

EXPLANATORY MEMORANDUM TO
THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT No. 4)
REGULATIONS 2015

2015 No. 1370

1. This explanatory memorandum has been prepared by HM Revenue and Customs (HMRC) on behalf of HM Treasury and is laid before the House of Commons by Command of Her Majesty.
2. **Purpose of the instrument**
 - 2.1 This instrument extends the range of investments that can be held in a tax-advantaged ISA (including Junior ISA). It removes or relaxes certain restrictions on the eligibility for these accounts of shares and other securities issued by companies, investment trusts and co-operative or community benefit societies (registered societies - formerly known as industrial and provident societies), including housing associations.
3. **Matters of special interest to the Select Committee on Statutory Instruments.**
 - 3.1 None.
4. **Legislative Context**
 - 4.1 ISA is a tax advantaged savings product. The ISA rules are set out in the Individual Savings Account Regulations 1998 (S.I. 1998/1870) (ISA Regulations).
 - 4.2 Regulation 2(1) of the ISA Regulations concerns interpretation and includes definitions used for ISA purposes. Regulation 7(2) specifies the investments that qualify to be held in a stocks and shares ISA. Regulation 31 concerns returns of information to HMRC by ISA managers.
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

- What is being done and why

7.1 This instrument is designed to increase choice by extending the types of investments that can be held in an ISA. It will amend the definition of ‘company’ in ISA Regulation 2(1) to remove the current exclusion of ‘industrial and provident societies’ and their subsidiaries. The effect will be that these societies will qualify to be treated as companies for ISA purposes. This means that certain shares and other securities these societies and their subsidiaries issue will qualify to be held in an ISA under the eligibility rules set out at ISA Regulation 7(2) (a) and (b).

7.2 The conditions that determine whether securities issued by a company qualify to be held in an ISA will also be updated. Changes to ISA Regulation 7(5) will mean that, subject to certain conditions, securities issued by a company will become eligible for ISA where the securities themselves, or the shares in the company issuing the securities, are admitted to trading on a recognised stock exchange in the European Economic Area, or where the securities are issued by a 75% subsidiary of a company which is admitted to trading on such an exchange.

7.3 This instrument will also remove the requirement at ISA Regulation 7(8) in relation to shares in an investment trust. This provides that shares in an investment trust are not eligible for ISA where more than 50% of the value of the trust in question is made up of securities which would not qualify as ISA investments in their own right.

7.4 The instrument will also make consequential updates to definitions used in the ISA Regulations, and the information which ISA managers must provide to HMRC.

- Consolidation

7.5 There are no plans to consolidate the ISA Regulations.

8. Consultation outcome

8.1 There has been no formal consultation on the draft instrument as these are largely simple updates to existing provisions within the ISA Regulations.

9. Guidance

9.1 HMRC's Guidance Notes for ISA managers will be updated to reflect the changes to the ISA rules. The Guidance Notes are available at <http://www.hmrc.gov.uk/isa/isa-guidance-notes.pdf>

10. Impact

- 10.1 The changes are designed to increase the flexibility and choice available to savers and ISA providers. The cost to account providers of implementing these changes is expected to be negligible.
- 10.2 The changes are also expected to benefit companies and co-operative and community benefit societies (such as housing associations) who raise funds through the issue of retail bonds and other securities.
- 10.3 The impact on charities and voluntary bodies is expected to be negligible.
- 10.4 The impact on the public sector is expected to be negligible.
- 10.5 A Tax Information and Impact Note covering this instrument will be available on gov.uk.

11. Regulating small business

- 11.1 The instrument applies to small businesses that offer ISAs.
- 11.2 To minimise the impacts of the requirements on small firms employing up to 20 people, the approach taken is to apply the same basic requirements as apply to all businesses offering ISAs and monitor the impact of these changes.

12. Monitoring & review

- 12.1 HMRC will continue to review compliance with the rules using the information provided annually by ISA managers as well as through regular contacts with ISA managers and other groups.

13. Contact

Simon Turner at HMRC can answer queries regarding the instrument on behalf of HM Treasury - Tel: 03000 546588 or email: simon.turner@hmrc.gsi.gov.uk.