open market price.
Purchasing investments

10.8 The open market price of investments, other than units or shares in qualifying authorised funds, is the price for which those investments might reasonably be expected to be purchased in the open market (see paragraph 10.20).

10.9 Where an authorised fund is a dual priced unit trust, the open market price for purchases of units is the price of the relevant class of units within the meaning of chapter 6.3 of the Collective Investment (COLL) Sourcebook.

10.10 Where an authorised fund is a single priced unit trust or an open-ended investment company, the open market price is the price of the relevant class of units within the meaning of chapter 6.3 of the COLL Sourcebook.

10.11 Managers may purchase units and shares in tranches to meet the aggregate requirements of investors. Where the rules of the FCA require him to attribute a uniform price by calculating a weighted average of the prices paid for all transactions in the same allocation period, then that uniform price may be treated as the open market price.

10.12 In any other case, where managers make a series of purchases, each ISA involved must reflect its share of each purchase price. An “average” price may not be used.

Selling investments

10.13 Managers must sell ISA investments at the price they might reasonably be expected to be sold in the open market.

10.14 Policies of life insurance in an ISA cannot be sold.

Withdrawals from an ISA

10.15 Investors have the right to withdraw their investments (or, where the manager offers partial withdrawal, part of their investments) by request to the manager (see paragraph 4.30).

10.16 Withdrawals do not affect ISA subscription limits. An investor who has subscribed the maximum permitted may make no further subscriptions, regardless of withdrawals (see paragraph 6.4).

10.17 Investments, and the income and proceeds from investments, held in an ISA may normally be paid to the investor without any deduction for tax.

There is one exception. Interest on cash on deposit in a stocks and shares ISA is subject to a flat rate charge of 20% if paid before 1 July 2014 (see paragraphs 10.29 – 10.31). The charge must be deducted when the interest is paid (paragraph 7.51) and then paid to HMRC (paragraphs 13.16 or 13.31).

10.18 The treatment of interest withdrawn where

- an investor dies is explained in paragraph 12.11
- an ISA is made void is explained in paragraph 12.47, and
- a policy of life insurance is paid late is explained in paragraph 12.17
Chapter 10 Managing an ISA

Withdrawals of investments from a stocks and shares ISA

10.19 On the transfer to an investor of an investment, the manager must provide the investor with details in writing of the market value (paragraphs 10.20 to 10.22) of the investment as at the date of withdrawal.

10.20 For shares or qualifying securities listed in The Stock Exchange Daily Official List, managers should take the value computed by reference to Section 272 Taxation of Chargeable Gains Act 1992. That is, normally, either

(a) halfway between the highest and the lowest prices (commonly referred to as the “middle market” quotation) at which bargains, other than bargains done at special prices, were recorded in the shares for the relevant date, or

(b) the lower of the two prices shown in the quotations for the shares in The Stock Exchange Daily Official List on the relevant date plus one-quarter of the difference between those two figures (commonly referred to as the “quarter up rule”).

Managers should take the amount at (a) unless

- it is greater than the amount at (b), or
- there were no such bargains as at (a)

In those circumstances they should take the amount at (b).

If the London trading floor was closed on the relevant date, managers should determine the market value by reference to the previous date or earliest subsequent date on which it is open, whichever affords the lower market value.

10.21 The market value of units is the price at which unit trust managers are prepared to buy units from unit holders, known as the “bid” price. Unit trust managers publish this price on a daily basis. Where the bid price was not published at the date for which the valuation is required, managers should use the bid price on the latest day before. Managers should note that the market value is not reduced by exit, redemption or withdrawal fees.

10.22 The market value of shares in open-ended investment companies is the price at which the company is prepared to buy shares from shareholders. Open-ended investment companies publish this price on a daily basis. Where the price was not published at the date for which the valuation is required, managers should use the price on the latest day before.

Withdrawals of insurance investments from an ISA

10.23 Life insurance policies cannot be withdrawn from the ISA by the investor. The proceeds from termination of the policy - or the partial surrender of the rights in the policy - may be withdrawn.
Cash withdrawal by cheque

10.28 An ISA investor may make a withdrawal by cheque but then want to reverse the transaction before the cheque is presented.

When the manager processes the withdrawal request, the funds leave the ISA wrapper so that the manager can issue the cheque. Even if the cheque is not presented, once a withdrawal request has been processed the funds sits outside the ISA wrapper and can only re-enter the ISA as a fresh subscription (which will count towards the annual limit and will be subject to the headroom that the investor has available).

Withdrawals of cash from a stocks and shares ISA

10.29 Interest paid on cash on deposit held in a stocks and shares ISA is not subject to the Tax Deduction Scheme for Interest and should be credited without deduction of tax. But it is subject to a flat rate charge of 20% if it is paid before 1 July 2014, which should be accounted for by the ISA manager and paid to HMRC.

10.30 Where appropriate, ISA managers should account for the flat rate charge by deducting the amount due from their next claim to SSO (paragraphs 13.16 and 13.31). ISA managers should not include details of the interest on Section 17/18 Returns.

10.31 Investors are not otherwise liable to income tax on interest paid on cash on deposit in a stocks and shares ISA. The flat rate charge is not repayable to non-taxpayers.

Cash withdrawn from an ISA in error

10.31a Cash withdrawn from an ISA in error by the investor (or the investor’s agent) cannot normally be reinstated.

There is one exception, cash withdrawn in error by the investor (or the investor’s agent) may be reinstated where

- the investor (or the agent) was attempting to transfer the ISA, and
- the old ISA manager (or the new ISA manager) incorrectly advised the investor (or the agent) to withdraw the funds invested with the old manager and pay them into an ISA with the new manager

10.31b If a manager believes that an investor (or the investor’s agent) withdrew money from an ISA during an attempted transfer because they gave incorrect advice, they should e-mail savings.audit@hmrc.gsi.gov.uk, requesting approval to reinstate the cash removed from the ISA in error.

The application should be entitled application to reinstate money removed from an ISA in error – GN 10.31b and should contain the following information.
• Name of ISA Manager
• Customer name
• The circumstances giving rise to the error
• Evidence of the investor's (or the agent’s) intention to transfer the ISA (a copy of the transfer form, a letter or e-mail requesting the transfer, or a transcript of a telephone call in which the transfer was discussed)
• Evidence of the incorrect advice given (copies of the relevant correspondence, a transcript of a telephone call in which the incorrect advice was given, or where the advice was given in a face-to-face meeting, a statement signed by the member of staff who gave the incorrect advice)

If SSO are satisfied that the money was removed from the ISA (or the ISA was closed) wholly because of manager error they will authorise the manager to reinstate the money removed in error (or reinstate the ISA).

They may also charge a penalty under the rules for simplified voiding (paragraph 17.51).

10.31c Cash withdrawn from an ISA in error by the ISA manager may be reinstated (along with any additional compensation to cover lost interest or dividends) without reference to SSO where the investor (or the investor’s agent) gave the manager clear instructions and the manager misinterpreted these instructions and

• withdrew money from (or closed) the investor’s ISA in error, or
• withdrew money from (or closed) another investor’s ISA in error. (For example, John Smith instructs the manager to remove £3,000 from his ISA and the manager instead removes £3,000 from James Smith’s ISA and pays it to John Smith.)

However, managers may not reinstate where the investor's (or the agent’s) instructions were unclear or were capable of being misunderstood.

Managers should retain evidence justifying their decision to reinstate cash withdrawn from an ISA in error without reference to SSO with the investor’s ISA records and make them available at the next audit to the HMRC auditor.

10.31d If a manager is not sure whether the investor's (or the agent's) instructions were clear or were capable of being misunderstood he should e-mail savings.audit@hmrc.gsi.gov.uk, requesting approval to reinstate the cash removed from the ISA in error.

The application should be entitled application to reinstate money removed from an ISA in error – GN 10.31d and should contain the following information

• Name of ISA Manager
• Name of the Third Party Administrator (if appropriate)
• Customer name
• The circumstances giving rise to the error.
If SSO are satisfied that the money was removed from the ISA (or the ISA was closed) wholly because of manager error they will authorise the manager to reinstate the money removed in error (or reinstate the ISA).

They may also charge a penalty under the rules for simplified voiding (paragraph 17.51).

SSO will monitor the requests they receive, as this may be an indication of potential systems problems. They may also use them to inform their risk based audit program. Managers should therefore retain copies of the correspondence with the investor’s ISA records as evidence that the reinstatement was authorised by SSO.

**Uninvested cash held in a stocks and shares ISA**

**General**

10.32 Before 1 July 2014 cash can only be held in a stocks and shares ISA for the purpose of investment in qualifying investments (paragraph 7.2). It may not be held for the sole purpose of sheltering interest arising on cash deposits from tax. **From 1 July 2014, this restriction falls away.**

Until 1 July 2014 managers should therefore monitor all stocks and shares ISAs, to ensure that cash on deposit is held for the purpose of investment in qualifying investments. This includes the situation where the investor is awaiting a suitable investment opportunity.

Where they are not satisfied that this is the case, managers should follow the procedures set out in paragraphs 10.34 and 10.35 (unless there is a discretionary agreement in place, in which case see paragraph 10.33).

10.33 **Until 1 July 2014,** if a stocks and shares ISA is managed under a discretionary agreement, the ISA manager should satisfy himself, on a regular basis, that the discretionary manager understands that cash should only be held for the purpose of investment in qualifying investments.

10.34 **Until 1 July 2014,** where, under the rules of the manager’s regulatory body, a report is to be sent to the investor, the manager should write to the investor and

- explain that cash may be held in a stocks and shares ISA only in order to purchase other qualifying investments

- ask the investor to confirm that the cash is being held for the purpose of investment in other qualifying investments

- advise the investor that if the cash is not invested, HMRC may require the manager to return the cash to the investor.

10.35 If the manager has received no instructions by the time the next report is issued he should send a reminder to the investor. **A reminder will not be needed after 1 July 2014.**

10.36 Provided managers follow the procedures set out in paragraphs 10.34 and 10.35 HMRC will accept that they have complied with their obligations under the regulations in relation to cash on deposit in a stocks and shares ISA. Managers may wish to program their systems to trigger a review of particular cases. **This will no longer be required after 1 July 2014.**
Income held pending payment to the investor

10.37 **Prior to 1 July 2014,** where an investor wishes to take income from a stocks and shares ISA, the manager’s system may accumulate income received over a period of time (often three or six months) pending pay away. In strictness, this cash should not be retained in the ISA (because it is not held for the purpose of investing in qualifying investments). In practice, however, managers may retain the cash in ISA provided it is paid out to the investor on a regular basis, not remaining in the ISA for more than twelve months. **This requirement falls away at 1 July 2014.**

Compensating investors

**Delay in purchasing (or selling) specific investments as required under the customer agreement**

10.38 Where, in error, a manager fails to purchase (sell) specific investments within an ISA as required under the customer agreement, and the value of those investments has subsequently increased (decreased), the manager may be liable to, or agree to, compensate the investor. Compensation to put the investor in the position he (she) would have been in had the investment been purchased (sold) at the right time may be paid into the ISA. The payment will not count towards the subscription limit and should not be recorded as such; however the manager should retain evidence of the circumstances in which the compensation was paid.

**Delay in transferring an ISA**

10.38a Any compensation paid in respect of a delay in transferring an ISA, in order to put the investor in the position he (she) would have been in had the ISA been transferred without delay, may also be paid into the ISA. The payment will not count towards the subscription limit and should not be recorded as such; however the manager should retain evidence of the circumstances in which the compensation was paid.

**Delay in opening an ISA, or in accepting a subscription**

10.39 Any compensation paid in respect of a delay in opening an ISA, or in accepting a subscription to an ISA must be paid to the investor outside the ISA as the funds in question are not held within the ISA wrapper (unlike paragraphs 10.38 and 10.38a). The compensation can be subscribed to the ISA by the investor but will count as a subscription for all purposes.

**Pre-funding UK income tax reclaimable from SSO to an ISA**

10.45 Managers may pre-fund UK income tax reclaimable from SSO to an ISA. Pre-funding may take place on or after the date on which the payment of taxed income is received by the manager, but not before that date.

10.46 Where managers pre-fund, they must keep adequate records to identify all income distributed and tax claimed.

Manager’s fees and charges
Managers may choose to charge the investor for services they perform while managing an ISA.

- Fees related to the administration of the ISA, such as charges for opening, maintaining or closing an ISA, or arranging for the investor to receive copies of annual reports and accounts or to attend General Meetings, can be paid from funds held outside the ISA, if the investor so wishes and the manager agrees.

- Charges related to the purchase and sale of ISA investments, such as dealing commission charges, stamp duty, and the initial charge made by a unit trust manager when purchasing units in a unit trust (or by the authorised corporate director of an OEIC when purchasing units or shares in an OEIC), must be met from funds within the ISA.

A simple test managers can apply is to ask themselves whether the charge would still be levied (at the same or another rate) had the investor made the purchase (or sale) outside the ISA.

- If it would, the charge is part of the cost of acquiring (or disposing of) the investment and must be met from funds within the ISA.

- If it would not, the charge is part of the cost of managing the ISA and can therefore be paid from funds held outside the ISA.

Rebated fees and charges

HMRC have published a brief on the tax treatment of payments of 'trail commission' passed on to investors in Collective Investment Schemes and other associated investment products including life insurance policies. You can find a copy at:

http://www.hmrc.gov.uk/briefs/income-tax/brief0413.htm

Any enquiries on this brief and on the tax treatment of rebates paid in respect of ISA investments should be directed to john.buckeridge@hmrc.gsi.gov.uk.

Where the commission is in respect of an ISA investment, the guidance below on reinvesting it into an ISA will apply, but the general position is that commission paid in respect of an ISA investment is not taxable and if it is paid to the ISA manager who reinvests it within the ISA, it will not count as a fresh subscription (as the payment has never left the control of the ISA manager it is treated as being within the ISA wrapper). If the commission is paid out to the investor or to a 3rd party, it has left the ISA wrapper and can only re-enter it as a fresh subscription.

Where a (gross) cash rebate is paid in a case which involves an ISA repair/void or where the investor is deceased, the manager should notify the investor or the estate of the gross payment details and inform them that it is their responsibility to declare the payment to HMRC.

Reimbursed commission
This occurs when a Fund Manager pays a percentage of their AMF (annual management fee) to the introducing agent/IFA. This payment is a payment made to the introducing agent/IFA for the retention of the business. There is no agreement with the investor for a fee reduction.

These monies are not considered to be the investor’s funds and therefore are not a permitted credit to the ISA other than by way of a subscription. The rebate is being paid outside the ISA to a third party (the introducing agent/IFA). If the introducing agent/IFA decides to pass some or all of the rebate to the investor it can only go into the ISA as a fresh subscription.

AMF rebate

This occurs when the Fund Manager has an agreement with the ISA manager - who in turn has an agreement with the investor - to charge a reduced AMF on a fund.

Where, because of procedural restrictions, only a single AMF charging facility exists, the Fund Manager will refund the AMF overcharge to the ISA manager. The ISA manager then will reimburse each investor’s ISA to put them in the position they would have been in had the correct (reduced AMF) been charged. This reimbursement is not a fresh subscription and does not count towards the annual subscription limit as the payment has never been paid out of the ISA wrapper to the investor.

For example, the fund has a fixed fee of 3% but the manager negotiates either a reduced fee of 2% or ‘such reduction as he can negotiate’. The agreement with the investor is for a 2% fee or such reduced fee as can be negotiated. The rebate can remain in the ISA without counting as a fresh subscription.

AMF rebate (WRAP platforms containing a CASH account)

Where the investor holds several different investment types, including an ISA, on a WRAP platform and the WRAP platform contains a CASH account, the rebate may be paid into the CASH account (which does not affect the ISA) or (if it is paid in respect of an ISA investment) directly into the ISA account, in which case it does not count as a fresh subscription.

If the rebate is paid into the CASH account, the WRAP manager may then transfer that part of the rebate that relates to an ISA investment to the ISA account. If he does, the transferred rebate will not count as a fresh subscription.

New RDR rules

Where less is deducted from the customer's payment than before (whether directly, or because the commission is diverted back to the customer in the form of units instead of being paid to the adviser), this does not count as an additional subscription to the ISA. However, where the rebate is paid outside the ISA wrapper to the customer as cash, including into a (non-ISA) cash account (pending the FCA’s proposed ban on cash rebates) and the customer chooses to invest that amount into the product, that payment would be a new ISA subscription. If the rebate stays with the ISA manager and is not paid to the ISA customer before it is reinvested in the ISA, it will not count as a new subscription.
For example

Currently, (pre-RDR), a provider receives the customer's subscription - say £100. He deducts £5 (£2 commission to pay to the adviser, and £3 management charge) and pays £95 into the ISA. Once the RDR rules are in force, he will no longer be able to pay commission to the adviser. So he will deduct £5 but divert £2 of that £5 back into the product to buy additional units. This will not be an additional subscription from the customer - the customer's contribution is still £100, but less is deducted by the provider than before. The situation would be different if the amount was paid to the customer as cash (perhaps into a non-ISA cash account) pending the ban on cash rebates the FCA intend to introduce. If the customer then chose to pay the cash into the product - it would count as a new subscription.

Where an adviser chooses to give up trail commission he has earned for pre-RDR advice, so that he can have a single remuneration agreement with the customer, the payment is from the adviser to the customer (even though paid indirectly via the provider), so this would count as a new ISA subscription, and would count towards the annual ISA subscription limits.

Using an ISA as security for a loan

10.48 It is a requirement of the ISA regulations that

- the ISA investments remain in the beneficial ownership of the investor
- the investor can transfer his or her ISA or make withdrawals, without restriction, and
- the manager, in the case of a discretionary ISA, can make purchases and sales without restriction

There are various types of charge a lender may require in connection with a loan.

Charge by way of a legal mortgage

10.49 Except where a manager is an ISA insurer manager, title to ISA investments must be vested in the manager or his nominee or jointly in one of them and the investor. Where the manager is an ISA insurer-manager, title to ISA investments must be vested in the investor. It would not be consistent with either requirement for an investor to charge, or a manager to permit him to charge, investments by way of a legal mortgage, that is by transferring the title on the register of shareholders or unit holders to the chargeree.

Charge by way of equitable mortgage

10.50 Except where a manager is an ISA insurer-manager, share certificates or other documents evidencing title to ISA investments must be held by the manager or as he may direct. The phrase “as he may direct” means that the manager has power to direct holding of title documents by a custodian subject to any further directions he may give from time to time. So, once a manager had allowed deposit of the relevant certificate with the mortgage title documents with an equitable mortgage he would be powerless to give further directions until the mortgage terminated. Where the manager is an ISA insurer-manager, the policy document or other documents evidencing title to ISA investments must be held by the investor.
10.51 An equitable mortgage of shares or units is effected by a deposit of the relevant certificate with the mortgagee. A manager therefore cannot consent to the investor creating, or join with him or her in creating, a charge by way of equitable mortgage.

**Mere equitable charge**

10.52 Similar constraints do not arise where an investor creates an equitable charge. The charge could be held either on his or her beneficial interest in the ISA investments or, where necessary, with the assistance of the manager, on the investments themselves.

10.53 A charge, as distinct from a mortgage, does not pass either an absolute or a special property in the subject of the security to the creditor or any right to possession, but only a right of realisation by judicial process in the case of non-payment of the debt. If the charge was by deed the chargee would have certain statutory powers under Section 101(1) of the Law of Property Act 1925 in that respect. If not he or she would have to apply to the Court.

10.54 If the debt was not paid and the creditor sought to realise the charged property, beneficial ownership by the investor would, of course, cease when his or her interest in the investment was sold or when a Receiver was appointed. In those circumstances the ISA would become invalid.

10.55 HMRC have no objection if a borrower agrees with a lender (not the manager) that he or she will not withdraw his or her investments whilst the loan remains outstanding. A manager may also accept a power of attorney in favour of the lender to exercise its security if the borrower is in default.

**Stock lending**

10.56 Stock lending is a transaction where somebody “borrows” securities from another person by taking a transfer of the securities from that person in order to enable him or her to fulfil a contract to sell securities of that kind to a third person. In return he or she promises to transfer securities of the same kind to the person from whom he or she has “borrowed” the securities that have gone to the third person and to compensate the “lender” for any dividends which would have been received during the loan period when he or she does so.

10.57 “Lending” of this sort by a manager is not compatible with his or her duties as an ISA manager. The title to investments must be vested in the ISA manager or his or her nominee, or jointly in one of them and the investor, the share certificate must be held by the manager or as he or she may direct and, above all, the investments must be in the beneficial ownership of the investor. None of this is compatible with an arrangement under which the investments are sold to a third person and subsequently replaced by different investments of the same kind.

10.58 This does not prevent an investment trust manager from engaging in stock lending of the investments held by the trust, as the title to the investments held in the ISA does not change. Lending of fund investments in exchange for short-lived securities may lead the fund to fail the 50% test (see paragraph 7.35a).

However, for the purposes of the 50% test, investments held by an investment trust that have been transferred under a stock lending arrangement (as defined in section 263B TCGA 1992) will be deemed to be held by the trust until the arrangement is concluded. The collateral received in exchange for the transferred investments should not be included as part of the investments of the trust, scheme or UCITS for the purposes of the 50% test.
Child Maintenance Deduction Orders

10.59 The Child Support Collection and Enforcement (Deduction Orders) Amendment Regulations 2009 enable the Child Support Agency (CSA) to claim money from the accounts of customers who have outstanding debts with them. The CSA will instruct financial institutions to freeze a lump sum for a 21-day appeal period. After this period the money will either be paid over to the CSA or, if the appeal was successful, the freezing order will be cancelled.

Where an enforcement order is attached to an ISA account the funds will remain in the beneficial ownership of the investor during the 21-day appeal period. The ‘frozen’ funds may therefore remain in the account and the account will remain an ISA. If the manager transfers the sum covered by the enforcement order to a suspense account pending resolution of the appeal, that sum can be paid back into the ISA without counting as a fresh subscription if the appeal is successful and the enforcement order is cancelled.
CHAPTER 11

TRANSFERRING AN ISA

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Transferring an ISA

11.1 Investors have the right to transfer their ISAs whenever they want and this right must be included in the manager's ISA terms and conditions (see paragraph 4.30). They do this by making a Transfer Application to the new manager (paragraph 11.15a); they cannot transfer an ISA by closing it and paying the proceeds into a new ISA with the new ISA manager. A Transfer Application can be made by someone holding a mandate from the investor (see paragraph 5.29 and 11.15a).

However, ISA managers are not obliged to accept transfers in.

11.2 Until 30 June 2014, subscriptions to a stocks and shares ISA can only be transferred to another stocks and shares ISA but from 1 July 2014 subscriptions to a stocks and shares ISA can be transferred to either a stocks and shares ISA or a cash ISA.

However, subscriptions to a cash ISA can be transferred to another cash ISA, or to a stocks and shares ISA.

11.3 Blank

11.4 The terms of a transfer should be agreed between the investor and both ISA managers.

11.5 Where an ISA is transferred all the tax benefits are preserved.

11.6 Investments and/or cash transferred are not new subscriptions.

11.7 Subject to the ISA terms and conditions of both ISA managers, the old manager may transfer

- the ISA investments, in which case the new manager must re-register the investments in accordance with his terms and conditions (paragraph 4.30), or
- cash, or
- any combination of the two

11.8 ISA managers must transfer investments and/or cash direct to new ISA managers. If the investments and/or cash are transferred to the investor, this will be treated as a withdrawal (see paragraph 6.4).

11.9 ISA managers must keep a record of ISAs they transfer out, including the original or a certified copy of the application(s) to subscribe or in the case of applications not in writing, the declaration made by the manager (paragraph 4.19), for three years after the date of transfer.

11.10 Before 1 July 2014, the old ISA manager must account for the flat rate charge on interest paid or credited up to the date of transfer on cash held in a stocks and shares ISA (paragraphs 10.29 to 10.31).

11.11 Blank

What amounts can be transferred?

11.12 An investor can transfer
all of the current year’s ISA subscriptions, the investments bought with those subscriptions, and any income arising on those investments (current year account),

and/or

some or all of the previous years’ ISA subscriptions, the investments bought with those subscriptions, and any income arising on those investments (prior years account).

11.12a Where current year subscriptions are being transferred from a cash ISA to a stocks and shares ISA, or, from 1 July 2014, from a stocks and shares ISA to a cash ISA, the current year subscriptions

- are transferred in whole (including any related income), and

- are treated for all ISA purposes as if they had been made to the receiving ISA manager.

This means that the investor is regarded as never having subscribed to the original ISA so, subject to the annual subscription limits (see paragraph 6.1) the investor may subscribe to another ISA of the type that has been transferred later in the current year (with the same or a different manager) without breaching the one–ISA-of-each-type-a-tax-year rule (see paragraph 3.14).

For Example (cash to stocks and shares transfer)

Mr Rosen subscribes

- £2,000 to a cash ISA with Manager A in May 2011, and

- £1,000 to a stocks and shares ISA with Manager B in June 2011.

The cash ISA with Manager A is credited with £20 interest in July 2011.

In August 2011 he decides to transfer the current year subscriptions to his cash ISA from Manager A to Manager B. The whole £2,020 is transferred. And since the date of the first payment in to the cash ISA pre-dates the date of the first payment to the stocks and shares ISA, Manager B updates his records to show the date of the first payment in the current tax year as May 2011.

Mr Rosen is now regarded as having subscribed £3,000 to the stocks and shares ISA with Manager B and nothing to the cash ISA with Manager A.

In October, Mr Rosen decides to top-up his subscriptions. He subscribes

- £3,600 to a cash ISA (with any manager, not necessarily Manager A), and

- £600 to his stocks and shares ISA with Manager B.

If the cash ISA subscription is made to Manager A, the two Managers’ Annual Returns of Information (see Chapter 14) will include the following entries
• Manager A – a subscription of £3,600 to a cash ISA, the date of the first payment in the tax year being October 2011

• Manager B - a subscription of £3,600 to a stocks and shares ISA, the date of the first payment in the tax year being May 2011.

11.13 If the investor has requested that the current year account be transferred, and that account can be identified, the whole of the current year account must be transferred.

For Example

Mrs Turner subscribes £2,000 to a stocks and shares ISA in year 1. The subscription is used to buy 1,000 ABC shares. In year 2, she subscribes a further £3,000 and buys 3,000 XYZ shares. Later in year 2 she sells 1,000 XYZ shares for £1,500, and withdraws that amount from her ISA. She then decides to transfer her current year account to another manager. The current year account is made up of the 2,000 XYZ shares, plus any dividends or other income arising on all the XYZ shares.

11.14 If the investor has requested that the current year account be transferred, but that account cannot be identified, it may be regarded as cash and investments whose total value is anywhere between two limits. The two limits are:

• the total amount subscribed in the current year plus a reasonable apportionment of any income arising on that subscription (upper limit), and

• the total amount subscribed in the year less withdrawals in the year, (lower limit). If the withdrawals exceed subscriptions the lower limit is nil.

If the total value of the cash and other investments held in the ISA are less than the lower limit, then all the cash and investments count as current year.

For Example

For simplicity this example ignores any income arising on investments.

Mr Carpenter subscribes £4,000 to a stocks and shares ISA in year 1. The subscription is used to buy 2,000 ABC shares. In year 2, he subscribes a further £5,000 buys 4,000 XYZ shares and a further 500 ABC shares. Later in year 2 he sells 1,000 XYZ and 1,000 ABC shares for £2,000 and withdraws £1,000. His ISA now holds £1,000 cash, 3,000 XYZ shares and 1,500 ABC shares. At this time the XYZ shares are worth £3,000, and the ABC shares £1,500. If he wishes to transfer his current year account Mr Carpenter can transfer any combination of shares and cash between the upper limit and the lower limit.

The upper limit is £5,000 (the amount subscribed in the current year).

The lower limit is £4,000 (the £5,000 subscribed in the current year, less the £1,000 withdrawn).

11.15 Where an investor wants to transfer all or part of the prior year account, the manager should calculate the lower limit, and subtract that from the total value of the investments and cash in the ISA. Some or all of the remainder can be transferred as a prior years account.
If the total value of the cash and other investments held in the ISA is less than the lower limit, all investments and cash held must be treated as a current year account and there is no prior years account to transfer.

**For Example**

For simplicity the following examples ignore any income arising on investments.

i. Mr Carter has subscribed £4,000 in the current year to a stocks and shares ISA, and has withdrawn £5,000. His upper limit is therefore £4,000 and the lower limit is nil. The total value of all the cash and investments held in the ISA is £15,000. He can therefore regard any investments and cash up to the value of £15,000 as a prior year account.

If he decides to transfer £10,000, he can

- treat the £10,000 as a prior years account. In this case the old manager will enter ‘X’ in the Type of ISA box on the transfer form, and the current year account will stay with the old manager, or
- treat £4,000 as the current year account, and £6,000 as a prior years account. In this case the old manager will enter ‘A’ in the Type of ISA box, and put £4,000 in the boxes for total subscriptions from 6th April to date of transfer. The current account moves to the new manager, and the balance left (£5,000) remains as a prior years account with the old manager.

ii. Miss Spencer has subscribed £7,000 in the current year to her stocks and shares ISA, and withdrawn £4,000. Her upper limit is therefore £7,000 and the lower limit is £3,000.

The total value of the investments remaining in her ISA is £2,500. This is less than the lower limit, so none of those investments can be treated as a prior years account. If she wishes to transfer any part of her account it must be transferred in its entirety as a current year account. The old manager will enter ‘A’ in the Type of ISA box on the transfer form, and £7,000 in the boxes for total subscriptions from 6th April to date of transfer.

iii. Mr Rose subscribed £3,000 to his cash ISA in year 1. He subscribes a further £1,000 in year 2. He withdraws £500, leaving £3,500 in the ISA. His upper limit is therefore £1,000, and the lower limit is £500.

Mr Rose can therefore choose any amount from £500 to £1,000 as his current year subscription. If, alternatively, he wishes to transfer his prior year subscription, he can transfer up to £3,000.

**Transfer Applications**

11.15a Unless the ISA is being transferred into an existing ISA with the new ISA manager, investors must make a Transfer Application to the new ISA manager when requesting a transfer.

This can be achieved by asking the investor to complete:
(a) a *Transfer Authority Form (which is not a requirement of the ISA regulations)*, which the new ISA manager forwards to the old ISA manager and authorises him to transfer the ISA (or part of it) to the new ISA manager, and

(b) a *ISA application form or a transfer instruction*

A *transfer instruction* should include the appropriate authorisation to hold the ISA investments etc, and agreement to the manager's ISA terms and conditions (see paragraph 4.15). However, it is not required to include the investor's date of birth or NINO, or any of the ISA declarations. This can be completed by someone holding a mandate for the ISA investor (see paragraph 5.29), there is no requirement for the investor to be incapable of completing the transfer instruction.

The transfer is initiated by an approach to the new ISA manager.

- If the new manager already holds an ISA for the investor into which the transfer will be made, a person holding a mandate to operate the account can request that the funds are moved into that account (as an application to open the account is not required). Subscriptions can be made following the transfer if the manager holds an application form that is still valid.

- If the transfer requires a new account to be opened and the investor wishes to subscribe to the account, an application made by the investor or someone holding a registered Lasting Power of Attorney to open the account will be needed (see paragraphs 5.24 - 5.26).

- If the investor is transferring ISA savings and does not wish to make any further subscriptions to the new account, the transfer can be processed by a person holding a mandate to operate the account. But the new ISA manager cannot accept subscriptions without an application completed by the investor or a person holding a registered Lasting Power of Attorney (see paragraphs 5.24 – 5.26).

The *ISA application form or transfer instruction* can be made ‘not in writing’ (see paragraph 4.18). However, it is possible that the old ISA manager will require the *Transfer Authority Form* to be signed by the investor before he will agree to release the funds. This is something for managers to resolve – the ISA Regulations do not do away with the requirement for a signature if one is required by the old manager’s Terms and Conditions.

**Internal transfers**

11.15b **A Transfer Application is not required** where an existing ISA investment is switched from one product to another (which is what happens on the maturity and ‘roll-over’ of a fixed-term product), but the existing ISA continues (with either the same or a new account number). However, an ISA application form must be obtained where all the following apply:

- the investor is eligible to subscribe to the ISA after the transfer (the residence condition is satisfied)

- the investor intends to subscribe to the ISA after the transfer, and

- the existing application form is no longer valid (see paragraph 4.2)
But a **Transfer Application is required** where a cash ISA is transferred to a stocks and shares ISA, or, after 1 July 2014, a stocks and shares ISA is transferred to a cash ISA, and the investor intends to subscribe following the transfer (see paragraph 11.15a).

### Cash ISA Transfers

**11.15c** Cash ISA to cash ISA transfers must take place within 15 business days of the transfer instruction being received by the new ISA manager, unless the investor stipulates that the 15 days starts on a later date. This 15 days is broken down as follows.

- The new ISA manager has 5 business days to forward the instruction to the old ISA manager
- The old ISA manager has 5 business days in which to send the funds and a transfer history form (see paragraph 11.16) to the new ISA manager
- The new ISA manager has 3 business days to apply the funds to the new ISA

The other two days are to allow for time taken for first class post between managers.

This timetable does not apply to cash ISA to stocks and shares ISA transfers or to stocks and shares ISA to cash ISA transfers. Managers should complete such transfers in accordance with their ISA Terms and Conditions (see paragraph 4.30).

Guidance has been produced by the industry on best practice for stocks and shares ISA to cash ISA transfers. While we recommend that managers adopt these procedures, they are recommendations only and are not prescriptive. The guidance and specimen transfer authority are available at


**11.15d** If the old ISA is a notice account or a fixed-term product the investor may suffer an exit penalty or interest penalty if the funds and transfer history form are sent to the new manager within 5 business days. If the old manager contacts the investor and receives a revised instruction to transfer the ISA once the notice period has expired, or the product has matured, this will be treated as new transfer instruction that restarts the timetable once the notice period has expired, or the product has matured.

**11.15e** Appendix B contains guidance produced by the industry on best practice for cash ISA to cash ISA transfers. While we recommend that managers adopt these procedures, they are recommendations only and are not prescriptive. However, the timetable specified in paragraph 10.15c must be adhered to.

**Information to be provided to the new ISA manager**
11.16 The old ISA manager must give the new ISA manager a notice in writing containing information about the ISA being transferred (a Transfer History Form – see paragraph 11.18).

The information can be given electronically and need not have a ‘wet’ signature.

Where the transfer is a bulk transfer (see paragraph 11.19a) the information must be provided at the time of the transfer. In cases where the investor initiates the transfer the information must be provided within 30 days after the transfer.

11.17 Where the old ISA manager does not send the Transfer History Form to the new ISA manager when transferring the ISA he should

- notify the new ISA manager of the type of ISA (cash or stocks and shares) and the amount transferred, and
- send the transfer history form to the new ISA manager within 30 calendar days of the date of transfer

Transfer History Forms

11.18 We have produced two model forms one is intended for cash ISAs and the other for stocks and shares ISAs. They can be downloaded from the HMRC website at http://www.hmrc.gov.uk/isa/transfer-isa.htm.

ISA managers may use their own Transfer History Forms. However, they must contain the same information as the HMRC model forms.

Transfer History Forms should be completed as follows:

Full name

ISA managers should enter the forename(s) or the first name and initial, and the surname of the investor.

Full permanent residential address

ISA managers should enter the full residential address of the investor. If, exceptionally, the investor’s current permanent residential address is not known, ISA managers should report the last address held. “Care of” or other correspondence addresses are not permitted. But where the address is a retirement home, nursing home, hospice or hospital, this address can be used. BFPO addresses can also be used.

Postcode

ISA managers should enter the full postcode of the investor.

Date of birth

This should be reported in the format DDMMCCYY. For example: The date of birth of an investor born on 3 June 1932 should be reported as 03061932. If only the year of birth of the investor is known (paragraph 5.12) ISA managers should report 01011932.
National insurance number (NINO)

This should be in the format AB123456C (see paragraph 5.14). The final character, which will always be A, B, C or D, is not critical and ISA managers may omit it if not known.

If the investor does not have a NINO, this entry should be left blank unless the ISA manager’s system requires the capture of a NINO. In that case the “universal dummy NINO” – XX999999X – should be used. **ISA managers must not use any other dummy or substitute NINO.**

Account number

ISA managers should enter the account number from their own records.

Type of ISA

ISA managers must enter either

- “A” if current year subscriptions are being transferred, or
- “X” if current year subscriptions are not being transferred.

Date of transfer

This should normally be the date of which the new manager agrees to accept the transfer (see Appendix B). It should be reported in the format DDMMCCYY. (See paragraph 11.18a.)

Amount transferred

Enter the total amount of cash being transferred.

If any investments are being transferred in specie attach a list and tick the box.

Current year subscriptions

This box should be completed only where current tax year subscriptions are being transferred (“A” is entered in the Type of ISA box).

Enter the total amount subscribed to the ISA in the current tax year.

If the ISA is a stocks and shares ISA, include any subscription made via the direct transfer of shares from a **Schedule 3 SAYE** option scheme, an approved profit-sharing scheme or a **Schedule 2** Share Incentive Plan in the Total box and also report it separately in the Share scheme transfers box.
Share scheme transfers

This box should be completed only where

- the ISA is a stocks and shares ISA
- current tax year subscriptions are being transferred ("A" is entered in the Type of ISA box) and
- the current year subscription includes shares transferred from a Schedule 3 SAYE option scheme or a Schedule 2 Share Incentive Plan

Enter the market value of the shares at the date on which they were transferred into the ISA (paragraph 6.21).

Date of first subscription in current year

This box should be completed only where current tax year subscriptions are being transferred ("A" is entered in the Type of ISA box).

Enter the date on which the first subscription was made in the tax year of transfer. It should be reported in the format DDMMCCYY.

The date of transfer

11.18a When either type of ISA is transferred, the two ISA managers must agree a common transfer date. Unless otherwise agreed, this will be the date included in the 'Transfer acceptance' section of the ISA Transfer Authority form (see paragraph 11.15a and, if the transfer is a Cash ISA, the Cash ISA model form at Appendix B).

The transfer date establishes

- the date from which the new ISA manager can accept subscriptions, and
- which ISA manager is responsible for including details of the transferred ISA in its Annual Returns (Chapters 14, 15 and 16)

11.18b The new ISA manager may accept subscriptions from the date of transfer (provided he holds a valid ISA application form)

For Example

Investor A subscribes £2,000 to a cash ISA with Manager X in May 2012. In July 2012 he decides to transfer the ISA to a cash ISA with Manager Y. He also wishes to make a further subscription of £3,000 to Manager Y. The two managers agree a date of transfer of 1 August 2012. Manager Y receives the Transfer History Form information (or equivalent) as well as the transfer proceeds on 15 August 2012.

Despite not receiving the Transfer History Form information and transfer proceeds until 15 August 2012, Manager Y can accept the £3,000 subscription from the investor anytime on or after 1 August 2012 (provided he holds a valid cash ISA application form).
Chapter 11 Transferring an ISA

11.18c Where an ISA transfer straddles the end of a tax year:

- the ISA is included in the new manager’s Annual Returns if the transfer date is 5 April (or earlier)

- the ISA is included in the old manager’s Annual Returns if the transfer date is 6 April (or later)

For Example

Investor B subscribes £2,000 to a cash ISA with Manager X in May 2012. In late March 2013 he decides to transfer the ISA (in full) to a cash ISA with Manager Y. He also wishes to make a further subscription of £3,000 with Manager Y on 1 April 2013. Manager Y receives the Transfer History Form information (or equivalent) as well as the transfer proceeds on 15 April 2013 (during tax year 2013-14).

Although the transfer didn’t complete until the tax year 2013-14, the agreed transfer date was 31 March 2012 (during tax year 2012-13); the new ISA manager (Manager Y) must therefore report full details of the subscription made to the ISA in the 2012-13 tax year (£5,000 - £3,000 subscribed directly by the investor plus the £2,000 current tax year subscription transferred). Manager X should not include the ISA, or the £2,000 subscriptions up to the date of transfer on its Annual Return of Information for the tax year 2012-13 (Chapter 14).

In addition, Manager Y should include the £5,000 current year subscriptions in its Annual Return of Statistical Information (subscriptions) for the tax year 2012-13 (Chapters 16) and the market value of the ISA in its Annual Return of Statistical Information (market value) for the tax year 2012-13 (Chapter 15).

Income received by the old manager after the date of transfer

11.19 Any income received by the old ISA manager after the date of transfer should be sent to the new ISA manager unless

- the old manager has been instructed to pay income received to the investor, or

- the income received is less than the minimum the new manager is prepared to accept

Bulk transfers

11.19a A bulk transfer takes place where

- two managers agree to transfer two or more accounts between them without the agreement of the account investors; for example where an ISA manager has decided to rationalise or reorganise his ISA book by selling some or all of it to another manager, or

- the transfer takes place under an insurance business transfer scheme or a banking business transfer scheme under Part 7 of the Financial Services & Markets Act 2000 (FSMA)
11.19b Before making a bulk transfer, the manager must notify HMRC and the investors whose accounts are being transferred. The notice must

- specify the first day on which accounts will be transferred under the bulk transfer,
- be given at least 30 days before this date, and
- provide the name and address of the manager who will receive the accounts

In addition, the notice to investors must

- identify the account being transferred
- advise that the investor can arrange a transfer to a manager of their choice if they supply instructions by a certain date, and
- specify what the date is for receiving those instructions

Where the manager will cease to offer ISAs after the bulk transfer he must ensure the final returns are made so that HMRC records can be closed – see paragraphs 2.27 – 2.30.

11.19c When making a bulk transfer, the old manager need not complete separate transfer history forms for each ISA being transferred. Instead they may give the new manager a schedule that contains the information that would normally be entered on the transfer history forms

Where managers adopt this approach they must also send a covering notice to the new ISA manager. This notice should identify the ISAs being transferred by referring to the accompanying schedule.

If the transfer takes place to an existing account held with the new manager, the investor can make further subscriptions to the account if the application form held by the new manager for that account is still ‘valid’ (see paragraph 4.2).

If the transfer is made to a new account, the new ISA manager can only accept subscriptions to that account if an application form has been given to the new manager and that application is ‘valid’.

Where subscriptions were being made to the old manager by direct debit, the new manager cannot collect payments under that direct debit until he holds a valid application form. He may accept the money on a provisional basis (see paragraph 5.20), but if a completed application form is not received within 30 days the manager must void the subscription and remove the investments purchased with it from the ISA. Alternatively, the manager could place the money in a suspense account until a fully completed application is received.

**Group transfers**

11.19d A ‘group transfer of accounts’ is a bulk transfer (see paragraph 11.19a) that takes place between members of a 75% group of companies – i.e. where one of the companies is a 75% subsidiary of the other or both are 75% subsidiaries of a third company.
11.19e Following a group transfer or a bulk transfer of accounts under Part 7 of FSMA, the new manager can accept subscriptions to the account if

- the most recent application held by the old manager is available to the new manager, and
- that application is still ‘valid’ (see paragraph 4.2)

The application is available to the new manager if it (or a copy) has been passed to the new manager or if the new manager could require it to be made available to him. The old manager will need to confirm to the new manager that there has not been a gap year where no subscriptions have been made.

An intra-group transfer can include cases where the manager has accepted an application (usually on-line) but is still awaiting the first subscription. If the application is available and still valid, the new manager does not need to obtain a fresh one.

**Subscribing to the ISA after the transfer**

11.20 If the investor intends to subscribe to the ISA after the transfer the new ISA manager must obtain an ISA application form unless he already holds a valid application form (see paragraph 11.15a).

11.21 In that case the application form would be valid for

- subscriptions made in the year of transfer, and
- subscriptions made in each successive year following the year of transfer, in which the applicant subscribes to the ISA

It would cease to be valid at the end of a tax year in which the investor fails to make a subscription (see paragraphs 4.1 and 4.2).

See paragraphs 5.24 - 5.25 for details of the circumstances in which an ISA manager may accept an application signed by someone other than the investor.

**Reporting subscriptions made in the year of transfer**

11.22 Where current year subscriptions are transferred

- the old ISA manager must exclude the subscriptions from the Annual Return of Information and enter ‘X’ in the Type of ISA box
- the new ISA manager must include the subscriptions in the Annual Return of Information and enter ‘A’ or ‘B’ as appropriate in the Type of ISA box

(See paragraph 14.16.)
Claims for payment of tax in respect of income paid after the transfer date

11.30 Claims for payment of tax in respect of income with a payment date on or after the date of transfer may not normally be made by the old manager.

However, provided that the old and new managers agree, the old manager may claim payment of tax in respect of income with a payment date on or after the date of transfer for a period of up to six months after the date of transfer.

The old manager should send the income received (and the tax claimed) to the investor if

- his instructions were to pay any income away to the investor, or
- the amount is less than the minimum the new manager is prepared to accept.

Otherwise, the income (and tax reclaimed) should be forwarded to the new manager.

11.31 If the old manager has not made, and does not intend to make, a claim in respect of income received by him

- up to and including the date of transfer, or
- from the date of transfer

the new manager can make the claim. The old manager should forward the relevant tax voucher(s), to the new manager to enable him to do so.

11.32 Blank

Cancellation of a transfer

11.33 Background

Under the FCA Handbook (Conduct of Business Sourcebook (COBS)) ISAs attract 14-day cancellation rights (COBS 15) unless the ISA includes a life policy in which case the period is extended to 30 days. (Some providers voluntarily offer a 30 day period for stocks and shares ISAs.). However

- for distance contracts, COBS 15 Annex 1 1.10R(1) removes the cancellation rights because price will depend on fluctuations in financial markets outside the firm's control
- for non-distance contracts there is an exception whereby a seven-day pre-contractual right to withdraw is provided instead

Impact on ISA transfers

For distance contracts, cancellation rights or withdrawal rights will apply only where these are included in the product terms and conditions.

For non-distance contracts, there are 14/30-day cancellation rights unless the new ISA manager offers a 7-day withdrawal period instead (see paragraph 5.7).
If the new ISA manager offers a 7 day withdrawal period, the transfer request should not be forwarded to the old ISA manager until the withdrawal period has expired. The investor has seven days to reconsider their decision (the withdrawal period). If, during the withdrawal period, the investor informs the new manager that they no longer wish to proceed with the transfer, the new manager should not progress the transfer any further. The transfer request will not be forwarded to the old manager, so the old manager may not know that a transfer was ever intended. The funds will stay in the original ISA. Before 1 July 2014 this is particularly important where the transfer is from a Cash ISA to a Stocks and Shares ISA which cannot be reversed until after that date.

If the new manager chooses not to offer a 7-day withdrawal period, there is a 14/30 -day cancellation right. In this case the ISA would be transferred to the new manager before the 14/30-day cancellation period began. If the investor decides to cancel, it is the purchase of the investment in the new ISA that is cancelled, not the transfer itself. The investor has an ISA with the new ISA manager. The investor can choose to

(a) invest the money in a different investment offered by the new ISA manager

(b) close the ISA

(c) transfer the ISA back to the old ISA manager, (but; before 1 July 2014, not if the original transfer was a cash ISA to stocks and shares ISA transfer as a stocks and shares ISA cannot be transferred to a cash ISA), or

(d) transfer the ISA to another ISA manager.

Transfers in that cannot be accepted by the new ISA manager

Sometimes a transfer in cannot be accepted by the new ISA manager – typically because when the Transfer History Form and proceeds are received from the old manager

- the new manager realises that the amount of current year subscriptions being transferred exceed the annual subscription limit when aggregated with the amount already subscribed with them in the current year

- it arrives after the date by which all transfer proceeds must be received for a structured product (or similar) on sale only for a limited time

- the new manager realises that the terms and conditions of the ISA product in question do not allow transfers in

In these circumstances the new manager should proceed as follows.

If the amount of current year subscriptions being transferred, when aggregated with the amount already subscribed to the new manager in the current year, exceed the annual subscription limit the new manager has a choice.

(a) They may remove the excess current year subscriptions, and pay them to the investor and pay the balance into the ISA. Managers can ignore any growth on the amount removed and simply remove the excess subscription amount. If the investor claims that the value of the excess subscription is less than the amount originally subscribed, the new manager will need to contact the old manager to determine the value. If this is less than the amount subscribed only the value needs to be removed.
Cash ISA example

The new manager receives current year subscriptions of £5,340 from the old manager. However the investor has already subscribed £1,000 in the current year to the new manager’s ISA. The new manager returns the excess subscriptions of £1,000 (ignoring any growth on that £1,000) to the investor and pays £4,340 into the ISA. The ISA now holds current year subscriptions of £5,340.

Stocks and Shares ISA example

The new manager receives a transfer in which includes current year subscriptions of £10,000 with a date of first subscription of 30th April 2013. The investor has also subscribed £5000 to the new manager on 1st June 2013. The £5000 is already invested in qualifying investments but as it is the later subscription it is strictly invalid and should be the one that is repaired. However, the manager can, if he wishes, use the cash sum transferred in to return the excess subscription (£15,000 - £11,520 = £3,480) to the investor. Any growth can be ignored as this would lead to further exchanges between the managers. The ISA now holds current year subscriptions of £11,520.

(b) They may return the current year subscriptions to the old manager, together with a note explaining why they are unable to accept them.

In all other circumstances, the new manager should return the cheque to the old manager, together with a note explaining why they are unable to accept it.

Returning funds to the old manager could leave the transfer in `limbo' as the old manager has followed the instructions to transfer out and a transfer out has happened under the ISA Regulations (notwithstanding the new manager has not processed the transfer in).

Where the old manager is willing and able to do so, he should reinstate the ISA to put the investor back into the position he would have been in had the transfer out never happened.

If the old ISA cannot be reinstated (for example, where the old product is a fixed-rate product that cannot be re-opened once it has been closed) the old manager may offer the investor the opportunity to place the returned/rejected transfer proceeds into another of his ISA products. [The old manager would need to treat this as an internal transfer between ISA products otherwise the sum would have to be regarded as an ISA subscription and subject to the annual subscription limits.]

If the old manager is not prepared to reinstate the ISA - and he is under no obligation to do so - he should allow the investor to transfer the ISA to another provider so the ISA status of the savings is not lost.

Cash withdrawn in error as a result of incorrect transfer advice by an ISA manager

11.33b Where cash is withdrawn from an ISA in error as a result of incorrect advice – from either the old ISA manager or the new ISA manager – in relation to a transfer application, HMRC may allow reinstatement where there is clear evidence of the investor’s intention to transfer the ISA and the incorrect advice given by the ISA manager (see paragraph 10.31b).
CHAPTER 12

CLOSING AN ISA

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When can an ISA be closed?

12.1 Investors have the right to close their ISAs whenever you want and this right must be included in the manager’s ISA terms and conditions (see paragraph 4.30). Managers can accept requests other than in writing should they so wish. A request to close an ISA can be accepted from a third party, but managers should satisfy themselves that the request is valid.

12.2 Managers may close an ISA where terms and conditions allow. For example, managers may state in their terms and conditions that an ISA will be closed where the balance falls below a particular level.

12.3 If an investor wishes to close an ISA, the manager may leave it open until the date the final claim to tax is paid by SSO Services Team 1.

12.4 Managers may supplement from their own resources income received during the closure period with an amount equivalent to the tax on that income, in advance of the tax being received from SSO (see paragraph 10.45).

12.5 ISA managers may re-open an ISA where it was closed earlier in the same tax year and the investor wants to resume subscriptions.

If they do, they must report all subscriptions made in the year on the Annual Return of Information (paragraph 14.1), not just the subscriptions made after the ISA is re-opened.

12.6 An ISA need not be closed merely because the investor has ceased to satisfy the residence condition (see paragraph 3.4). The ISA can remain open – and it can be transferred to another ISA manager. However, the investor cannot subscribe to the ISA unless and until residence condition is satisfied again.

Bankruptcy of an investor

12.6a Regulation 4(6) of the ISA Regulations requires ISA investments to be in the beneficial ownership of the investor.

However, under the Insolvency Act, a bankrupt's estate vests in a trustee immediately on his appointment taking effect (or, in the case of the Official Receiver, on his becoming trustee). Therefore ISA investments cease to be in the beneficial ownership of the investor from that date.

Managers who are notified of the bankruptcy of an investor must therefore close the ISA with effect from the date on which the trustee’s appointment takes effect (or, in the case of the Official Receiver, the date on which he becomes trustee).
Death of an investor

12.7 An ISA ceases on the death of the investor. Any interest, dividends or gains in respect of investments in his or her ISA that arise (which in general terms means ‘paid’) after the date of death to the date of closure are not exempt from tax (but see paragraph 3.22 regarding ISA policies of life insurance).

But there is no loss of exemption on interest, dividends or gains which arise before the date of death, including any gain treated as arising as a result of the death of the investor under the rules for investments in policies of life insurance.

While an ISA ceases on the death of the investor, the regulations are silent on what must happen to the account itself. Manager can simply remove the ISA wrapper and allow the account to continue, or the funds could be transferred to another account. The particular treatment will depend upon the terms and conditions for the account.

12.8 For the purposes of determining whether a claim can be made in respect of income received under deduction of income tax, the important date is the payment date shown on the tax voucher. Managers can claim the tax deducted if the payment date is on or before the date of death.

12.9 Blank

12.10 Where a manager has received payment from SSO in respect of a claim to tax on income that is no longer exempt from tax, he must repay SSO, normally by deducting the amount from the next claim under the heading 'Adjustments to previous claims'.

Interest on cash on deposit

12.11 In strictness (see paragraph 12.12), interest on cash on deposit (including uninvested cash in a stocks and shares ISA held after 1 July 2014) paid or credited by the ISA manager after the date of death is not exempt from income tax. ISA managers should deduct tax at the basic rate where appropriate and account for the tax due by deducting the tax from the next claim made. If claims are not being made, a cheque should be sent to SSO (see paragraph 13.22).

12.12 In practice, however, ISA managers may apportion interest paid after the date of death into

- interest accrued up to and including the date of death, which can be treated as arising in the ISA (and therefore paid without deduction of tax), and
- interest accrued from the date of death, which is not exempt from income tax and where appropriate should be paid under deduction of tax at the basic rate.
For Example

Mr Green dies on 5th August 2008. He held a cash ISA with Betterhomes Building society. The manager is notified of Mr Green's death on 5th October 2008. The ISA wrapper is removed.

Interest is payable yearly on 31 December. The interest paid on 31 December 2008 is apportioned in accordance with paragraph 12.12 into

- interest accrued up to and including the date of death (£70), which is treated as arising in the ISA and paid without deduction of tax) and

- interest accrued from the date of death to 31 December 2008 (£50) which is not exempt from income tax and is paid under deduction of tax at the basic rate.

In due course (once the manager has received the documentation specified in his terms and conditions) the former ISA is closed and the funds are paid to the personal representatives.

The funds paid to the personal representatives include the interest of £120 paid on 31 December 2008 and closing interest of £30 which has accrued from 1 January 2009 to the date of closure. It is paid under deduction of tax as it all relates to the period from the date of death.

The manager also gives the personal representatives a section 975 ITA 2007 certificate (a sample certificate is included at Appendix C) for 2008-09 in respect of the interest accrued and paid after the date of death. It shows gross interest £80 (£50 + £30), tax deducted £16 and net interest £64.

12.13 Until 1 July 2014, interest paid in respect of uninvested cash in a stocks and shares ISA is subject to the 20% flat rate charge.

If the ISA manager is not promptly informed of the death of the investor he may also have applied the flat rate charge to the interest accrued from the date of death. The flat rate charge is not income tax, and strictly the ISA manager should recover the flat rate charge applied to the interest accrued from the date of death, and account instead for the basic rate tax due.

12.14 Because the basic rate of tax and the flat rate are the same, the ISA manager need not do this – the amount of flat rate charge deducted may be deemed to be the tax at the basic rate. When providing the investor's personal representative with a section 975 ITA 2007 certificate in respect of interest paid or credited after the death of the investor (or apportioned to that period) ISA managers should treat the flat rate charge as tax, and complete the certificate accordingly.

From 1 July 2014, any interest paid following the death of the investor must have tax deducted and the tax must be paid to HMRC.
For Example

Mr Black dies on 5th October 2014. The ISA manager is notified of his death on 5th January 2015. The ISA wrapper is removed.

Mr Black has a self-select stocks and shares ISA that contains uninvested cash. The manager pays interest on the uninvested cash monthly. The interest paid after the date of death and before notification was received was as follows:

- 31 October 2014: £3.00
- 30 November 2014: £3.00
- 31 December 2014: £3.50p

As the interest payments were made after 1 July 2014, there is no flat rate charge to consider. The interest payments made after the date of death must have tax deducted (see paragraph 12.14).

The interest paid on 31 October 2014 is apportioned in accordance with paragraph 12.12 into:

- interest accrued from 1 October 2014 to the date of death (50p), which is treated as arising in the ISA and
- interest accrued from the date of death to 31 October 2014 (£2.50p) which is not exempt from income tax.

The manager deducts tax at 20% from £9.00 (£2.50 + £3.00 + £3.50) and pays £1.80 to HMRC. He provides a Section 975 ITA 2007 certificate (see example at Appendix C) for the personal representatives. This would show a gross payment of £9.00, tax deducted of £1.80 and a net payment of £7.20.

Interest on ISA investments

12.14a Interest in respect of ISA investments (for example, an interest distribution from an Authorised Investment Fund, or an interest payment from a corporate bond) paid or credited after the date of death is not exempt from income tax. The interest is not apportioned.

Where the payment is received under deduction of tax, the manager has claimed the tax, and has received payment from SSO, he must repay the tax to SSO (see paragraph 12.10).

Where the payment is received gross, the manager need take no action other than advising the personal representatives that they must account for any tax that may be due.

Information to be provided to personal representatives
12.15 ISA managers should provide personal representatives with a statement showing

- the market value (paragraphs 10.20 - 10.22) of the investments, other than insurance policies (see paragraph 12.16), held in the ISA at the date of death, or in the case of a cash ISA, the value of the ISA at the date of death and the gross interest payable in the year of death up to date of death,
- the original cost price and date of acquisition of any investments purchased after the date of death,
- details of any dividend income received with a payment date after the date of death, and
- the date of disposal and the amount of the net sale proceeds received for each disposal made after the date of death

together with

- a tax certificate (R185) or Section 975 ITA 2007 certificate showing interest received and tax deducted.

HMRC has developed a generic voucher template for use in these circumstances. Copies of the voucher can be downloaded from the HMRC website at [http://www.hmrc.gov.uk/collective/specimen.pdf](http://www.hmrc.gov.uk/collective/specimen.pdf).

If the generic voucher template cannot be adopted for any reason, managers may use their own design subsidiary tax certificates. However, before doing so they should submit drafts of the proposed certificates for approval to

Collective Investment Schemes Centre
Local Compliance
1st Floor
Large & Complex Businesses S0836
PO Box 3900
GLASGOW
G70 6AA

Tel 0114 2969 688 or 0114 2969 377

12.15a Subject to the ISA terms and conditions, ISA managers should advise the personal representatives that they have the choice of having the ISA investments transferred to them (or a beneficiary) or of the ISA manager selling the ISA investments and paying the proceeds to them (but see paragraph 9.2 regarding ISA policies of life insurance).

**Rights conferred by insurance policies**

12.16 Rights conferred by an insurance policy held in an ISA vest in the personal representatives on the death of the investor. The ISA policy must pay out on the death of the investor and personal representatives must not delay in claiming.

12.17 Where a delay in payment of a claim under a life insurance policy results in interest being paid to the personal representatives, the insurer should deduct tax at the basic rate from the interest paid and notify the personal representatives of the amount of interest and tax deducted.
Repair and voiding

12.23 An ISA may be found to be invalid. For example, it may be invalid because the investments held in the account are non-qualifying, or the investor is not a qualifying individual, or the subscription to the account is invalid. Invalid accounts can, in certain circumstances, continue as ISAs after corrective action, or ‘repair’. Invalid accounts that cannot be repaired must be voided.

12.24 Two types of invalid account can be repaired.

a. Where the ISA is invalid because of an inadvertent failure in the checks that should be carried out by the manager (manager error), the manager can sometimes repair the account – see paragraphs 17.39 and 17.61.

(i) Where an ISA is invalid because the investor

- has subscribed to a disallowed combination of ISAs, (two - or more - ISAs of the same type – see paragraph 3.14), or
- has exceeded the overall subscription limit

(investor error) the invalid subscriptions to the ISA can sometimes be repaired in full or in part – see paragraph 12.26.

In addition, from 6 April 2008 a valid ISA can be repaired if the investor exceeds the overall subscription limit – see paragraph 12.36.

12.25 An invalid ISA that cannot be repaired must be voided – the account is closed with the loss of all tax exemptions – see paragraph 12.47.

Investor error - repairs

12.26 In most cases investors who have subscribed to a disallowed combination of ISAs or have exceeded the overall subscription limit are not aware that they have made an error until it is found during the SSO compliance programme, which examines the annual returns submitted by ISA managers. The manager and investor in this case are informed of the error by SSO compliance officers.

12.27 Where the ISA manager finds out (usually from the investor) that the investor has subscribed to a disallowed combination of ISAs, or has exceeded the overall ISA subscription limit, the manager should advise the investor that HMRC will contact them in due course. Managers should not take it upon themselves to advise customers as they may not be in possession of all of the relevant facts, or be certain of the action that HMRC will take.

12.28 If the investor wishes to contact HMRC to discuss the error, they can be advised to telephone the ISA Helpline on 0300 200 3312.

12.29 An ISA is eligible for repair only if it is invalid because the investor has subscribed to a disallowed combination of ISAs, or has exceeded the overall ISA subscription limit.

An ISA is not eligible for repair if it is invalid because
• the investor did not satisfy the residence condition at the time the subscriptions were made (paragraph 3.6), or

• the investor was under age at the time the subscriptions were made (paragraphs 4.7 and 4.8)

If an ISA manager finds out (usually from the investor) that the investor has subscribed to an ISA while not satisfying the residence condition, or when under age, he must void the invalid subscriptions (see paragraph 12.47).

**Investor error - Self transfer**

12.30 ISA investors must transfer their ISAs through the ISA manager. Investors **cannot** transfer an ISA by closing it and opening a new ISA with the new ISA manager (commonly known as 'self transfer'), even if the investor is moving from one ISA product to another with the same manager.

12.31 Blank

12.32 However, where

• the investor subscribes to two cash ISAs, in the same tax year, and

• subscriptions to the first ISA subscribed to were valid, and

• all of the current year subscriptions to the first ISA subscribed to were withdrawn (whether or not that ISA was closed) (see paragraph 12.33) before subscriptions to the second ISA were made

the subscriptions to the second ISA may be valid (see paragraph 12.32a)

12.32a The first cash ISA to be self-transferred in a tax year is valid, and need not be repaired.

The second (and any subsequent) self-transferred cash ISA is not valid and is not eligible for repair.

12.33 The first cash ISA may be closed and **all** the funds held in the ISA withdrawn (including any subscriptions for earlier years) or the first cash ISA may remain open and after the self-transfer will hold only subscriptions which were made in previous years. If the ISA remains open, no further subscriptions can be made to it in the tax year of the self-transfer.

**For Example**

Mrs Cooper subscribes £4,000 to a cash ISA with Anybank plc on 20 April 2012. She closes it on 30 November 2012, then subscribes to a second cash ISA with Betterhomes Building Society on 3 December 2012. The subscriptions to the second cash ISA are valid.
On the same day Mrs Jones subscribes £3,000 to a cash ISA with Anybank plc. She withdraws the £3,000 on 30 September 2012, then subscribes to a second cash ISA with Betterhomes Building Society on 3 November 2012. She closes the Betterhomes cash ISA on 15 February 2013, then subscribes to a third cash ISA with Superiorhomes Building Society on 23 February 2013. The subscriptions to the Betterhomes Building Society cash ISA were valid, but the subscriptions to the Superiorhomes Building Society cash ISA are not valid and are not eligible for repair.

Repairs – disallowed combination of ISAs or overall subscription limit exceeded

12.34 In each tax year an investor may subscribe to one cash ISA and one stocks and shares ISA (paragraph 3.14).

- If an investor subscribes to a disallowed combination of ISAs (two – or more - ISAs of the same type) in the same tax year, the subscriptions to the second (and subsequent) ISA are invalid.

- If an investor subscribes to a single cash ISA and a single stocks and shares ISA, but exceeds the overall subscription limit, the subscriptions which cause the limit to be breached lead to that ISA being invalid.

12.35 In general, the invalid subscriptions can be repaired to the extent that the total subscriptions in the tax year to the two ISAs do not exceed the overall subscription limit, and subscriptions to cash ISAs do not exceed the cash ISA subscription limit (see paragraph 12.38).

When totalling subscriptions, subscriptions to an ISA that was validly self-transferred (paragraph 12.32) are ignored.

12.35a There is one exception; invalid subscriptions to the second ISA cannot be repaired if they were used to purchase an insurance product (see paragraph 12.46).

For Example

Mr Johnson subscribes £3,500 to a cash ISA with Betterhomes Building Society in August 2011. In March 2012 he subscribes £3,500 to a cash ISA with Superiorhomes Building Society. None of the subscriptions are used to purchase insurance products. The subscriptions to the Superiorhomes Building Society are invalid, but repairable. The total subscriptions are £7,000, which exceeds the cash ISA subscription limit for 2011-12. The excess subscriptions of £1,660 (£7,000 - £5,340) must be removed from the Superiorhomes Building Society ISA, but the other £1,840 subscriptions can be repaired.

Mr James subscribes £3,200 to a cash ISA with Candobank plc in September 2011. The following month he subscribes £10,200 to a stocks and shares ISA with Megafund plc. None of the subscriptions are used to purchase insurance products. The subscriptions to the Megafund plc ISA are invalid but repairable. The total subscriptions are £13,400, which exceeds the overall ISA subscription limit. The excess subscriptions of £2,720 (£13,400 - £10,680) must be removed from the Megafund ISA, but the other £7,480 subscriptions are valid.

Repairs – valid combination of ISAs but overall subscription limit exceeded
12.36 An investor can subscribe to one cash ISA and one stocks and shares ISA (a valid combination) but exceed the overall subscription limit. An otherwise valid ISA will then become invalid during the tax year by reason of oversubscription.

In Mr James’s case (paragraph 12.35a), the investor has a Cash ISA with Candobank and a Stocks and Shares ISA with Megafund. That is not a disallowed combination of ISAs. His infringement is to exceed the overall subscription limit. The ISA with Megafund is that one that received the subscription that caused the overall limit to be breached so is the invalid account but it can be repaired. All tax relief (income tax and CGT) on the subscription of £10,200 made to this account will be lost up to the date of the HMRC ‘repair’ letter, but following repair, when the excess subscription of £2,720 is removed from the ISA, the balance of the subscription (£7,480) is exempt from tax. All income earned on the subscription of £10,200 before the date of the Notice of Repair is subject to tax but only the income on the excess subscription has to be removed from the ISA.

Repairs – removal of excess subscriptions

12.37 There are two situations in which excess subscriptions must be removed from an ISA.

The first is where the investor subscribes to a valid combination of ISAs (one cash ISA and one stocks and shares ISA), but subscribes more than the overall subscription limit in total.

For Example
Mrs Gray thinks she understands the ISA rules and opens two ISAs – one of each type - in April 2011.

- On 12 April she invests £4,000 in a cash ISA with manager A
- On 15 April she invests £6,000 in a stocks and shares ISA with manager B.

Both of these ISAs are valid and the overall subscription limit has not been exceeded.

However, Mrs Gray subscribes a further £1,000 to the cash ISA with Manager A in October 2011 and a further £2,000 to the stocks and shares ISA with Manager B in March 2012. She has now subscribed £13,000 in total. However, neither Manager is aware that Mrs Gray has breached the overall subscription limit.

After the end of the year the managers make their returns and SSO identify that there has been an excess subscription. The subscriptions that breached the overall limit were the £1,000 to the cash ISA in October 2011 and the £2,000 to the stocks and shares ISA in March 2012. The £2,000 subscribed to the stocks and shares ISA with Manager B in March 2012 must therefore be removed, together with £320 of the £1,000 subscribed to the cash ISA with Manager A in October 2011. Mrs Gray is therefore left with two ISAs, in which £10,680 is invested

- a cash ISA with manager A, which contains £4,680, and
- a stocks and shares ISA with manager B, which contains £6,000.

See paragraph 12.46 where the subscriptions were used to purchase insurance.
The second is where the investor subscribes to an invalid combination of ISAs (more than one cash ISA and/or more than one stocks and shares ISA) and subscribes more than the overall subscription limit in total and/or more than cash ISA subscription limit to cash ISAs.

**For Example**
Mr Redson subscribes

- £3,000 to a cash ISA with manager A in April 2011
- £6,000 to a stocks and shares ISA with manager B in May 2011, and
- £3,000 to a cash ISA with manager C in October 2011

The ISAs with Managers A and B are valid, but the ISA with Manager C is invalid. The cash ISA with C can be repaired to the extent that

- the total subscriptions do not exceed the overall ISA subscription limit, and
- the subscriptions to the cash ISAs do not exceed the cash ISA subscription limit.

After the end of the year the managers make their returns and SSO identify that there has been an excess subscription. The total subscriptions are £12,000, which exceeds the overall subscription limit, so £1,320 must be removed from the cash ISA with Manager C. Mr Redson is therefore left with three ISAs, in which £10,680 is invested

- a cash ISA with manager A, which contains £3,000
- a stocks and shares ISA with manager B, which contains £6,000, and
- a cash ISA with manager C, which contains £1,680

And the total left invested in the cash ISAs with Managers A and C (£4,680) is within the cash ISA subscription limit.

See paragraph 12.46 where the subscriptions were used to purchase insurance.

If, instead of the figures above, Mr Redson had subscribed

- £3,000 to a cash ISA with manager A in April 2008
- £3,000 to a stocks and shares ISA with manager B in May 2008, and
- £3,000 to a cash ISA with manager C in October 2008

the situation would be as follows.

Once again, the ISAs with Managers A and B are valid and the ISA with Manager C is invalid. And the cash ISA with C can be repaired to the extent that

- the total subscriptions do not exceed the overall ISA subscription limit, and
- the subscriptions to the cash ISAs do not exceed the cash ISA subscription limit.
In this case the total subscriptions are £9,000, which is within the overall ISA subscription limit. However the total subscribed to the cash ISAs with Managers A and C exceeds the cash ISA subscription limit, so the excess of £660 (£6,000 - £5,340) has to be removed from the ISA with Manager C. Mr Redson is therefore left with three ISAs, in which £8,340 is invested

- a cash ISA with manager A, which contains £3,000
- a stocks and shares ISA with manager B, which contains £3,000, and
- a cash ISA with manager C, which contains £2,340

And the total left invested in the cash ISAs with Managers A and C is £5,340.

See paragraph 12.46 where the subscriptions were used to purchase insurance.

Mr Norton subscribes as follows in 2011-12.

- to a cash ISA with manager A - £2,500 in April 2011 and £500 in March 2012
- to a stocks and shares ISA with manager B - £6,000 in May 2011, and £2,500 in November 2011
- to a cash ISA with manager C - £1,500 in June 2011

After the end of the year the managers make their returns and SSO identify that there has been an excess subscription. The ISAs with Managers A and B are valid and the ISA with Manager C is invalid. The cash ISA with Manager C can be repaired to the extent that

- the total subscriptions do not exceed the overall ISA subscription limit, and
- the subscriptions to the cash ISAs do not exceed the cash ISA subscription limit.

The total subscriptions are £13,000, which exceeds the overall subscription limit. As the amount by which the overall subscription limit is exceeded (£2,320) exceeds the amount subscribed to the cash ISA with Manager C (£1,500), the full amount subscribed Manager C must be removed. Mr Norton is left with two valid ISAs, to which he has subscribed £11,500 in total.

The subscriptions that breached the overall limit were the £2,500 to the stocks and shares ISA in November 2011 and the £500 to the cash ISA in March 2012. The £500 subscribed to the cash ISA with Manager A in March 2012 must therefore be removed, together with £320 of the £2,500 subscribed to the stocks and shares ISA with Manager B in November 2011. Mr Norton is therefore left with two valid ISAs, in which £10,680 is invested

- a cash ISA with manager A, which contains £2,500, and
- a stocks and shares ISA with manager B, which contains £8,180.

See paragraph 12.46 where the subscriptions were used to purchase insurance.
Repair – action by the manager

12.38 The SSO compliance unit will write to the investor before instructing the ISA manager of the action to be taken. The investor will have been given the opportunity to query the information provided to HMRC before SSO write to the ISA manager. In all cases the SSO compliance unit will issue a notice of discovery to the manager stating which ISAs can be repaired, and to what extent. They will also inform the investor of the action to be taken by the manager.

Managers should not repair an investor error without a notice of discovery. The date of the notice is the date of repair of the invalid ISA.

12.39 All investments in a repairable ISA lose their tax exemption from the date of the first invalid subscription up to the date of repair. Up to this date the repairable ISA is effectively treated in the same way as a void ISA – see paragraph 12.47. Subscriptions to a repaired ISA for years other than that covered by the notice of discovery are not affected by that notice.

12.39a The following paragraphs provide more details, but in summary, from 1 July 2014, where an ISA is repaired/voided, managers should proceed as follows:

a) Interest earned on cash (see first bullet of paragraph 12.39b) (whether the interest arises in a cash or a stocks and shares ISA) up to the date of repair / voiding must be taxed before it is paid out (so the investor receives it net) and the tax must be paid to HMRC

(b) Where the manager has received net income and has claimed tax back from HMRC (see for example REIT payments in paragraph 13.1b), they must repay the tax to HMRC and pay income net to the investor

(c) Where the manager received gross income, they should pay the income out gross to the investor.

In all cases investors must be made aware that there may be more tax to pay. In the case of (c) above, the total amount of tax due will depend on the investor’s tax rate. In the case of (a) and (b), additional tax will only be due if the investor is liable to pay tax at the higher (40 per cent) or additional (45 per cent) rate of tax.
12.39b **Part Repair**

This is where income (arising prior to date of repair) is to be taxed and some of the invalid subscription and the associated (taxed) income has to be removed from the ISA.

- **First**
  - CASH ISA - any interest earned by the invalid subscription paid on or before the date on which the ISA *Partial Repair Notice* (letter ISA39) was issued is taxed.
  - STOCKS & SHARES ISA - follow the advice at paragraph 12.39a for interest arising on cash and paragraph 12.14a for other interest. Any interest paid after the date on which the *Partial Repair Notice* was issued is exempt from tax in the normal way. If a stocks and shares ISA includes dividend income, this must be removed and the investor advised to report it to HMRC if higher or additional rate tax is due.

- **Second**, remove from the ISA that element of the invalid subscription that the *Partial Repair Notice* says must be removed.

- **Third**, remove from the ISA that portion of the income that relates to element of the invalid subscription that must be removed.

For example, an investor subscribed £5,000 to a cash ISA in 2010-11. Interest was paid on 31 January 2011 and 31 January 2012. The ISA *Partial Repair Notice* (letter ISA39) was issued on 10 January 2012. It says that the excess subscription that must be removed from the ISA is £1,000 (one-fifth of the invalid subscription).

- The interest paid on the invalid subscription of £5,000 on 31 January 2011 is taxed as appropriate. But the interest paid on 31 January 2012 is not.

- One-fifth of the invalid subscription (£1,000) is removed from the ISA.

- One fifth of the interest paid on 31 January 2011 in respect of the 2010-11 subscription of £5,000 (which has now been taxed) is removed from the ISA.

12.40 From the date of repair the excess subscriptions are not held in an ISA. The balance after removal of the excess is treated as having been held in the ISA from the date of repair. The manager should, within 30 days of the date of the notice, identify the investments bought with the excess subscriptions and remove them from the ISA, together with any income arising on those investments. If the investments include insurance, the investor should decide which investments should be removed - see paragraph 12.48.
For Example

Mr Abraha has a cash ISA to which he subscribed £3,000 in 2010-11. The SSO compliance officer sends the ISA manager a part-repair notice dated 1 January 2012, saying that the ISA can be repaired by removing £1,000 from the ISA. £210 interest (gross) was paid before 1 January 2012.

The interest paid before the date of the notice is not exempt from tax (because it has been paid in respect of an invalid subscription). The manager therefore

- deducts tax at the basic rate (£42) from the interest paid, leaving £168 net in the account, and
- removes the £1,000 from the account and pays it to the investor, together with £56 (1/3 of the net interest of £168).

The ISA, which now contains £2,112 (£2,000 plus 2/3rds of the net interest of £168), may continue. Any interest paid after the date of the notice (1 January 2012) is exempt from tax.

If the interest had been paid out of the ISA, either direct to the investor or to another (non-ISA) account, then the £42 tax would be withheld out of the £1000 excess subscriptions repaid to the investor, leaving £2000 to continue in the repaired ISA.

12.40a Where interest is credited to a stocks and shares ISA, managers should follow the advice at paragraph 12.14a and proceed as follows.

- Where the payment was received under deduction of tax, the manager has claimed the tax, and has received payment from SSO, he must repay the tax to SSO (see paragraph 12.10).
- Where the payment is received gross, the manager need take no action other than advising the investor that they must account for any tax that may be due.

12.40b Where an interest distribution or property income distribution is credited to a stocks and shares ISA, managers should follow the advice at paragraph 12.14a and proceed as follows.

- Where the payment was received under deduction of tax, the manager has claimed the tax, and has received payment from SSO, he must repay the tax to SSO (see paragraph 12.10).
- Where the payment is received gross, the manager need take no action other than advising the investor that they must account for any tax that may be due.

Repair – identification of investments

12.41 In many cases identification of the investments acquired with invalid subscriptions will be simple – the investor will have made one subscription to the account and purchased one type of investment.

12.42 In some cases identification of the investments acquired with invalid subscriptions will be more difficult. The manager and/or investor can select the investments that represent the invalid subscriptions, using one of the following methods.
12.43 The simplest method of identifying the investments is to take a fraction of the investments held in the ISA at the date of repair representing the invalid subscriptions.

For Example

Mr Sarkar has an invalid stocks and shares ISA to which he subscribed £7,200 in 2008-09. The SSO compliance officer sends the ISA manager a notice of discovery dated 1 January 2010, saying that the ISA can be repaired by removing £2,400 from the ISA. At 1 January 2010 the ISA contains 1500 shares in ABC Ltd, 2100 shares in XYZ Ltd, and £600 cash.

The manager returns 1/3rd of the cash (£200) and 1/3rd of the shares to the investor to hold outside the ISA. After repair the ISA contains 1,000 shares in ABC Ltd, 1,400 shares in XYZ Ltd and £400 cash.

12.44 Another method is to follow the subscriptions through the account and identify the relevant investments.

For Example

Miss Casey has an invalid stocks and shares ISA to which she subscribed £5,000 in July 2008. £3,000 of the subscription is used to buy 3,000 shares in ABC Ltd, and £2,000 used to buy 1,000 shares in XYZ Ltd. In November 2008, she sells the shares in XYZ Ltd for £2,500, and uses £1,500 of the proceeds to buy 800 shares in ABC Ltd. The SSO compliance officer sends the ISA manager a notice dated 1 January 2010, saying that the ISA can be repaired by removing £3,000 invalid subscription from the ISA. At the date of repair the ISA contains 3,800 shares in ABC Ltd and £1,000 cash.

The £3,000 can be represented by (for example)

a. the 3,000 ABC Ltd shares bought in July 2008

b. 1,000 of the ABC Ltd shares bought in July 2008 (which represent £1,000 of the invalid subscription), the 800 ABC shares bought in November 2008, and the £1,000 cash (which together represent £2,000 of the invalid subscription)

c. 2,000 of the ABC Ltd shares bought in July 2008 (which represent £2,000 of the invalid subscription), 400 of the ABC Ltd shares bought in November 2008, and £500 cash (which together represent £1,000 of the invalid subscription)

d. by apportionment, 3/5ths of the ABC Ltd shares (2,280), and 3/5ths of the cash (£600)

This example does not include dividends, interest or tax credits for simplicity.

12.45 Identification of investments removed from a repaired ISA applies only for ISA purposes. The investor is required to apply normal Capital Gains identification rules to disposals of investments prior to repair, and to disposals of investments to effect the repair.

12.46 If the ISA contains an insurance product, and any of the excess subscription to be removed to the ISA is assigned to that insurance product, it must be removed in full. An insurance policy cannot be repaired: it must either all stay in the ISA or all be removed. (See paragraph 9.11 re: clusters of insurance policies).
For Example

The investor holds an invalid stocks and shares ISA to which £6,000 subscriptions have been made in 2008-09. £2,000 was used to acquire an insurance product and the balance shares in ABC Ltd. The SSO compliance officer sends the manager a notice of discovery dated 1 January 2010 saying that the ISA can be repaired by removing £1,000.

The insurance policy cannot be repaired: it must either all stay in the ISA or all be removed. The investor can therefore decide to remove either

- £1,000-worth of shares, leaving the balance of the shares and the insurance in the ISA, or
- the whole of the insurance policy, leaving the shares in the ISA.

Voiding

12.47 Where an ISA cannot be repaired it must be voided. This is where all income in respect of the invalid subscription is to be taxed and all the invalid subscription and the (taxed) income has to be removed from the ISA. Valid subscriptions from previous (and possibly later) years are unaffected.

First, any interest earned by the invalid subscription, is taxed as appropriate (for a cash ISA), or dealt with in accordance with paragraph 12.14a if the ISA is a stocks and shares ISA. This is not limited to interest paid on or before the date on which the ISA Void Notice (no repair) - letter ISA41 - was issued.

- Second, the whole of the invalid subscription is removed from the ISA.
- Third, the whole of the income earned by the invalid subscription is removed from the ISA (but see below if the ISA is a multi-year ISA).

For example, an investor subscribed £3,000 to a cash ISA in 2010-11. Interest was paid on 31 January 2011 and 31 January 2012. The ISA Void Notice (no repair) - letter ISA41 - was issued on 10 January 2012.

- The interest paid on the invalid subscription of £3,000 on 31 January 2011 and 31 January 2012 is taxed as appropriate.
- The invalid subscription (£3,000) is removed from the ISA.
- The interest paid on 31 January 2011 and 2012 (which has now been taxed as appropriate) is removed from the ISA.

If the ISA is a ‘single year ISA, any “closing” interest - interest earned by the invalid subscription for the period from 1 February 2012 to the date on which the ISA is closed - is taxed as appropriate and removed from the ISA.

If the ISA is a multi-year ISA, any interest earned by the invalid subscription for the period from 1 February 2012 to the date on which the Void Notice (no repair) was actioned should, in strictness, be taxed as appropriate and removed from the ISA. However, when auditors check whether managers have actioned repair/void notices correctly they will look to see that the invalid subscription and income received up to and including the date of the Void Notice (no repair) has been removed from the ISA. They will not be concerned about income received after that date.
Where, before 1 July 2014, the interest has arisen on a stocks and shares ISA and has been subject to the 20% flat rate charge there is no need for the manager to deduct basic rate tax from the interest payment as the flat rate charge will be deemed to be the basic rate tax due. When providing the investor with a section 975 ITA 2007 certificate in respect of interest, ISA managers should treat the flat rate charge as tax, and complete the certificate accordingly. The investor needs to be made aware that the interest needs to be reported to HMRC and that higher or additional rate tax might be due (or a repayment of tax if the investor is not liable).

After 1 July 2014, the flat rate charge will not apply so managers are required to deduct tax at basic rate from any interest paid and to pay the tax to HMRC.

12.48 Where an ISA is made void it does not mean that the investments must be sold. Where the investor wishes, and the scheme terms and conditions allow, the manager may transfer the investments to the investor (but a void ISA policy of life insurance must terminate and cannot be transferred to the investor).

12.49 An ISA opened with a continuous application (see paragraph 4.11) is strictly invalid for the year in which the terms of the application are breached, and for all succeeding years. This means that an investor who opens an invalid ISA in a tax year with an invalid continuous application, and who continues to subscribe to that ISA in the next tax year, should have two year's ISA subscriptions voided.

In practice, an ISA opened with a continuous application can be treated as if the application had been completed anew on the date that the first subscription is made to the ISA in each tax year.

**For Example**

Mrs Shaw subscribes £7,200 to a stocks and shares ISA in the tax year 2008-09. She continues to subscribe to the ISA in 2009-10 and later years. The ISA is found to be invalid for 2009-10 only and cannot be repaired. All subscriptions made to the ISA in 2009-10, the investments bought with those subscriptions, and the associated income, must be removed from the ISA, but the subscriptions made in 2008-09, 2010-11 and later years can remain in the ISA.

**Repair and voiding – transfers and withdrawals**

12.50 Where an account is voided or repaired the manager is required to recover any income tax claimed (and tax credits claimed on distributions made before 6 April 2004) on investments purchased with the invalid subscriptions. If, after using any cash balance and the sales proceeds from investments, there is insufficient in the account (because, for example, the investor has withdrawn funds, or the account has been closed, or transferred to another manager), the manager must write to SSO, providing details of the amount of tax credit or tax on interest that has not been recovered.

12.51 Investments withdrawn from an ISA prior to the date of the notice of discovery can be counted towards the amount of invalid subscriptions that must be withdrawn to repair the ISA provided that the withdrawal does not pre-date the date of the invalid subscription. Other than this, the investor/manager can select the investments that are to be withdrawn.
For Example

Mr Ford subscribed £3,600 to a cash ISA in 2008-09. He then subscribed £7,200 to a stocks and shares ISA. £3,600 of the subscription was used to buy 2500 shares in ABC Ltd, and £3,600 to buy shares in XYZ Ltd. He later sold the shares in ABC Ltd for £4,000, and withdrew the money from his ISA.

The notice from HMRC informs the manager that the ISA is invalid, but repairable by removal of investments representing £3,600 subscription. The £4,000 cash withdrawn from the stocks and shares ISA represents the £3,600, so no further removal is required (although any dividends that arose on the ABC shares will also need to be removed).

The investments in the repaired ISA lose all tax exemption up to the date of repair, so any interest paid before that date is taxable.

12.51a Repair and voiding – accounting for tax

Any tax claimed from SSO Repayments on income arising on the invalid subscriptions, must be repaid by the provider, normally by deduction from the next claim under the heading ‘Adjustments to previous claims’ (see paragraph 12.10).

If the ISA is a cash ISA and the manager is a building society or deposit-taker any tax charged on interest arising on the invalid subscriptions (see paragraphs 12.39a [full repair], 12.39b [part repair] 12.47 [voiding]) must be accounted for through the TDSI scheme – i.e. by adjustment through the next CT61 return form

12.52 Repair and voiding - information to be provided to investor

Managers should inform investors of

- the date and amount of each income payment received in respect of the investments purchased with the invalid subscription or of investments transferred to the ISA, and the amount of tax deducted from those income payments. And, if the investments have since been sold, the date and amount of each income payment received in respect of the replacement investments and the amount of tax deducted from those income payments

- the date and amount of any interest paid or credited on cash deposits in respect of the invalid subscription and the amount of tax deducted from that interest.

- the original cost price, any incidental costs of acquisition and date of acquisition of investments purchased with invalid subscriptions or transferred to the ISA and, if they have since been sold, the original cost price, any incidental costs of acquisition and date of acquisition of the replacement investments.

- the date of disposal, the amount of the sale proceeds and any incidental costs of disposal of investments purchased with invalid subscriptions or transferred to the ISA and, if they have since been sold, the date of disposal, amount of the sale proceeds and any incidental costs of disposal of the replacement investments.
If the ISA contains an insurance product, the manager will need to ascertain the amounts of any gains treated as arising in order to calculate how much tax to deduct, and must inform the investor of

- the amount of premiums paid and the date on which they were paid
- the amount of part withdrawals and the date on which each was made and also, for each part withdrawal, the date of the last day of the ‘year’ as defined in section 546(4) ICTA 1988 in which the part withdrawal was made
- the amount of tax deducted in respect of each part withdrawal
- the benefits payable on death, maturity or surrender and the date of the event
- the amount of tax deducted in respect of the benefits payable on death, maturity or surrender, and
- the amount of benefits actually paid to the investor, after all deductions of tax.

For Example

Mr McManus subscribed to two stocks and shares ISAs in 2008-09. The subscriptions to the second ISA are invalid but repairable (in part). At the date of repair the second stocks and shares ISA holds a range of shares. After repair some of the shares remain in the ISA.

The ISA manager must provide Mr McManus with details of all income received or credited to the ISA prior to the repair; and details of all share transactions - even for those shares that have been selected to remain in the ISA. The normal Capital Gains rules will apply to share transactions before repair, and for shares held outside the ISA after repair. The identification of shares to remain in the ISA does not affect the way in which those rules operate.

12.53 Managers should advise the investor to report details to his or her tax office of the interest, dividends, chargeable gains and allowable losses and corresponding deficiencies (paragraph 9.45) arising in respect of the void subscriptions for the tax year in which they arose.

12.54 Managers should supply tax certificates R189K and/or Section 975 certificates (or their own tax vouchers – paragraph 12.15) on request to the investor showing, respectively, the dividends and tax credits and the gross interest credited and tax deducted.
CHAPTER 13

ANNUAL RETURNS AND CLAIMS

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What managers can claim

13.1 Managers (other than managers who are insurer managers) can claim UK income tax deducted from income in respect of ISA investments from SSO.

Interest payments and interest distributions

13.1a Managers receiving interest distributions from corporate bond funds should normally be receiving them without deduction of income tax.

Finance Act 2002 increased the number of tax-exempt bodies entitled to receive interest without deduction of income tax “if at the time the payment is made, the company [making the payment] reasonably believes that one of the conditions in Section 349B [Income and Corporation Taxes Act 1988] is satisfied”. The payer has no choice in the matter; where it “reasonably believes” the recipient is in one of the gross payment categories it must pay the interest without deduction of income tax.

ISA managers are one of the gross payment categories. Consequently, companies paying interest to ISA managers should pay the interest without deduction of income tax where the manager operates a single nominee in which all the underlying beneficial holders are eligible to receive gross interest (because, for example, they are all ISA investors).

However, if the manager operates a mixed or pooled nominee in which there is a mixture of beneficial holders - some entitled to gross interest (because, for example, they are ISA investors) and others not so entitled – the payer will pay the interest after deduction of income tax and the manager will have to claim the tax in respect of the ISA investors from SSO.

Any ISA manager that operates a single nominee in which all the underlying beneficial holders are eligible to receive gross interest, but receives interest distributions from corporate bond funds after deduction of tax should contact the payer(s) to ensure that interest is paid without deduction of income tax in future.

Property Income Distributions

13.1b UK-REITs make Property Income Distributions (PIDs), which normally have basic rate tax deducted at source.

However, where a PID is paid directly to an ISA manager it will be paid gross where the manager

- operates separate nominee accounts – one for those beneficial owners entitled to gross payment (because, for example, they are ISA investors) and one for others not so entitled, and

- gives the registrar acting for the UK-REIT a declaration of entitlement to gross payment in respect of the “gross account”

If the manager operates a mixed or pooled nominee, or does not give the registrar a declaration of entitlement to gross payment in respect of the “gross account”, the PID must be paid after deduction of income tax at the basic rate.

As an interim measure, managers receiving a PID net can reclaim the tax in respect of their ISA investors from SSO.
13.1c Managers will have to make adjustments in relation to PIDs where the ISA has been made void or where the investor has died. Again, as an interim measure the treatment of PIDs will be aligned with the existing arrangements for corporate bond interest payments. This means that

- Where the manager is using an undesignated mixed nominee account, the PIDs will be received net of basic rate tax and the manager will then reclaim the tax in respect of ISA investments from SSO Bootle (as outlined above). Where adjustments are required for deceased and void cases the basic rate tax should be deducted by the manager and repaid to HMRC by adjustment of their next claim.

- Where the manager has received the PIDs gross and later adjustments are required for deceased and void cases, the manager should make not make deductions but should instead notify the estate or the holder of the void ISA that they are responsible for accounting for tax on the payment(s).

**Insurer managers (and insurers that provide policies to other ISA managers)**

13.2 ISA managers who are insurer managers (and insurers that provide ISA policies to other ISA managers) can claim UK tax deducted and foreign withholding tax from income referable to ISA business from their tax office. Guidance for insurers will be included on the claim form R19 and in the notes sent out with a CT61 return form.

13.3 to 13.4 Blank

**How to claim**

13.5 Claims to SSO in accordance with paragraph 13.1 must be made on

- form ISA10 (interim claims - see paragraphs 13.11 - 13.24b) or
- form ISA14 (annual claims – see paragraphs 13.25 -13.37b)

Claims must be signed by an authorised officer of the manager. Employees of an administration company used by the manager (paragraph 10.1) may not sign a claim on behalf of the manager unless they are an authorised officer of the manager.

13.6 Where SSO is satisfied with the claim they will pay the sum claimed, through the Bankers Automated Clearing Services Ltd (BACS) system, direct to the manager’s bank account.

13.7 Where claims are received by SSO on or before the last working day of a calendar month SSO will aim to pay them on the 17th of the following month. Where the 17th falls on a weekend or public holiday SSO will make payment on the next working day. Any claims not processed in time for payment on 17th of the month will be paid on 17th of the next month.

**Information to be supplied before claims are made**

13.8 Before managers make their first claim they should provide SSO Repayments with the following information.
Details of signatories to claims

- the full name and status of up to five individuals appointed by a resolution of the manager’s board or equivalent managing body to sign claims on behalf of the manager (only one signature is required on each claim)
- a copy of the resolution of the board or equivalent managing body appointing each signatory, and
- an original specimen signature of each signatory.

Managers may, if they wish, include signatories described in terms of the post held, such as “the Finance Director for the time being”, in their list of authorised signatories. When the post holder changes, an authorised signatory will have to provide details (name and specimen signature) of the new post holder (see paragraph 13.9), but this need not be supported by a resolution of the manager’s board or equivalent managing body.

Existing managers who wish to adopt this approach should notify SSO. The notification should set out the changes to the list of authorised signatories as a result of describing some, or all, in terms of the posts held. It should be signed by an authorised signatory and be supported by details (and specimen signatures) of current post holders and a resolution of the manager’s board or equivalent managing body.

Bank account details

- the full name and address of the branch of the bank to which the payments are to be made
- the sort code of the branch
- the account number
- any special form of identification given to the account (such as deposit, special deposit, number 2, etc.), and
- an account name for use by BACS. The name must not exceed 18 characters, including spaces.

Amending information supplied

13.9 Where any of the information provided subsequently changes, managers should inform SSO Repayments in writing. Failure to do so could lead to a delay in making a payment.

Details of signatories to claims

Where a signatory is to be removed from the current list of authorised signatories, an authorised signatory should inform SSO Repayments.

Where a signatory is to be added to the current list of authorised signatories, or is replacing a current authorised signatory who is not described in terms of the post held, an authorised signatory should send SSO Repayments.
• a copy of the resolution of the manager’s board or equivalent managing body appointing the new signatory, and

• a sample of the new signatory’s signature

Both are required, and photocopies will not be accepted.

If the signatory being replaced is described in terms of the post held, such as “the Finance Director for the time being”, an authorised signatory of the manager should provide details (name and specimen signature) of the new post holder, but this need not be supported by a resolution of the manager’s board or equivalent managing body.

Bank account details

Where the nominated bank account is being changed, an authorised signatory of the manager should provide details of the new account to which the payments are to be made (see paragraph 3.8), supported by either

• a paying-in slip, or

• a bank statement

Basis of annual return and claims

13.10 All managers must make an annual return and claim. And this is the case even where the manager has not claimed any repayment for the year. Managers may also make interim claims, for one or more tax months.

Interim claims - forms ISA 10

13.11 Managers should make interim claims on form ISA 10. These forms are available on the HMRC website at http://www.hmrc.gov.uk/isa/annual.htm and can be downloaded as needed. Paper copies will not be provided.

13.12 Interim claims are made in respect of income with a payment date falling in one or more tax months. They may cover a maximum of six tax months provided all those months fall in the same tax year. A tax month begins on the 6th of one calendar month and ends on the 5th of the following calendar month.

13.13 Managers must hold tax vouchers for all amounts included in the claim.

13.14 Interim claim forms include provision for managers to pay back amounts claimed and received from SSO that are

• found not to be due

• in respect of subscription(s) made void (paragraphs 12.47), or

• income arising after the death of the investor (paragraph 12.10)

13.15 Blank
13.16 The interim claim form also includes provision for managers to account for:

- the flat rate charge \( \text{where this applies before 1 July 2014} \) on interest paid on cash on deposit in stocks and shares ISAs, and

- tax at the basic rate, on chargeable events in respect of ISA insurance policies (paragraph 9.41).

13.17 SSO will not pay an ISA 10 interim claim where any return has not been completed by the due date.

13.18 Blank

13.19 This means SSO will not pay an interim claim:

- after 4th June unless they have received the annual returns of statistical information for the previous tax year (chapters 15 and 16), and a return of information for the previous tax year (paragraph 14.21)

- after 5th October unless they have received a fully completed annual return and claim on form ISA 14 for the previous tax year (paragraph 13.34)

13.20 SSO will not, normally, pay interim claims of less than £50.

13.21 Where SSO is not satisfied with a claim they will pay any lower amount which they estimate is due. There is no right of appeal against a decision on an interim claim.

13.22 Where, as a result of making an interim claim, there is a net amount due to HMRC, the manager should send a cheque for the amount due with the form ISA 10, to SSO Services Team 1. Cheques should be made payable to “HMRC” and crossed “A/C Payee”.

13.23 Where a manager receives a tax voucher late, he should, in strictness, make a claim for the tax month in which the payment date fell (or a supplementary interim claim if he has already made an interim claim for that tax month – see paragraph 13.24a).

However, a claim for tax in respect of such a payment may be included in the manager’s next interim claim provided:

- the period of the claim, that is, from the 6th of the month in which the payment was made to the 5th of the month of the next claim, does not exceed six months and

- the date of the payment does not fall in a previous tax year (see paragraph 13.24), and

- the manager keeps a record of such cases for reconciliation purposes which should be made available on request to HMRC auditors.

13.24 If the date of the payment falls in a previous tax year the manager should include the payment in the annual return and claim for the tax year in which the payment fell.

13.24a Managers may make a supplementary interim claim at any time within the tax year if it is discovered that the original claim contained an error or mistake.
Chapter 13  Annual Returns and Claims

13.24b  Completing form ISA 10

ISA Manager reference

Managers should enter their ISA reference number allocated to them by SSO. This will always be a 'Z' followed by 4 numeric characters.

Name of ISA Manager

Managers should enter the legal name under which they have received approval. The manager's trading name(s) must not be entered.

Name of ISA Scheme

Enter the name of the scheme if this is different to the Manager named above.

Period of Claim

This will normally be a tax month beginning on the sixth of one calendar month and ending on the fifth of the following calendar month. However the period of claim can be for up to 6 tax months (within a single tax year).

Part 1 - Amount claimed

In Box A, enter the amount of tax deducted at source from interest arising on investments held in ISA accounts.

Part 2 - Amounts payable

In Box B, enter the total of any amounts previously claimed and subsequently found not to be due. For example sums arising in respect of void subscriptions or where payment occurred after the death of the investor (paragraphs 12.47 and 12.10)

In Box C, enter details of tax deducted at the basic rate from chargeable events. Full details are set out at paragraph 9.36.

In Box D, enter the flat rate charge due on interest paid on cash on deposit held in a stocks and shares ISA (see paragraph 7.51) (where the interest is paid before 1 July 2014).

Part 3 - Reconciliation

Managers should enter the final amount claimed in Box F (this is the tax claimed in Box A less any tax adjustments in Box E). Where the net result is that the manager still owes monies to HMRC, complete box G and attach a cheque made payable to "HMRC" to the claim.

Certificate - Authorised signatory

The form ISA10 must be signed by an authorised signatory. This must be one of the persons already notified to SSO (see paragraph 13.8).

13.24c  Blank
**Annual returns and claim - form ISA 14**

13.25 Managers should make annual returns and claims on form ISA 14. These forms are available on the HMRC website at [http://www.hmrc.gov.uk/isa/annual.htm](http://www.hmrc.gov.uk/isa/annual.htm) and can be downloaded as needed. Paper copies will not be provided.

Managers must return fully completed forms to SSO by the following 5th October.

13.26 Blank

13.27 The annual return and claim relates to income with a payment date falling in the previous tax year ending on 5th April. It is therefore a consolidated claim covering any interim claims made for that tax year.

13.28 Blank

13.29 Annual return and claim forms include provision for managers to pay back amounts claimed and received from SSO which are found not to be due

- in respect of subscription(s) made void (paragraphs 12.47), or
- in respect of income arising after the death of the investor (paragraph 12.10)

13.30 Blank

13.31 The annual return and claim forms include provision for managers to account for

- the flat rate charge on interest paid on cash on deposit in the stocks and shares ISAs (for interest paid before 1 July 2014), and
- tax at the basic rate on chargeable events in respect of ISA insurance policies (paragraph 9.41).

13.32 Where an annual claim exceeds the amounts paid on interim claims for that tax year and SSO is satisfied with the claim, they will aim to pay the balance on the 17th of the month following the month in which the annual return and claim form is received.

13.33 If, on the other hand, the amounts already paid on interim claims exceed the amount shown on an annual return and claim, the manager should send a cheque for the amount due, with the form ISA 14, to SSO Services Team 1. Cheques should be made payable to “HMRC” and crossed “A/C Payee”.

13.34 If the annual return and claim is not received by 5th October following its issue

- no further interim claims will be paid until the ISA 14 is fully completed and received by SSO (paragraph 13.19) and
- SSO will review the payments made for the tax year for which the form ISA 14 is outstanding and will issue a notice showing the payments made and any lower amount which they consider ought to have been made.

If the form annual return and claim (ISA 14) is not received within 14 days after the issue of the notice, the amount shown in the notice will become immediately recoverable by the Collector of Taxes.
13.35 HMRC may withdraw approval from the manager where an annual return and claim on form ISA 14 is not made.

13.36 If a manager does not manage any ISAs in a particular tax year, a NIL return and claim is required.

13.37 Managers may make supplementary annual returns and claims at any time within four years after the end of a tax year if it is discovered that the original return and claim contained an error or mistake.

13.37a Completing form ISA 14

**Statement of income**

**Stocks and shares ISAs**

- Dividends and dividend distributions – enter the gross amount of dividends and dividend distributions with a payment date during the tax year. Do not include equalisation in respect of group 2 units received from an authorised unit trusts.

- Interest payments and interest distributions - enter the gross amount of interest payments and interest distributions from ISA investments with a payment date during the tax year.

- Interest on cash on deposit - enter the gross amount of interest paid or credited to the ISA during the tax year in respect of uninvested cash on deposit.

**Cash ISAs**

- Interest payments and interest distributions - enter the gross amount of interest payments and interest distributions from ISA investments with a payment date during the tax year.

- Interest on cash on deposit - enter the gross amount of interest paid or credited to the ISA during the tax year in respect of uninvested cash on deposit. This includes interest on cash deposits held in a share account with a building society, interest on cash deposits held with a bank and interest on National Savings & Investments deposits.

- Bonuses – enter the total bonus received.

**ISA Manager reference**

Managers should enter their ISA reference number allocated to them by SSO. This will always be a ‘Z’ followed by 4 numeric characters.

**Name of ISA Manager**

Managers should enter the legal name under which they have received approval. The manager’s trading name(s) must not be entered.

**Period of Claim**

This will be the tax year beginning on 6th April in one year and ending on 5th April of the following year. However, the period of claim may be shorter where the manager is only approved part way through a tax year. In that event the period of the first annual claim will be from the date of approval to the following 5th April.
Chapter 13: Annual Returns and Claims

**Part 1 - Amount claimed**

Managers should enter the amount of tax deducted at source from interest arising on investments held in ISA accounts in Box A.

**Part 2 - Amounts payable**

In Box B, enter the total of any amounts previously claimed and subsequently found not to be due. For example, sums arising in respect of void subscriptions or where payment occurred after the death of the investor (paragraphs 12.47 and 12.10).

In Box C, enter the flat rate charge due on interest paid on cash on deposit (see paragraph 7.51) (applies to interest paid before 1 July 2014).

In Box D, enter details of tax deducted at the basic rate on chargeable events (see paragraph 9.36).

**Part 3 - Reconciliation**

Managers should enter the net amount claimed in Box F (this is the tax claimed in Box A less any tax adjustments in Box E). Where the net result is that there is a sum payable, complete box G.

**Part 4 - Net amount from interim claims made**

Enter the amount of monies previously claimed on all interim claims made for the tax year. If no interim claims have been previously submitted, managers should enter "NIL" in Box H. Where the manager has already paid previously overclaimed amounts to HMRC in interim claim(s) made during the tax year, the total amount paid should be entered in Box J.

**Part 5 - Total amount for year**

Enter in Box K the total amount of monies that are being claimed for the tax year. Where monies are due to HMRC, the amount should be entered at Box L.

**Certificate - Authorised signatory**

The form ISA14 must be signed by an authorised signatory. This must be one of the persons already notified to SSO (see paragraph 13.8).

13.37b Blank

**Assessments and recovery of tax and charges**

13.38 Where amounts claimed or deductions made cannot be recovered from the next claim, SSO will normally issue an informal notice advising the manager of the amount payable and telling the manager how to pay the amount due.

13.39 Where amounts claimed or deductions made cannot be recovered informally, SSO will make assessments on the manager.
Change in rate of tax credit and basic rate of tax

13.40 If there is a change in the basic rate of tax, the amount shown on the tax voucher may be incorrect. A change in the rate of tax during a tax year may affect claims already made for that year. In these circumstances SSO will advise all managers of what action to take.

Repayment of foreign tax

13.41 Managers may only claim United Kingdom income tax from SSO. They must make their own arrangements to make claims from foreign fiscal agencies under Double Taxation Agreements.

- If the ISA investor is resident in the United Kingdom the relevant claim forms can be obtained from the foreign tax authority

- If the ISA investor is not resident in the UK the relevant claim forms can be downloaded from the HMRC website - http://www.hmrc.gov.uk/international/dta-claim.htm#1

13.42 Managers should bear in mind that if it is a requirement of the double taxation agreement that the income is subject to tax in the UK, no repayment may be claimed.
CHAPTER 14

RETURNS OF INFORMATION

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The requirement to make a return

14.1 Managers are required to make a return of information to HMRC within 60 days of the following reporting dates

- 5th April of each year (returns will therefore need to be made by 4th June), or
- the date of ceasing to qualify, or act, as a manager.

14.2 At the end of February of the tax year in which the return is due, HMRC will send managers a reminder of their obligations to make a return for that tax year.

What period must be covered?

14.3 The information required is for the period from

- the date the manager began to manage ISAs, or
- the last reporting date

whichever is the later.

What must be returned?

14.4 Blank

14.5 Managers must report details for all ISAs (and Junior ISAs, see Chapter 28) they managed during the return period, including ISAs transferred in, and ISAs that have been closed.

But they should exclude details of ISAs transferred out in full, made void, or not proceeded with or cancelled within 30 days of opening (paragraphs 5.5 and 5.6) in the return period.

14.5a Where an investor holds more than one ISA with the same manager (for example, a cash ISA and a stocks and shares ISA), managers must report details of each ISA separately.

How to make returns of information

14.6 Returns of information can be submitted on

- a flat text file produced in accordance with the ISA Electronic Flat Text File specification and/or
- the HMRC Spreadsheet.

Due to the very low number of paper returns made for 2012/13, the form ISACOM100(OCR) cannot be used for returns for 2013/14 and later years. Managers should use the spreadsheet or permitted media to make their return.
Permitted media

14.7 The preferred method for making returns is a flat text file produced in accordance with the ISA Electronic Flat Text File specification.


Returns MUST conform to the specification and format described in this document. Any return that does not conform to this specification may be rejected and, in which case the manager may be regarded as either having failed to make a return or as having made an incorrect return.

HMRC Spreadsheet

14.9 Instead of creating a flat text file in accordance with the ISA Electronic Flat Text File specification managers may make a return on the HMRC spreadsheet.

14.9a The spreadsheet can be accessed on the HMRC website at:
http://www.hmrc.gov.uk/isa/ISA_JISA.xls

To use the spreadsheet:

- click on the link above to open the spreadsheet template
- save the spreadsheet template to your computer
- complete the spreadsheet following the guidance in the yellow comments boxes in the spreadsheet.

Forms ISACOM100(OCR)

14.10 Paper forms should not be used for the year 13/14 or later years.

14.11 Blank

Submission of returns

14.19 HMRC will include submission documents with the notice. Labels are no longer issued routinely but can be requested by contacting cni.firm@hmrc.gdsi.gov.uk quoting the name of the ISA manager and HMRC reference

14.20 HMRC would prefer managers to submit their return via SET otherwise returns should be submitted on permitted media to

HMRC
Centre for National Information
Ty Glas Road
Llanishen
Cardiff
CF14 5ZG.

The telephone number is 03000 582 413
14.21 ISA managers who fail to submit their returns of information by 4th June will be sent a reminder. No claims for payment will be processed until the return is submitted (paragraph 13.19).

**Penalties**

14.22 Penalties may be charged on managers under Schedule 23 FA 2011 for failure to make a return or for making an incorrect return.
CHAPTER 15

ANNUAL RETURNS OF STATISTICAL INFORMATION (MARKET VALUE)

The requirement to make a market value return

15.1

What period must be covered?

15.2 to 15.3

What must be returned?

15.4 to 15.5

How to make market value returns of statistical information

15.6

How to complete form ISA14(Stats) and form ISA14a(Stats)

15.7

Stocks and shares ISAs

15.8

Cash ISAs

15.9

Submission of annual returns of statistical information

15.11

Penalties

15.12
The requirement to make a market value return

15.1 Managers are required to make an annual market value return of statistical information to the HM Revenue & Customs within 60 days of the following reporting dates

- 5th April of each year (in which case the return must be made by 4th June), or
- the date of ceasing to qualify, or act, as a manager.

What period must be covered?

15.2 The information required is for the period from

- the date the manager began to manage ISAs, or
- the last reporting date

whichever is the later.

15.3 Managers must report details of all ISAs held by them at the reporting date.

What must be returned?

15.4 Managers must return

- in relation to stocks and shares ISAs, the aggregate market value of investments under their management, together with separate figures for
  - qualifying shares listed on a recognised stock exchange (including shares which are dual listed on a recognised stock exchange and listed/traded on another market)
  - shares admitted to trading on a recognised stock exchange in the EEA
  - qualifying securities (including securities of investment trusts)
  - gilts
  - units in qualifying authorised unit trusts
  - shares in qualifying open-ended investment companies
  - shares in qualifying investment trusts
  - units and shares in qualifying non-UK collective investment schemes
  - the surrender value of qualifying policies of life insurance
  - cash, and
  - the total aggregate market value of all investments held in the ISAs.
- in relation to cash ISAs, the aggregate market value of investments under their management, together with separate figures for
the surrender value of qualifying policies of life insurance
other investments (these will be investments that fail the 5% test before 1 July 2014 – see paragraph 7.39 – other than insurance)
cash, including cash in share and deposit accounts, and
the total aggregate market value of all investments held in the ISAs

Any investment represented by Depository Interests should be included in the category representing the underlying investment. For example, the market value of a DI representing qualifying shares should be included in the total for qualifying shares.

15.5 All valuations must relate to the value at 5th April in the year of return.

How to make market value returns of statistical information

15.6 Managers can make the market value return separately, in which case the entries are made on form ISA14(Stats), or the market value return can be combined with the subscription return (see Chapter 16), in which case the combined return is to be made on form ISA14a(Stats). Both forms can be downloaded from the HMRC website at http://www.hmrc.gov.uk/isa/annual_stats.htm.

The return may be posted to Savings Schemes Office or e-mailed to savings.audit@hmrc.gsi.gov.uk.

How to complete form ISA14(Stats) and form ISA14a(Stats)

15.7 All boxes must be completed from the left and unused boxes left blank.

   Box 1 – Manager reference
Enter the reference allocated by SSO (‘Z’ followed by 4 numeric characters).

   Box 2 – Manager name
Enter full name of manager.

   Box 3 – Year
Enter the tax year in which the end of the return period falls. For example, for a return made for the year ended 5th April 2009, the entry should be "2009".

Stocks and shares ISAs

15.8 All values must be entered rounded up the nearest pound. For market values see paragraph 10.20.

   Box V04 – Qualifying shares
Enter the total market value of shares listed on a recognised stock exchange (or dual listed on a recognised stock exchange and listed/traded on another market) held under management at 5th April.
Include the market value of shares transferred in from a Schedule 3 SAYE option scheme or a Schedule 2 Share Incentive Plan (other than investment trust shares) (paragraph 7.41).

**Box V04a – Shares traded on a recognised stock exchange in the EEA**

Enter the total market value of shares traded on a recognised stock exchange in the EEA held under management at 5th April.

**Box V05 – Qualifying securities (including securities of investment trusts)**

Enter the total market value of all investments held under management at 5th April categorised as “qualifying securities” (paragraph 7.8) or securities of investment trusts (paragraph 7.28b).

**Box V06 - Government Securities**

Enter the total market value of all investments held under management at 5th April categorised as “government securities” (paragraph 7.17).

**Box V07 - Units in qualifying authorised unit trusts**

Enter the total market value of all investments held under management at 5th April categorised as “units in qualifying unit trusts” (paragraph 7.19a). Include investments in UK UCITS (paragraph 7.20) and UK NURS (paragraph 7.27b) that are authorised unit trusts.

**Box V08 - Shares in qualifying open-ended investment companies**

Enter the total market value of all investments held under management at 5th April categorised as “shares in qualifying open-ended investment companies” (paragraph 7.19b). Include investments in UK UCITS (paragraph 7.20) and UK NURS (paragraph 7.27b) that are open-ended investment companies.

**Box V09 - Shares in qualifying investment trusts**

Enter the total market value of all investments held under management at 5th April categorised as “shares in qualifying investment trusts”(paragraph 7.28).

Include the market value of investment trust shares transferred in from a Schedule 3 SAYE option schemes or a Schedule 2 Share Incentive Plans (paragraph 7.41).

**Box V10 - Units and shares in qualifying non-UK collective investment schemes**

Enter the total market value of all investments held under management at 5th April categorised as “units and shares in relevant UCITS” (paragraph 7.33 - 7.35). Include investments held in non-UK NURS (paragraph 7.27b).

**Box V11 - Surrender value of policies of life insurance**

Enter the surrender value of all policies of life insurance held under management at 5th April.

**Box V12 – Cash on deposit**
Enter the total cash balance at 5th April of all cash held on deposit in a stocks and shares ISA (paragraph 7.47).

Box V13 – Total

Enter the sum of boxes V04 to V12.

Cash ISAs

15.9 All values must be entered rounded up the nearest pound. For market values see paragraph 10.20.

Box V14 – Surrender value of policies of life insurance

Enter the surrender value of all ISA policies acquired before 1 July 2014 and held under management at 5th April.

Box V15 – Other investment products

Enter the value of investments acquired before 1 July 2014 that have failed the 5% test at paragraph 7.39 (other than insurance) that are held in the cash component.

Box V16 - Cash (including cash in share and deposit accounts)

Enter the total cash balance at 5th April of all other cash held in deposit accounts and building society share accounts in the cash component (paragraph 8.1).

Box V17 – Total

Enter the sum of boxes V14 to V16.

15.10 Blank

Submission of annual returns of statistical information

15.11 Managers who fail to submit their returns of information by 4th June will be sent a reminder. No claims for payment made after this date will be processed by SSO until the return is submitted (paragraph 13.19).

Penalties

15.12 Penalties may be charged on managers under Schedule 23 FA 2011 for failure to make a return or for making an incorrect return.
CHAPTER 16

ANNUAL RETURNS OF STATISTICAL INFORMATION (SUBSCRIPTIONS)

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Penalties 16.12 to 6.12a
The requirement to make a return

16.1 Managers are required to make an annual subscription return of statistical information to the HM Revenue & Customs within 60 days of the following reporting dates

- 5th April of each year (in which case the return must be made by 4th June), or
- the date of ceasing to qualify, or act, as a manager.

16.2 Blank

What period must be covered?

16.3 The information required is for the period from

- the date the ISA manager began to manage ISAs, or
- 6th April in the tax year

whichever is the later.

16.4 Blank

What must be returned?

16.5 Managers must report details for all ISAs to which subscriptions have been made during the year.

They should include ISAs transferred in and ISAs closed prior to the reporting date.

However, they should exclude

- ISAs made void, or not proceeded with or cancelled within 30 days of opening (paragraphs 5.5 - 5.7) prior to the reporting date, and
- ISAs whose current year subscriptions were transferred out prior to the reporting date.

16.6 Managers must report the total number of ISAs to which subscriptions have been made in the year, broken down into

- the number of stocks and shares ISAs (box S04), and the total amount subscribed in the year so far (box S08)
- the number of cash ISAs (box S05), and the total amount subscribed in the year so far (box S09)
- the number of stocks and shares ISAs that include insurance products (box S06) and the total amount used to purchase insurance products in the year so far (box S10), and
- the number of cash ISAs that include insurance products (box S07) and the total amount used to purchase insurance products in the year so far (box S11)
Chapter 16  Annual Returns of Statistical Information (subscriptions)

16.7 Where an ISA has been transferred in, the new ISA manager must report subscriptions made to the old ISA manager in the period of return.

**For Example**

Anywhere BS launches its cash ISA on 1st May 2008, and by 5th April 2009 there have been 2000 subscriptions, 1 void, 20 transfers in (of current year accounts), and 40 transfers out. They correctly report 1979 (2000 – 1 + 20 - 40) in Box S05 (number of cash ISAs to which subscription made in period).

**How to make annual returns of statistical information (subscriptions)**

16.8 Managers can make the subscription return separately, in which case the entries are made on form ISA25(Stats), or the subscription return can be combined with the market value return (see Chapter 15), in which case the combined return is to be made on form ISA14a(Stats). Both forms can be downloaded from the HMRC website at [http://www.hmrc.gov.uk/isa/annual_stats.htm](http://www.hmrc.gov.uk/isa/annual_stats.htm).

The return may be posted to Savings Schemes Office or e-mailed to savings.audit@hmrc.gsi.gov.uk.

**How to complete form ISA25(Stats) and form ISA14a(Stats)**

16.9 Boxes must be completed from the left and unused boxes left blank.

*Box 1 - ISA manager reference*

Enter the reference allocated by SSO Services Team 1.

*Box 2 - ISA manager name*

Enter the full name of the ISA manager.

*Box 3 – Tax year*

Enter the tax year in which the end of the return period falls. For example, for a return made for the year ended 5th April 2009, the entry should be "2009".

*ISA information*

*Boxes S04 - S11*

Figures for boxes S08 – S11 must be rounded up to the nearest pound.

Managers must report details for all ISAs to which subscriptions have been made during the year, including ISAs transferred in and ISAs closed.

Do not include ISAs

- whose current year subscriptions were transferred out prior to the reporting date
- cancelled within 30 days of opening, or
- made void prior to the reporting date.
Submission of annual returns of statistical information (subscriptions)

16.10 ISA managers who fail to submit their returns of statistical information within 60 days of the return date (paragraph 16.1) will be sent a reminder. This reminder will advise the manager that

- no claims for payment will be processed until the return is submitted (paragraph 13.19), and
- if the outstanding return is not received within the next month a penalty under paragraph 22(a) Schedule 23 FA 2011 may be charged (see paragraph 6.12a).

16.11 Blank

Penalties

16.12 Penalties may be charged on ISA managers under Schedule 23 FA 2011 for making an incorrect return.

16.12a Penalties will be charged on ISA managers under Schedule 23 FA 2011 for failure to make a return within one month of the issue of a reminder letter.

The maximum initial penalty is £300 and the maximum continuing penalty is £60 a day.
## CHAPTER 17

### THE HMRC INSPECTION

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Introduction

17.1 SSO may undertake inspections to ensure that managers have met their obligations under the ISA regulations.

17.2 Auditors will

- review managers’ procedures
- check the calculation of claims
- check the calculation of amounts due to the HMRC (for example, flat rate charges on interest on cash on deposit in stocks and shares ISAs paid before 1 July 2014), and
- carry out sample checks on individual ISAs.

17.3 HMRC have published a Code of Practice entitled “Inspection of Schemes Operated by Financial Intermediaries”. The leaflet explains how HMRC carry out their inspections. In particular it explains financial institutions' rights, and promises that they will be treated fairly and courteously. It also promises that HMRC will provide help where appropriate.

17.4 The code of Practice can be viewed at http://www.hmrc.gov.uk/leaflets/inspection-of-schemes.htm.

17.5 New managers (or existing managers implementing major systems or procedural changes) can seek guidance from SSO, who may be able to arrange a help visit.

17.6

Before the inspection

17.7 SSO will issue a formal notice of an inspection at least two weeks before the date of the visit. This formal notice may be preceded by a telephone call if the Business is large and it is likely that a pre-inspection meeting will be needed.

17.8

The inspection

17.9 Auditors will visit the location at which the manager's records are maintained. This is normally the manager’s own premises, but where the administration is carried out by a third party and the records are held by the third party, the inspection will be carried out at the third party’s premises. Records must be available for inspection in the UK.

17.10 Managers must show auditors certain records to demonstrate that the manager has operated the ISA scheme correctly. The records will include all documents, books, and other records which managers have or control containing information relating to any ISA.

17.11 Auditors may also ask managers to provide information about any ISA.

17.12 There are penalties under Schedule 23 FA 2011 for failing to make records available for inspection or for failing to provide information.
17.13 The Code of Practice explains HMRC’s general approach to the examination of records. In relation to ISAs, auditors will want to check

- validity of application forms. This will not be a separate check but will be incorporated into the check of the targeted areas below
- non UK addresses
- excess subscriptions
- missing NINOs or Dummy NINOs
- care of and PO Box addresses
- transfers in
- breaks (gap years)
- treatment on cash on deposit
- bed and ISA
- share options
- death cases
- HMRC void letters
- Interim and final claims
- flat rate charge (for investments acquired before 1 July 2014)

Auditors may need to see other records and check managers' systems and procedures.

17.14 Although auditors will wish to inspect recent records, managers should retain all records for six years. Records include

- applications to subscribe, including transfer applications (but see paragraph 17.14b)
- correspondence
- history and valuation records
- annual claims and returns
- interim claims
- interest reports, and
- life insurance policies

17.14a Where an account has been closed or transferred to another manager, records need only be kept for three years after the date of closure or transfer.
17.14b By 6 April 2008, a continuous ISA application form accepted on 6 April 2002 will have been kept for six years and a manager might conclude that the application could then be shredded. However, if the investor were continuing to subscribe (by monthly direct debit, for example), this would clearly be inappropriate. The ISA regulations require ISA managers to keep sufficient records to enable the requirements of the regulations to be satisfied. The application form is an essential record and SSO therefore require managers to have application forms available for those accounts selected for audit (see paragraph 17.13). And auditors will seek recovery if an application form is not available; so shredding forms after six years will only be an option if the manager has a more up to date application form.

If an account is open and the investor is continuing to subscribe, managers should therefore proceed as follows.

1. If subscriptions are being accepted year on year under a continuous application made at the outset, the original application form must be retained.

2. If subscriptions are being accepted year on year, but a fresh application is made each year, the manager must keep each application for six years (but see paragraph 4.36 if the manager adopts the ‘non-written procedures’). After six years, the oldest application form could be destroyed. The manager would always have six forms on file.

17.15 Managers may hold the records (including applications) on computer or microfilm. Records held in this way must be

- retrievable, and

- easily accessible by auditors

17.16 ISA managers are not required to retain recordings of telephone applications or copies of internet files, where investors have made applications other than in writing. However, ISA managers must be able to show the date that the declaration was created and ensure that their annual returns include the information given in the declaration. This will also apply where the manager receives written applications but then adopts the non-written procedure of issuing a declaration (see paragraph 4.36).

17.17 17.18 Auditors will risk assess the manager’s procedures. Where appropriate the auditor will select statistical samples. This will allow the auditor to extrapolate the results found in any samples across the total population. Where the sample is not statistically valid and errors are found, then the auditor may extend the sample, but more usually will ask the manager to carry out a 100% review of that particular area. The flow chart at paragraph 17.64 will help explain the audit procedure if any errors are found.

After the inspection

17.19 Auditors will normally report their findings to managers within 28 days of an inspection visit. This is in the form of a written inspection report.

17.20 Where auditors are satisfied that tax relief has been obtained only where due and that any claims by the manager have been made correctly, they will advise the manager that no further action is needed.
17.21 Where auditors believe that incorrect tax relief has been given by a manager, or where the manager has submitted incorrect claims, they will ask the manager to pay an amount based on the incorrect relief given or overclaimed.

**Default interest**

17.22 Incorrect claims by managers attract interest under Section 86 Taxes Management Act 1970. Interest will be charged on amounts recovered both under the strict basis (paragraph 17.28), and under simplified voiding (paragraph 17.38). Interest will be calculated from the 31st January in each year of assessment covered by the audit settlement.

**Penalties**

17.23 Incorrect claims may also attract penalties where the claims were made fraudulently or negligently. Penalties may be charged on amounts recovered both under the strict basis, and under simplified voiding. SSO will not charge penalties on the first audit of an ISA manager’s system except in the most serious circumstances.

**Breaches in the ISA rules**

17.24 Some breaches of the ISA rules affect managers alone. Examples are

- a failure to deduct a flat rate charge for interest paid on uninvested cash (before 1 July 2014) held in stocks and shares ISAs (paragraph 7.51)
- an incorrect annual or interim claim, and
- incorrect action on the death of an investor (paragraph 12.7).

In such cases, SSO will ask the manager to repay amounts incorrectly claimed, or to pay amounts that they should have deducted.

17.25 Some breaches of the rules may affect both the investor and the manager because the ISA is invalidated by the breach. Examples are

- an oversubscription
- more than one ISA of the same type, (cash or stocks and shares) subscribed to in one tax year (paragraph 3.14), and
- the investor is not otherwise eligible to subscribe (paragraphs 3.4)

17.26 For the following breaches, auditors will normally allow an invalid ISA to continue.

- Where ‘personal information’ (paragraph 4.13) is absent from an application form provided managers obtain the missing personal details from the investor within 30 days of the date of the audit report, the ISA may continue and the investor need not return any income or gains on his or her tax return
- If an ISA is opened inadvertently before the end of the withdrawal period (paragraph 5.7), the ISA can continue
- If an ISA is in debt at any time, it may continue provided the investor settles the debt within the subscription limits.
• if cash is not held in a designated account, the ISA can continue provided the manager designates the account as an ISA account.

17.27 In other circumstances, a breach may lead to a void ISA. Some void ISAs can be repaired under the simplified voiding procedure (paragraph 17.38). Others cannot be repaired, and must be dealt with strictly in accordance with the rules.

**Strict treatment of breaches in the ISA rules**

17.28 If a breach cannot be repaired under simplified voiding (paragraph 17.38), or if the manager wishes, the breach will be dealt with strictly in accordance with the rules.

Where auditors establish that a subscription is not valid, for example, because the investor is not eligible to make the subscription, they will ask managers to

• remove the subscription and any income or gains arising from the invalid subscription, from the ISA (paragraphs 12.23 and 9.26), and

• repay amounts claimed (and make deductions where appropriate) arising from the invalid subscription.

17.29 Where auditors establish that an investment should not be held or purchased in the ISA, they will ask managers to

• remove the investment and any income or gains arising from the investment from the ISA (see paragraph 9.27 for how this applies to insurance products held in an ISA), and

• repay amounts claimed (and make deductions where appropriate) arising from the holding of the invalid investment.

17.30 If a statistical sample contains ISAs on which tax relief has been wrongly obtained, but the number of invalid ISAs found is not statistically valid, auditors will conclude that similar errors are unlikely to exist throughout the rest of the ISAs held. They will therefore ask managers to

• pay an amount equal to the relief given or claimed on the ISAs within the sample on which tax relief has been wrongly obtained, and

• correct the individual errors identified, voiding invalid ISAs where necessary.

Errors falling within paragraph 17.50 will also be treated in this way, irrespective of the statistical validity of the number of errors found.

17.31 In other circumstances auditors will

• seek to determine, by agreement with the manager, amounts to be paid (paragraph 17.34), and

• if appropriate, ask the manager to make a payment on account, while the correct figure is calculated.
17.32 Where auditors have used a statistically valid sample, and the number of errors is
also statistically significant, then the results of the sample will be extrapolated
across the total number of ISAs held. Unless the errors are limited to the personal
information listed in paragraph 4.13, the auditors will ask the manager to carry out a
100% review of all unexamined ISAs which might have the same error, voiding any
ISAs found to be invalid. If not carried out as part of the audit, this review should
take place as soon as practicable after the audit is completed.

17.33 The manager must inform each investor whose ISA is voided to report details of the
interest, dividends and capital gains and losses arising on their investment to their
tax office. The investor may have further tax liability.

Calculation of tax relief recovery

17.34 Auditors will aim to agree with managers the amount of tax relief incorrectly given or
claimed after discussion of the inspection findings. Where a 100% review has taken
place, the amount can be calculated exactly. If auditors have reviewed a sample,
they will normally extrapolate the agreed results of the sample across the rest of the
ISAs held.

17.35 Where a manager is unwilling to rely on extrapolation of the sample results to
quantify any settlement, he may review all ISAs to arrive at the correct amount. The
auditors will agree how the manager will carry out the review, and will check the
results of the review.

17.36 Where managers review all their ISAs, they must remove invalid ISAs,
subscriptions, and investments from the scheme. In addition, auditors will seek
monetary settlement from managers in accordance with paragraph 17.34.

17.37 Auditors will also recover relief incorrectly given in respect of ISAs held within the
previous four years but closed before the audit.

Simplified voiding

17.38 Under the strict statutory approach (paragraph 17.28), breaches of the ISA
regulations lead, in many cases, to voiding of the ISA. If an ISA is voided, auditors
will recover from the manager any relief given to the investor by the manager, and
the investor's tax office will recover from the investor any capital gain or higher rate
tax due.

17.39 Simplified voiding is an alternative approach for some breaches of the ISA
regulations. Under simplified voiding, certain breaches can be repaired, with the
permission of HMRC. This means that, provided the manager and investor take
certain actions, the ISA is not voided. An investor with a repaired ISA will remain, in
most cases, in the same position as if the breach had not happened. The investor
may not even know that his or her ISA breached the regulations.

17.40 SSO do not intend that simplified voiding should apply to breaches of the ISA
regulations that have taken place deliberately or carelessly. SSO will reserve it for
breaches which are inadvertent, or which, despite the manager's best efforts, have
slipped through the checking procedures. SSO reserve the right to treat any breach
strictly in accordance with the ISA regulations, and the manager has the same right.
17.41 Simplified voiding is voluntary, and the manager can either ask that all repairable breaches to be dealt with in accordance with the simplified voiding procedure; or can insist on the strict treatment. A manager cannot use simplified voiding for some repairable breaches and not others – he must apply the procedure to all repairable breaches, or none.

17.42 The treatment of repairable breaches following audit under simplified voiding differs from the strict treatment.

17.43 Under simplified voiding, auditors will proceed as follows where they find a statistically valid number of breaches as a result of their examination of a sample of accounts.

If the breaches are not repairable, either because the breach itself cannot be repaired (paragraph 17.50), or because the manager has elected for the strict treatment (paragraph 17.41), the auditors will ask the manager to carry out a 100% review of the accounts, voiding any ISAs found to be invalid (see paragraph 17.32). They will then calculate a recovery as detailed in paragraph 17.34.

If the breaches are repairable (paragraph 17.49), the auditors will not require the manager to carry out a 100% review.

If the manager does decide to carry out a 100% review, he must repair any breaches found. And the results of that review will form the basis of the audit recovery (paragraph 17.52).

If the manager decides not to carry out a 100% review, he must repair the breaches found in the sample. And the auditors will normally extrapolate the agreed results of the audit sample across the rest of the ISAs held to arrive at the audit recovery (paragraph 17.52).

However breaches in accounts outside the sample (which will not been reviewed and repaired) may appear in the sample taken at the next audit. Where this happens, the auditors will seek a recovery for the tax relief incorrectly claimed or given in the ISAs that have not been repaired, from the date of the previous settlement up to the date of the current audit.

**Simplified voiding and insurance policies held in an ISA**

17.44 When an insurance policy held in an ISA is found (by HMRC auditors or the manager) to be in breach of the ISA rules, the breach can be repaired under simplified voiding (see paragraph 17.45).

17.45 The invalid insurance policy must be terminated when the breach is discovered. However, the manager can repair the breach by replacing the terminated policy with a new policy. The new policy must preserve the full value of the investor’s rights under the original policy. The proceeds from the terminated policy must be used to fund the new policy, and those proceeds will not count as a subscription to the ISA.

17.46 ISA managers may need to obtain the consent of the investor to the repair, and may wish to modify the contract for future policies to allow for an automatic replacement of a policy should repair be required.

17.47 HMRC may seek recovery from the ISA manager in respect of any ISA containing a repaired insurance policy (see paragraph 17.53). The settlement formula figure for the repaired insurance policy will be the same as for the stocks and shares ISA.
Types of repairable breaches

17.48 A  No lost tax and investor not disadvantaged

This could cover, for example, administrative errors where the investor believes he has applied for a valid ISA, and where the account has otherwise been operated in accordance with the ISA rules. Technically, the administrative error will invalidate the ISA and HMRC has the power to recover the tax relief on the invalid ISAs, interest under s86, and a Schedule 24 FA 2007 penalty. However because of the unique nature of these offences HMRC will, in practice, not seek to recover the tax or interest in respect of these errors. Nor will the penalty be reduced in the normal manner. Instead:

- it will firstly be reduced to an 'administrative error penalty' of a maximum of £1 per error - in line with the CTF penalty provisions for administrative errors. Secondly, it will be further reduced in the normal manner (reasonable care, careless, deliberate, deliberate and concealed), with further reductions for disclosure
- where the annual information return is incorrect or incomplete, in addition to the 'administrative error penalty' HMRC will seek to recover a penalty under Schedule 23 FA 2011 in respect of the incorrect annual information return

In these cases SSO would expect the institution to put correct processes, procedures and documentation in place in respect of any future subscription.

Examples of this type of breach would include

- missing declaration on application,
- NINO or date of birth missing from application form
- application not signed
- missing terms and conditions but operated in practice
- missing gap year applications.

B  No loss of tax but investor disadvantaged

This could include administrative errors where the investor believes he has applied for a valid ISA, but the account has not been operated strictly in accordance with the ISA rules. For example, where the terms and conditions are defective and the provider has not complied with the transfer or withdrawal rules. Technically, the defective terms and conditions will invalidate the ISA and HMRC has the power to recover the tax relief on the invalid ISAs, interest under s86, and a Schedule 24 FA 2007 penalty.

The treatment here will be as outlined in paragraph [XX] except the further abatement for reasonable care etc will be less than that for errors that do not directly lead to a loss of tax and where the investor has not been disadvantaged.

Example - missing terms and conditions not operated in practice
C Breaches leading to a loss of tax - simplified voiding

Treatment of these errors will continue to be based on the Simplified Voiding procedures that operate now. This category will cover, for example, subscriptions in excess of the limits, the holding of non-qualifying investments, or the failure to comply with an HMRC void notice. For these errors, HMRC will seek to recover:

- the relevant tax (where appropriate using simplified voiding), interest and a Sch 24 FA07 penalty (equal to a maximum of the excess tax relief) reduced in the normal manner (reasonable care, careless, deliberate, deliberate and concealed), with further reductions for disclosure
- a penalty under Schedule 23 FA 2011 in respect of the incorrect or incomplete annual information return

In these cases SSO would also expect the institution to carry out a 100 per cent review to correct the ISAs for the future by removing excess subscriptions and non valid investments, and complying with HMRC void notices.

17.49 Managers will often discover breaches outside an SSO audit, for example, following an internal audit. If a breach is discovered, the manager should contact SSO.

Examples of breaches that are repairable, and details the action the manager and investor can take to repair the breach.

- An ineligible investment is purchased, or held, in an ISA
  
  This breach can only be repaired if it is inadvertent. The manager can repair the breach by selling the ineligible investments. The proceeds can remain within the ISA and used to buy eligible investments. Auditors will seek a recovery for the period the ineligible investments remained in the ISA.

- An investment that was eligible for an ISA on purchase later becomes ineligible
  
  This breach can only be repaired if it is inadvertent. If the investments are ineligible at the time the breach is found, then the manager can sell those investments to repair the breach. The proceeds can remain within the ISA and used to buy eligible investments. If the investments are eligible at the time the breach is found, but have been ineligible at some time since purchase, then no action is required to repair the breach. Auditors will seek a recovery for the period that the investments were ineligible.

- Subscription limits breached
  
  The manager can repair this breach by removing the excess subscription from the ISA. If the excess has been used to purchase investments then the manager can repair the breach by removing those investments and any related income from the ISA. SSO will seek a recovery from the date the subscription exceeded the limit to the date of the audit report.

- Incorrect allocation of dividends to an ISA
  
  The manager can repair this breach by removing the dividend from the ISA. If the dividend has been used to purchase investments, the manager can repair the breach by removing those investments from the ISA. Auditors will seek a recovery from the date of the incorrect allocation to the date of the audit report.
• Incorrect transfer of shares from a Schedule 3 SAYE option scheme, approved profit-sharing schemes, or Schedule 2 Share Incentive Plans

If the underlying investments are eligible, and the breach concerns a failure in the transfer procedure, the manager can repair the breach by correcting the error. If the underlying investments are ineligible, the manager can repair the breach by selling those investments. The proceeds can remain within the ISA and used to buy eligible investments. Auditors will seek a recovery for the period the ineligible investments remained in the ISA.

Irreparable breaches

17.50 This paragraph lists breaches that cannot be included in simplified voiding, and which must be dealt with in accordance with the strict, statutory, approach (see paragraphs 17.29 – 17.33).

• Incorrect manager annual and interim claims

• Manager failure to deduct flat rate charge from interest paid on cash held in stocks and shares ISAs (for periods before 1 July 2014)

• Investor non-resident at the time of subscription or otherwise non-qualifying (the invalid subscriptions must be voided – see paragraphs 12.29 and 17.28)

• Subscriptions by an investor to two or more ISAs of the same type (cash or stocks and shares) in the same tax year and the subscription limits have been breached (the second and later ISAs may be voided – see paragraphs 12.34 – 12.35)

• ISA opened before the end of the tax year when the subscription is made after the end of the tax year (the ISA must be voided)

• Incorrect action on the death of an investor (paragraph 12.7)

Calculation of tax relief recovery

17.51 An investor with a repaired ISA should not inform his tax office of the breach. In most cases, the investor will not be aware that the manager has repaired the breach. Because HMRC has forgone the higher rate and capital gains tax that may have been recovered from the investor, SSO will seek to recover an amount from the manager which will, on average, compensate HMRC for that tax. The recovery will also compensate for gross interest credited to the repaired ISA that the manager would otherwise refund to HMRC under the strict treatment.

17.52 If the manager chooses to apply simplified voiding to repair breaches then the recovery will be calculated in accordance with the settlement formula. A manager cannot choose to apply simplified voiding to only some of the repairable breaches found - he must choose to apply it to all or none.

17.53 Recovery arising from breaches that are not included in simplified voiding will be calculated as detailed in paragraph 17.34.

17.54 The figures to be used in the formula settlement are as follows:

• stocks and shares ISAs

The recovery will be £5 per year per £1000 subscribed.
• *cash ISAs*

The recovery will be £10 per year per £1,000 subscribed.

17.55 The figures used in the settlement formula are based on estimates of the average yield for each type of ISA, and of the amounts invested by higher rate, basic rate, and non-taxpayers. The figures will be revised should the yields, and the amounts invested, change markedly from our initial estimates, but the figures are not expected to change more frequently than annually. The figures above will apply until SSO notify you otherwise.

**For Example**

Mr. Cohen deposited £3,000 in an invalid cash ISA on 6th April 2008, and the ISA was repaired two years later. The recovery under the settlement formula will be will be £10 (formula figure) x 3 (£3000/£1000) x 2 (years invalid) = £60.

Mrs Shamar deposited £3,000 in an invalid cash ISA on 6th April 2008, then withdrew cash, depositing more cash on 6th April 2009, then closing the account on 5th October 2009. The recovery will be based on the average balance during the period. If the average balance were £1,400, then the recovery will be £10 (formula figure) x 1.4 (£1400/£1000) x 1.5 (years invalid) = £21.

17.56 Recovery from a stocks and shares ISA is based on the amounts subscribed to the ISA, not the value of the investments held.

17.57 The settlement will be calculated up to the date of the audit report on the understanding that any repairs, where required, will be carried out as soon as practicably possible.

**Audit protection**

17.58 HMRC’s Statement of Practice SP8/91 explains the circumstances in which HMRC will recover tax where a claim or an assessment has previously been settled by agreement. Briefly, they do not go back on an agreement unless the information on which that agreement was based was misleading. In line with this practice, SSO do not seek to recover on claims made before the end of the period covered by the last inspection (whether or not that earlier inspection resulted in any recovery), unless

- the settlement was based on misleading or incorrect information provided by the manager
- the settlement was based on computational errors which the manager could not reasonably believe were correct or intended, or
- errors arose that were not readily susceptible to inspection checks.

17.59 The protection afforded by the Statement of Practice does not extend to claims made after the end of the period covered by the last inspection.

17.60

**Breaches outside audit**

17.61 Managers will often discover breaches outside an SSO audit, for example, following an internal audit. If a breach is discovered, the manager should contact SSO.

17.62
17.63
Appendix U

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Invalid ISA found at audit - during review of a statistical sample or during a 100% review?

100% review

Is the number of invalid ISAs found statistically valid?

Yes

Is the ISA repairable?

Yes

Do 100% of the affected area to identify all invalid ISAs

No

Strict treatment

No

Is the ISA repairable?

Yes

ISA manager can choose to void ISAs or repair using simplified voiding (with Revenue agreement)

Strict treatment

No

Invalid ISAs must be voided and the audit settlement based on calculation of tax relief claimed or given on each invalid ISA

Simplified voiding

Invalid ISAs are repaired and the audit settlement is calculated using the settlement formula. The manager can elect to carry out a 100% review of the affected area or leave the breaches unrepaid

Simplified voiding

Invalid ISAs are repaired, and the audit settlement is calculated using the settlement formula

All invalid ISAs found are considered for voiding
CHAPTER 18

JUNIOR ISAS - INTRODUCTION

Overview of the JISA 18.1
The Legislation 18.2
Who can provide JISAs 18.3
18.1 Overview of the Junior ISA

18.1.1 JISA stands for Junior Individual Savings Account. JISAs became available on 1st November 2011. A JISA is a type of ISA available to eligible children in respect of which instructions are given by a ‘registered contact’. JISA is a voluntary product, and there is no requirement that a child holds an account, or an account of any particular type. Most of the ‘adult’ ISA rules apply and Chapters 18 to 30 set out rules that apply specifically to JISAs.

18.1.2 A JISA is an investment account of an eligible child managed in accordance with the ISA regulations under terms agreed between the ISA provider and the registered contact. Any person can subscribe to a child’s JISA.

18.1.3 A child is an eligible child for a JISA if, when the account application is made
- they are under age 18
- they were born on or after 3 Jan 2011 or do not have a CTF account
- they are resident in the UK, or are a UK Crown servant, married to or in a civil partnership with a Crown servant, or a dependent of a Crown servant.

18.1.3a Account managers should not refuse to take JISA applications because the child is within the CTF eligibility age range (born after 31 August 2002 and before 3 January 2011).

There may be a number of reasons why a child in the CTF age range is not eligible for a CTF. JISA providers may draw customers’ attention to the rule that children with a CTF cannot have a JISA, but providing the application form is fully completed it should be accepted without further query.

18.1.4 A person with parental responsibility for any eligible child (or the child themselves if they are aged between 16 and 18) can apply to open a JISA and become the registered contact. A child can hold two types of JISA
- a stocks and shares JISA, and
- a cash JISA.

Unlike ‘adult’ ISAs where the investor can open and subscribe to new ISAs in each tax year, a child can only hold up to two JISAs (no more than one of each type) throughout their childhood (although between ages 16 and 18 they can hold one of each type of JISA plus an ‘adult’ cash ISA). However, no child is required to hold either type of account. They may have no JISA at all, or only one type of account.

18.1.5 In most respects the terms and conditions under which JISA accounts are offered are matters for the account provider, as agreed with the registered contact (see 18.1.6). This is however subject to certain minimum requirements set out in JISA legislation and described throughout this guidance.

18.1.6 The registered contact (see chapter 21) is the person who can agree with the account manager the terms and conditions under which the account will operate, and give instructions to the account manager for the management of the account. There can be only one registered contact for an account at any time. The registered contact will be
• the child holding the account (unless, in England or Wales they lack mental capacity or in Scotland or Northern Ireland they are suffering from mental disorder) if they are aged over 16 and have taken on management of the account by making an application to the account provider for registered contact status, or

• a person with parental responsibility for the child holding the account.

The registered contact will be the account contact for all statement and correspondence purposes.

18.1.7 The income generated from parental subscriptions to a JISA does not count toward the parent's income under the settlements legislation (section 629 ITTOIA 2005). For Inheritance Tax purposes, gifts made by a parent to a JISA are treated in the same way as any other gifts they make.

18.1.8 The provider holds investments on behalf of the child, and claims repayment of any income tax deducted at source, by including it in the claim submitted to SSO Repayments (see Chapter 13). Claims in respect of insurance products are made by the insurance company or friendly society providing insurance cover (who may be different to the provider).

18.1.9 Any person can make subscriptions into a child’s JISA, and the only amounts that can be withdrawn prior to the child’s 18th birthday are to meet certain provider management charges and other specific expenses, or where the child is terminally ill (see chapter 26). Should the child die before they reach 18 the JISA will close and the investments will become part of the child’s estate. In all circumstances other than death or terminal illness of an account holder (or when a nil balance arises because a JISA has been opened and a small initial investment has been made, but contributions then stop and agreed charges then bring the balance down to nil), a JISA must run until the account holders 18th birthday, although – as with ‘adult ISAs’ - accounts can be transferred between account managers.

18.1.10 There is no specific stakeholder JISA and there is no need for account managers to offer lifestyling but providers can develop and offer these types of products if they want to.

18.2 The Legislation

18.2.1 The detailed rules for JISAs are contained within the Individual Savings Account Regulations 1998 No.1870, and subsequent Amendment Regulations.

18.3 Who can provide JISAs?

18.3.1 As the JISA is a type of ISA, any person approved to provide ISAs will automatically be able to offer a JISA (see Chapter 2). All of the ISA approval rules apply and the only additional requirement is that an ISA provider offering JISA accounts must

• publicise details of the minimum amounts they will accept as JISA subscriptions and the methods of payment they accept, and

• inform persons proposing to subscribe to a JISA that the subscription is a gift (see paragraph 22.1.2).

These requirements can be met by the account provider publishing the relevant details in their account publicity and literature, such as the account ‘key features’.
The same conditions and processes regarding: HM Revenue & Customs approval of managers; requirements in relation to non-UK account managers, providers ceasing to offer accounts; and HM Revenue & Customs withdrawal of approval to offer accounts, apply to JISA as they apply to ‘adult’ ISAs.

18.3.2 Any institution approved by HM Revenue & Customs to offer ISAs can choose whether or not to offer JISAs. Approved ISA providers can also choose to offer JISAs only, or cash or stocks and shares JISAs, only and not to any other ISA products.
# Chapter 19

## Types of JISA

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19.1 **Cash and stocks and shares accounts**

19.1.1 A JISA, like the ISA, can be offered as either a cash account or a stocks and shares account. Although there will be a single overarching subscription limit for both accounts, a cash and stocks and shares JISA held by a child should be separate accounts for statement and correspondence purposes, and may be held with the same or different providers.

19.1.2 A 'shell' account holding less than one penny (for example where all investments previously held have been transferred to another JISA) is disregarded when considering the 'one account of each type' rule, including for the purposes of the account-opening declaration (see paragraph 20.4.1).

19.1.3 We understand that stocks and shares JISAs may, depending on the investments held, be subject to the Markets in Financial Instruments Directive (MiFID) and therefore MiFID reporting requirements. If required, further advice should be sought from the FCA.

19.2 **Means of payment of subscriptions**

19.2.1 There are no restrictions or requirements on payment methods for JISA accounts. These will be a matter for the terms and conditions of the account, as agreed between the account manager and registered contact (see paragraph 4.15).

19.3 **Minimum subscription**

19.3.1 There is no requirement to accept any minimum one-off or regular payment subscription. But providers are free to design their products to include minimum subscription limits. Any such features will be a matter for the terms and conditions of the account, as agreed between the account manager and registered contact, and should be published by the provider.

19.4 **Charges**

19.4.1 Providers can make charges for management and other expenses as they see fit, subject to other regulatory requirements and the management contract agreed with the registered contact.
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20.1 Applications to open a JISA

20.1.1 A JISA application can only be made by a person aged 16 or over. Where the child is aged 16 or over, either the child or a person with parental responsibility for the child can apply to open the account. Where the child is under 16 only a person with parental responsibility for the child can apply to open the JISA. Where the child is over 16, a person holding a registered Lasting Power of Attorney for the child (see paragraph 5.24) can make the application.

A JISA may also be opened by ‘The Share Foundation’ for a child who has been looked after by a Local Authority for a continuous period of at least 12 months commencing after 2 January 2011. For JISA purposes, The Share Foundation is treated as having parental responsibility for the child.

20.1.2 The person applying for a JISA must be aged 16 or more, and for example could be

- the child who will hold the account
- the child’s natural parent
- a person who has legally adopted the child
- a person who has been granted parental responsibility by the Courts
- a Local Authority that has parental responsibility for a child in its care, or
- The Share Foundation

An account can still be opened for a child by a person with parental responsibility, even if the child is over 16, and therefore entitled to apply for an account themselves.

20.1.3 Providers should accept that an applicant has parental responsibility unless they suspect that this is not the case, in which case they should ask for proof. Proof would include the name of the applicant on the child’s birth certificate, or a court order awarding parental responsibility. A person married to the child’s mother at the date of birth of the child also has parental responsibility, so sight of the marriage certificate would establish this. An account manager may accept any such proof offered at face value, but should not open an account if they believe that any document presented to prove parental responsibility is incorrect.

Where the application is made by The Share Foundation, the provider does not need to seek further proof or information.

20.1.4 There are certain conditions that must be satisfied before the JISA can be opened, and the JISA can only be opened when all the conditions are met (in any order).

20.1.5 The conditions are:

- the applicant enters into an agreement with the provider for the management of the JISA which includes the declaration and application referred to below
- where there is a pre-contractual right to withdraw (as opposed to cancellation rights – see paragraphs 5.5 – 5.7), the period for withdrawal has expired, and
• where the application is not in writing, the applicant has agreed, or is treated as having agreed, a copy of the declaration

The information, declarations and authorisations required for the opening of a Junior ISA, as specified in this Chapter, are only required at account application, and do not need to be renewed annually. However, it will be necessary to obtain new information, declarations and authorisations subsequently as part of an application for a new registered contact for the account (see section 21.3)

20.1.6 The application can be made in writing, over the internet, by fax or by telephone.

20.1.7 Providers may refuse an account application as they see fit. An account manager may accept any information or declaration offered by the account applicant at face value, but should not open an account if they believe that any of the information given by the applicant is untrue.

20.1.8 Simplified Due Diligence will apply to the opening of a JISA so full Money Laundering checks are not required on the child or the applicant for the JISA.

20.1.9 Where a provider offers cancellation rights (see paragraph 5.5) it is only the person who is making the application (in FCA-speak, the ‘consumer’) that can exercise the right to cancel. Any sum returned must be paid to that person. Further details can be found in the FCA Conduct of Business Sourcebook (COBS) at 15.3 – 15.4.

20.2 JISA applications in writing

20.2.1 Applications in writing must be made on an application form. Providers should produce their own application forms, which must contain the information, declaration and authority set out below. Providers may use the wording in the specimen application form at section 20.13.

20.2.2 Applications in writing must be signed by the applicant.

20.3 Personal information

20.3.1 Applications must contain

• the applicant’s title (if any) full name (which does not have to include a middle name or initial - so an application showing Mr John Joseph Bloggs, Mr John J Bloggs or Mr John Bloggs is acceptable but Mr J J Bloggs or Mr Bloggs is not). For looked after children, the applicant may be The Share Foundation.

• the applicant’s permanent residential address, including postcode. Where the Applicant is The Share Foundation, this will be the address of their registered office.

• the child’s title (if any), and full name (see above)

• the child’s permanent residential address, including postcode. Where the Applicant is The Share Foundation, this will be the address of their registered office.

• the child’s date of birth, and

• if the child is aged over 16, their NINO (if they have one)

Providers may use the wording in the specimen form at section 20.13
20.3.2 An application that does not contain the applicant’s name and address, and the child’s name and address is incomplete. The provider can either:

- return the application form to the applicant for full completion; or
- retain the incomplete application and obtain the missing information by letter, fax, e-mail or telephone at which point the account can be opened

20.3.3 The application must specify that the child will be the beneficial owner of the investments held in the JISA.

20.3.4 An account manager may accept information provided in an account application at face value, but should not open an account if they believe that any information provided at account opening is incorrect.

20.3.5 Provided the child’s address is used for reporting purposes (see Chapter 28), providers can use the registered contact’s address (if this differs from the child’s address) for correspondence purposes.

20.4 Declaration

20.4.1 Applicants must make a declaration on the application. The following details are required in the declaration:

- the applicant is over 16 and is the child, or has parental responsibility for the child, who will hold the JISA
- the application is to open a cash JISA or a stocks and shares JISA (as the case may be)
- the personal details (see paragraph 20.3.1) are true
- the child who will hold the JISA does not hold a Child Trust Fund
- the child who will hold the JISA is either
  - resident in the UK
  - a UK Crown servant
  - married to or in a civil partnership with a UK Crown servant, or
  - a dependent of a UK Crown servant
- the applicant is the person who will be the first registered contact for the account
- if the application is for a stocks and shares JISA that
  - the applicant has not subscribed to another stocks and shares JISA for the child, and
  - is not aware of any other stocks and shares JISA held by the child
• if the application is for a cash JISA that
  ➢ the applicant has not subscribed to another cash JISA for the child, and
  ➢ is not aware of any other cash JISA held by the child

• as far as the applicant is aware, subscriptions made to any other JISA for the child in the year have not exceeded the annual subscription limit, and

• the applicant will not knowingly make subscriptions that will result in the annual subscription limit being breached

For the purposes of this declaration, any account containing a nil balance following the transfer of investments to another JISA may be disregarded.

20.4.2 Declarations must also contain an agreement by the applicant to the JISA terms and conditions (see paragraph 4.15), and where the application is in writing, the applicant’s signature.

20.4.3 An account manager may accept information provided in an account opening declaration at face value, but should not open an account if they believe that any declaration provided at account opening is incorrect.

20.4.4 A single declaration by The Share Foundation in respect of multiple account opening declarations may be accepted provided there is an audit trail from each account/application to the declaration.

20.5 Authority

20.5.1 Applications must include an authority for the provider to manage the account on behalf of the child. The following authority will satisfy the requirements of the regulations.

20.5.2 “I authorise [provider’s name] to hold the subscriptions, JISA investments, interest, dividends and any other rights or proceeds in respect of those investments and cash, and to make on the child’s behalf any claims to relief from tax in respect of JISA investments”

(If the JISA is a cash JISA invested in a deposit account, alternative wording could be used, such as ‘to hold my cash subscriptions and any interest earned on those subscriptions’)

20.5.3 The authority continues until it is replaced following a change in registered contact, or the account is transferred to another provider. If the existing registered contact ceases to be the registered contact, the previously given authority continues until replaced as part of the normal application process for registered contact status (see paragraph 20.3).

20.5.4 A single authority by The share Foundation in respect of multiple account opening authorities may be accepted provided there is an audit trail from each account/application to the authority.

20.6 The management agreement
20.6.1 All JISAs must be managed in accordance with the ISA/JISA rules, and under terms agreed between the registered contact (on behalf of the child where appropriate) and the provider (see paragraph 4.15).

20.6.2 The management agreement must include instructions to the provider as to the way in which any subscriptions are to be invested.

20.6.3 Where an account applicant is between the ages of 16 -18 (whether they are the child who will hold the account, or a parent applying for an account for their child) any management agreement for the account has effect as if the account applicant was 18 years old or over.

20.7 JISA applications not in writing

20.7.1 Where an application is made other than in writing; for example, by telephone, unsigned e-mail or fax, or orally, the investor is required to provide the same information, make the same declaration and provide the same authority and other information as for a written application. The investor's signature is not required. A telephone checklist is contained at paragraph 20.14.

20.7.2 On receipt of the application, the ISA manager must make a 'written declaration' and notify the applicant of its contents. Notification can be done in one of several ways.

- if the application is made over the phone, or in face-to-face contact, the declaration can be read back to the applicant as part of the application process
- if the application is made over the internet, a copy of the declaration can be relayed back to the applicant as part of the application process
- in all cases, a copy of the declaration can be e-mailed, faxed or posted to the applicant

If the declaration is relayed back to as part of an internet application, the applicant should be given the option to print or save a copy.

20.7.3 The application is valid from the date the ISA manager creates the declaration. On notifying the applicant of its contents (which should take place within 5 business days of the date on which the declaration is created), the ISA manager should advise the applicant that he or she should notify any corrections to the ISA manager.

20.7.4 Notifications of corrections need not be made in writing.

20.7.5 Where corrections are notified the ISA manager must amend the declaration. The amended declaration will take effect from the date on which the original declaration was created unless paragraph 20.7.6 applies.

20.7.6 If the application was made in respect of a child aged 16 or over, the applicant declared that the child did not have an a National Insurance number, and the manager becomes aware that, in fact, the child did have a National Insurance number when the application was made, the manager should update the information held on their system to include the NINO.

20.8 Applications through third parties
20.8.1 An application can be made by the registered contact through a third party such as an Independent Financial Adviser (IFA).

20.8.2 Where the application is made in writing it must be signed by the applicant and passed on to the provider. In the case of applications other than in writing, providers can act on a telephone call, electronic message, fax etc from a third party only if they have no reason to believe that the third party is doing anything other than passing on the application made by the registered contact.

20.8.3 For example, where an IFA has an electronic link to a provider, that provider may accept applications through the electronic link if the IFA confirms that he will make applications through that link only where the applicant has provided the required information, declaration and authority, and the provider has no reason to believe

20.8.4 Where applications other than in writing are passed on by a third party, providers must make a written declaration on behalf of the applicant in the same way as in section 20.7. Notification can be given in one of several ways -

- the declaration can be read back to the applicant (not the IFA) over the phone, or in face to face contact
- a copy of the declaration can be sent back via e-mail or the internet, or
- a copy of the declaration can be faxed or sent by post

20.9 JISA terms and conditions

20.9.1 A JISA is a type of ISA managed in accordance with the ISA regulations by the provider under terms agreed between the provider and the registered contact. The JISA must be held in the name of the child.
20.9.2 In most respects, JISA terms and conditions are a matter for agreement between the provider and registered contact. However, these terms and conditions must meet the conditions set down in JISA legislation (as set out in this guidance), and must specify that:

- the JISA investments shall be in the beneficial ownership of the child
- except for cash deposits, National Savings products and certain insurance policies (see below), the title to the JISA investments will be registered
  - in the name of the provider
  - in the name of the provider’s nominee, or
  - jointly in one of them and the child or registered contact
- where a share certificate or other document evidencing title to a JISA investment is issued, it will be held by the provider or as the provider may direct
- where insurance policies are with an insurer who is also a provider, the title to the policies shall be vested in the registered contact, and the policy document or other document showing title to the insurance policy shall be held by the registered contact
- for a stocks and shares JISA, the provider will arrange, if the registered contact elects, for the registered contact to receive a copy of the annual report and accounts issued by every company or other concern in respect of shares. (A separate charge may be levied for this service).
- for a stocks and shares JISA, the provider will arrange, if the registered contact elects, for the registered contact:
  - to attend shareholders’, securities holders’ or unit holders’ meetings
  - to vote, and
  - to receive, in addition to the annual report and accounts, any other information issued to shareholders, securities holders or unit holders.
  (A separate charge may be levied for these services).
- the provider will satisfy himself that any person to whom he delegates any of his functions or responsibilities under the terms agreed with the registered contact is competent to carry out those functions and responsibilities
- on the instructions of the registered contact and within the time stipulated by them, the JISA with all rights and obligations shall be transferred to another provider

In addition, the provider
may place a minimum period on the time stipulated by the registered contact for transfer. This period must not exceed 30 days, and should represent a reasonable period required for practical implementation of the transfer.

The timescale for cash ISA transfers (which also applies to cash JISA to cash JISA transfers, is outlined in paragraph 11.15c. Cash JISA managers do not need to mention the investor’s right to stipulate the transfer timescale as long as the 5-day transfer-out period is quoted. This will also apply to cash JISA to stocks and shares JISA transfer if the cash JISA manager adopts the 5-day period for these transfers too.)

the provider must notify the registered contact if, by reason of any failure to satisfy the provisions of the JISA regulations, a JISA has, or will, become void

### 20.10 Enquiries and further advice

20.10.1 Providers may use the wording in the specimen application forms at section 20.14. SSO Bootle can be contacted using the email address in paragraph 1.7 and will be pleased to help on points of difficulty and advise in cases of doubt on whether application forms and/or JISA terms and conditions meet the statutory requirements.

### 20.11 Completion of applications

20.11.1 Providers should ensure that applications are fully completed.

20.11.2 Providers do not have to accept any application if they do not wish to do so. For example, providers may only offer accounts for children within a particular age range.

20.11.3 Applications should contain the applicant’s address, including postcode. However where the applicant prefers to use a BFPO, ‘PO Box’ or ‘care of’ address for correspondence this is acceptable for JISA purposes.

A JISA cannot be opened on a provisional basis. If some of the information required to complete the application form is not available, the application should be refused until the missing details are supplied.

20.11.3 Applications made in writing must contain the signature of the applicant and must be dated.

20.11.4 Applications made in writing must contain the signature of the applicant and be dated. If the application is signed but not dated, the provider can date stamp the application on the date of receipt and note that they have done so.

### 20.12 Imaging vouchers, application forms and written declarations

20.12.1 Application forms and declarations, transfer forms and registered contact applications can be stored in an imaged form (which need not be in colour), and the originals destroyed. The optical images will be regarded as applications for the purposes of the JISA rules provided:

- the imaged document (and any hard copy printouts) is legible, and
- on being required to do so by SSO, the provider will, within a reasonable time, provide a hard copy of the imaged documents
20.13 Retention of forms

20.13.1 Managers must retain the written application form or an imaged copy of it (see paragraph 20.12.1). As an alternative to retaining the written form, the manager can apply the 'not in writing' procedures outlined in section 20.7 when they receive a written application. The manager must make a written declaration using the information provided on the form and send this to the investor (see paragraph 20.8.4). The original paper declaration can then be destroyed.
20.14 Model application form

Applicant’s title (if any) ....................................................................................... 

Full name ............................................................................................................ 

Applicant’s address ............................................................................................ 

........................................................................................................... Post Code ................................................................................................. 

I apply to open a JISA for 

Child’s title (if any) ....................................................................................... 

Full name ............................................................................................................ 

Child’s address ................................................................................................. 

........................................................................................................... Post Code ................................................................................................. 

Child’s date of birth ........................................................................................ 

Child’s NINO (if they are over 16 and have one) ........................................ 

Type of JISA (cash or stocks and shares) ........................................................ 

The child named above will be the beneficial owner of the account investments.

I declare that

- I am 16 years of age or over 
- I am the child/I have parental responsibility for that child (delete which does not apply) 
- I/the child does not have a Child Trust Fund account 
- I will be the registered contact for the JISA 
- The child is resident in the UK, or is a UK Crown servant, a dependant of a UK Crown servant or is married to/in a civil partnership with a UK Crown servant 
- I have not subscribed and will not subscribe to another JISA of this type for this child 
- I am not aware that this child has another JISA of this type 
- I am not aware of other JISA subscriptions that will result in this child exceeding the annual limit 
- I will not knowingly make subscriptions to JISAs for this child that will result in the subscription limit being exceeded

I authorise [provider’s name] 

- to hold the child’s subscriptions, JISA investments, interest, dividends and any other rights or proceeds in respect of those investments and cash, and 
- to make on the child’s behalf any claims to relief from tax in respect of JISA investments.

I agree to the JISA terms and conditions.

I confirm that to the best of my belief the information in this form is true.

Signed ............................................................................................................ Date ............................................................................................................


20.15 Model telephone application script

What is your full name?
(Forename, middle initials and surname)

What is your address?
(including postcode)

What is the child’s full name?
(Forename, middle initials, and surname)

What is the child’s address?
(including postcode)

What is the child’s date of birth?
(Day/Month/Year)

What is the child’s NINO (if they are over 16 and have one)?

What type of JISA do you want to open, cash or stocks and shares?

The child named above will be the beneficial owner of the account investments.

Do you declare that

You are aged 16 years or older?
You have parental responsibility for the child/are the child?
The child does not have a CTF account?
You will be the registered contact for the JISA?
The child is resident in the UK, or is a UK Crown servant, a dependant of a UK Crown servant or is married to/in a civil partnership with a UK Crown servant?

Please confirm
• that you have not subscribed and will not subscribe to another JISA of this type for this child
• that you are not aware that this child has another JISA of this type
• that you are not aware of other JISA subscriptions that will result in this child exceeding the annual limit
• that you will not knowingly make subscriptions to JISAs for this child that will result in the subscription limit being exceeded

By applying to open a JISA you authorise us to carry out certain functions on your and the child’s behalf, and to make a written copy of your application.

I will now read back the application and declaration to you – if you agree that they are correct I can open the JISA as soon as I receive a subscription from you (and after any withdrawal period expires).
CHAPTER 21

THE REGISTERED CONTACT

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21.1 The registered contact

21.1.1 There can only be one registered contact at any time. The registered contact is the only person who can give instructions to the provider on management of the investments in the JISA. The registered contact should also be issued with any statements or correspondence relating to the JISA. All correspondence should be addressed to the registered contact so that he/she is properly in a position to manage the JISA.

21.1.2 The registered contact must be a person aged 16 or over. Who is entitled to be registered contact will depend upon the age of the child holding the account:

- If the child holding the account is under 16 only a person who has parental responsibility for the child can be the registered contact.

- If the child holding the account is aged between 16 and 18 they can become the registered contact, but must make an application to do so in the normal way. In the absence of any such application, an existing registered contact can continue in that role.

21.1.3 In all circumstances, the person who applies for the JISA will be the first registered contact, and the required declaration and authorisation are to be contained in the application form. This applies regardless of whether the applicant was the child themselves (who must be 16 or over to be the applicant) or someone with parental responsibility. At account opening, the applicant should not be asked to complete a separate form to be the registered contact.

21.1.4 Where the JISA manager becomes aware that the registered contact for an account no longer has parental responsibility for the child, no further instructions can be taken from this person and the manager must wait until a fresh registered contact application is made.

21.2 Applying to be the registered contact

21.2.1 During the lifetime of a Junior ISA, the role of registered contact can be passed to another person who has parental responsibility, subject to an application procedure described below. In most circumstances – subject to the exceptions detailed below – registered contact status can only be passed with the consent of the existing registered contact.

If a child is between 16 and 18 years of age, they can become the registered contact for their account at any time, and without the consent of an existing registered contact (subject to an exception for children lacking mental capacity or suffering mental disorder – see paragraph 18.1.6). Once the child account holder has assumed registered contact status, this cannot be passed to another person (unless the child later lacks mental capacity or suffers from mental disorder).

An application for registered contact status has effect only from the date on which it is accepted as complete and correct by the account manager, and where appropriate, once the consent of the existing registered contact has been obtained.

21.2 Written application to be the registered contact

21.3.1 An application to be registered contact (including an application made as part of the account opening application) must contain
• the applicant’s title (if any) and full name (see paragraph 20.3.1). For looked after children the applicant may be The Share Foundation

• the applicant’s address, including postcode. Where the applicant is The Share foundation this will be the address of their registered office.

• the child’s title (if any), and full name (see paragraph 20.3.1)

• the child’s address, including postcode. Where the applicant is The Share foundation this will be the address of their registered office.

• the child’s date of birth

• the child’s NINO (if they are aged over 16 and they have one)

Providers may use the wording in the specimen form at section 22.7.

21.3.2 Applicants must make a declaration that the information given in the application is correct. The following declaration will satisfy the requirements of the regulations. (See paragraph 21.3.3).

21.3.3 “I declare that

• I am 16 years of age or over

• I am the child / I have parental responsibility for the child  (delete which does not apply)

• I will be the registered contact for the JISA

• (where the application is not in writing) I authorise the JISA provider to record the terms of this declaration in a written declaration made on my behalf”

21.3.4 Declarations must also contain an agreement by the applicant to the JISA (see paragraph 4.15) and conditions, and the applicant’s signature.

21.3.5 An account manager may accept information provided in a declaration at face value, but registered contact status should not be passed to an applicant if the account manager believed that any declaration is incorrect.

21.3.6 Applications for registered contact status must include certain authorities. The following authorities will satisfy the requirements of the regulations.

21.3.7 “I authorise [provider’s name] to hold the child’s subscriptions, JISA investments, interest, dividends and any other rights or proceeds in respect of those investments and cash, and to make on the child’s behalf any claims to relief from tax in respect of JISA investments”

(If the JISA is a cash JISA invested in a deposit account, alternative wording could be used, such as ‘to hold my cash subscriptions and any interest earned on those subscriptions’)

21.3.8 This authority continues until it is replaced following a change in registered contact, or transfer to another provider. If the existing registered contact ceases to be the registered contact, the previously given authority continues until replaced as part of a new application for registered contact status.
21.4 Non-written application to be the registered contact

21.4.1 Where an application and declaration is made other than in writing, for example, by telephone, e-mail or fax, or orally, the applicant is required to provide the same information, make the same declaration and provide the same authority and other information as for a written application (see section 21.3). The applicant's signature is not required.

21.4.2 On receipt of the application, the provider must make a written declaration on behalf of the applicant and notify the applicant of its contents. Notification can be given in several ways -

- the declaration can be read back to the applicant over the phone, or in face to face contact,
- a copy of the declaration can be sent back via e-mail or the internet, or a copy of the declaration can be faxed or sent by post

21.4.3 A telephone check list is contained at section 21.8.

21.5 Imaging registered contact applications

21.5.1 Registered contact applications can be imaged and retained in exactly the same way as applications to open the JISA (see section 20.12).

21.6 Change of registered contact – existing registered contact

21.6.1 Where there is an existing registered contact, except in the circumstances in 21.6.2, their consent to relinquish their status is needed before another person can take over the role. Without that consent there cannot be a change in registered contact. The confirmation need not be in writing, and account managers can obtain this consent by any means they consider appropriate.

21.6.2 The consent of the existing registered contact is not needed, and should not be requested, where the applicant for registered contact status is the account holder who is 16 years or older, or in the following cases:

- on the death or incapacity of the existing registered contact (see 21.6.3 and 21.6.4)
- where the existing registered contact lacks capacity (see 21.6.4)
- where the existing registered contact cannot be contacted (see 21.6.5)
- where a Court order brings to an end the existing registered contact being a person with parental responsibility for the child (see 21.6.3)
- where a Court has appointed a Guardian or a Special Guardian of the child who holds the JISA (see 21.6.3)
- where a Court has appointed a Guardian or a Special Guardian of the child who holds the JISA (see 21.6.3)
- where a Court orders that the person who is the existing registered contact cease to be so (see 21.6.3), or
• where the new registered contact has adopted the child under an adoption order (see 21.6.3 and 21.6.8)

21.6.2a Where the existing registered contact is The Share Foundation, their consent to another person is needed except where

• the applicant to be the registered contact is the account holder who is 16 years of age or older,

• a Court so orders (see paragraph 21.6.2)

21.6.3 In the case of death, incapacity, or replacement by Court order of the current registered contact, providers should satisfy themselves that this is so, either by sight of suitable documentation, or from other evidence they hold.

21.6.4 A JISA account cannot be operated under a Power of Attorney (PoA) for the registered contact.

21.6.5 For practical purposes a provider can assume that contact has been lost with a registered contact when they have not received any communication from the registered contact within the previous 12 months, and an item of post has been returned unread.

21.6.6 When the child reaches 16 they can be the registered contact, subject to the normal application process, and an exception for children lacking mental capacity or suffering mental disorder (see paragraph 18.1.6). Agreement of the existing registered contact is not required. Once an account holder has assumed registered contact status for their account, this status cannot be passed to any other person.

Where an account holder aged over 16 does not apply for registered contact status, or lacks mental capacity or is suffering mental incapacity, the existing registered contact can continue in this role. In these circumstances, registered contact status can still be passed in the normal way to another person with parental responsibility for the account holder.

21.6.7 An account provider should manage the process of obtaining the agreement of an existing registered contact to the transfer of this status according to their own procedures. If a provider is contacted by a person wishing to become the registered contact for a JISA, and that person asks the provider for details of the existing registered contact, the provider is strongly advised not to release this information (but see paragraph 21.6.8).

21.6.8 Where an adoptive parent tells the provider that they want to become the registered contact, the provider must not give any details about the existing registered contact or seek the agreement of the existing registered contact to the change. Once the provider is satisfied that the applicant has adopted the child, the provider must update the details held on their systems immediately to ensure that in these very sensitive cases any correspondence only goes to the correct contact.

Where The Share Foundation is the registered contact, the provider should advise the applicant to contact the Local Authority so that the correct procedure for transferring the registered contact role can be followed.
21.7 Model application to be a registered contact

Applicant’s title (if any), ………………………………………………………………………

Full name ………………………………………………………………………

Applicant’s address ………………………………………………………………………

Post Code ……………………

I apply to become the registered contact for the JISA of :

Child’s title (if any) ………………………………………………………………………

Full name ………………………………………………………………………

Child’s address …………… ………………………………………………………

Child’s date of birth ………………………………………………………………………

Child’s  NINO (if they have one) ……………………………………………………………

Tick this box if you are applying because you have adopted the child named above

I declare that

- I am 16 years of age or over
- I am the child /I have parental responsibility for the child (delete which does not apply)
- I will be the registered contact for the JISA

I authorise [provider’s name]

- to hold the subscriptions, JISA investments, interest, dividends and any other rights or proceeds in respect of those investments and cash, and
- to make on the child’s behalf any claims to relief from tax in respect of JISA investments.

Signed ............................................................... Date ................................................... .
21.8 Model telephone application script

What is your name? (forenames and surname - forenames after the first can be represented by initials)

What is your address? (including postcode)
What is the child's name? (Forename, middle initials, and surname)

What is the child's address? (including postcode)

What is the child's date of birth? (Day/Month/Year)

What is the child's NINO (if they have one)?

Do you declare that
You are aged 16 years or older?
You have parental responsibility for the child/are the child?
You will be the registered contact for the JISA?

By applying to be the registered contact for the JISA you authorise us to carry out certain functions on your and the child's behalf, and to make a written copy of your application.

I will now read back the application and declaration to you – if you agree that they are correct you will be the registered contact for the JISA.
CHAPTER 22

SUBSCRIPTIONS TO A JISA

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22.1 Who can subscribe to a JISA?

22.1.1 Any person can subscribe to a JISA by way of a cash payment. The person subscribing need not be resident in the UK, nor do they have to be related to the child. Providers are not required to obtain the consent of the registered contact or account holder before accepting subscriptions from any person. However providers may operate their own rules concerning the acceptance or refusal of any particular subscription, subject to their normal regulatory requirements. Subscriptions to the JISA can be made even if the child is not present in the UK.

See paragraph 20.1.9 for guidance on returning subscriptions when a JISA application is cancelled.

22.1.2 It must be made clear to the person subscribing that the amount subscribed is a gift to the child, and as such cannot be repaid to the subscriber if at a later date the subscriber changes their mind. This information can be given by way of a written statement on any deposit slips, leaflets, other provider literature, posters or internet site, or verbally for a phone subscription. There is no requirement for a formal signed agreement from the subscriber before each subscription is made.

22.1.3 However, providers may accept subscriptions where the person subscribing has not contacted them prior to subscription (for example, by cheque through the post), and where the provider is therefore unable to comply with paragraph 22.1.2.

22.2 When can subscriptions to a JISA be accepted?

22.2.1 A JISA is opened on the date that a valid application and opening subscription are made.

22.2.2 Any subscriptions accepted prior to the opening of the JISA - for example, where a withdrawal period (see paragraph 5.7) has not expired - cannot be placed in the JISA until the date of opening.

22.2.3 From 6 April 2014 the annual subscription limit will be increased in line with the Consumer Prices Index. Up to £3,840 can be subscribed to a JISA in the tax year 2014-15. Any part of the limit which is not used is lost – it cannot be carried forward or back to other years. Providers must ensure that subscriptions in any tax year do not to their knowledge exceed the limits. Interest, dividends or other income arising from the investments held in the JISA do not count toward the annual subscription limit.

22.2.3a From 1 July 2014 the annual subscription limit for 2014-15 will be further increased to £4,000.
22.2.4 The overall subscription limit for the tax year can be divided between subscriptions to a cash JISA and a stocks and shares JISA as the registered contact directs.

If the overall subscription limit is exceeded, the excess is not a subscription to a JISA and must be removed from the JISA tax wrapper.

In determining how any excess should be treated, account providers should operate their normal processes.

If the excess is identified at the time of making the subscription, the excess can simply be refused. But if the excess has entered the JISA, and either the provider or SSO (after they review the annual reports made by providers) have identified it, SSO will give instructions to providers on any action they need to take on a case by case basis.

22.2.5 The child, the child’s parents or other relatives, local authorities, charities or any other person can subscribe to the JISA. All subscriptions must be made in cash, which may include payment by cheque, direct debit, charge card, credit card, direct credit and standing order – depending on the payment methods accepted by the account provider. JISA rules do not require providers to identify or record the identity of the third party contributor, or to advise the registered contact or account holder of this fact, although there may be other regulatory reasons providers may choose to do this.

The registered contact cannot prevent any subscription to the JISA, although of course they can choose not to divulge which provider holds the account and so effectively prevent donations. Normal data protection and confidentiality rules apply, so providers cannot divulge account details to anyone except the registered contact.

22.2.6 Subscriptions by cheque are valid pending clearance of the cheque. If the cheque is not honoured then no subscription has been made – the amount of the failed subscription will not count toward the subscription limit – and no gift has been made to the child. Any subscriptions returned to a subscriber under the direct debit indemnity scheme are treated in the same way.

22.2.7 The provider may impose conditions on opening and maintaining a JISA, such as requiring an initial minimum lump sum subscription or minimum regular payments. Where a provider operates general account rules that would prevent it accepting particular subscriptions (for example, subscriptions made from particular countries) these rules may be applied in the normal way, subject to the normal regulatory requirements.

22.2.8 The date of subscription may be important where two or more parties wish to subscribe to the JISA, and together the subscriptions are greater than the amount of unused subscription limit. For the purpose of determining which is the earlier of the subscriptions the date of subscription, see paragraph 6.9

22.2.9 Once a subscription is made to a JISA, the cash, and any investments bought with the cash, are beneficially owned by the child. The subscriber cannot recover their subscription, which they have confirmed is a gift to the child (but see section 22.2.4). Nor can they (unless they are the registered contact) give any instruction as to how the cash is to be managed or used in the JISA. If a subscription is made into the wrong JISA by the provider in error, contrary to the donor’s instructions, the provider can take the subscription out of the JISA and place it in the correct JISA. Amounts removed from JISAs and replaced in this way will only count as a single subscription for the purposes of the annual subscription limit.
Chapter 22  Junior ISAs – Subscriptions to a JISA

22.2.10 Investments held by a person outside a JISA can be sold, and the proceeds subscribed to the JISA. The capital gains tax rules will apply to any disposal.

22.3 Subscription year

22.3.1 The subscription year is based on tax years and runs from 6th April to the following 5th April. For the year in which a JISA opens the subscription year starts on the date of opening and ends on the next 5th April.

22.4 Feeder accounts

22.4.1 Amounts in excess of the annual subscription limit (see paragraph 22.2.3) cannot go into the JISA until the start of the next tax year. Providers may, if they wish, set up feeder accounts for excess subscriptions. They are not required to do so under the JISA rules, and this will be a matter for agreement between the provider and account holder/registered contact.

22.4.2 The feeder account is not a JISA, and for tax purposes will be treated in the same way as any other children’s savings account. Providers should ask the child’s parents (or the child where appropriate) to consider whether a form R85 can be completed for the account to allow any interest into the account to be paid without deduction of tax. The registered contact, being a person with parental responsibility, is able to sign the form R85.

22.5 Subscriptions between ages 16 and 18

22.5.1 When a child reaches age 16 they can apply for an ‘adult’ cash ISA which they can subscribe to in addition to any subscriptions made to their JISA(s). Holding both a cash JISA and an ‘adult’ cash ISA does not breach the JISA rule that the child can only have one JISA account of each type, and the subscription limits for all ‘adult’ ISA products apply independently of whether or not a child holds, or has held, a JISA in the relevant year.

Therefore, in the tax year in which the child turns 16 they can subscribe up to the JISA limit, and from their 16th birthday they can, in addition, subscribe up to 50% of the overall ‘adult’ ISA limit to a cash ISA.

In the tax year in which the child turns 17 they can subscribe up to the JISA limit, and subscribe up to 50% of the overall ISA limit to a cash ISA.

From 1 July 2014 the child aged 16 to 18 will be able to access the single ‘adult’ ISA limit and can subscribe up to the limit in a cash ISA.

22.5.2 In addition, from the start of the tax year the child turns 18, they can:

- use their whole JISA subscription limit (even though the JISA will be held for a part-year only); and

- subscribe 50% of their overall ‘adult’ ISA limit to a cash ISA (or 100% of the ISA limit after 1 July 2014); and

- from their 18th birthday, invest in a stocks and shares ISA, subject to the normal ‘adult’ subscription limits
For example

A stocks and shares JISA exists from 6 April until the eve of the 18th birthday and can accept subscriptions up to £3,840 JISA limit for 2014-15. (This limit will rise to £4,000 on 1 July 2014.) The next day it becomes an adult stocks and shares ISA which can accept subscriptions up to the annual ISA limit of £11,880. So in a child’s 18th year, they can (for that one year only) subscribe £15,720 (in 2014/15 before 1 July 2014) or £19,000 after 1 July 2014 to what is effectively the same account.

22.6 Direct debit indemnity scheme

22.6.1 Under this scheme, where money is taken out of an account by direct debit by mistake, the account holder can claim the return of the money. The account holder’s bank repays the money to the account holder, and claims back that amount from the recipient bank – in effect the transaction is unwound. Subscribers to a JISA might make a claim under the direct debit indemnity scheme.

22.6.2 For JISAs, in cases where the subscriptions made to a JISA are unwound under the direct debit indemnity scheme, the subscription will be treated as not made (in the same way as for a failed cheque -see paragraph 6.9) and no gift will have been made to the child. Any such amount is therefore disregarded for the purposes of the JISA subscription limit. If any tax relief on interest has been claimed from SSO Repayments in respect of the unwound subscription it must be repaid to HM Revenue & Customs, and any interest arising may be subject to deduction of tax. A subscription made by direct debit may not be unwound unless a successful claim is made under the indemnity scheme.

22.7 Building society bonus payment

22.7.1 Building societies can pay bonuses to their members in respect of the products they hold and this can include children who hold a JISA. Bonuses paid in respect of JISAs are exempt from tax and do not count towards the annual JISA subscription limit if they are paid directly into the JISA account.

22.7.2 The definition of ‘building society bonus’ for JISA purposes specifically excludes any bonus arising from demutulisation, merger or sale of a building society subsidiary.
CHAPTER 23

QUALIFYING INVESTMENTS FOR A JISA

Qualifying investments for a JISA 23.1
23.1 Qualifying investments for a JISA

23.1.1 The investments that providers may purchase, make or hold in a JISA mirror the investments that can be held in an ISA so Chapters 7, 8 and 9 of the ISA Guidance Notes apply equally to cash and stocks and shares JISAs, with the single exception that shares acquired under a SAYE option scheme, profit sharing scheme or SIP cannot be transferred into a stocks and shares JISA (see paragraph 7.41).

23.1.2 Uninvested cash held in a stocks and shares JISA is **not** subject to the flat rate charge. If the account holds uninvested cash at age 18 when the stocks and shares JISA becomes a stocks and shares ISA, any interest arising on the uninvested cash will become subject to the charge **until 1 July 2014 when the charge ceases to apply**.

23.1.3 In general, the current rules for ‘adult’ ISAs that include an insurance policy, and the additional requirements on ‘insurer-managers’ who are also account providers (see chapter 9) apply equally for JISAs that include an insurance policy. This includes the rules concerning eligible policies, vesting of title to policies, termination of policies in certain circumstances, and the prohibition of transfers, assignment or assignation of policies. However in relation to JISA:

- The life assured must be that of the child holding the account
- Where the insurer issuing a policy is also an account manager for the JISA account, title to the policy must be vested in the registered contact
- The policy must not be transferred or assigned, including to the child holding the account or the registered contact. However, for JISA this prohibition is subject to exceptions where
  - amounts may be withdrawn from a JISA (see chapter 26)
  - an account is transferred to another provider
  - there is a change to the registered contact for the account (see section 21.6), and
  - the account holder turns 18, and the account therefore ceases to be a JISA
- The normal circumstances in which a policy must automatically terminate (where the relevant conditions in ISA legislation are not met or were not met when the insurance was made – see paragraph 9.27) are subject to exceptions where a JISA can be ‘repaired’ (see paragraph 24.3.5) or otherwise remedied within a reasonable time.
CHAPTER 24

MANAGEMENT OF THE JISA

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24.1 Common management rules

24.1.1 All of the guidance in Chapter 10 of the ISA Guidance Notes applies to the management of JISAs.

24.2 Repairing JISAs

24.2.1 A JISA may be found to be invalid. For example, it may be invalid because the investments held in the JISA are non-qualifying, or the registered contact does not have parental responsibility. Invalid JISAs can, in nearly all circumstances, continue as JISAs after corrective action, or ‘repair’.

24.2.2 An ‘invalid’ JISA must be repaired in all circumstances except where the child in question is not eligible for a JISA, or where the child already has another valid JISA of the same type. In these limited circumstances, no repair is possible, and the account cannot be a JISA so must be voided (see paragraph 24.4.1). Other than these cases where the child is not eligible for a JISA, a provider should never void a JISA except where instructed to do so by HM Revenue & Customs.

24.2.3 It is not necessary for a provider to obtain approval from HM Revenue and Customs before carrying out any routine ‘repair’ or corrective action on an account. However, providers should keep a detailed record of all JISAs repaired (to be made available at the next HM Revenue & Customs inspection). Repaired JISAs will be treated for all purposes as if they had been valid at all times, except for determining whether a penalty is chargeable.

24.2.4 Where a provider finds that a JISA is invalid they should immediately take steps to repair the JISA. The examples below cover most of the errors that could give rise to an invalid JISA, but it is not an exhaustive list. If a provider finds other situations where they are unclear as to how to repair the JISA they should contact SSO using the email address in paragraph 1.7.

24.3 Repairs – removal of excess subscriptions

24.3.1 Excess subscriptions, investments purchased with those subscriptions and any income arising on those subscriptions or investments must be removed from the JISA. Any tax claimed from SSO Repayments on income arising on the excess subscriptions, must be recovered by the provider, normally by deduction from the next claim under the heading ‘Adjustments to previous claims’. If the provider is a building society or deposit-taker any tax on interest paid gross is to be adjusted for through the TDSI scheme – i.e. by adjustment through the next CT61 return form.

24.3.2 Any income arising on the excess subscriptions or investments purchased with the excess subscriptions is subject to tax, and the registered contact, and where appropriate the child, should be informed of this by the provider.

24.3.3 In many cases identification of the investments acquired with excess subscriptions will be simple – there will have been one subscription to the JISA and purchase of one type of investment.

24.3.4 In some cases identification of the investments acquired with excess subscriptions will be more difficult. The provider can select the investments that represent the excess subscriptions, either by taking a fraction of the investments held in the JISA at the date of repair which represents the excess subscriptions, or by following the subscriptions through the JISA and identifying the relevant investments.
24.3.5 Where a JISA includes a life insurance policy and excess subscriptions have been applied as premium to the policy, the JISA may be repaired by making a part surrender of the policy of an amount equal to the over-subscription and withdrawing that amount from the JISA. No tax will be charged on any chargeable event gain arising from the part surrender and there will not be a requirement to terminate the policy in these circumstances.

24.4 Repair – incomplete or incorrect application form

24.4.1 In general, the registered contact should be asked to complete the form, or complete a new form with a reference to the original form. The JISA is then treated as repaired and no further action is needed. However, if the registered contact refuses to do so - or is not eligible make such an application – the account is not to be treated as JISA and cannot benefit from the relevant tax advantages afforded by JISA status.

A JISA is opened by a parent who later informs the manager that the child is eligible for a CTF.

This could mean that the child already has a CTF or has become entitled to one - for example, where a Child Benefit appeal for a period before 4 January 2011 is settled.

The manager needs to have this confirmed in writing for their records. They can then remove the JISA wrapper from the account. If the parent does not provide confirmation in writing the manager must flag the account so that no further subscriptions are accepted and no new management instructions can be accepted.

A JISA is opened by a parent who later informs the manager that they or the other parent have opened a JISA elsewhere.

If the other JISA that has been opened is of the other type, then no further action needed. If the other JISA is of the same type, then one of them must cease to be treated as a JISA. The first account opened is the valid JISA so the second must be closed. The manager should obtain confirmation in writing that either:

(i) the JISA with them is the later account in which case the JISA wrapper can be removed from the account

or

(ii) the JISA with them is the valid account and that the wrapper has been removed from the invalid account, or it has been closed. The manager can then continue to accept subscriptions.

If neither confirmation is received the manager must flag the account so that no further subscriptions can be accepted and no new instructions can be accepted.

A JISA is opened and the manager is later informed that the registered contact does not have parental responsibility for the child.

In the first instance, the manager should seek confirmation from the existing registered contact that the account opening declaration was invalid.
If confirmation is received, or the existing registered contact fails to respond, the account can continue if someone with parental responsibility steps forward and completes an application to be registered contact. The manager does not need the agreement of the existing registered contact and the application should be treated as if the existing registered contact cannot be contacted (see paragraph 21.6.2).

If confirmation that the declaration is invalid is received, but no one with parental responsibility steps forward, the JISA wrapper should be removed from the account.

If the existing registered contact fails to respond, but no one with parental responsibility steps forward, the account must be flagged so that no further subscriptions or management instructions can be accepted.

24.5 Repair – non-qualifying investments

24.5.1 If the provider finds that non-qualifying investments are held in a JISA the JISA must be repaired by selling the non-qualifying investment, except if it is a life insurance policy. In that case, the policy must be surrendered. Insurers should not provide the wrong sort of policy as a JISA investment. The proceeds of the sale or surrender of the investments must remain within the JISA and used to buy qualifying investments, which need not be of the same type as the investments sold or surrendered. Any income, capital gains or chargeable event gains arising on these non-qualifying investments is taxable in the same way as if the JISA was made void, except of course the proceeds will not be returned to the child.

24.6 Using a JISA as a security for a loan

24.6.1 A JISA cannot be used as security for a loan. Any assignment of, or agreement to assign investments in a JISA, and any charge on or agreement to charge the investments in a JISA has no standing in law – it is ineffective. However, this requirement does not preclude any assignment of title that is necessary where a JISA is transferred or where registered contact status for the account is transferred.

24.7 ISA rollover at age 18

24.7.1 When the account holder turns 18, the rules specific to JISA will fall away. Managers should usually contact the account holder before their 18th birthday to discuss future saving options, but can apply their normal processes in this regard. However, the default position is that the investments must remain in a tax free wrapper. Where the investments are applied to an ‘adult’ cash or stocks and shares ISA, managers can continue to use the same account number or allocate a new one depending on what suits their systems and processes.

24.7.2 On their 18th birthday the child can access the savings in the (former) JISA and can make withdrawals. There are no specific ISA rules about identification checks that need to be made so managers should proceed as they would with any other type of account and conduct identification and AML checks as appropriate under their normal rules and processes.

24.7.3 Once the former JISA account holder turns 18, any savings in the account that are not immediately withdrawn will stay within the ISA wrapper and the same tax advantages will apply.
24.7.4 If the investor wishes to make subscriptions after their 18th birthday they will need to provide their NINO (if they have one) and confirm their residence status to the manager, and also make the standard ISA declaration and authority (see paragraphs 4.14 – 4.16). Providers may however apply any other requirements that they consider appropriate – including by requiring a full application to subscribe to an ISA, as if this was an entirely new account.
CHAPTER 25

TRANSFERRING A JISA

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25.1 General

25.1.1 Subject to the JISA terms and conditions of the providers, a JISA may be transferred in a variety of ways

- by transferring investments
- in cash, or
- in a combination of investments and cash

Transfers may be made between account providers, or investments in a JISA may be transferred (in whole or in part) from one type of JISA (cash or stocks and shares) to another.

An account may be transferred even if – at the time that the transfer is made – the child would not be eligible for a new JISA, for example because they are no longer resident in the UK, a crown servant or the spouse or dependant of a crown servant.

25.1.2 The transfer should be carried out as soon as requested by the registered contact, subject to:

- the cash JISA to cash JISA transfer rules (see paragraph 11.15c and Appendix B)
- for other transfers, the reasonable business period required to carry out the transfer (not exceeding 30 days), and
- expiry of any withdrawal period offered by the new manager (see paragraph 11.33)

25.1.3 Previous years’ JISA subscriptions can be transferred in whole or in part (depending on the terms and conditions offered by the two providers involved, and subject to the child not having 2 accounts of the same type at the end of the transfer process).

Current years’ JISA subscriptions must be transferred in full.

This means that part transfers of JISA investments can only be made to a JISA of a different type (cash or stocks and shares). A transfer from a cash JISA to another cash JISA or a stocks and shares JISA to another stocks and shares JISA must involve the transfer of the entire contents of the ‘old’ JISA. In such cases, the provider may close the ‘old’ nil value account.

25.2 Internal transfer

25.2.1 A registered contact can transfer a JISA internally by changing the type of JISA, from cash to stocks and shares, or vice versa. Such an internal transfer can only take place where the provider offers both types of JISA.
25.2.2 To carry out an internal transfer the registered contact must contact the provider with appropriate transfer instructions as required by the provider. There is no requirement under the JISA rules for the registered contact to provide transfer instructions in writing – this is a matter for the terms and conditions applying to the JISA.

25.3 External transfer

25.3.1 Providers are not required to accept the transfer in of accounts from another provider. In addition, providers are not required to permit partial transfers in or out. A child cannot have more than one JISA of each type at any time. So if a cash JISA is transferred to a cash JISA with another provider (or a stocks and shares JISA is transferred to stocks and shares JISA with another provider), the whole account must be transferred.

However, a cash JISA can be transferred entirely or in part to a new or existing stocks and shares JISA (or vice versa), (subject to paragraph 25.1.3) provided that at the end of the transfer process the child does not have more than one JISA of each type.

Where the whole balance of a JISA is transferred, the ‘old’ nil balance JISA may be closed by the account provider. At a later date, another JISA of the same type could be opened for the child without breaching the ‘one account of each type per lifetime’ rule. However, even where, following the transfer, the old manager keeps the empty shell account open with a nil balance, this will not prevent the child having another JISA of the same type with another manager.

25.3.2 To effect a transfer the registered contact must complete a transfer application with the new provider. The transfer application form is slightly different from that used to open the JISA. An example written external transfer application is at paragraph 25.7, and a telephone external transfer application is at paragraph 25.8. Providers are not obliged to accept transfers, subject to paragraph 25.5.

25.3.3 After completion of the form, and after expiry of any withdrawal period with the new provider (see paragraph 11.33), the new provider must contact the old provider and request transfer of the JISA. The new provider must not request the transfer until after expiration of any withdrawal period applying to the application for transfer. The new provider must give the name of the person who requested the transfer (the registered contact), as well as details of the account, to the old provider. If the registered contact named on the transfer application is not the registered contact for the account to be transferred, the transfer cannot continue until the registered contact for the old account has been changed - see paragraph 21.6.

If the request is by telephone a signature is not needed unless the old manager’s terms and conditions state they will not transfer the JISA unless they have received a written request with a signature.

25.3.4 Subject to the JISA terms and conditions of the providers, a JISA may be transferred in a variety of ways

- investments may be re-registered in the new provider’s, or his nominee’s name
- in cash, or
- in a combination of investments and cash
25.3.5 The old provider must transfer investments and/or cash direct to the new provider, and must keep a record of the transfer notice for three years after the date of transfer. The original application form should not be sent to the new provider, but must be retained by the old provider. There are no circumstances in which the original application form should be transferred to the new provider.

25.3.6 Where the JISA investment transferred to another provider is an insurance policy, and the new provider is an insurer, title to the policy and any policy documents should be transferred to the registered contact as part of the transfer arrangements.

25.3.7 Where the old provider is the one with whom the current registered contact application was made, they must also keep the original or a certified copy of the registered contact application, or, in the case of applications not in writing, the declaration made by the registered contact, for three years after the date the transfer application was made.

25.3.8 The transfer should be carried out by the old provider as soon as requested by the new provider, subject to the cash JISA to cash JISA transfer rules (see paragraph 11.15c), and for other transfers, the reasonable business period required to carry out the transfer (not exceeding 30 calendar days). The transfer should not be delayed awaiting re-registration of investments, or receipt of dividends or other income from investments. Any sums received after transfer should be forwarded to the new provider together with details of the JISA in respect of which the sums have been received.

25.4 External transfer history forms

25.4.1 Providers should produce their own external transfer history forms. The form should be sent to the new provider within 5 business days for cash JISA to cash JISA transfers and within 30 days of the date of the transfer for other transfers. A model for an external transfer form is at section 25.9. Note that all external transfer forms must contain the same details as the model. The form should be completed by the old provider as follows:

25.4.2 Full name of child

Providers should enter the child’s full name (see paragraph 20.3.1), as held on their records.

25.4.3 Permanent residential address (including postcode) of the child.

25.4.4 Date of birth

This should be reported in the format DDMMCCYY. For example: The date of birth of a child born on 3 June 2008 should be reported as 03062008.

25.4.5 NINO of the child (if they have one).

25.4.6 Whether the JISA is cash or stocks and shares.

25.4.7 Date of transfer

This should normally be the date of which the new manager agrees to accept the transfer (see Appendix B). It should be reported in the format DDMMCCYY.
25.4.8 Total subscriptions in tax year to date of transfer (if any)

This box must be completed only if subscriptions have been made in the tax year in which the transfer takes place. If this is the case, providers should enter the total subscriptions made to the Junior ISA in the tax year in which the transfer takes place. Otherwise, the box must be left blank.

25.4.9 Date of first subscription (if any)

This box must be completed only if the Junior ISA was opened in the tax year in which the transfer takes place. If this is the case, it should be completed using the format DDMMCCYY to show the date the first subscription was received. Otherwise, the box must be left blank.

25.4.10 Follow on dividends

Enter details of the amount (if known) of any dividends which are payable on account investments but which have not been received by the date of transfer which will be forwarded to the new provider. The new provider should accept all payments forwarded to them.

25.4.11 An account manager may accept any information or declaration offered in a transfer application at face value, but should not open an account if they believe that any of the information given by the applicant is untrue.

25.5 Cancellation of a transfer

25.5.1 Internal and external transfers cannot be carried out until after the expiry of any withdrawal period offered by the new manager (see paragraph 11.33), so where a registered contact exercises the right to withdraw the transfer request within such a period the JISA remains as it was before the transfer request.

25.5.2 Seeking to exercise withdrawal rights after the expiry of any withdrawal period has no effect, and cannot prevent the transfer of the JISA that is underway.

25.6 Refusal to accept an external transfer

25.6.1 Account providers are not required to accept any application for external transfer of a JISA, or part transfer of JISA investments. In addition, credit unions cannot accept an external transfer to them of a JISA where the child does not fulfil the membership requirement.
25.7 Example of written external transfer application

Applicant’s title (if any) ...................................................................................................................

Full name ...................................................................................................................................

Applicant’s address ....................................................................................................................... 

Post Code...................................................................................................................................

I apply to transfer a JISA for

Child’s title (if any) ...................................................................................................................... 

Full name ...................................................................................................................................

Child’s address ............................................................................................................................... 

........................................................................................................................................ Post Code..................................................................................................................

Child’s date of birth ........................................................................................................................ 

Child’s NINO (if they have one) ..................................................................................................... 

Current JISA provider ................................................................................................................... 

Type of JISA with the current provider (cash or stocks and shares) ............................................... 

Type of JISA you want to transfer into (cash or stocks and shares) ............................................... 

Transfer the full balance of the account 

Tick one box

Transfer part of the account balance Amount to transfer is 

(enter ‘All’ or specify an amount)

If you are requesting a part transfer, amount of current year subscriptions to be included in the transfer 

I declare that 

• I am 16 years of age or over
• I am the child /I have parental responsibility for that child (delete which does not apply)
• I am the registered contact for the JISA

I authorise [provider’s name] 

• to hold the child’s subscriptions, JISA investments, interest, dividends and any other rights or proceeds in respect of those investments and cash, and
• to make on behalf of the child any claims to relief from tax in respect of JISA investments.

Signed ............................................................................................................................... Date .................................................................................................
25.8 External transfer telephone applications

What is your name?
(Forename, middle initials, and surname)

What is your address?
(including postcode)

What is the child’s name?
(Forename, middle initials, and surname)

What is the child’s address?
(including postcode)

What is the child’s date of birth?
(Day/Month/Year)

What is the child’s NINO (if they have one)?

What type of JISA do you want to transfer (cash or stocks and shares)?

What type of JISA do you want to transfer into, cash or stocks and shares?

Details of your current JISA provider?

Do you declare that

You are aged 16 years or older?

You have parental responsibility for the child/are the child?

You are the registered contact for the JISA?

By applying to open a JISA you authorise us to carry out certain functions on your and the child’s behalf, and to make a written copy of your application. Details of this will be sent to you, with the terms and conditions of this JISA.

I will now read back the application and declaration to you – if you agree that they are correct I can transfer the JISA from your current provider (after any withdrawal period).
25.9 JISA Transfer History form

Name of new provider

Personal details of the child
Child's title (if any), and full name
Child's address  Postcode
Date of birth:
NINO (if they have one):

JISA details
Account number (of old provider)
Type of JISA (cash or stocks and shares)
Date of transfer:
Total subscriptions in tax year to date of transfer: £
Date of first subscriptions in tax year of transfer* (see below)
Details of any investment income to follow £
Details of investments transferred

The 'Date of first subscription' is only to be completed if the JISA is opened in the tax year in which the transfer takes place. If the transfer takes place in a later year the field must be left blank.
CHAPTER 26
WITHDRAWALS FROM A JISA

When can investments be withdrawn from a JISA? 26.1
Closure of the JISA 26.2
Death of child 26.3
Child’s 18th birthday 26.4
Void JISAs 26.5
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Chapter 26  Junior ISAs – Withdrawals from a JISA

26.1  When can investments be withdrawn from a JISA?

26.1.1  Investments (including cash and the income earned by JISA investments) may only be withdrawn in the following circumstances:

- where a terminal illness claim made on behalf of the child has been agreed
- on closure of the JISA, or
- to meet certain provider management charges and other specific expenses. Allowable charges and deductions under the management agreement include redemption of units at the investor’s request to pay charges due to their adviser.

26.1.2  Where a JISA provider receives a request to reverse a JISA subscription, they must contact SSO at savings.audit@hmrc.gsi.gov.uk, providing full details of the circumstances surrounding the subscription. SSO may also need to consider the subscription history for the account.

26.1.3  Cash may be deposited into the JISA of an unconnected child in error. This could be the result of an error made by the bank or by the customer moving the money.

HMRC understand that if the error is spotted immediately - for example a bank keying error - the bank may be able to reverse the transaction and correct both accounts. And HMRC understand it is standard practice to notify both accounts holders to explain what has happened.

Where the error does not come to light immediately - for example where the customer misquoted an account number - HMRC understand the bank is obliged to contact the account holder of the recipient account and ask for their permission to redirect the monies elsewhere.

The lock-in nature of the JISA will not affect these sorts of rectifications. Banks should follow their normal (non-JISA) procedures in any case that involves a JISA and HMRC does not need to be contacted to authorise a withdrawal of this sort from the account. But where the normal procedure is to obtain customer agreement before removing funds, this must be followed in JISA cases too.

Any cases where a customer asks to withdraw funds paid in error into a JISA of a connected child should continue to be dealt with in accordance with paragraph 26.1.2.

26.2  Closure of the JISA

26.2.1  A JISA can only be closed
on the death of the child

• on the child reaching their 18\textsuperscript{th} birthday

• on direct instruction from HM Revenue & Customs (where the JISA is void), or

• when a nil balance arises in the following circumstances:
  
  ➢ a JISA has been opened and a small initial investment has been made, but contributions then stop and agreed charges then bring the balance down to nil

  ➢ a terminal illness claim has been accepted under paragraph 26.1.1 and the registered contact has withdrawn the funds held in the JISA

In addition, where all of the investments in a JISA have been transferred, a provider may close the remaining nil balance account.

26.2.2 A JISA cannot be closed merely because the child has become non-resident in the UK. Further subscriptions can be made to the JISA even when a child becomes non-resident in the UK and that JISA can be transferred between providers, although a new JISA could not be opened on behalf of such a child.

26.3 Death of the child

26.3.1 Proof of the death of the child must be obtained before the JISA can be closed. In most cases sight of the original death certificate or the Coroner’s interim document will be sufficient.

26.3.2 Any subscriptions made after the date of death are not valid subscriptions to the JISA. In addition, where a child dies the interest, dividends or gains in respect of investments in their JISA which arise after the date of death to the date of closure are not exempt from tax. But there is no loss of exemption on interest, dividends or gains which arise before the date of death, including any gain treated as arising as a result of the death of the child under the rules for investments in policies of life insurance.

26.3.3 For the purposes of determining whether a claim can be made by a provider in relation to tax deducted from interest, the important date is the payment date. Where the payment date is on or before the date of death any tax deducted can be reclaimed.

JISA providers may apportion interest paid after the date of death into

• interest accrued up to and including the date of death, which can be treated as arising in the JISA (and therefore paid without deduction of tax), and

• interest accrued from the date of death, which is not exempt from income tax and where appropriate should be paid under deduction of tax at the basic rate.
26.3.4 This may lead to some practical problems if providers do not receive notification of death promptly – for example, where the provider has made a claim to, and has received repayment of tax from SSO Repayments on an amount which is no longer exempt from tax, or in respect of subscriptions made after the date of death of the account holder. In such cases, providers must repay SSO Repayments any amounts claimed that were not due, normally by deducting the amount from the next tax claim (see chapter 13).

26.3.5 Rights conferred by a JISA insurance policy vest in the personal representatives on the death of the child. The JISA insurance policy must pay out on the death of child and personal representatives must not delay in claiming.

26.3.6 Subject to the JISA terms and conditions, providers should advise the personal representatives that they have the choice of

(a) having the JISA investments transferred to them (or a beneficiary) or
(b) having the provider sell the JISA investments and paying the proceeds to them (or a beneficiary)

26.3.7 Providers must pay any tax deducted to SSO Repayments, normally by deduction from the next claim made, under the heading “Adjustments to previous claims”.

26.3.8 Providers should provide personal representatives with a statement showing

- the market value (paragraphs 10.20 – 10.22) of the investments, other than insurance policies (see paragraph 12.16), held in the JISA at the date of death, or in the case of a cash JISA, the value of the JISA at the date of death and the gross interest payable in the year of death up to date of death
- the original cost price and date of acquisition of any investments purchased after the date of death, and
- the date of disposal and the amount of the net sale proceeds received for each disposal made after the date of death

   together with

- a tax certificate R189K showing any income with a payment date following the date of death if requested, and
- a tax certificate (R185) or section 975 certificate showing the interest and tax deducted if requested

26.4 Child’s 18th birthday

26.4.1 On the child’s 18th birthday the account ceases to be a JISA, but any investments held at that date remain in the tax free ISA wrapper until the former child closes the account. An ISA application must be made if fresh subscriptions are to be made (see paragraph 24.7.4).

   After age 18, the investments will become subject to the terms and conditions of the ‘adult’ ISA. Managers may decide to send the new or amended terms to the child before their birthday.
26.4.2 The investments held in the JISA at age 18 can continue to benefit from the tax advantages of the JISA but further subscriptions to an ‘adult’ ISA that was a JISA cannot be accepted until the (former) child

- notifies the ISA manager of his NINO (if he has one)
- provides the details required by the ISA declaration (see paragraph 4.14), which includes
  - confirmation that he is resident in the UK, and
  - authorisation that the manager can hold the ISA investments and make claims on his behalf (see paragraph 4.16)

Where this information is not obtained, or where the account holder is not eligible to subscribe to an ‘adult’ ISA (for example because of their residency circumstances), no further subscriptions should be accepted.

26.5 Void JISAs

26.5.1 Where HM Revenue & Customs instructs that a JISA must be voided the account is not a JISA for any purpose and therefore

- income arising on the invalid subscriptions must be treated in accordance with paragraphs 12.47 and 12.14a - if income has been received net and a claim has been made to SSO, the tax must be recovered and paid to HMRC as an adjustment on the next claim, if the income was received gross the provider must notify the registered contact that the gross receipt must be reported to HMRC if appropriate
- all life insurance policies held in the JISA must terminate (there is more information on void policies and the termination mechanism in paragraph 9.26), and
- the balance of investments and income on those investments are the child’s

See also paragraph 24.4.1 for circumstances where the manager can void the JISA without contacting HMRC.

26.5.2 Providers should inform the registered contact of
the date and amount of each income payment received in respect of the investments in the JISA, and the amount of tax deducted (if any) from those income payments. And, if the investments have since been sold, the date and amount of each income payment received in respect of the replacement investments and the amount of tax deducted from those income payments

the date and amount of any interest paid or credited on cash held in the JISA and the amount of tax deducted from that interest

the original cost price, any incidental costs of acquisition and date of acquisition of investments in the JISA and, if they have since been sold, the original cost price, any incidental costs of acquisition and date of acquisition of the replacement investments

the date of disposal, the amount of the sale proceeds and any incidental costs of disposal of investments in the JISA and, if they have since been sold, the date of disposal, amount of the sale proceeds and any incidental costs of disposal of the replacement investments,

for insurance component products, the provider will need to ascertain the amounts of any gains treated as arising in order to calculate how much tax to deduct, and must inform them of

- the amount of premiums paid and the date on which they were paid
- the benefits payable on death, maturity or surrender and the date of the event
- the amount of tax deducted in respect of the benefits payable on death, maturity or surrender, and
- the amount of benefits actually paid to the child, after all deductions of tax,

that the settlements legislation may apply to any income generated by gifts from the child’s parents if the total from all parental gifts exceeds £100.

26.5.3 Providers should advise the registered contact that, where appropriate, they should report details to the child’s tax office of the interest, dividends, chargeable gains and allowable losses and chargeable gains and corresponding deficiencies arising in respect of the void subscriptions for the tax year in which they arose.

26.5.4 Providers should supply tax certificates R189K, R185 or section 975 certificates (or their own tax vouchers) on request to the registered contact showing, respectively, the dividends and the gross interest credited and tax deducted.

26.5.5 Voiding the JISA does not mean that the account must close; it simply means that the JISA wrapper around the investments must be removed. So if there have been other contributions to the account it will be for the JISA provider to agree with the registered contact what is to happen to these. The terms and conditions of the account may require the account to close and the contributions to be sent to the child or they may allow the sums to be moved to a non-JISA account.

26.6 Void life assurance policies and chargeable events
26.6.1 Where HM Revenue & Customs instructs that a JISA must be voided, any policies held within the JISA must terminate, unless they have already been surrendered, matured or paid out on death before the provider discovered that the JISA must be voided.

26.6.2 The policy will terminate in accordance with the contractual terms when it comes to the notice of the account provider that the JISA must be voided. It does not terminate when the JISA first failed the conditions (which may have been at inception or some time subsequently) or when notice of the failure reaches the insurer (unless the insurer is also the JISA provider).

26.6.3 Where the provider is not the insurer, it should notify the insurer of the failure within 30 days of it coming to the provider’s notice that the JISA must be voided. Notice may be given in writing or in some other way.

26.6.4 A void policy remains part of the JISA business of the insurer throughout its existence, notwithstanding the fact that the conditions to be a qualifying investment in a valid JISA will have been breached at some point during the policy’s life.

26.6.5 The special rules that tax gains on life insurance policies, often known as the chargeable event rules, are used to recover tax relief that is not due on a policy which is held within a JISA which is voided. The exemption from tax on chargeable event gains held within a JISA does not apply. Tax liability may arise on the forced termination of the void policy and on any previous chargeable events which took place before the provider learns that the JISA must be voided.

26.6.6 If a policy terminates as described in 26.6.2 then this ‘termination event’ is deemed to be a surrender chargeable event occurring at the date that it came to the notice of the JISA provider that the JISA must be voided.

26.6.7 Other chargeable events which may be relevant for JISAs are the surrender, maturity or ending of the policy on death if any of these events occur before the provider discovers the JISA must be voided, and “excesses” as a result of part surrenders of rights conferred by the policy.

26.6.8 Providers must normally account for tax at the basic rate in force for the year of assessment in which the chargeable event occurred. Where appropriate, the JISA provider should account for tax by deducting the amount due from their next claim to SSO Repayments (see Chapter 13). The amount of tax deducted by the provider must be reported to the child.

26.6.9 But SSO Repayments have the power to assess the child, via the registered contact, to recover tax if the funds remaining in the JISA are insufficient or the JISA has been closed before the provider is aware that a recovery may be necessary.

26.6.10 The following details of chargeable event gains must be reported to the policyholder within 3 months of the event coming to the notice of the insurer

- the nature of the chargeable event
- the date of the chargeable event
- the amount of the gain, and
- the number of years for top-slicing relief
26.6.11 Where the insurer is also the provider, this information should already be included in the details to be provided by the provider (see final bullet of 26.5.2). If so, there is no need to duplicate this information in a separate chargeable event certificate.

26.6.12 Where the amount of the gain exceeds half the basic rate limit for the year of assessment in which the gain arises then the insurer must also report the information listed in 26.6.10 to HM Revenue & Customs at the Centre for Revenue Intelligence within 3 months of the insurer receiving notice that the JISA must be voided.

26.7 Terminal illness

26.7.1 The parents of a child who is terminally ill may make a claim to HM Revenue & Customs to be allowed to access the funds in the child’s JISA. If the claim is agreed HM Revenue & Customs will issue a letter to the registered contact letting them know that the funds in the JISA can be withdrawn. The JISA provider should ask for sight of the letter and retain it (or a copy of it). HMRC will not send a letter to the provider.

26.7.2 The letter to the parent will contain a contact phone number, which the provider can use to contact HM Revenue & Customs.

26.7.3 The only person who can withdraw money from the JISA on behalf of the child is the registered contact. In most cases the withdrawal will be in cash, but if the provider allows, the investments in the account can be transferred to the registered contact directly. This would be most useful where sale of the investments would attract an early redemption penalty.

In such circumstances, the account may be closed, and the total balance withdrawn by the registered contact. However, a registered contact may prefer to keep the account open and only withdraw part of the balance. In these cases, this should be possible, subject to any minimum balance that the provider requires for the account to be kept open.

26.8 Sanctions list

26.8.1 HM Treasury publishes on its website a consolidated list of individuals and entities subject to financial sanctions imposed by the United Nations, European Union and HM Government that are in legal effect in the UK. The consolidated list can be found via the Financial Sanctions pages of the GOV.UK website at this link https://www.gov.uk/government/publications/financial-sanctions-consolidated-list-of-targets

Funds and economic resources belonging to, owned, held or controlled by persons on the consolidated list must be frozen. It is prohibited to make funds or economic resources available, directly or indirectly, to or for the benefit of such persons without a licence to do so from the Treasury.
Accordingly, if the beneficial owner and/or account holder of a JISA is a person included on the consolidated list, the assets held in the JISA must be frozen and no funds made available to that person unless licensed by the Treasury. These prohibitions will no longer apply if the person is removed from the consolidated list and therefore no longer subject to the asset freeze restrictions.

It is very unusual for minors to be designated.

Where HMRC have agreed that cash can be withdrawn from the JISA due to the death or terminal illness of the child, funds must not be made available to the registered contact if he or she is a person included on the consolidated list. The funds can only be accessed under licence from the Treasury.
CHAPTER 27

ANNUAL RETURN AND CLAIM

Overview

27.1
27.1 Overview

27.1.1 Chapter 13 provides information about Annual Returns and Claims. A separate Return and Claim is not required for JISAs so any claim for tax deducted in respect of JISA investments should be included on the claim made using the ISA 10/ISA 14 by the manager.
CHAPTER 28

RETURNS OF INFORMATION

Overview 28.1

Reporting at age 18 28.2
28.1 Overview

28.1.1 Chapter 14 explains how providers should make their annual information return to HMRC. Details of JISAs must be included on the return. A separate return for JISA is not required, but managers can use a separate sub-return to report their JISA accounts.

All of chapter 14 applies to JISA but please note the following:

- the return must include the details of the eligible child and not the registered contact for the account

- in paragraph 14.6, ‘Type of ISA’, use
  - “C” for a cash JISA
  - “D” for a stocks and shares JISA, and
  - “Y” where there are no subscriptions to a JISA in the reporting year

- NINO: if a NINO is held for a JISA (for example because the account was opened for a child aged over age 16) it must be reported. But for most JISAs there will be no NINO so the field can be left blank. If the reporting system requires an entry to be made providers must use the JISA universal dummy NINO “YY888888Y” and nothing else

- “Date of first subscription”. This must be completed in the year in which the JISA is opened. In later years the field must be left blank

- “Date account closed”. This field should usually be left blank when reporting JISAs. As JISAs can be closed in cases of death, terminal illness or when the value become nil, an entry may be made in these circumstances only. In all other circumstances the field must be left blank.

28.1.2 The regulations require a report of each account so reporting will depend, in part, on whether the manager issues a new account number (and creates a new account) or retains the same account number and maintains a single account at the child’s 18th birthday.

28.2 Reporting at age 18

28.2.1 The regulations require a report of each account so reporting will depend, in part, on whether the manager issues a new account number (and creates a new account) or retains the same account number and maintains a single account at the child’s 18th birthday

28.2.2 New account number issued

If a new account number is issued, the JISA and ISA must be reported separately. Subscriptions to each will be reported accordingly. The Market Value of the JISA will be nil.

28.2.3 Account number retained.

There are 3 possible scenarios.
1 Subscriptions are made to both the JISA and the ISA in the year. Two reports will be required showing subscriptions to the JISA on one and to the ISA on the other. The Market Value for the ISA will be reported as now for ISAs. The JISA report will show the Market Value as NIL.

2 Subscriptions are made to either the JISA or the ISA but not both. A single report is required (but see 2a below) showing the status of the account when the subscription was made. So if the subscription was made to the JISA, the report would show ‘C’ or ‘D’ and the amount, and for subscriptions to the ISA, ‘A’ or ‘B’ and the amount. In either case the Market Value reported would be the Market Value at 5 April.

2a In the year of the child’s 18th birthday, where a subscription is made to the JISA before the birthday but no subscription is paid to the ISA after the birthday managers can report in line with 2 (above) or they can make 2 reports for all JISAs in the transition year

(i) JISA return showing subscriptions (C or D) or none (Y) and a nil market value at 5 April

(ii) ISA return showing subscription (A or B) or none (X) and the market value at 5 April.

3 No subscriptions are made in the year. A single report of the ISA status at 5 April is required – i.e. ‘X’ (no subs to an ISA) and the Market Value at 5 April.

28.2.4 For example

A child subscribes to their JISA in the year of their 18th birthday. On their birthday the account becomes an (adult) ISA and subscriptions are made to the ISA. Later in the same tax year the whole account is transferred to a new ISA manager.

The old manager is responsible for reporting the JISA and the subscriptions made to the JISA in that tax year. They do not report the ISA as it was transferred out in full. Only subscriptions made to the ISA in the year of the transfer are included on the ISA transfer history as current year subscriptions.

The new manager assumes responsibility for reporting the ISA and includes in the report the subscriptions made when the account was an ISA (after the child turned 18).
CHAPTER 29

ANNUAL STATISTICAL RETURNS

Overview

29.1
29.1 Overview

29.1.1 Separate statistical returns must be made for ISA and JISA accounts.

JISA reporting forms are being developed and there will be a JISA equivalent of the ISA 14 (stats) and the ISA 25 (stats) (see chapters 15 and 16).

The ‘JISA 25 (stats) will mirror the ISA 25 (stats) and the same information must be provided for JISAs.

The ‘JISA 14 (stats) will include all of the details on the ISA 14 (stats) and in addition there will be 2 new boxes to complete. These will show the number of JISA accounts (whether or not they have received subscriptions) that relate to the market value figures in boxes [V13] and [V17].
CHAPTER 30

AUDIT

Overview

30.1
30.1 Overview

30.1.1 JISA audit checks will be carried out alongside any ISA audit as detailed in chapter 17.
## APPENDICES

<table>
<thead>
<tr>
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<tbody>
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<td>Appendix B</td>
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<td>Sample S975 ITA 2007 certificate</td>
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<td>Appendix D</td>
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Appendix B  Cash ISA to Cash ISA transfers – suggested best practice

We recommend that ISA providers adopt the procedures below, devised by representatives of the industry. However, they are recommendations only and not prescriptive.

The process below is based on the assumption that the customer approaches the new ISA provider to effect the transfer. On the rare occasion that the customer contacts his/her existing provider, s/he should be asked to go direct to the new ISA provider.

These guidelines are effective for Cash ISA to Cash ISA transfers initiated on or after 28 July 2011, until such time that this guideline is updated.

**PROCESS**

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
<th>Timescale</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>New ISA provider asks the customer to confirm the request to transfer by completing a Cash ISA Transfer Authority Form with a wet signature, unless an alternative agreement is in place between ISA providers. The customer must also complete a transfer application/instruction, where required, which could be either written or non-written and be validated by the new ISA provider. New ISA provider forwards the original Cash ISA Transfer Authority Form to the old ISA provider and confirms in writing the basis on which he/she is willing to accept the transfer (See Transfer Acceptance section on Model Form below)</td>
<td>The process starts on the day the new ISA provider receives the Cash ISA Transfer Authority Form from the customer, wherever this is received in the organisation. The new ISA provider has 5 business days to process the customer’s instruction and send on to the old provider. First class post or equivalent should be used.</td>
<td>5</td>
</tr>
<tr>
<td>1a</td>
<td>In the post</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>The old ISA provider sends a Cash ISA Transfer History Form(^1) to the new ISA provider, accompanied by a cheque for the transfer proceeds. The date on the cheque must match the first day where interest no longer accrues on the funds being transferred.</td>
<td>The maximum timeframe for actioning Step 2 should be 5 business days, where day 1 is the first day the request is received in the organisation. First class post or equivalent should be used.</td>
<td>5</td>
</tr>
</tbody>
</table>

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\(^1\) This is the Transfer Form (or its equivalent) as covered in HMRC Guidance 11.18\(^2\)

---
\(^2\) See below for the circumstances in which cases can be pended
Similarly, if funds are transferred electronically then the payment must be initiated on the first day on which interest no longer accrues on these funds.

The transfer of funds must not be made by electronic means or bulk payment by cheque unless agreement has been reached between the ISA providers.

Where information supplied by the new ISA provider and information held by the old ISA provider differ, the transfer should go ahead subject to the old ISA provider being confident of the customer’s identity (this is to ensure customer protection) and is satisfied which ISA account is to be transferred.

As soon as the old ISA provider recognises that a delay beyond 5 business days is likely to occur, (pered cases excepted2) it is their responsibility to notify the new ISA provider and the customer of the reasons for the delay and a likely timetable for resolution.

| 2a | In the post | 1 |
| 3 | Once a Transfer has been received by the new ISA provider, it should not be rejected without first contacting the old ISA provider using the contact details on the TISA database. | The new ISA provider should apply the transferred funds to the customer’s account within 3 business days of receipt. |
| | | Interest on the transferred funds should be backdated either to the date on the cheque, inclusive, or to the date which represents ‘day 16’ of the transfer process, inclusive – whichever is earlier.

For electronic payments, interest on the transferred funds should be backdated either to the date the payment was initiated, inclusive, or to the date which represents ‘day 16’ of the transfer process, inclusive – whichever is earlier.

CHASE-UP PROCESS BETWEEN STEPS 1 & 2 IF REQUIRED

If the new ISA provider has not heard anything from the old ISA provider within 10 business days after sending the Cash ISA Transfer Authority Form, it is the responsibility of the new ISA provider to check the progress.
Providers should use the most appropriate medium of communication in the prevailing circumstances.

**Pending Cases**

Cases should be pended where:

- the customer has expressly requested the transfer to take place on some future date, or

- a customer’s account has a restriction on it (i.e. notice account / fixed rate) where to transfer immediately would cause the customer to incur a financial charge & the customer has NOT indicated that they are willing to pay such a charge, or

- the terms and conditions restrict access and therefore do not permit the transfer to another provider until a future date.

Transfers can not be pended due to errors/omissions on the transfer form or where additional information (i.e. passbooks) is required from customers or the other provider involved in the transfer.

The day a pended case is actioned (pered) by the old provider does not count in the timescales for either provider.

The first day the money becomes "free to move" does count towards the timescales for both providers.

The old provider MUST inform the new provider of pending a case in an agreed format, this is assumed to be letter in the absence of any other agreement. This communication must include, the date on which the case was pended (which is not counted by either provider) and the first date the account is free to move.

Where a customer's account is free to move within just a few days of the transfer request being received by the old provider, the provider has discretion not to pend the case but to simply process the case when it is free to move, so long as they still complete the transfer out within the 5 business days requirement (with no days permitted as pended). This is to remove the need for costly and time-consuming communication between organisations for cases that can be completed within 15 business days, even thought the funds may not be free to move for a day or so.

It is at the individual provider’s discretion as to whether they notify customers that their transfer has been pended. However, it is recommended that the old provider informs the customer, except where the customer has specifically stated that they do not want the transfer to take place before a certain date or event.

**Data Security**

ISA providers should liaise with one another to establish secure transfer channels in accordance with their obligations under the Data Protection Act.

**Resolution**

TISA maintains two secure databases containing the contact details of ISA providers for access only by other ISA providers, for the purpose of resolving and escalating
Appendix B  Cash ISA to Cash ISA transfers – suggested best practice

protracted transfer issues. All ISA providers should keep their contact details up to
date at all times on both databases to support the correct direction of transfers and
other communications between providers. Contact details should include telephone,
e-mail and address and office working hours, for telephone contact in
particular.

The TISA databases should also be populated with contact details of where to refer
Transfer Out / Transfer In correspondence – as this can distinguish between where
ISA providers want the initial request correspondence to be directed (e.g. central
address or branch) and any ongoing correspondence.

Providers should inform TISA of a change in contact details at least 2 business days
prior to this change becoming effective via the following e-mail address -
isatransfers@tisa.uk.com.

CASE ABANDONMENT

A case can only be abandoned where the customer is the primary cause for the
delay. Cases where the old Provider is the primary cause for delay would not be
abandoned and the new Provider would continue to pursue the case through the
cross-industry chaser and resolution procedures.

Where the new provider is only willing to accept a transfer by a given date and funds
are received after this date the new provider may choose to make contact with the
customer to consider possible alternatives to returning the funds. The new provider
would retain the right to repatriate the funds if no alternative solution can be agreed.

If the new provider is unable to accommodate the transfer the old provider could use
one of the following remedies, as set out in HMRC ISA Bulletin 15:

• reinstate the original ISA, or
• offer another product to the customer and effect an internal transfer, or
• allow the customer to transfer to another provider

A case can be abandoned 2 months post the expiry of the initial 15 business day
transfer timescale.

On abandoning a case the new provider must inform the customer that they have
abandoned the case citing a reason.

Providers should review what action to take where funds are received post case
abandonment, they can either accept, decline or contact the customer to arrange a
new account for the funds to be put in (if for example the previous fixed rate is no
longer available).
MODEL CASH ISA TRANSFER AUTHORITY FORM³

<table>
<thead>
<tr>
<th>Information about you</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title:</td>
</tr>
<tr>
<td>Date of birth:</td>
</tr>
<tr>
<td>Permanent home address:</td>
</tr>
</tbody>
</table>

Postcode: 
Contact phone number (including area code):

<table>
<thead>
<tr>
<th>Information about the ISA you want to transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of existing ISA provider:</td>
</tr>
<tr>
<td>Sort code:</td>
</tr>
<tr>
<td>Account number:</td>
</tr>
<tr>
<td>Roll number (if applicable):</td>
</tr>
</tbody>
</table>

Please note
The terms and conditions of some ISA products do not allow only part of an ISA to be transferred. Your existing provider may need to give them specific instruction before the transfer can go ahead. Please check with your existing provider if you are not sure about this.

1. Do you want to transfer or part of this cash ISA? All Part
2. Have you subscribed to your current cash ISA in the current tax year? Yes No
3. If you answered yes to Q2 and are transferring part of your ISA, do you want to include the subscription from the current tax year? Yes No N/A

Please note that the amount in your account representing current tax year subscriptions can only be transferred in whole and not in part.

4. If you are asking to transfer part of your ISA, please say how much of your cash ISA you want to transfer: £ .................
   Or, if you only want to transfer your subscriptions from the current tax year, tick here

Transfer authority
I authorise my existing ISA provider to transfer the ISA (account number above) to [new ISA provider]. I authorise my existing ISA provider to provide [new ISA provider] with any information about the cash ISA and to accept any instructions from them relating to the cash ISA being transferred.

Where I must give notice to close or transfer part of the existing cash ISA, or the existing cash ISA contains a fixed-term deposit that has not reached its maturity date, I instruct my existing ISA provider to either (tick the appropriate box)

1. wait for the full notice period to end or wait until the maturity date (whichever is relevant) before going ahead with this transfer;

³ ISA providers may be expected to begin to adopt this revised format during the 2011-12 tax year. However, for operational reasons the timing of adoption of the revised form is likely to vary from provider to provider
OR

2. depending on the terms and conditions, carry out the transfer as soon as possible – I will accept any consequential loss of interest or charges that may be applied.

Signed: ………………………………………………….. Date: …………………………

**Transfer acceptance (your new ISA provider fills this part in)**

We are willing to accept this ISA transfer in line with the customer’s instructions above, as long as the following conditions are met.

- The transfer proceeds are made up of cash deposits only
- We receive the transfer proceeds no later than ……………
- Where the customer has shown above that they want to transfer subscriptions from the current tax year, these must not be more than £ ……………

For the purposes of the transfer of the ISA wrapper under the ISA regulations, the date shown below will be the transfer date.

Date:

Name of new provider:
Sample section 975 certificate

Name and address of investor: ISA Manager

………………………….………     and address
………………………………….
…………………………………..

CERTIFICATE OF DEDUCTION OF TAX

Statement for the purposes of section 975 of the Income Tax Act 2007

Account No  ………………………………………..

Year to 5 April 20__

Date interest paid or credited  …………/…………/………

1. Gross Interest  £……………………

2 Income Tax Deducted  £…………………

3 Net Amount Paid or Credited  £…………………

Date……./……../………

Please keep this certificate
- it will help you complete your Self Assessment tax return (if you are sent one)
- it will be accepted by HM Revenue & Customs as evidence of tax deducted if you
are entitled to make a claim for repayment of tax.
A duplicate certificate will not normally be issued, and HM Revenue & Customs will
not necessarily accept statements or passbooks as conclusive evidence of tax
deducted.