



Individual Savings Account (Amendment) Regulations 2014

Who is likely to be affected?

Banks building societies and other financial institutions who offer Individual Savings Accounts (ISA) (including Junior ISAs).

ISA investors and those who manage Junior ISAs on behalf of account holders.

General description of the measure

The measure includes a range of changes to the ISA rules (including Junior ISA). It will increase the annual subscription limits for these accounts; modify the rules regarding which institutions can offer ISAs, to include certain non-UK based financial institutions; and update certain legislative definitions or processes, including those relating to mental disorder, terminal illness and investment trusts. It will also modify the reporting requirements for ISA providers.

Policy objective

The measure will increase the amount that can be subscribed to an ISA and ensure that the account rules remain up to date and consistent with legislative and other developments.

Background to the measure

ISA subscription limits for 2014-15 were announced on 5 December 2013 as part of Autumn Statement 2013.

Changes relating to the non-UK based institutions that can qualify for approval to offer ISAs were announced on 15 August 2013.

Changes relating to the information required from ISA providers were announced on 7 January 2014.

Detailed proposal

Operative date

Changes relating to the non-UK based institutions that can qualify for approval to offer ISAs will apply from 15 August 2013.

Other changes will apply from 6 April 2014.

Current law

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

Regulation 2 of the ISA Regulations defines terms such as 'account', 'European Institution' and 'investment trust' for ISA purposes.

Regulations 2C includes special rules that apply for the management of Junior ISA accounts in cases where a person is suffering 'mental disorder', as defined in relevant health

legislation. Regulation 12 includes rules that apply for the opening of other ISA accounts for a person with a mental disorder.

Regulation 4ZA sets out the maximum amount which can be subscribed to an 'adult' ISA for a tax year. Regulation 4ZB sets out the maximum amount which can be subscribed to a Junior ISA account.

Regulation 4ZE permits the withdrawal of moneys from a Junior ISA in certain cases where an account holder is terminally ill. It also requires HM Revenue and Customs (HMRC) to notify an account provider where such a withdrawal is permitted.

Regulation 7 specifies the kind of investments that qualify for the stocks and shares component of an ISA, including shares in certain investment trusts. Regulation 8 sets out the investments that qualify for the cash component of an ISA.

Regulation 14 sets out the conditions that must be met for an institution to qualify for approval to provide ISAs, and the type of institutions that can offer these accounts.

Regulation 31 sets out the annual reporting requirements that apply for ISA providers.

Proposed revisions

Regulation 2 of the ISA Regulations will be amended to update the definitions of 'account' and 'European Institution' and 'investment trust' to ensure consistency with other legislation currently in force. A definition of 'bank' will also be provided. It also omits the meaning of 'relevant European Institution' as a consequence of amendments to Regulation 14.

Regulations 2C and 12 will be amended to reflect the effect (in England and Wales) of the Mental Capacity Act 2005, which includes provisions in relation to a person's capacity to enter into arrangements regarding their property. The rules that currently apply in relation to the opening and management of an ISA (including Junior ISA where appropriate) for a person suffering a mental disorder, will be replaced for England and Wales with similar provisions that will apply where a person lacks mental capacity to open or manage their own account.

Regulation 4ZA will be amended so that the overall ISA subscription limit for 2014-15 will be £11,880 (of which up to £5,940 may be held in cash). The Junior ISA limit at Regulation 4ZB will be increased to £3,840 for that period.

The definition of terminal illness at Regulation 4ZE (which concerns permitted withdrawals from a Junior ISA) will be updated to include reference to the Welfare Reform Act 2012, which applies in England, Wales and Scotland. It will also be amended to include a reference to the relevant provisions and arrangements in Northern Ireland. The current requirement for HMRC to notify an account provider that a withdrawal from a Junior ISA has been authorised on the grounds of the terminal illness of the account holder will be removed.

Regulation 7 will be amended to reflect revisions to the investment trust regime as set out in the Corporation Tax Act 2010.

The rules at Regulation 8 (concerning deposits eligible for the cash component of an ISA) and the conditions at Regulation 14 (concerning account provider qualifications) will be updated in line with other legislation to clarify and extend the type of institution (including non-UK based financial institutions) eligible for approval to offer ISAs.

The reporting requirements on ISA providers set out at Regulation 31 will be modified to clarify the information that must be provided in relation to the company shares held within an ISA, where these are admitted to trading on a recognised stock exchange.

Summary of impacts

| Exchequer impact (£m) | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|--|---|------------|------------|------------|------------|
| | 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 | Over 24 million adults have an ISA and over 300,000 children have a Junior ISA. The main impact upon individuals will be to allow greater sums to be invested with tax advantages in an ISA or Junior ISA. It is not expected that any of these changes will increase the administrative or tax costs for any individual. | | | | |
| 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.</p> <p>The changes in relation to terminally ill children will ensure that children will continue to benefit from the special arrangements that allow for the withdrawal of moneys from Junior ISA accounts where an account holder is terminally ill.</p> <p>The changes relating to mental capacity update the ISA rules to make them consistent with current mental health legislation and concepts, where appropriate.</p> | | | | |
| Impact on business including civil society organisations | <p>The impact on businesses will depend upon the circumstances, but overall this is expected to be negligible</p> <p>All ISA managers could benefit from the increase in the annual subscription limits. The measure will also allow certain non-UK based institutions to offer ISAs, subject to appropriate regulatory permissions. The modification of the reporting requirements could require one-off system changes for ISA providers offering products that include both company shares that are listed and company shares that are admitted to trading on a recognised stock exchange, although the effect is expected to be negligible.</p> <p>No impact for businesses is expected from the other proposed changes, which in many cases clarify or update the current rules and definitions to take account of legislative developments.</p> | | | | |
| Operational impact (£m) (HMRC or other) | The additional costs/savings for HMRC in implementing this change are anticipated to be negligible. | | | | |
| Other impacts | <p><u>Small and micro business assessment:</u> 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.</p> <p>Other impacts have been considered and none have been identified.</p> | | | | |

Monitoring and evaluation

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

Further advice

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

Declaration

David Gauke, Exchequer 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.