EXPLANATORY MEMORANDUM TO

THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT NO. 3) (CORONAVIRUS) REGULATIONS 2020

2020 No. 506

1. Introduction

1.1 This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs (HMRC) on behalf of Her Majesty's Treasury and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 This instrument reduces the charge for unauthorised withdrawals from a Lifetime Individual Savings Account (LISA) in the period from 6 March 2020 to 5 April 2021 inclusive from 25% to 20%. The change provides that account holders who access their funds during the Covid-19 pandemic do not have to pay the full withdrawal charge. The reduced charge supports the long-term nature of the account by recovering the government bonus that has been paid into the account, while allowing account holders easier access to their funds during the Covid-19 pandemic.

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

Matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business (English Votes for English Laws)

3.2 As the instrument is subject to negative resolution procedure there are no matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business at this stage.

4. Extent and Territorial Application

4.1 The territorial extent of this instrument is the United Kingdom.

4.2 The territorial application of this instrument is the United Kingdom.

5. European Convention on Human Rights

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

6. Legislative Context

6.1 LISA is a tax-advantaged savings product providing tax relief to individuals saving for the purchase of a first home or for later in life. Individuals can save up to £4,000 in each tax year and they are eligible for a government bonus worth 25% of what they save. There is a 25% withdrawal charge if individuals take money out of their LISA and do not use it for its intended purpose.

6.2 The LISA rules, including the annual subscription limit and withdrawal charges, are set out in the Individual Savings Account Regulations 1998 (S.I. 1998/1870) ("the ISA Regulations"), which this instrument amends. Paragraph 5 of the Schedule to the ISA Regulations specifies the percentage of the withdrawal charge to be applied to unauthorised withdrawals from LISAs. This is set currently at 25%.

7. Policy background

What is being done and why?

7.1 The Schedule to the ISA Regulations will be amended to provide that, for unauthorised withdrawals made in the period 6 March 2020 to 5 April 2021 inclusive, the charge which will apply is set at 20%. This will help people who have savings in LISAs to access those savings during the Covid-19 pandemic period and pay a reduced withdrawal charge, which does no more than recover the government bonus.

8. European Union (Withdrawal) Act/Withdrawal of the United Kingdom from the European Union

8.1 This instrument does not relate to withdrawal from the European Union.

9. Consolidation

9.1 There are no plans to consolidate the ISA regulations.

10. Consultation outcome

10.1 No formal consultation has been undertaken in respect of this instrument due to the urgency of the response needed to deal with the financial impact of the Covid-19 pandemic. Furthermore this instrument simply reduces the unauthorised withdrawal charges applied to LISAs.

11. Guidance

11.1 HMRC's Guidance Notes for ISA providers will be amended to reflect the reduction in the charge for unauthorised withdrawals from 25% to 20% for the period specified in this instrument. These are available at www.gov.uk/government/collections/isa-managers-guidance.

11.2 Guidance on LISAs is available at www.gov.uk/guidance/lifetime-isas-for-isa-managers.

12. Impact

12.1 There is no, or no significant, impact on business, charities or voluntary bodies.

12.2 There is no, or no significant, impact on the public sector.

12.3 A Tax Information and Impact Note covering this instrument will be published on the website at www.gov.uk/government/collections/tax-information-and-impact-notes-tiins.

13. Regulating small business

13.1 The legislation applies to activities that are undertaken by small businesses.

13.2 No specific action is proposed to minimise regulatory burdens on small businesses (employing up to 50 people). HMRC will continue to monitor the impact of this instrument, as well as the cumulative effect of the ISA Regulations, on small businesses through its regular engagement with the ISA industry and representative bodies.

13.3 The basis for the final decision on what action to take to assist small businesses is that no action is required because the only impact on small businesses is that they will need to make adjustments to the charge applied to unauthorised withdrawals from LISA accounts during the period 6 March 2020 to 5 April 2021.

14. Monitoring & review

14.1 The approach to monitoring of this legislation is HMRC will continue to review compliance with the ISA regulations using information provided annually and through regular contact with ISA providers and other groups.

14.2 This regulation is exempt from the requirement to provide a statutory review clause in accordance with section 28(3)(a) of The Small Business, Enterprise and Employment Act 2015 because it amends a provision to vary tax.

15. Contact

15.1 Rushab Shah at HMRC Telephone: 03000 512336 or email: savings.audit@hmrc.gov.uk can be contacted with any queries regarding this instrument.

15.2 Guy Hooper, Deputy Director for Pensions, Savings and Charities policy at HMRC can confirm that this Explanatory Memorandum meets the required standard.

15.3 John Glen MP, the Economic Secretary to the Treasury, can confirm that this Explanatory Memorandum meets the required standard.