



HM Treasury

# ISA qualifying investments:

response to the consultation on  
whether to include investment  
based crowdfunding

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ISBN 978-1-910835-31-9  
PU1876

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# 1 Introduction

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## Background

**1.1** At the March Budget the government announced that it would consult on whether to extend Individual Saving Account (ISA) eligible investments to include debt securities and equity offered by companies via a crowdfunding platform (known as investment-based crowdfunding).

**1.2** A public consultation exploring the issue was launched on 8 July and closed on 30 September. The government received 32 formal responses to the consultation, from 1 individual and 31 interested organisations. A list of those who responded is provided in Annex A.

**1.3** This document summarises the responses received and sets out the government's decisions on whether to proceed with this change. The government is grateful to all those who contributed their views during the consultation process.

## Aim of the consultation

**1.4** The purpose of the consultation was to obtain views on whether to extend the list of ISA-eligible investments to include crowdfunded debt securities and equity as part of the government's commitment to increase the choice of investments available to ISA investors and improve competition in the banking sector. The consultation document set out a set of core principles against which the government has assessed the case for extending ISAs to crowdfunded investments. Chapter 2 summarises the responses received to the questions set out in the consultation document on the appropriateness of the core principles and the extent to which crowdfunded debt securities and equity meet these principles, with particular focus on the need to protect consumers and support the sustainability of the tax system. Chapter 3 outlines the government response to the consultation.

**1.5** During the consultation period, the government engaged with the crowdfunding industry and the Financial Conduct Authority (FCA) to discuss the benefits and risks of including these investments in ISAs.

## Next steps

**1.6** The government has carefully considered all of the responses to this consultation and has decided to extend ISAs to crowdfunded debt securities issued by companies. This is consistent with the views expressed by the majority of respondents. Draft legislation setting out the government's approach to implementing this change will be published for consultation following technical discussions with interested parties, with a view to make regulations in time to enable debt securities issued by companies to be held in an Innovative Finance ISA in autumn 2016.

**1.7** The government will work with the crowdfunding sector and other interested parties to further explore the case for extending ISAs to equity crowdfunding.



## 2 Summary of responses

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**2.1** This Chapter summarises the main points raised in response to the consultation questions and sets out the government's response. The key decisions that the government has taken are to:

- extend the list of investments eligible for the Innovative Finance ISA to include debt securities issued by companies and offered via a crowdfunding platform
- commit to further work with the crowdfunding sector and other interested parties to further explore the case for including equity crowdfunding within ISAs

### Principles for inclusion in ISAs

**2.2** The consultation document asked respondents to consider the following principles for assessing whether investments should become ISA eligible:

- consistent with ISA's reputation as a trusted savings brand
- protects the consumer
- supports a sustainable tax system
- simple to administer

#### Question 1

Do you agree with the proposed principles for assessing whether to extend ISAs to equity and debt securities offered via a crowdfunding platform? Please provide any comments as appropriate.

### Summary of stakeholder responses

**2.3** Respondents broadly agreed that the principles set out in the consultation were the right ones, though a number noted that the risks and issues around ISA inclusion vary between crowd-funded debt securities and equity. Several respondents noted that investment-based crowdfunding shares many of the main characteristics of equity and debt securities that are already eligible for ISA.

### Characteristics of crowdfunding

**2.4** The consultation document asked respondents to provide views regarding the key characteristics of crowdfunding platforms and the investments offered on these platforms.

#### Question 2

Specifically, could respondents provide views on the key characteristics of:

- crowdfunding platforms
- debt-based securities offered via a crowdfunding platform
- equity-based securities offered via a crowdfunding platform

### Summary of stakeholder responses

**2.5** Respondents who answered this question broadly agreed with the government's view that crowdfunding platforms enable people to invest directly or indirectly in new or established

businesses by buying investments such as shares or debentures. Other key characteristics were highlighted, including the role of platforms in providing standardised information to help investors make decisions and assess risk, and the fact that platforms are regulated by the FCA.

**2.6** Respondents tended not to distinguish between crowdfunded debt and equity securities when responding to this question. However, those that did stated that crowdfunded equity potentially poses a higher risk for investors than crowdfunded debt securities because the market tends to cater for riskier businesses and is less likely to provide individuals with regular returns on their investment.

## Protects the consumer

**2.7** The consultation document questioned whether crowdfunding platforms can meet the 'protects the consumer' principle and if not, what additional safeguards would be required to ensure it is met.

### Question 3

Do:

- **debt-based securities; and**
- **equity-based securities:**

**offered via a crowdfunding platform meet the 'protect the consumer' principle? Would any additional safeguards be required if these securities became eligible for ISA? Please explain your answer.**

## Summary of stakeholder responses

**2.8** Crowdfunding platforms that responded to the consultation generally argued that existing legislation and FCA regulation already provide a strong basis to uphold the 'protect the consumer' principle. However, several respondents argued that equity crowdfunding is currently less likely to meet this consumer protection principle than crowdfunded debt securities, highlighting factors such as uncertainty over investment returns, risks that shares are diluted in future funding rounds, and the lack of consistency over information provided to potential investors. Others noted that the sector is still developing and therefore needs more time to develop a track record of delivering for investors.

## Supports a sustainable tax system

**2.9** The consultation document considered the extent to which extending ISA qualifying investments to include crowdfunded debt and equity issued by companies would present new opportunities for tax avoidance.

### Question 4

How far are:

- **debt-based securities; and**
- **equity-based securities:**

offered via a crowdfunding platform already subject to the safeguards set out above? Please explain your answer.

### **Question 5**

What additional safeguards, if any, would be needed to ensure that debt and equity securities offered via a crowdfunding platform are not susceptible to tax avoidance if made eligible for ISA?

### **Summary of stakeholder responses**

**2.10** Crowdfunding platforms that responded to the consultation argued that existing FCA regulations provide some protection against the potential tax abuse risks set out in the consultation. The majority view from other respondents was that existing safeguards would need to be strengthened to prevent equity crowdfunding creating opportunities to misuse the system. Regarding the need for additional safeguards (Question 5), over a third (13 of 32) of respondents argued that applying safeguards similar to those currently in place for Enterprise Investment Scheme (EIS) and Seed EIS would adequately protect against tax abuse.

## **Other issues**

### **Administration and EU law**

#### **Question 6**

Are there types of debt security offered via a crowdfunding platform that respondents believe will not be covered by the Personal Savings Allowance? Please provide examples.

### **Summary of stakeholder responses**

**2.11** Very few respondents answered this question with many that did stating that they have covered this topic in a separate response. However, participants that responded directly highlighted that some returns and income from debt securities that offer a variable rate of return and dividends from equity may not qualify for the Personal Savings Allowance (PSA), which will apply from 6 April 2016.

### **Interaction with other tax reliefs**

#### **Question 7**

Do respondents feel there is a compelling case for extending ISAs to equity offered via a crowdfunding platform in addition to existing tax reliefs?

### **Summary of stakeholder responses**

**2.12** Most crowdfunding platforms that responded to the consultation argued in favour of including equity crowdfunding in ISAs. The main reason provided was that tax relief is not available for all forms of crowdfunded equity (for example, where taxpayers do not have significant tax liabilities to offset against existing reliefs or where the company seeking equity finance is not eligible for the existing venture capital schemes like EIS). Some respondents suggested that these cases will become more common as the landscape of equity crowdfunding matures to include more established businesses. A number of respondents disagreed, however, arguing that existing reliefs like EIS and Seed EIS already provide sufficient reliefs and are, in any case, more generous than ISA. Many of these respondents felt that the government should wait until the equity crowdfunding sector has matured further before taking a decision to include equity crowdfunding within ISAs.



## 3 Government response

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**3.1** The government welcomes respondents' support of the core principles outlined in the consultation, which it has applied in assessing the case for extending ISAs to include investment-based crowdfunding.

**3.2** The government believes there is a strong case for allowing crowdfunded debt securities issued by companies to be held in ISAs. This will provide ISA holders with greater choice over how to invest and will support the crowdfunding sector to continue to grow as a source of alternative finance for businesses. The government will therefore legislate in autumn 2016 to allow certain debt securities issued by companies and offered via a crowdfunding platform to be held in the new Innovative Finance ISA, which will be available for certain peer-to-peer loans from 6 April 2016.

**3.3** The government notes the split in respondent's views over the case for including equity crowdfunding in ISAs according to the principles set out in the consultation. The government will therefore work with the crowdfunding sector and other interested parties to further explore the case for extending ISAs in this way.



# A List of respondents

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**A.1** There were 32 responses to the consultation. The following organisations submitted responses. Please note, where submissions did not answer any of the questions in the consultation we have counted these as enquiries and not formal responses.

Abundance Generation

Allied Powers LTD

Angels Den Funding Limited

Ashurst

Association of Accounting Technicians

Co-Operatives UK

Crowd for Angels

Crowdcube

CrowdShed

Ecotricity

Financial Services Consumer Panel

Funding Circle

Funding Knight Limited

GLI Finance Limited

Hargreaves Lansdown

Home Grown

Institute of Directors

Invest UP

Lending Crowd

Money & Co

Osborne Clark

P2PFA

Property Moose

Property Partner

Re Building Society

Seedrs

The Charity Law Association's Standing Committee on Taxation

The Institute of Chartered Accountants in England and Wales

Thin Cats  
Trillion Fund  
UKCFA



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