HM Revenue
& Customs

Individual Savings Accounts and Child Trust Funds: extending the range of eligible investments

Who is likely to be affected?

Savers with Individual Savings Accounts (ISA), Junior ISAs and Child Trust Funds (CTF) and financial institutions who provide or manage these accounts or investments.

General description of the measure

From 1 July 2015 the list of investments that can be held in a tax-advantaged ISA, Junior ISA and CTF will be extended to include:

- securities (including retail bonds) and shares issued by housing associations and other co-operative societies or community benefit societies (registered societies - formerly known as industrial and provident societies)
- a broader range of securities issued by companies, including those admitted to trading on certain Small and Medium Size Enterprise (SME) market
- shares in a wider range of investment trusts

Policy objective

The measure will increase the choice available to savers in ISA, Junior ISA and CTF.

It will also provide support through ISA and CTF for companies (in particular SMEs) and co-operative and community benefit societies (such as housing associations) who raise funds through the issue of retail bonds and other securities.

Background to the measure

This measure was announced at Budget 2015.

Detailed proposal

Operative date

1 July 2015.

Current law

Account rules for ISA (including Junior ISA) and CTF are set out in the Individual Savings Account Regulations 1998 (SI 1998/1870) (ISA Regulations) and the Child Trust Fund Regulations 2004 (SI 2004/1450) (CTF Regulations). These Regulations specify the types of investment eligible to be held in a tax-advantaged stocks and shares ISA or a CTF.

Securities (such as retail bonds) and shares issued by registered societies (co-operative societies or community benefit societies) and their subsidiaries are generally not eligible to be held in an ISA or CTF. Securities issued by companies are usually only eligible for ISA and CTF where either the security, the company issuing it or the parent of the issuing company is listed on a recognised stock exchange.

In order for shares in an investment trust to be eligible for ISA, broadly, no more than 50% of the trust's investments by value can be made up of securities that would not, if purchased on their own, qualify to be held in an ISA.

Proposed revisions

The ISA and CTF Regulations will be amended by statutory instrument to enable securities or shares issued by registered societies such as housing associations, or by subsidiaries of these societies, to be held in an ISA or CTF, subject to certain conditions.

In addition, the changes will mean that certain securities issued by a company will qualify for ISA or CTF where the security or company in question is admitted to trading (but not listed) on a recognised stock exchange in the EEA. Securities issued by certain subsidiaries of companies admitted to trading on such exchanges will also be eligible for ISA and CTF.

Finally, restrictions on the ISA eligibility of shares in an investment trust will be relaxed. The effect will be that these shares will be eligible for ISA even where more than 50% of the trust's investments by value is made up of securities that would not, if purchased on their own, qualify to be held in an ISA.

Summary of impacts

Exchequer impact (£m)	2015 to 2016	2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020
	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	This measure is not expected to have any significant economic impact.				
Impact on individuals, households and families	Over 2.5 million individuals have a stocks and shares ISA and over 6.5 million children have a Junior ISA or CTF. Extending the range of investments that can be held in these accounts will increase the choice available to savers. 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. The measure is not expected to impact on family formation, stability or breakdown.				
Equalities impacts	Official data indicates that individuals from all income and age groups, and both sexes, hold an ISA, Junior ISA or CTF. 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. 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.				
Impact on business including civil society organisations	No business or civil society organisation will be required to amend their ISA or CTF processes or systems as a result of these changes - which are designed to increase the flexibility and choice available to savers, companies, registered societies, and account providers. Where a business or civil society organisation does take advantage of these changes, the ongoing administrative cost to them is expected to be negligible. Minor reporting changes may be required, for example, to accommodate the new categories of eligible investment. The changes are expected to benefit companies (in particular SMEs) and registered societies (such as housing associations) who raise funds through the issue of retail bonds and other securities. The extent of any impact will depend upon how many societies or companies issue securities that will be eligible for ISA and CTF, and it is not currently possible to make detailed estimates on these points.				
Operational impact (£m) (HMRC or other)	This measure is expected to have a negligible impact on HM Revenue and Customs.				

Other impacts	Small and micro business assessment: extending the range of investments that can be held in a stocks and shares ISA is expected to make securities issued by certain smaller firms more attractive to investors and savers, and could enable these firms to raise additional capital. Other impacts have been considered and none has been identified.

Monitoring and evaluation

This measure is subject to ongoing review through compliance work, as well as discussions with account managers and 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

David Gauke MP, Financial 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.