

The Individual Savings Account (Amendment No. 3) Regulations 2013

Who is likely to be affected?

ISA investors.

Banks, building societies and other financial institutions who offer ISAs, including Junior ISAs.

Certain looked after children in Scotland.

General description of the measure

The measure will:

- designate as qualifying investments in a stocks and shares ISA company shares admitted to trading on any market of a recognised stock exchange in the European Economic Area (EEA) ;
- relax administrative requirements where ISAs are transferred between account managers as part of an insurance business transfer scheme or banking business transfer scheme under Part VII of the Financial Services and Markets Act 2000; and
- update legislative definitions concerning the EEA and looked after children in Scotland.

Policy objective

The measure will enable a capital injection for SME equity markets and encourage more investment in growing businesses, while increasing the choice available to ISA investors. It will also simplify the ISA transfer process by removing unnecessary administrative burdens on ISA managers, investors and registered contacts.

Background to the measure

The Government announced at Autumn Statement 2012 that it would consult on expanding the list of qualifying investments for stocks and shares ISAs to include shares traded on small and medium-sized enterprise (SME) equity markets. Consultation began on 13 March and closed on 8 May. The Government received 99 responses from individuals and interested organisations, and a summary of responses document was published on 1 July.

Other changes within this measure provide for a reduction in administrative burdens for ISA managers and investors in certain circumstances, and update legislative definitions to ensure consistency with definitions in other enactments.

Detailed proposal

Operative date

- Changes to relax administrative requirements for certain ISA transfers will apply from 5 March 2013.
- Changes relating looked after children in Scotland will apply from 24 June 2013.
- Other changes will apply from 5 August 2013.

Current law

Qualifying investments for a stocks and shares ISA

Regulation 7 of the Individual Savings Account Regulations 1998 (S.I.1998/1870) (ISA Regulations) specifies the investments which may be purchased, made or held under a stocks and shares component of an ISA.

Transfers of accounts

Regulations 21(4D) and 21B(8) of the ISA Regulations require an ISA investor (or a registered contact in the case of a Junior ISA) to make a fresh account application to the receiving ISA manager upon the transfer of an account. This requirement is subject to an exception specified in these regulations for certain bulk transfers of accounts.

EEA Agreement and EEA State

Regulation 2(1)(a) of the ISA Regulations provide definitions of EEA Agreement and EEA State.

Looked after children

Regulation 2F(2) of the ISA Regulations specifies who is a looked after child for the purposes of special rules that apply in relation to the opening and management of Junior ISAs.

Proposed revisions

Qualifying Investments for a stocks and shares ISA

The qualifying investments for a stocks and shares ISA specified at ISA Regulation 7 will be extended to include company shares admitted to trading on any market of a recognised stock exchange in the EEA.

Transfers of accounts

The ISA transfer rules at ISA Regulations 21 and 21B will be amended to clarify that a fresh application by each ISA investor will not always be required upon transfer where ISAs are transferred in bulk between account managers pursuant to an insurance business or banking business transfer scheme under Part VII of Financial Services and Markets Act 2000. In such cases, a fresh application will only be required where further subscriptions are to be made to the ISA after the transfer, and certain conditions specified in the regulations have not been met.

EEA Agreement and EEA State

The definitions of EEA Agreement and EEA State at ISA Regulation 2(1)(a) will be updated in light of changes to the membership of the EEA and to ensure they are consistent with definitions used in other legislation.

Looked after children

ISA Regulation 2F, which specifies who is a looked after child for the purposes of special rules that apply in relation to the opening and management of Junior ISAs, will be amended to add references to compulsory and interim supervision orders made within sections 83 and 86 of Children's Hearings (Scotland) Act 2011.

Summary of impacts

Exchequer	2013-14	2014-15	2015-16	2016-17	2017-18
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impact (£m)	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	<p>Over 23 million individuals have an ISA. How many will be affected by these changes will depend on their individual circumstances – for example, the type of investments they wish to hold in their ISA or whether their ISA is subject to a bulk transfer. No detailed estimates of the number of individuals likely to be affected are available.</p> <p>Extending the range of investments that can be held in a stocks and shares ISA will increase the choice available to all ISA investors.</p> <p>Where an individual is affected by the changes in relation to ISA transfers, this will remove the requirement for them to provide an ISA application to the receiving ISA provider upon transfer (although an application may be required where further subscriptions are made to the account post transfer).</p> <p>It is not expected that any of these changes will increase the administrative costs of an ISA for any individual, or the tax due in respect of any savings product.</p>				
Equalities impacts	<p>Official data indicates that individuals from all income and age groups, and both sexes, invest in ISAs. However, this data does not enable detailed estimates to be made of the total impact of these changes on individuals with protected characteristics. Any such impact is not, however, expected to be significant.</p> <p>Data concerning the holding of stocks and shares ISAs suggests that extending the range of investments that can be held in these accounts may be more likely to affect men, and individuals of both sexes in higher income groups.</p> <p>The amendments in relation to looked after children will ensure that eligible children in Scotland can benefit from the special Junior ISA arrangements for looked after children, operated on behalf of the Department for Education.</p>				
Impact on business including civil society organisations	<p>Extending the range of investments that can be held in a stocks and shares ISA is expected to increase investment in smaller companies. It is not anticipated that this change will have a significant administrative impact upon ISA managers, beyond broadening the range of investments they can offer in an ISA.</p> <p>The proposed changes in relation to ISA transfers could reduce administration costs for affected ISA managers by streamlining the transfer process.</p> <p>No impact for businesses is expected from the other proposed changes.</p>				
Operational impact (£m) (HMRC or other)	No operational impact for HMRC is expected.				
Other impacts	<u>Small firms impact test:</u> extending the range of investments that can be held in a stocks and shares ISA is expected to increase investment in smaller firms.				

	<p>All ISA managers, regardless of size, could benefit from the extension of qualifying investments (which will broaden the range of investments that can be offered in a stocks and shares ISA), and from the changes to the transfer rules (which could remove administrative burdens and costs for affected ISA managers).</p> <p>Other impacts have been considered and none have been identified.</p>
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Monitoring and evaluation

All aspects of ISA are subject to ongoing review through compliance work, as well as discussions with account providers and other interested groups.

Further advice

If you have any questions about this change, please contact Simon Turner on 0300 054 6588 (email: simon.turner@hmrc.gsi.gov.uk).

Declaration

The Economic Secretary to the Treasury has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.