HM Revenue & Customs

The New ISA and changes to Junior ISA and the Child Trust Fund: increasing flexibility for savers and investors

Who is likely to be affected?

Savers holding an Individual Savings Account (ISA), Junior ISA or Child Trust Fund (CTF).

Parents who manage a Junior ISA or CTF account on behalf of their children.

Banks, building societies and other financial institutions who offer these accounts.

General description of the measures

From 1 July 2014 ISAs will be reformed into a simpler product, the 'New ISA' (NISA) and all existing ISAs will become NISA. From 1 July the overall annual subscription limit for these accounts will be increased to £15,000 for 2014-15. For the first time, ISA savers will also be able to subscribe this full amount to a cash account (currently only 50 per cent of the overall ISA limit can be saved in cash). Under the NISA, investors will also have new rights to transfer their investments from a stocks and shares to a cash account. There will be consequential changes to the rules on the investments that can be held in a NISA, so that a wider range of securities (including certain retail bonds with less than five years before maturity) can be invested. In addition, Core Capital Deferred Shares issued by building societies will become eligible to be held in a NISA, Junior ISA or CTF.

The amount that can be subscribed to a child's Junior ISA or CTF in 2014-15 will also be increased to £4,000.

Policy objective

These measures are part of a broader package of changes to support savers. In particular they will increase the choice and flexibility available to savers in tax advantaged products such as NISA, Junior ISA and CTF.

Background to the measure

This measure was announced at Budget 2014.

Detailed proposal

Operative date

These measures will have effect from 1 July 2014.

Current law

Individual Savings Accounts

Account rules for ISA (including Junior ISA) are set out in the Individual Savings Account Regulations 1998 (SI 1998/1870) (ISA Regulations).

Regulation 4ZA sets out the maximum amounts that can be subscribed to an 'adult' ISA for a tax year, including the maximum that can be subscribed to a cash ISA. The overall limit for 2012-13 is £11,520, of which only up to 50 per cent can be subscribed to a cash ISA.

Regulation 4ZB sets out the maximum amount which can be subscribed to a Junior ISA (£3,720 for 2012-13).

Other Regulations include provisions which are necessary as a consequence of the application of different subscription limits for cash and stocks and shares ISAs. For example, Regulation 7 sets out the qualifying investments for a stocks and shares ISA and includes conditions designed to determine whether an investment is eligible for a stocks and shares ISA (and therefore a higher annual subscription limit). One such condition is that certain securities (such as retail bonds) must, at the time they are first held in an ISA, have a remaining term to maturity that is longer than five years. Regulation 8 sets out what qualifies for investment in a cash ISA (which includes certain investments which do not satisfy the relevant tests within Regulation 7).

Regulation 21 provides the rules for the transfer of ISAs, and prohibits the transfer of investments from a stocks and shares ISA to a cash ISA. Regulation 23 provides that interest arising on uninvested cash held in a stocks and shares ISA will be subject to a flat rate charge representing tax at basic rate.

Regulation 4C concerns insurance components held within an ISA at 6 April 2005.

Child Trust Funds

Account rules for CTF are set out in the Child Trust Fund Regulations 2004 (SI 2004/1450) (CTF Regulations).

Regulation 9 sets the maximum amount which can be subscribed to a CTF account (£3,720 for 2012-13). CTF Regulation 12 sets out the qualifying investments for a CTF account.

Proposed revisions

The ISA Regulations will be amended by secondary legislation to reflect the rules that will apply for NISAs.

These amendments will increase the overall ISA subscription limit at Regulation 4ZA(1) to £15,000. The rule at Regulation 4ZA(2), which provides that only 50 per cent of this overall limit may be invested in a cash ISA, will be removed.

The equalisation of limits for cash and stocks and shares NISAs means that a number of current ISA provisions will no longer be required, and these will therefore be removed. For example, tests within Regulation 7 that are designed to prevent the holding of 'cash like' investments in a stocks and shares ISA will be removed. This includes the rule concerning the remaining term of a security when it is first held in an ISA. Regulation 21 will be amended to allow transfers to be made from a stocks and shares NISA to a cash NISA. The flat rate charge at Regulation 23, representing tax at the basic rate on any interest arising on uninvested cash held in a stocks and shares ISA, will also be removed.

Regulation 7 will be updated to add Core Capital Deferred Shares issued by a building society to the list of investments that can be held in a stocks and shares NISA or Junior ISA.

Regulation 4C concerning insurance components held within an ISA at 6 April 2005 is no longer required and will therefore be removed.

There will be other consequential changes elsewhere in the ISA Regulations to reflect these changes.

The CTF Regulations will also be amended by secondary legislation. This will increase the CTF subscription limit at Regulation 9 to £4,000. In addition, Regulation 12 will be updated to add Core Capital Deferred Shares issued by a building society to the list of investments that can be held in a CTF.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	-5	-85	-235	-400	-575
	These figures are set out in Table 2.1 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	These measures will reduce income tax on savings for people constrained by the current ISA limits, improving incentives to save and increasing real household disposable incomes. This might feed through to higher consumption or savings in the household sector. There may also be a shift in the savings portfolio composition towards cash deposits.				
Impact on individuals and households	Over 24 million adults hold an ISA, around 300,000 children have a Junior ISA and over 6 million children have a CTF. The rules that will apply for NISAs will increase the choice and flexibility available to savers holding tax advantaged accounts. They will increase the amount that can be saved, and provide savers with greater flexibility and choice on whether to hold their tax advantaged savings in cash or stocks and shares. The measures are not expected to increase the administrative or tax costs for any individual.				
Equalities impacts	Official data indicates that individuals from all income and age groups, and both sexes, invest in ISAs and CTFs. This data does not enable detailed estimates to be made of the total impact of this change on individuals with protected characteristics. Although the change in subscription limits is more likely to affect those in higher income groups, over 3 million basic rate taxpayers currently subscribe to the cash ISA limit. The ability to transfer funds from a stocks and shares NISA to a cash NISA may have a greater effect on those later in life who wish to access investments for retirement. The changes in relation to Junior ISA and CTF will affect the children (aged under 18) who hold these accounts. No other impacts are anticipated in respect of groups sharing other protected characteristics.				
Impact on business including civil society organisations	The impact on businesses will depend upon individual circumstances, but overall this is expected to be negligible All ISA and CTF providers will benefit from new commercial opportunities arising from increased subscription limits. ISA and CTF providers will also benefit from the opportunity to offer a broader range of investments within their products. The impact of increased choice and flexibility for ISA investors will depend upon the circumstances of each provider. The measure is likely to see an increase in deposits in cash NISAs, in some cases at the expense of investment in stocks and shares NISAs. There are likely to be one off set up costs and system changes required in relation to the new account limits and the rights for investors to transfer holdings from stocks and shares NISA to cash NISA. However, the ongoing impact is expected to be negligible. This measure is expected to have no impact on civil society organisations.				

Operational impact (£m) (HMRC or other)	The additional costs/savings for HM Revenue & Customs in implementing this change are anticipated to be negligible.
Other impacts	Small and micro business assessment: the impact on small businesses is expected to be broadly similar to that for other businesses. No major issues specific to smaller businesses have been identified. Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups and account providers.

Further advice

If you have any questions about this change, please contact Simon Turner on 03000 546588 (email: simon.turner@hmrc.gsi.gov.uk).