Summary: Intervention & Options

Department /Agency:	Title:	
HMRC	Impact Assessment of reinvesting compensation paid to Icesave investors and minor changes to the ISA regulations	
Stage: Final/Implementation	Version: 1	Date: July 2009
Related Publications:		

Available to view or download at:

http://www.hmrc.gov.uk/better-regulation/ia.htm

Contact for enquiries: Stephen Lig **Telephone:** 020 7147 2827

What is the problem under consideration? Why is government intervention necessary?

On 8 October 2008, the Financial Services Authority declared the UK branch of the Icelandic bank Landsbanki Islands hf in default for the purposes of the Financial Services Compensation Scheme. The Government committed to a full payout of depositors with Icesave accounts at the branch; however, ISA investors were unable to transfer their ISAs to another provider and benefit from the tax free status of their accounts because the existing ISA regulations do not allow individuals to transfer an ISA to a different provider themselves; it has to be done by means of a direct provider transfer.

What are the policy objectives and the intended effects?

The Government is introducing legislation that will allow affected individuals to put the compensation payments back into an ISA with another provider by 5 October 2009. The regulations will allow the ISA tax advantages to be maintained.

It is also intended to take this opportunity to make four further minor amendments to the ISA regulations which are detailed below.

What policy options have been considered? Please justify any preferred option.

The options were whether or not to allow affected ISA investors in Icesave to reinvest their compensation with another ISA provider and maintain their tax benefits.

HM Treasury announced on 8 October 2008 that arrangements were being put in place to ensure all ISA customers of Icesave would continue to benefit from the tax-free status of their accounts. This policy has now been implemented.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The impact of the measure will be monitored under HMRC's broader plans for monitoring trends and developments in the savings and investments sector.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Sarah McCarthy-Fry

Date: 14/07/09

Summary: Analysis & Evidence

Policy Option:	Description: Enable transfer of ISAs and make four further minor amendments to the ISA regulations.

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	We estimate total costs to HMRC of £97 000 for the FSCS to produce and send out the certificates with ISA account details. There will be a small marginal cost for Government to audit the new process (alongside regular audits) and for other providers of inputting these payments.There are no costs for the 4 minor amendments.
£ 97 000	1	
Average Annual Cost (excluding one-off)		
£ Nil		**Total Cost** (PV) **£ 97 000**

Other **key non-monetised costs** by 'main affected groups' Nil

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	The benefits of the measure to investors and bank/building societies are difficult to value but likely to be small in aggregate.
£ 0		
Average Annual Benefit (excluding one-off)		
£ Small		**Total Benefit** (PV) **£**

Other **key non-monetised benefits** by 'main affected groups' Customers with ISAs at the UK branch of Landsbanki who received compensation will benefit by being able to reinvest back into an ISA, and so retain the tax free status of their deposits. Some banks & building societies may also benefit to the extent that they are able to attract cutomers to reinvest their ISA with them.

Key Assumptions/Sensitivities/Risks The cost to the exchequer (in lost tax) is zero on the basis that these funds were previously held in ISAs and therefore were tax free.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) **£ small(positive)**

What is the geographic coverage of the policy/option?			National	
On what date will the policy be implemented?			8 October 2008*	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ Negligible	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£ None	
What is the value of changes in greenhouse gas emissions?			£ n/a	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro **N/A**	Small **N/A**	Medium **N/A**	Large **N/A**
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)
Increase of £ 0	Decrease of £ 0	**Net Impact**	£ 0

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Purpose and Intended Effect of the Measure

Background

1. On 8 October 2008, the Financial Services Authority declared the UK branch of the Icelandic bank Landsbanki Islands hf to be in default for the purposes of the Financial Services Compensation Scheme (FSCS). As part of the Government's response, HM Treasury announced that arrangements would be put in place to ensure that all ISA customers with Icesave accounts at the UK branch would continue to benefit from tax-free status of their accounts. HMRC has worked closely with the FSCS to arrange for approximately 92,000 Icesave ISA investors to receive an ISA certificate. This ensures that any compensation paid to the depositor in respect of the ISA account will not be subject to income tax if reinvested in another ISA account with another ISA provider by 5 October 2009 and the depositor also gives the certificate to the new ISA manager. To provide the correct legal framework for this measure, HMRC needs to amend the ISA regulations.
2. This measure was devised as the best way to ensure all Icesave ISA investors would continue to benefit from the tax-free status of their accounts and to enable them to have a choice of providers to invest their money with. ISA Industry representatives were consulted and they confirmed that providers would be able to cope with the ISA transfers from Icesave customers.
3. Several other areas were identified where the ISA regulations would benefit from minor amendments with the intention being to:

- enable all non EU EEA UCITS (Undertakings for Collective Investment in Transferable Securities) to become qualifying investments within UK ISAs;
- enable ISA providers to introduce Bankers Automatic Clearing Service (BACS) payments for Cash ISA transfers;
- remove the requirement that a withdrawal or transfer must be made within 28 days where a collective investment scheme is suspended in accordance with FSA rules;
- to bring the procedures for making non-written ISA applications in line with a similar scheme, the Child Trust Fund.

4. Because the changes have either a very minor or wholly beneficial impact on individuals and businesses**,** a wider consultation exercise has not been undertaken.

Rationale for Government Intervention

5. The Government has taken action to ensure customers with Icesave ISAs continue to benefit from the tax-free status of their accounts.

6. The Government decided that the circumstances were so exceptional that a departure from the ISA transfer rules would on this occasion be justified.

A more detailed cost benefit analysis of the measure is laid out below.

Sectors and Groups Affected by the Measure

7. This measure affects the following groups:

- **UK branch of Landsbanki bank**
- **Other cash ISA providers**
- **Icesave ISA investors in receipt of compensation and ISA tax certificates**
- **HM Revenue & Customs:**
- **The Financial Services Compensation Scheme.**

Costs

8. UK branch of Landsbanki bank:

- There were no costs as the bank was declared in default on 8 October 2008.

9. FSCS

- The FSCS put in place an accelerated electronic payment process using investors existing website addresses to pay the compensation. The compensation payments made to ISA investors is approximately £720 million.

10. ISA Providers:

- In order to accept these ISA payments, other providers needed to ensure that they registered them through their system and they may also have needed to intervene clerically to verify the certificates provided by investors and also because of the irregular nature of the transfer. No provider was obliged to accept these subscriptions, and they will only have done so if the benefits out-weigh the costs**.** It is likely that most if not all ISA providers will have accepted these payments as this measure offers Cash ISA providers the opportunity to benefit from the business from former Icesave ISAs.

11. Icesave ISA Investors:

- Individuals who wanted to reinvest their compensation needed to follow the process for reinvestment as published on the FSCS web pages. This measure conferred no costs on the individuals.

12. Government:

- HMRC reimbursed FSCS in full for the additional costs which FSCS incurred for the production and delivery of the 92,000 ISA certificates. These additional costs of £97,000 (inclusive of VAT) is an annual cost incurred in 2008/09 and includes production and delivery costs and the costs of reissuing certificates and administration.

Benefits

13. UK branch of Landsbanki bank

- There were no benefits to the bank as it was declared in default on 8 October 2008.

14. FSCS

- The FSCS has ensured that all Icesave ISA investors have been issued an ISA certificate to enable them to reinvest in an ISA with another provider. The benefit is difficult to quantify because it cannot be predicted how many former Icesave ISA investors will have reinvested the compensation with another ISA provider. This is because the ISA reinvestment subscription is for reporting purposes treated as an ISA transfer and not reported separately.

15. ISA Providers

- This measure offers Cash ISA providers the opportunity to benefit from the business from former Icesave ISA.

16. Individuals

- The affected individuals will be able to reinvest their compensation payments with another ISA provider and maintain the ISA tax advantages. Investors simply have to provide the new ISA provider with the ISA certificate received from FSCS in order to open the new ISA account.
- They will also be able to choose from a variety of providers with whom to re-invest their compensation payments.

17. Government

- The measure is not intended to generate any specific benefits for the Government.

Small Firms Impact Test

- This measure impacted on all cash ISA providers who chose to accept the ISA certificates and compensation payments. These providers will have required some level of clerical intervention in order to over-ride their normal ISA systems as these transfers were not done through the established process for transferring ISAs. As with all ISA transfers, no provider was obliged to accept them.

Competition Assessment

- Due to the limited scope of this measure, it is unlikely to have any significant impact on competition in the ISA market. As with all ISA transfers, providers are able to choose whether or not to accept them.

Enforcement, Sanctions and Monitoring

- As a result of the announcement by FSCS on 24 October 2008, individuals who received their ISA certificate were told that they should give their certificate to the new ISA provider by the prescribed date if they wished to reinstate their ISA savings, and that they should ask for an ISA transfer form from the new provider. The ISA manager monitors the current year subscription limit in the normal way taking account of any subscriptions previously made to Icesave in 2008/09. The new manager must report the subscriptions made to Icesave in the normal way they would report current year subscriptions received with any other ISA transfer. The new ISA provider will retain the certificate so that it could not be used again, thereby minimising any risk of non-compliance.
- HMRC will continue to carry out their audits of financial institutions operating the ISA scheme and as part of the usual audit practice HMRC will specifically audit the certificates.
- Any compliance risk that does exist will be reduced by the limited time span available for reinvestment of the compensation payments.

Specific Impact Tests

Sustainable Development

- This change is not expected to have any significant impacts on sustainable development.

Carbon Assessment & Other Environment

- This change is not expected to have any significant environmental impacts.

Health Impact Assessment

- This change is not expected to have any significant health impacts.

Race, Disability, Gender and Human Rights

- This change is not expected to have any significant impact on race, disability, gender or Human Rights issues.

Rural Proofing

- It is not expected that there will be any significant difference to the impact of the change in rural areas.

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Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Annexes