

**EXPLANATORY MEMORANDUM TO
THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT) REGULATIONS
2012**

2012 No. 705

1. This explanatory memorandum has been prepared by H.M. 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. **Purpose of the instrument**

- 2.1 These regulations amend the Individual Savings Account Regulations 1998 (S.I. 1998/1870) (“the principal Regulations”) to increase the ISA annual subscription limits for 2012 – 13 and subsequent tax years. This increase is in line with the Consumer Prices Index (CPI), as announced by the Government at Budget 2011.

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

- 3.1 None.

4. **Legislative Context**

- 4.1 The individual savings account (“ISA”) is a tax advantaged savings account, introduced in 1999. It allows individuals to save through an ISA, without being taxed on any income or gains arising from, or received in relation to, those savings.
- 4.2 The principal Regulations set out the overall ISA subscription limit for the tax year (regulation 4ZA(1)) and then specify how much of this overall limit can be subscribed to a cash account (regulation 4ZA(2)). Investors aged between 16 and 18 can only subscribe up to 50% of the overall limit to a cash account.
- 4.3 The Government announced at Budget 2011 that from 6th April 2012, CPI will be used as the default indexation assumption for ISA limits. The CPI figure for September 2011 is being used to work out the increase to the 2012/13 overall ISA subscription limit, and the relevant figure has been rounded to a multiple of 120 to allow for monthly ISA subscriptions.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

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

7. Policy background

7.1 The ISA subscription limits have been increased from time to time since the scheme started. Indexing the limits on an annual basis retains the value of the subscription limit in real terms.

7.2 Regulation 2 of this instrument amends regulation 4ZA(1) of the principal Regulations and sets the overall annual limit for subscriptions that can be made by an investor at £11,280, of which up to £5,640 may be subscribed to a cash account. An investor aged 16 or over but under the age of 18 at the end of the tax year, may subscribe up to 50% of that limit (£5,640) to a cash account in that year.

8. Consultation outcome

8.1 This instrument implements a measure that was announced on 18 October 2011 (www.hm-treasury.gov.uk/press_115_11.htm). A formal consultation was not undertaken.

9. Guidance

9.1 H.M. Revenue and Customs Guidance Notes for ISA managers will be updated to reflect the changes to the ISA. The Guidance Notes are available at <http://www.hmrc.gov.uk/isa/isa-guidance-notes-2008.pdf>

10. Impact

10.1 The impact on ISA managers of the changes made by these Regulations is that they will need to ensure that they have systems in place to accept subscriptions up to the new higher limits. The changes made by these regulations will benefit ISA investors and will have a positive impact on saving by individuals.

10.2 There is no impact on the public sector.

11. Regulating small business

11.1 All ISA managers will be affected by these changes. Certain cash ISA providers are likely to be regarded as small by virtue of their employment (less than 20 employees) and business 'turnover'.

However the impact of the changes on small businesses is likely to be negligible.

12. Monitoring and review

12.1 HMRC Savings Schemes Office will continue to review compliance with the ISA subscription limit using the information provided annually by ISA managers.

13. Contact

Simon Turner at the H.M. Revenue and Customs Tel: 0151 472 1654 or email: simon.turner@hmrc.gsi.gov.uk can answer any queries regarding the instrument.