

EXPLANATORY MEMORANDUM TO
THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT NO. 2)
REGULATIONS 2008

2008 No. 1934

1. This explanatory memorandum has been prepared by HM Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. **Description**

2.1 These Regulations amend the Individual Savings Account Regulations 1998 (S.I. 1998/1870) (“the principal Regulations”). They insert a new regulation into the principal Regulations to accommodate the Government announcement made on the 18 October 2007 allowing people who had withdrawn cash from Individual Savings Accounts (“ISAs”) held at Northern Rock to redeposit that money into a cash ISA with Northern Rock or any other provider.

2.2 These Regulations also make a number of other amendments to the principal Regulations to take account of new legislation.

3. **Matters of special interest to the Select Committee on Statutory Instruments]**

The matter mentioned in paragraph 2.1 is dealt with in regulation 3 of these Regulations, which inserts regulation 5A into the principal Regulations. That regulation has effect in relation to events occurring on and after 13 September 2007: and therefore has retrospective effect. The regulation makes provision which does not impose or increase any liability to tax; and authority to make provision in these terms is accordingly conferred by section 701(4) of the Income Tax (Trading and Other Income) Act 2005 (inserted by section 40 of the Finance Act 2008).

4. **Legislative Background**

4.1 The ISA is a tax advantaged savings account, introduced in 1999. The ISA scheme allows individuals to save, through ISA accounts, without being taxed on any income or gains that they receive from those savings.

4.2 The principal Regulations provide that an investor cannot subscribe more than a certain amount to a cash ISA in any one tax year; and, except in limited circumstances, they do not allow for any re-investment of withdrawn funds with another ISA manager other than as a subscription and subject to the annual subscription limit. The principal Regulations provide that a transfer can only be made directly between one ISA account manager and another.

4.3 The amendments made by regulation 3 of these Regulations are required in order to allow qualifying Northern Rock investors to re-invest their withdrawn funds with the

same or a different provider; and to ensure that the re-investment does not count towards that investor's annual ISA subscription limit. These new rules only apply to people who withdrew funds from their Northern Rock ISA between 13 and 19 September 2007 inclusive, and the re-investments had to have been made no later than 5 April 2008.

5. Territorial Extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 On 18 October 2007, the Government announced that it would allow people who withdrew cash from their ISAs held at Northern Rock, and in the process lost their tax advantages, to re-deposit that money into a cash ISA with Northern Rock or any other provider, thereby restoring their tax advantages. (Northern Rock offered only cash ISAs.)

7.2 This re-investment will not have any impact upon the investors' annual investment limit, which will remain and will be subject to the normal ISA subscription rules. The re-investment will be treated by the new provider as a transfer rather than a subscription.

7.3 The Government announcement stated that savers wishing to restore their lost cash ISA tax advantage had, by 5 April 2008, to either:

- a) return their funds to a Northern Rock ISA, or
- b) obtain from Northern Rock a certificate for the amount of cash ISA savings withdrawn between 13 and 19 September, and present this to a new cash ISA provider when depositing the money.

7.4 In order to minimise the risk of abuse, the announcement said that individuals wishing to make deposits under the terms of the announcement would be sent a certificate from Northern Rock, which would include specific details of the investor and the date and amounts of funds they withdrew.

7.5 Apart from the transfer treatment of the re-investment of monies withdrawn from a Northern Rock ISA, the existing ISA transfer rules will continue.

8. Impact

A full and final Impact Assessment was published on 11th February 2007 and can be found at <http://www.hmrc.gov.uk/budget2008/northern-rock-reinvest-fund.pdf>

9. Contact

David Ensor at HM Revenue and Customs, telephone: 0207 147 2838 or e-mail: david.ensor@hmrc.gsi.gov.uk, can answer any queries regarding the instrument.