

ISAs

Guidance Notes for ISA Managers

Draft guidance for when an ISA investor
dies on/or after 6 April 2018



Death of an investor on or before 5 April 2018

- 3.21** Interest, dividends or gains in respect of investments in an 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, where appropriate, be paid or credited under deduction of tax at the basic rate.

Death of an investor on or after 6 April 2018

- 3.23** Where an investor dies on or after 6 April 2018, any ISA held will be designated a "continuing account of a deceased investor".

An account will remain a continuing account of a deceased investor until the earlier of:

- The completion of the administration of the deceased's estate
- The closure of the account
- The third anniversary of the death of the account investor

There is no requirement for an ISA manager to check with the executors of a deceased investor if/when the administration of the investor's estate has completed.

- 3.24** No subscriptions, including replacement flexible subscriptions, can be made into a "continuing account of a deceased investor". However, active management of the investments already held within the account may continue subject to the terms and conditions of the account.
- 3.25** Funds held within a continuing account of a deceased investor continue to benefit from ISA tax advantages. Any interest, dividends or gains in respect of investments in a continuing account of a deceased investor are exempt from tax.
- 3.26** 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. If interest is paid into the ISA by the insurer because of a delay in paying the claim the interest will be exempt from tax and can be paid or credited without deduction of tax. If the death proceeds are held outside of the deceased's ISA pending settlement of the claim then any interest paid by the insurer should have tax deducted at the basic rate of tax.
- 3.27** Personal Representatives cannot apply to change a Stocks & Shares ISA into a Cash ISA or vice versa with the same ISA manager. They cannot request the transfer of a "continuing account of a deceased investor" to an alternative ISA manager. However, these accounts can be included as part of a bulk transfer when an ISA manager ceases to qualify or otherwise transfers their ISA book.

3.28 If, after a period of three years, the administration of the account is ongoing and the account has not been closed, the account will cease to be a continuing account of a deceased investor. In these circumstances, on the next working day following the third anniversary of the deceased's death, the ISA manager must remove the ISA wrapper from the account and all subsequent income or gains will then become taxable in the hands of the estate.

6A Additional permitted subscriptions (APS) following the death of account holder

Overview

6A.1 In this chapter, 'spouse' includes a civil partner.

Since 6 April 2015 additional permitted subscriptions, on top of the annual subscription limit (see paragraph 6.1), have been available to the surviving spouse of a deceased ISA holder. Additional permitted subscriptions are available where an investor died on or after 3 December 2014. The deceased investor and the surviving spouse must have been living together at the date of death. That is, not separated under a court order, under a deed of separation, or in circumstances where the marriage or civil partnership has broken down.

Managers can choose not to accept additional permitted subscriptions.

Additional permitted subscriptions;

- can be made with the manager who held the deceased's ISA or another manager who agrees to accept the subscriptions (see paragraph 6A.3)
- are limited to the value of the deceased's ISA at their date of death if the investor died on or before 5 April 2018 (see paragraph 6A.2)
- can be either the value of the deceased's ISA at their date of death or the point the ISA ceased to be a continuing account of a deceased investor if the investor died on or after 6 April 2018 (see paragraph 6A.2)
- must be made within specific time limits (see paragraphs 6A.11 and 6A.13)
- can be made to a cash, stocks and shares, or an innovative finance ISA
- can be made by non-residents
- can also be made to a Lifetime ISA if the investor is resident in the UK, but will count towards the Lifetime ISA payment limit (see chapter 9B) but not the annual overall ISA subscription limit
- if a surviving spouse is aged 16 or 17, can only be made to an 'adult' cash ISA
- can be made in cash or inherited non-cash ISA assets (see paragraphs 6A.13 and 6A.11)
- are available whether or not the surviving spouse inherited the deceased's ISA assets
- cannot be made from a Junior ISA
- count as previous year subscriptions for all other ISA purposes
- can be shown on statements by any relevant description, including 'transfer'

Where an ISA manager is notified that an ISA investor died on or before 5 April 2018, the availability of additional permitted subscriptions does not change the treatment of the deceased's ISA and the ISA wrapper must be removed.

However where an ISA manager is notified that an ISA investor died on or after 6 April 2018 the ISA becomes a 'continuing account of a deceased investor' and can continue to benefit from the ISA tax advantages until the ISA ceases to be a continuing account of a deceased investor (see paragraph 3.23).

The ISA regulations provide authority for ISA managers to disclose the value of a deceased account holder's ISA to their surviving spouse on request. It is for ISA managers to be satisfied that the person making the request is the deceased ISA holder's surviving spouse.

A request by the surviving spouse should contain the deceased's

- name and address
- NINO, if known
- date of birth
- date of death
- the date of marriage or civil partnership to the applicant

It should also include declarations that

- the applicant is the surviving spouse, and
- the applicant and deceased were living together at the deceased's date of death

It is for managers to decide whether to accept requests other than in writing. Requests may be made by someone on behalf of the surviving spouse in the circumstances set out in paragraphs 5.24 – 5.27.

The additional permitted subscription limit

6A.2 Where an ISA investor died on or before 5 April 2018, additional permitted subscriptions are limited to the value of the deceased investor's ISA at their date of death.

Where an ISA investor dies on or after 6 April 2018 additional permitted subscriptions can be either the value of the deceased investor's ISA at their date of death or the value of the deceased investor's ISA at the point the ISA ceases to be a continuing account of a deceased investor. ISA managers must have processes in place to ensure that the additional permitted subscriptions do not exceed the higher of these two valuations.

Stocks and shares ISA or Lifetime ISA non cash assets should be valued in accordance with paragraphs 10.20 - 10.22. The value of innovative finance ISA non cash assets will be the outstanding principal balance, that is the capital amounts outstanding plus any interest due but unpaid on the loans(s) at the date of death or at the point the account ceases to be a continuing account of a deceased investor.

The value of a Lifetime ISA at the date of death of an investor includes any government bonus that has accrued but not yet been paid at the date of death.

The value of a deceased investor's Lifetime ISA at the point that the account ceases to be a continuing account of a deceased investor includes government bonuses due to be paid on subscriptions made on or before the date of death of the investor and interest accrued or gains made up to the point that the ISA tax wrapper was removed.

Where the deceased investor had a number of ISAs with the same ISA manager, there will be a single additional permitted subscription limit based on the combined values of those ISAs at the investor's date of death. If the ISA investor died on or after 6 April 2018 the single additional permitted subscription limit can be based on the combined values of those ISAs at the date each ISA ceased to be a continuing account of a deceased investor.

The single additional permitted subscription (APS) limit must be calculated on the total value of the deceased investor's ISAs with same ISA manager on the date of their death, or on the total value of the investor's ISAs when they ceased to be continuing accounts of a deceased investor. The single additional permitted limit must not be calculated on a mix of some account values at the date of death of an investor and the value of other accounts at the point they cease to be continuing accounts.

However, where a deceased ISA investor held accounts with more than one ISA manager, the surviving spouse may choose to use the APS value as calculated at the date of death of death with one ISA manager and the APS value at the date of account closure with the other ISA manager.

The spouse of a deceased ISA investor is entitled to an additional permitted subscription that is higher of the value of the ISA accounts at the date of death of the investor or the value of the ISA accounts at the point they cease to be a continuing account of a deceased investor. If a spouse decides to use the additional permitted subscription calculated at the date of death of the investor, by subscribing some or all of the additional permitted subscription into their own ISA, the spouse cannot then ask the ISA manager for the additional permitted subscription as

calculated on the value of the accounts at the point they cease to be a continuing account of a deceased investor.

Examples

1. Mr Smith died on 31 March 2018, he held a Cash ISA, a Stocks & Shares ISA and a Lifetime ISA with the same ISA manager who is told of his death on 10 April 2018. The total value of his ISAs on 31 March 2018 was £25,000.

Because Mr Smith died before 6 April 2018 all of his ISAs cease with effect from 31 March 2018. His spouse is entitled to make additional permitted subscriptions totalling the value of the ISAs, including interest accrued and government bonuses paid, on the date of Mr. Smith's death (£25,000).

2. Mrs Jones died on 10 April 2018, she held a Cash ISA, a Stocks & Shares ISA and a Lifetime ISA with the same ISA manager who is told of her death on 20 April 2018. The total value of her ISAs on 10 April 2018 was £25,000.

The personal representatives do not want to close any of the ISAs and they continue to benefit from their ISA tax advantages during the administration of her estate.

On 30 September 2018 the ISA manager receives instructions to close all of the ISAs. The total value of the ISAs has increased to £30,000. Mrs. Jones' surviving spouse is entitled to make additional permitted subscriptions totalling the value of the accounts immediately prior to their closure (£30,000).

3. Mr McDonald died on 20 April 2018, he held a Cash ISA and a Stocks & Shares ISA with the same ISA manager who is told of his death on 30 April 2018.

The total value of the ISAs on 20 April 2018 is £25,000. The personal representatives do not want to close the ISAs and they continue to benefit from their ISA tax advantages during the administration of his estate.

On 30 November 2018 the ISA manager receives instructions to close all of the ISAs. The total value of the ISAs has fallen to £22,000. Mr McDonald's surviving spouse is entitled to make additional permitted subscriptions totalling the value of the accounts on the date of death (£25,000).

4. Mrs Brown died on 15 April 2018, she has a Cash ISA and a Stocks & Shares ISA with the same ISA manager who is told of her death on 25 April 2018. The total value of the ISAs on 15 April 2018 is £25,000.

The personal representatives do not want to close the ISAs and they continue to benefit from their ISA tax advantages during the administration of her estate. But Mrs Brown's spouse wants to immediately make use of his additional permitted subscription which is £25,000 and that amount is subscribed on 6 May.

On 20 October 2018 the ISA manager receives instructions to close the ISAs. The total value of the ISAs has increased to £30,000. Mrs. Brown's surviving spouse is not entitled to the higher additional permitted subscription value of £30,000 because he has already used the additional permitted subscription of £25,000 calculated using the value of the accounts on the date of Mrs. Brown's death.

5. Mr Murphy died on 20 April 2018, the value of his ISA on 20 April 2018 is £15,000. On 22 April, his spouse withdraws £3,000 to pay for funeral expenses. The ISA is not closed and remains a "continuing account of a deceased investor".

On 1 July 2018, the account is closed. The balance immediately prior to closure is £12,050. Mr Murphy's spouse is entitled to make an additional permitted subscriptions up to the value of the account on the date of Mr Murphy's death (£15,000).

Where a legal entity's ISA business is conducted under a number of different HMRC ISA manager references for claims and reporting purposes, the additional subscription limits can be calculated at legal entity level, or separately in respect of the deceased investor's ISA holdings under each HMRC ISA manager reference.

Interest accrued at the date of death on cash on deposit should only be included to the extent that the ISA manager apportions the interest in accordance with paragraph 12.11. If the deceased held a number of ISAs with the ISA manager the additional permitted subscription limit will be their combined value at the date of death or their combined value at the point the accounts ceased to be a continuing account of a deceased investor.

Where an ISA pays out on death, any death benefit will form part of the additional permitted subscription limit.

Making additional permitted subscriptions

- 6A.3 The surviving spouse can make additional permitted subscriptions with either the manager who held the deceased's ISA or another manager who agrees to accept the subscriptions.

Once an additional permitted subscription has been made with a manager, any further additional permitted subscriptions up to the limit must be made with the same manager. Any unused balance cannot be used with another manager.

Where, in exceptional circumstances, the ISA manager is **unable** to accept the whole of the additional permitted subscriptions the manager should contact HMRC. This could occur where:

- the manager closes their ISA book to new business before the surviving spouse has subscribed up to the additional permitted subscription limit, or
- the ISA manager plans a bulk transfer of accounts and the surviving spouse wishes to move their ISA and any unused part of the additional permitted subscription limit to a manager of their choice (rather than the bulk transfer default option).

Managers may accept additional permitted subscriptions on a provisional basis pending receipt of the relevant information and declarations. Where

- the missing information / declarations are not received within 30 calendar days, or
- subscriptions accepted on a provisional basis exceed the value of the deceased's ISA as notified by their ISA manager (see paragraph 6A.3(ii))

the subscription, or any excess, must be removed from the ISA, or it will count towards the investor's annual subscription limit.

Where an investor is using an additional permitted subscription in a Lifetime ISA managers must not accept the subscription if:

- the investor is not eligible to subscribe to a Lifetime ISA (e.g. they are not UK resident), or
- the subscription, together with other current year payments, exceeds the Lifetime ISA payment limit (see chapter 9B) or the 'one Lifetime ISA only per tax year' rule.

6A.3(i) **Subscriptions made to the manager who held the deceased's ISA**

The subscription can be made to a cash, a stocks and shares, an innovative finance, or to a Lifetime ISA the surviving spouse holds with that manager or to a new cash, stocks and shares, innovative finance, or Lifetime ISA opened for the purpose. Or to any combination of existing or new ISAs. Managers can insist on a new ISA being opened if this will allow them to monitor the additional permitted subscription limit.

An ISA opened solely to receive the additional permitted subscriptions will not cause the saver to breach the 'one ISA of each type per tax year' rule. A surviving spouse can only pay £4,000 into one Lifetime ISA each tax year.

Where the deceased held ISAs with a number of different managers the surviving spouse will have additional permitted subscription limits with each manager.

6A.3(ii) **Subscriptions made to another manager**

If the surviving spouse does not wish to make the additional permitted subscription to the manager of the deceased investor's ISA, they can subscribe with another ISA manager who agrees to accept responsibility for monitoring the additional permitted subscription limit.

The subscription can be made to a cash, a stocks and shares, an innovative finance, or a Lifetime ISA the surviving spouse holds with that manager or to a new cash, stocks and shares, innovative finance, or Lifetime ISA opened for the purpose. Or to any combination of existing or new ISAs. Managers can insist on a new ISA being opened if this will allow them to monitor the additional permitted subscription limit.

An ISA opened solely to receive the additional permitted subscriptions will not cause the saver to breach the 'one ISA of each type per tax year' rule.

Where the deceased held ISAs with a number of different managers the surviving spouse will have additional permitted subscription limits with each manager. Each can be used with the manager who held the deceased's ISA or another manager who agrees to accept responsibility for monitoring the additional permitted subscription limit.

The surviving spouse must provide the chosen ISA manager with the information and declarations required by paragraphs 6A.8 and 6A.9 and confirm they have not made any additional permitted subscriptions to the manager who held the deceased's ISA.

The chosen manager must send the manager of the deceased's ISA a notice specifying that they are willing to take the additional permitted subscriptions from the spouse including

- the deceased's full name
- the permanent residential address of the deceased at the date of death
- the date of birth and date of death of the deceased
- the deceased's NINO (if known)
- sufficient information to identify the deceased's ISA.

There is no need to agree a 'transfer' date as the underlying ISA is not being transferred.

The ISA manager of the deceased's ISA must, within 30 calendar days of receiving the notice, send the chosen manager a notice confirming

- the deceased's full name and NINO (if known)
- the permanent residential address of the deceased at the date of death
- the date of birth and date of death of the deceased
- the value of the ISA at the date of death or the value at the point the ISA ceased to be a continuing account of a deceased investor (whichever is the higher)
- that the surviving spouse has not made any additional permitted subscriptions to them and that the manager will not accept any such subscriptions in the future, or provide details of the additional permitted subscription allowance to any other manager.

Where the deceased spouse's ISA manager has not received evidence of death, the 30 calendar day time limit can be suspended while the necessary evidence is obtained.

Where a new ISA manager agrees to accept an additional permitted subscription and the appropriate notices have been exchanged, the deceased's ISA manager undertakes not to accept a subscription from the surviving spouse or to provide the valuations set out above to another ISA manager.

Notices from the deceased's ISA manager must be retained by the 'new' manager. Alternatively, an electronic or scanned image should be retained.

- 6A.4 In cases where the investor dies on or before 5 April 2018, the tax advantages of the ISA account cease on the date of death. However, where the death of the investor occurs on or after 6 April 2018, the account will be designated “a continuing account of a deceased investor” and the tax advantages will remain until the status of the account changes (see paragraph 3.23 – 3.28). It is the responsibility of the ISA manager who held the deceased investor’s ISA to correctly calculate the additional permitted subscription that the spouse is entitled to.

However;

- when a bulk transfer of ISAs from an ISA manager includes a surviving spouse’s ISA to which an additional permitted subscription has been made, details of any remaining balance of the additional permitted subscription limit should be passed to the new ISA manager. This could be either the default bulk transfer ISA manager, or another ISA manager chosen by the surviving spouse as an alternative to ISA manager before the bulk transfer took place, who can continue to accept subscriptions up to that limit. If the deceased’s ISA manager could have accepted an ‘in specie’ transfer of a stocks & shares ISA, then in specie subscriptions can be made to the ISA manager receiving the bulk transfer of accounts or the alternative ISA manager chosen by the surviving spouse, so that the surviving spouse is not disadvantaged by the bulk transfer.
- where the ISA manager who held the deceased’s ISA assets ceases to offer ISAs and has not accepted any additional permitted subscriptions before the bulk transfer takes place then details of the additional permitted subscription limit should be passed to a new manager as follows:
 - a. where the former ISA assets are transferred as part of a bulk transfer, to the ISA manager receiving the bulk transfer of ISA accounts, the surviving spouse can make additional permitted subscriptions with the receiving ISA manager, or ask for the additional permitted subscription limit to be passed to an ISA manager of their choice. The subscriptions to either ISA manager can be made in cash, or in specie (if the deceased’s ISA manager could have accepted an in specie ISA transfer);
 - b. where the former ISA assets remain with the deceased’s ISA manager, to a new ISA manager chosen by the surviving spouse. The subscriptions can be made in cash, or in specie (if the deceased’s ISA manager could have accepted an in specie transfer).

Where exceptionally, the surviving spouse is unable to

- make additional permitted subscriptions with the deceased’s ISA manager or another ISA manager, or
- make an in specie subscription following a bulk transfer

the ISA manager should contact HMRC.

6A.5 A surviving spouse can make a single additional permitted subscription or a series of additional permitted subscriptions so long as in aggregate they do not exceed the permitted subscription limit. Whether a manager accepts a single or a series of additional permitted subscriptions is a matter for the terms and conditions of their ISA products. Where only a single additional permitted subscription is accepted the manager should make it clear to the surviving spouse that any unused balance will be 'lost'.

Subscriptions can be made at any time from the date of death subject to the time limits in paragraphs 6A.11 and 6A.13.

When accepting an additional permitted subscription into a Lifetime ISA the manager must not accept a subscription if when added to other current year payments, the annual Lifetime ISA payment limit is exceeded or if an investor has already paid into another Lifetime ISA in that tax year, or is non-resident in the UK or is aged 50 years or over (see chapter 9B).

6A.6 Once an additional permitted subscription has been made, a surviving spouse can transfer their savings under the normal ISA rules, with the additional permitted subscriptions being treated as previous years' subscriptions (see paragraph 6A.7 and chapter 11). Any further subscriptions counting towards the additional permitted subscription limit (see paragraph 6A.2) must continue be made with the ISA manager who held the deceased's ISA (paragraph 6A.3(i)) or another ISA manager selected by the spouse (paragraph 6A.3(ii)).

6A.7 Additional permitted subscriptions are treated as previous year ISA subscriptions for all other ISA purposes. But an additional permitted subscription paid into a Lifetime ISA, counts towards the annual payment limit for Lifetime ISA (see chapter 9B).

Information and declarations

6A.8 Before an additional permitted subscription can be made a surviving spouse must provide the following information to their ISA manager;

- i. Full name of the deceased
- ii. Permanent residential address of the deceased at the date of death
- iii. Date of birth and date of death of the deceased
- iv. The deceased's NINO (if known)
- v. Date the marriage or civil partnership with the deceased took place,
- vi. Details of the ISA manager who managed the deceased's ISA

This information only needs to be provided when the first additional permitted subscription is made to the ISA manager.

6A.9 When making an additional permitted subscription, a surviving spouse must make a declaration confirming;

- i. they are the surviving spouse of the deceased
- ii. they were living with the deceased within the meaning of section 1011 of the Income Tax Act 2007 at the date of the deceased's death
- iii. the subscription is made under the provisions of regulation 5DDA of the ISA regulations
- iv. the subscription is being made
 - a. in the case of 'in specie' transfers, within 180 days of beneficial ownership passing to the surviving spouse, and
 - b. in the case of cash subscriptions, within 3 years of the date of death, or if later, 180 days of the completion of the administration of the estate.

For the time limits in respect of deaths between 3 December 2014 and 5 April 2015 see paragraphs 6A.11 and 6A.13.

Where a surviving spouse makes a number of additional permitted subscriptions, a declaration confirming (i) and (ii) above is only needed when the first subscription is made and not on subsequent occasions. The declaration confirming (iii) and (iv) above must be made on every occasion an additional permitted subscription is made.

Exceptionally, an enduring declaration covering (i) – (iv) above can cover the three year period from the deceased's date of death, but only where;

- a) the ISA manager accepts only additional permitted subscriptions, and
- b) the ISA manager's system prevents additional permitted subscriptions after the three year period unless supported by a declaration covering (iii) and (iv) above.

Managers can use a 'generic' declaration covering (i) to (iv) above for all additional permitted subscriptions if they choose.

Managers should accept an additional permitted subscriptions declaration in good faith unless they know it to be untrue.

The information and declarations in paragraphs 6A.8 and 6A.9 can be made in writing, or not in writing in accordance with the ISA application and transfer processes. They can be given by someone on behalf of the investor in the circumstances set out in paragraphs 5.24 – 5.27.

ISA managers must retain written documentation or scanned images. Alternatively, the manager can apply the ‘not in writing’ procedures outlined in paragraphs 4.19 – 4.23. An ISA manager must make a written declaration using the information provided on the form and send this to the investor. The original paper declaration can then be destroyed.

ISA managers can use a combined additional permitted subscription and transfer application instead of separate forms if they prefer.

Industry ‘model’ application forms are available at:

http://www.tisa.uk.com/publications/591_APSPublicationTransferProcessIndustryGuidelinesMarch2015-Final.pdf

and customer information at:

http://www.tisa.uk.com/publications/604_ISAallowancefinalcustomerleaflet.pdf

Additional permitted subscription – non cash assets

- 6A.10 Where a surviving spouse inherits non-cash ISA assets, these may be used to make an additional permitted subscription ‘in specie’ (without having to be sold and the subscription made in cash). The option of an ‘in specie’ subscription is not available if the spouse decides to make additional permitted subscriptions to a manager other than the one who held the ISA of the deceased.

Non-cash assets are

- any stocks and shares ISA, or Lifetime ISA, qualifying investments other than cash deposits
- the following cash ISA, or Lifetime ISA, qualifying investments
 - National Loans Act securities
 - depositary interests
 - short-term money market funds
 - money market funds
- any innovative finance ISA qualifying investments other than cash investments (see paragraph 9A.10)

Only inherited non-cash ISA assets can be used to make an additional permitted subscription in specie. For non-innovative finance ISA assets, title to those assets must have remained with the ISA manager or his nominee. If title has moved from the ISA manager or his nominee, the assets cannot be used to make an additional permitted subscription. The subscription must be made in cash instead. For innovative finance assets, the peer-to-peer loans agreements and crowdfunding debentures must have remained under the management of the deceased’s ISA manager at all times.

For both stocks and shares ISAs and stocks and shares held in Lifetime ISAs, the value of the assets at the time the additional permitted subscription is made counts towards the additional permitted subscription limits. The assets should be valued in accordance with paragraphs 10.20 – 10.22a. Where shares held by the deceased have gone ‘x-dividend’ ('XD'), the value of the dividend payments should be included in the value of the shares. Innovative finance ISA non cash assets should be valued at their date of death value, that is, the capital amounts outstanding plus interest due on the loans(s) but unpaid at the date of death.

Where the deceased investor’s account was a Lifetime ISA, the additional permitted subscription limit in respect of that account includes any government bonus accrued, but not yet paid, on the account.

When an investor died on or before 5 April 2018

The additional permitted subscription limit is not affected by any change in asset value during the administration period, so if the value of the assets increase during

the estate's administration it will not be possible to subscribe them all to the ISA unless;

- the deceased held a combination of ISAs with the same manager and the surviving spouse's single combined additional permitted subscription limit with that manager (see paragraph 6A.3(i)) is sufficient to cover the increase in value
- the surviving spouse 'transfers in' an additional permitted subscription limit from another ISA manager of the deceased (see paragraph 6A.3(ii)) sufficient to cover the increase in the value.

In these circumstances, the combined date of death values may be sufficient to allow non-cash inherited ISA assets that have increased in value to be subscribed.

If the value of the non-cash assets decreases they can all be subscribed 'in specie' and a cash additional permitted subscription made to 'top up' to the value at date of death of the investor.

Where the assets change after the ISA manager is notified of the death of the investor as a result of some corporate action, those 'new' assets will be eligible for in-specie transfer.

When an investor dies on or after 6 April 2018

The additional permitted subscription limit is affected by any change in asset value during the administration period. If the value of the assets increase during the estate's administration it will be possible to transfer them all to the ISA if the surviving spouse has not chosen to use the additional permitted subscription limit based on the value of the ISA at the date of death of the investor.

In respect of additional permitted subscriptions into a Lifetime ISA the manager must not accept a subscription if it, together with current year payments, exceeds the Lifetime ISA payment limit, or if the investor is not eligible to subscribe to a Lifetime ISA because the investor is 50 years of age or more or is non-resident in the UK (see chapter 9B).

6A.11 Additional permitted subscriptions made ‘in specie’ with non-cash assets must be made within 180 days of the distribution of the assets to the surviving spouse.

Where the estate of a deceased ISA investor makes an interim in specie distribution(s) followed by a final distribution, each will have a 180 day window for subscriptions to be made.

The time limit runs from the date the surviving spouse becomes beneficially entitled to the non-cash assets. In practice managers should treat this as being from the date they are formally notified that the assets are in the ownership of the surviving spouse. HMRC will take a pragmatic view but will query cases where there is evidence of avoidance or manipulation

6A.12 Where additional permitted subscriptions are made ‘in specie’ and the manager is not providing any suitability advice to the surviving spouse, the FCA have confirmed that the manager is not required to check suitability. Managers should, however, ensure the surviving spouse is provided with risk and investment information about the investments and suggest they consider taking investment advice. Risk and investment information for the relevant type of account or investments should be provided in line with the ISA manager’s standard process.

Additional permitted subscription – cash

6A.13 Cash additional permitted subscriptions can be made using sums inherited by the spouse or any other cash they have available. They can be made to any combination of existing or new ISAs (see paragraph 6A.3). A series of subscriptions can be made, provided the total does not exceed the additional permitted subscription limit that the spouse is entitled to use.

It will not be possible to open a new Lifetime ISA for additional permitted subscriptions if:

- the investor is not eligible to open a Lifetime ISA because they are 40 years of age or more or non-resident in the UK,
- the spouse has already paid into another Lifetime ISA in the same tax year, or
- the subscription would breach the annual Lifetime ISA payment limit.

The time limit for making cash subscriptions ends 3 years after the date of death, or if later, 180 days after the administration of the estate is complete.

Where the death of the ISA holder occurred between 3 December 2014 and 5 April 2015, the 3 year period started on 6 April 2015. The additional permitted subscription limit can only be the value of the deceased’s ISA at their date of death.

Reporting

6A.14 Additional permitted subscriptions to cash, stocks and shares and Innovative Finance ISA are treated as previous year subscriptions so managers do not need to report the amounts received at account level. Additional permitted subscriptions made into a Lifetime ISA count as current year payments and must be reported to HMRC as a qualifying addition.

For additional permitted subscriptions made in the tax years 2016-2017 and 2017-2018, providers should make a report to HMRC – outside of the annual returns process. The report should give details of the;

- number of customers who made additional permitted subscriptions, and
- total value of the additional permitted subscriptions received.

The return should be made to

KAI Pensions and Savings Team
Room 2E/03
100 Parliament Street
London
SW1A 2BQ

The return (described above) can also be submitted by email to HMRC with the subject heading 'Additional Permitted Subscription Return 2016/17' or 'Additional Permitted Subscription Return 2017/18':

E-mail:- savings.audit@hmrc.gsi.gov.uk

Where, following an additional permitted subscription being made, the account is transferred out before the annual return of information is made there is no requirement on the new manager to report the account received an additional permitted subscription.

6A.15 **Voiding**

Where, exceptionally, an ISA manager receives a void or partial repair notice after notification of the account holder's death any additional permitted subscription limit should be recalculated.

Where the additional permitted subscription limit has been notified to a provider chosen by the surviving spouse, that provider should be notified of the revised amount.

Where subscriptions have been made by the surviving spouse in excess of the revised additional permitted subscription limit, the provider managing the account of the surviving spouse should contact HMRC. HMRC will then issue an appropriate void / repair notice.

Death of the investor

- 9B.39 Where a Lifetime ISA investor dies the account can be closed and funds can be withdrawn without incurring a withdrawal charge.

Where a Lifetime ISA investor dies on or before 5 April 2018, the Lifetime ISA loses its ISA wrapper and cannot continue to benefit from the ISA tax advantages after the date of death of the investor. The ISA manager can claim a government bonus accrued on subscriptions paid into the Lifetime ISA on or before the date of death of the investor. The bonus can be paid into the account. No further subscriptions should be accepted into the account after the date of death of the investor.

Where a Lifetime ISA investor dies on or after 6 April 2018, the Lifetime ISA can remain open and can continue to benefit from the tax advantages until the account ceases to be a continuing account of a deceased investor (see paragraph 3.23 – 3.28). The ISA manager can claim a government bonus accrued on subscriptions paid into the Lifetime ISA on or before the date of death of the investor. The bonus can be paid into the account. No further subscriptions should be accepted into the account after the date of death of the investor.

Any government bonuses claimed by a Lifetime ISA manager on subscriptions made after the date of death of the investor must be withdrawn from the account and repaid to HMRC. The repayment of a government bonus claimed when the Lifetime ISA manager didn't know that the investor had died will not be subject to a withdrawal charge.

Example

Mrs Jones dies on 10 May 2018, she has a Lifetime ISA with an ISA manager who is told of her death on 20 May 2018. The total value of her Lifetime ISA (including government bonuses paid) is £5,500.

However, Mrs Jones made a subscription of £500 into her Lifetime ISA on 20 April 2018 on which a further government bonus of £125 is due. The ISA manager can include this bonus in the next claim to HMRC. The bonus can be added to the account increasing its balance to £5,625.

The personal representatives of Mrs Jones do not want to close the lifetime ISA and it can continue to benefit from the ISA tax advantages during the administration of her estate. No more subscriptions can be made into the account and no government bonuses are due.

On 30 September 2018 the ISA manager receives instructions to close the Lifetime ISA. The additional permitted subscriptions that her spouse is entitled to from this Lifetime ISA is £5,625 + any accrued interest or growth earned up to 30 September 2018.

Death of an investor

- 12.7 When an investor died on or before 5 April 2018, any ISAs held cease on the date of death. 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 and including any Lifetime ISA bonus due on qualifying additions made to the account on or before the date of death.

While an ISA ceases on the death of an investor who died on or before 5 April 2018, the regulations are silent on what must happen to the account itself. ISA managers 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 Where a manager has received payment from HMRC in respect of a claim to tax on income that is no longer exempt from tax, he must repay HMRC, normally by deducting the amount from the next claim under the heading 'Adjustments to previous claims'.
- 12.10 When an investor dies on or after 6 April 2018 the savings of a deceased investor can continue to benefit from the tax advantages of an ISA during the administration period of the estate. Any interest, dividends or gains in respect of investments in a continuing account of a deceased investor that arise (which in general terms means 'paid') after the date of death to the date of closure of the ISA are exempt from tax (see paragraph 3.23 – 3.28).

Interest on cash on deposit in respect of accounts where the account investor died on or before 5 April 2018

- 12.11 In strictness (but see paragraph 12.12), interest on cash on deposit (including uninvested cash in a stocks and shares ISA) paid or credited by the ISA manager after the date of death is not exempt from income tax.

From 6 April 2016, there has been no requirement for banks, building societies and deposit-takers to deduct income tax from interest paid or credited on or after 6 April 2016.

But where notified of death after 5 April 2016, there is no need to revisit, and deduct tax from interest paid after the date of death and prior to 6 April 2016. ISA managers should notify the personal representatives of any interest accrued and paid after death.

Any subscriptions paid into any ISA account after the date of death of an investor should be removed along with any interest accrued on these subscriptions.

Remaining payers of yearly interest should continue to deduct income tax at the basic rate and account for the tax due by including it on their next CT61 return form, or deducting the tax from the next claim made. If returns or claims are not being made, a cheque should be sent to HMRC (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 not liable to income tax), and
 - interest accrued from the date of death, which is not exempt from income tax and where appropriate, i.e. if paid or credited before 6 April 2016 should be paid under deduction of tax at the basic rate.

Example

Mr Green dies on 5 August 2017. He held a cash ISA with Better Homes Building society. The manager is notified of Mr Green's death on 5 October 2017. The ISA wrapper is removed.

Interest is payable yearly on 31 December. The interest paid on 31 December 2017 of £120 is apportioned in accordance with paragraph 12.12 into

- interest accrued up to and including the date of death is £70, which is treated as arising in the ISA, is not liable to tax and is paid without deduction of tax) and
- interest accrued from the date of death to 31 December 2017 is £50 which is not exempt from income tax under the ISA rules but is paid without deduction of tax (following the ending of the Tax Deduction Scheme for Interest from 6 April 2016).

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 2017 and closing interest of £30 which has accrued from 1 January 2018 to the date of closure.

If the events had happened 2 years earlier i.e. before 6 April 2016, the £80 (£50 + £30) interest accrued and paid after the date of death would have been paid under deduction of tax, and the manager would have given the personal representatives a section 975 ITA 2007 certificate (a sample certificate is included at Appendix C) for 2015-16 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 un-invested cash in a stocks and shares ISA was subject to the 20% flat rate charge.

Interest on cash on deposit in respect of accounts where the account investor dies on or after 6 April 2018

- 12.14 When an ISA investor dies on or after 6 April 2018, the ISA can continue to benefit from the ISA tax advantages during the administration period of the investor's estate. The ISA is designated as a "continuing account of a deceased investor" (see paragraph 3.23 – 3.28).

Any subscriptions paid into any ISA account after the date of death of an investor should be removed along with any interest accrued on these subscriptions.

Example

Mrs Brown dies on 25 April 2018. She held a cash ISA with Trust Us Bank. The manager is notified of Mrs Brown's death on 5 October 2018. The ISA wrapper is not removed.

Interest is payable yearly on 31 December. The interest due on 31 December 2018 of £120 is paid within the ISA and is payable without deduction of tax.

Interest on ISA investments

- 12.14a When an ISA investor dies on or before 5 April 2018. 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 HMRC, he must repay the tax to HMRC (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.

When an ISA investor dies on or after 6 April 2018. 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 within the ISA wrapper and is exempt from income tax. If the ISA manager receives any income that is net of tax then the manager should claim repayment of any tax deducted in the usual way from HMRC. No further action is required by the ISA manager or the personal representatives of the deceased investor's estate.

Information to be provided to personal representatives

- 12.15 When an ISA investor dies on or before 5 April 2018, 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 income received with a payment date after the date of death
 - the date of disposal and the amount of the net sale proceeds received for each disposal made after the date of death, and
 - where appropriate, a tax certificate (R185) or Section 975 ITA 2007 certificate showing interest received and tax deducted.

A generic voucher template is available at [GOV.UK](#).

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 from [the Collective Investment Schemes Centre](#).

- 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).

When an ISA investor dies on or after 6 April 2018, ISA managers should advise the personal representatives that the ISA can continue during the administration period of the deceased investor's estate for a maximum of three years.

ISA managers should also advise personal representatives that non-cash ISA assets inherited by a surviving spouse or civil partner can only be used to make in specie additional permitted subscriptions provided;

- for non-innovative finance ISA assets, the title to those assets has remained with the ISA manager or his nominee (see paragraph 6A.10), and
- for innovative finance assets, the peer-to-peer loan agreements and crowdfunding debentures have been managed by the deceased's ISA manager at all times. In any other circumstances the assets cannot be used to make an additional permitted subscription, and the subscription must be made in cash instead.

- 12.15b When an ISA investor dies on or after 6 April 2018, ISA managers should, if requested, provide personal representatives with a statement showing
1. 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 point the ISA ceased to be a continuing account of a deceased investor, or in the case of a cash ISA, the value of the ISA up to the point the ISA ceased to be a continuing account of a deceased investor and the gross interest payable.
 2. the original cost price and date of acquisition of any investments purchased after the account ceased to be a continuing account of a deceased investor,
 3. details of any income received with a payment date after the account ceased to be a continuing account of a deceased investor
 4. the date of disposal and the amount of the net sale proceeds received for each disposal made after the account ceased to be a continuing account of a deceased investor, and
 5. where appropriate, a tax certificate (R185) certificate showing income received and tax deducted.

A generic voucher template is available at [GOV.UK](#).

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 from [the Collective Investment Schemes Centre](#).

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, where appropriate, deduct tax at the basic rate from the interest paid if the investor died on or before 5 April 2018 and notify the personal representatives of the amount of interest and any tax deducted.

- 12.18 When an ISA investor dies on or after 6 April 2018 and interest on a delayed payment of a claim under a life insurance policy is paid into a “continuing account of a deceased investor”, the insurer should not deduct tax from the interest paid. If the death proceeds are held by the insurer outside of the deceased’s ISA pending settlement of the claim then any interest paid by the insurer should have tax deducted at the basic rate of 20%.

Chapter 14 – Returns of Information

What must be returned?

- 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.
- 14.5b For each “continuing account of a deceased investor” for the period ending 5 April 2019 managers must report the;
1. name and address of the personal representative or person on whose instructions the manager agrees to act.
 2. Date of birth of the deceased investor
 3. National Insurance number (NINO) of the deceased investor

Chapter 15 Annual Returns of Statistical Information (market value)

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 HMRC until the return is submitted (paragraph 13.19). Managers can continue to make Government Bonus claims due on their Lifetime ISAs to HMRC for processing.
- 15.11b Forms ISA14(Stats) & ISA14a(Stats) will be amended to include Lifetime ISAs for the tax year ending 5 April 2018. The ISA14a(Stats) will be further amended to enable managers to report the total number of ‘continuing deceased accounts’ they hold at the end of the tax year ending on 5 April 2019. The amended forms will be available [from GOV.uk](#).

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)

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) should be aware 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).
- Managers can continue to make Government Bonus claims due on their Lifetime ISAs to HMRC for processing.

16.11 Forms ISA25(Stats) & ISA14a(Stats) will be amended to include Lifetime ISAs for the tax year ending 5 April 2018 and to enable managers to report the total number of 'continuing deceased accounts' they hold at the end of the tax year ending on 5 April 2019. The amended forms will be available [from GOV.uk](#).