

EXPLANATORY MEMORANDUM TO

THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT No.3) REGULATIONS 2015

2015 No. 941

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 amends the rules governing the operation of Junior ISAs to allow the transfer of savings to a Junior ISA from a Child Trust Fund (CTF). It also simplifies the rules relating to bulk transfers of accounts between providers.

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

3.1 The instrument will come into force less than 21 days from being laid before the House of Commons. This instrument is linked with The Child Trust Fund (Amendment No.2) Regulations 2015, which will permit the transfer of CTF funds to Junior ISA. However, these CTF regulations could not be laid until after 26th March 2015, when the Deregulation Act (c. 20) received Royal Assent. However, since the Government consulted on this issue in 2013, CTF and Junior ISA providers, as well as parents of account holders, have been preparing for implementation of these changes on 6 April 2015. Any change to this planned implementation date is likely to generate confusion among parents and additional costs for account providers.

4. Legislative Context

4.1 Junior ISAs are tax advantaged savings products for children under the age of 18. Junior ISA rules are set out in the Individual Savings Account Regulations 1998 (S.I. 1998/1870) (ISA Regulations).

4.2 ISA Regulation 5D provides the circumstances in which subscriptions are to be disregarded for the purposes of the annual Junior ISA subscription limit. ISA Regulation 12A sets out the conditions that an applications to open a Junior ISA must meet. ISA Regulation 21B provides the rules in relation to the transfer of Junior ISAs between providers. ISA Regulation 31 concerns returns of information to HMRC by ISA providers.

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 in relation to tax advantaged savings for children. It will extend eligibility for Junior ISA and allow the transfer of savings from a CTF to a Junior ISA. Junior ISA application rules at ISA Regulation 12A will be modified to accommodate transfers of funds from CTF, and the opening of Junior ISAs for children who previously had a CTF. In addition, the reporting requirements for ISA providers set out at ISA Regulation 31 will be updated.

7.2 ISA Regulation 5D will be amended to provide that savings transferred from a CTF to a Junior ISA will be disregarded for the purposes of the Junior ISA subscription limit. ISA Regulation 21B will be amended to provide that a transfer of savings from a CTF to a Junior ISA will be treated as previous years' Junior ISA subscriptions for the purposes of the transfer rules. Transferred amounts will not count against the Junior ISA subscription limit for the current year. The information requirements for Junior ISA transfers will be modified in relation to funds previously held within CTF.

7.3 ISA Regulation 21B will also be amended to simplify and rationalise the process where a bulk transfer of accounts takes place between providers. This amendment will remove the requirement on a Junior ISA provider receiving a bulk transfer of accounts to obtain new account applications in certain circumstances.

- Consolidation

7.4 There are no plans to consolidate the ISA Regulations.

8. Consultation outcome

8.1 HM Treasury opened a consultation in May 2013 on the transfer of savings from CTF to Junior ISA. There was broad support for its proposals, and the Government announced in December 2013 that ISA and CTF rules would be amended to allow savings to be transferred.

9. Guidance

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

10. Impact

- 10.1 The changes will mainly affect ISA providers offering Junior ISA. No financial institution is required to offer Junior ISA or to accept transfers of savings from a CTF. However, the impact of these changes on those providers who do offer Junior ISA will depend on how many individuals choose to transfer their CTF savings to them, the transfer processes operated and whether the provider is involved in the bulk transfer of accounts.
- 10.2 The impact on charities and voluntary bodies is expected to be negligible.
- 10.3 The impact on the public sector is expected to be negligible.
- 10.4 A Tax Information and Impact Note covering this instrument has been published at: <https://www.gov.uk/government/publications/child-trust-funds-and-junior-individual-savings-account-account-transfers-management-of-accounts-and-lifestyling-of-stakeholder-ctfs>.

11. Regulating small business

- 11.1 The instrument applies to small businesses that offer Junior ISAs. However, no small business is required to offer this account or to accept transfers of savings from CTF.
- 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 Junior 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 providers as well as through regular contacts with Junior ISA providers 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.