

EXPLANATORY MEMORANDUM TO
THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT) REGULATIONS 2009
2009 No. 1550

1. This explanatory memorandum has been prepared by HM Revenue & Customs and is laid before the House of Commons by Command of Her Majesty.
2. **Purpose of the instrument**
 - 2.1 These regulations amend the Individual Savings Account Regulations 1998 (S.I. 1998/1870) (“the principal Regulations”).
 - 2.2 They amend the existing regulations by raising the ISA subscription limits for individuals who will be aged 50 or over not later than 5 April 2010, to £10,200, of which £5,100 can be invested in cash, with effect from 6 October 2009. They also raise the ISA limits to these levels for all individuals from 6 April 2010.
3. **Matters of special interest to the Select Committee on Statutory Instruments**
 - 3.1 None.
4. **Legislative Context**
 - 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 specify the annual ISA subscription limits. These limits apply to all ISA investors except those aged between the ages of 16 and 18 who may only invest in cash ISAs.
 - 4.3 The amendments made by regulations 3 to 9 of these Regulations are required to enable the ISA subscription limits to be increased from 6 October 2009 for ISA investors aged 50 or over and for all ISA investors from 6 April 2010.
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 Government recognises that low interest rates have meant that savers have seen their return from savings fall. In particular, this has affected those people who have retired, or are beginning to prepare for retirement, who are more reliant on their income from savings to meet day to day needs or fund discretionary purchases.

- 7.2 The Government is taking targeted action to help people aged 50 and over with their savings. For the tax year 2009-10, the ISA regulations have been amended by this instrument to increase the annual ISA investment limit for everyone aged 50 and over. Individuals will be able to save £10,200 in their ISAs, up to £5,100 of which can be saved in cash. To allow ISA providers time to adjust their systems, deposits above the current ISA allowance can only be made from 6 October 2009.
- 7.3 This will also enable people who have retired or are beginning to prepare for retirement to move taxed savings into a tax advantaged ISA, rewarding those who have saved by improving their returns.
- 7.4 The Government also recognises that people need to be supported to save as the economy emerges from the downturn. The increases to the ISA limits have therefore been increased for everyone from 6 April 2010. The annual ISA investment limit will increase for every adult to £10,200, up to £5,100 of which can be saved in cash.

8. Consultation outcome

- 8.1 An ISA Bulletin was published by HMRC Savings Schemes Office on 22 April 2009. The ISA Bulletins keep managers, industry representatives and interested parties informed of any new developments relating to the ISA scheme.
- 8.2 The Bulletin, which contained draft Regulations, described the proposed changes to the ISA Regulations. Comments were invited on the draft Regulations by 20 May 2009. The consultation period was for four weeks and took into account the policy objective to lay the Regulations as soon as possible.
- 8.3 The Department has received responses to the ISA Bulletin from the major industry representative bodies. As a result of the feedback received and in order to ensure that the ISA changes can be administered as easily as possible, the draft ISA Regulations have been amended. This will enable those people whose 50th birthday is on or before 5 April 2010 to be able to subscribe the additional amount from 6 October 2009 onwards.

9. Guidance

- 9.1 HMRC Guidance Notes for ISA managers will be updated to reflect the changes to the ISA Regulations. The Guidance Notes are available at:

<http://www.hmrc.gov.uk/isa/isa-guidance-notes-2008.pdf>

10. Impact

- 10.1 The impact on business will be in relation to the timescales and costs of implementing the changes. However, ISA providers will benefit from the anticipated increase in retail deposits for both cash and stocks and shares ISAs.
- 10.2 The impact to the public sector will be minor. The IT system changes in relation to the increase in the ISA limits will be small and there will be minimal compliance costs.

10.3 An Impact Assessment is attached to this memorandum

11. Regulating small business

11.1 The legislation applies to small business.

11.2 In principle all ISA providers will be affected by the changes to the ISA limits although the impact of the changes will vary according to the providers' client base. However, no action is considered necessary as it is not considered that small providers will be disproportionately affected by the changes to the ISA limits.

12. Monitoring & review

12.1 The changes to the ISA limits aim to help those who have retired or are beginning to prepare for retirement, to move existing savings to a tax free environment from 6 October 2009. In addition, the changes to the ISA limits from 6 April 2010 recognise that people need to be supported to save as the economy emerges from the downturn.

12.2 The impact of the measure itself will be monitored under HMRC's broader plans for monitoring trends and developments in the savings and investments sector. HMRC collects data on ISA investments and uses it to publish annual stats, and that this policy will be monitored as part of that process.

13. Contact

Stephen Lig at HM Revenue & Customs, telephone 020 7147 2827 or e-mail: steve.lig@hmrc.gsi.gov.uk, can answer any queries regarding this instrument.

Summary: Intervention & Options

Department /Agency: HMRC	Title: Assessment of increasing ISA limits	
Stage: Final/Implementation	Version: 1	Date:
Related Publications:		

Available to view or download at:

<http://www.hmrc.gov.uk/better-regulation/ia.htm>

Contact for enquiries: Stephen Lig

Telephone: 020 7147 2827

What is the problem under consideration? Why is government intervention necessary?

Although households have benefited from the action that the Government has taken to support economic recovery, including an increase in the personal allowance and a temporary cut in VAT, the Government recognises that low interest rates, which are benefiting many people with mortgages, have meant that savers have seen their return from savings fall. In particular, this has affected those people who have retired, or are preparing for retirement, who are more reliant on their income from savings to meet day-to-day needs or fund discretionary purchases.

What are the policy objectives and the intended effects?

The Government is taking targeted action to help people aged 50 and over with their savings and is raising the ISA limits for this group from 6 October 2009. This will enable people who have retired or are preparing for retirement to move taxed savings into a tax-advantaged ISA, rewarding those who have saved by improving their returns. The Government also recognises that people need to be supported to save as the economy emerges from the downturn, and is introducing these higher ISA limits for all savers from 6 April 2010.

What policy options have been considered? Please justify any preferred option.

As part of the Budget process, the Government identified the appropriate way to deliver its objectives given the overall fiscal and economic position. At Budget 2009 the Government announced that the annual ISA investment limit would increase for everyone from 6 April 2010. The annual limit will be £10,200, up to £5,100 of which can be held in cash. From 6 October 2009, the annual limit will increase to this new limit for those aged 50 and over only.

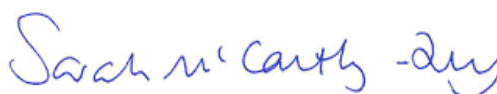
When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The impact of the measure will be monitored under HMRC's broader plans for monitoring trends and developments in the savings and investments sector.

Ministerial Sign-off For Implementation Stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:



Date: 21/06/09

Summary: Analysis & Evidence

Policy Option: 1	Description: Assessment of increasing ISA limits for people aged 50 and over and increasing ISA limits for all
-------------------------	---

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' Raising the ISA limits from 6 April 2010, with earlier implementation for those aged 50 and over will cause ISA providers to incur some IT, systems, staff training and printing costs. The costs to each provider will vary greatly depending on their systems and how they choose to implement the changes. The cost to industry therefore cannot be quantified with sufficient accuracy.	
	One-off (Transition)	Yrs		
	£ Unquantified	1		
	Average Annual Cost (excluding one-off)			
	£ Neg		Total Cost (PV)	Unquantified
Other key non-monetised costs by 'main affected groups'				

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Providers will benefit from an increase in business as several billion pounds of extra saving in ISAs is expected. However, quantifying the exact benefit to providers from this additional saving was not possible.	
	One-off	Yrs		
	£ Unquantified			
	Average Annual Benefit (excluding one-off)			
	£ Unquantified		Total Benefit (PV)	£ Positive
Other key non-monetised benefits by 'main affected groups' Indirect benefits will arise from households' improved capacity to face unexpected financial needs by making use of additional savings in ISAs as a buffer.				

Key Assumptions/Sensitivities/Risks The policy will give rise to cost to Government, as some subscriptions under the increased ISA limits would have otherwise been held in taxable saving products. However, the cost of this tax relief to Government is offset by a benefit to savers who earn such relief on their return to saving.

Price Base Year 2009	Time Period Years	Net Benefit Range (NPV) £ Small	NET BENEFIT (NPV Best estimate) £ Unquantified but Positive
-------------------------	----------------------	---	---

What is the geographic coverage of the policy/option?	National			
On what date will the policy be implemented?	6 Oct 2009/ 6 Apr 2010			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ Negligible			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ None			
What is the value of changes in greenhouse gas emissions?	£ n/a			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro Neg	Small Neg	Medium Neg	Large Neg
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)
Increase of	£ Neg	Decrease of	£ Net Impact £ Neg

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

Purpose and Intended Effect of the Measure

Background

ISAs were introduced on 6 April 1999. They are the Government's primary vehicle for tax advantaged saving outside pensions. Over 18 million people – around one in three adults – now have an ISA. They have been successful in developing and extending the saving habit and ensuring a fairer distribution of tax relief. The current value of monies in ISAs is estimated to be more than £220bn. Since 6 April 2008, the ISA limits have been £7,200, up to £3,600 of which can be held in cash with one provider. The remainder can be invested in stocks and shares with either the same or another provider.

It was announced in Budget 2009 that from 6 April 2010, ISA limits for every adult will rise significantly, to £10,200, up to £5,100 of which can be saved in cash. This will give over 18 million people the opportunity to increase their tax-advantaged savings and will directly benefit over 5 million individuals who make full use of either their cash or their overall investment limit. Budget 2009 also announced that the Government was taking targeted action to help people aged 50 and over with their savings, and that from 6 October 2009, the ISA limits would be raised to these new levels for people who will be aged 50 and over by 5 April 2010.

Rationale for Government Intervention

As set out in the Budget, the Government recognises that low interest rates, which are benefiting many people with mortgages, have meant that savers have seen their return from savings fall. In particular, this has affected those people who have retired, or are beginning to prepare for retirement, who are more reliant on their income from savings to meet day-to-day needs or fund discretionary purchases. The Government believes that it appropriate to take targeted action to help people aged 50 and over with their savings. This will enable people who have retired or are preparing for retirement to move taxed savings into a tax-advantaged ISA, rewarding those who have saved by improving their returns. The Government also recognises that people need to be supported to save as the economy emerges from the downturn, and is introducing these higher ISA limits for all savers from 6 April 2010.

Sectors and Groups Affected by the Measure

This measure affects the following groups:

- Banks, building societies and other financial services institutions who provide or sell ISA products.
- HM Revenue & Customs
- Individual investors

Costs

Compliance Costs

Banks, building societies and other financial institutions who provide ISAs

Evidence on likely compliance costs was submitted by a number of trade associations when the policy was announced. The submitted evidence suggested that providers would incur a range of costs from changes to IT systems, training, and printing product literature. Initial estimates by providers ranged from low tens of thousands of pounds through to £0.5m - £1m.

Following the Budget announcement, HMT and HMRC officials met with industry bodies and ISA providers to discuss the proposed changes. In response to feedback, revisions were made

to the draft regulations which will make compliance more straightforward to implement. In addition, a Working Group was formed, comprising industry bodies, ISA providers, and officials from HMRC, HMT and FSA. This group discussed and agreed a number of key points, which again, are intended to offer clarity to ISA managers about their obligations under the HMRC compliance programme and the Financial Services Authority's Treating Customers Fairly rules. It is anticipated that, following these constructive discussions, many ISA providers will find that their compliance costs will be less than they may have originally anticipated following the Budget announcement.

HM Revenue & Customs

The IT system changes will be minor and there will be minimal additional compliance costs.

Admin Burdens

The measure is expected to have a small but negligible negative impact on Admin Burdens.

Exchequer Costs

The policy will lead to a reduction in Government tax revenue, as some subscriptions under the increased ISA limits would have otherwise been held in taxable saving products. However, it is important to note that the cost of this tax relief to Government is offset by a benefit to savers who earn such relief on their returns to saving. (See Benefits section below)

Benefits

Banks, building societies and other financial institutions who provide ISAs

ISA providers will benefit from the anticipated increase in retail deposits for both cash and stocks and shares ISAs. Based on forecast Exchequer costs several billion pounds of extra saving in cash ISAs and stocks and shares ISAs is expected. However, quantifying the exact benefit to providers from this additional saving was not possible.

Individual investors

Savers will benefit from earning tax relief on subscriptions in ISAs above the previous limits. This will increase households' return to savings, helping in particular those who are more reliant on income from savings. As mentioned above this benefit is offset by the cost of tax relief to Government.

ISA investors will benefit from being able to put more of their savings in a tax advantaged savings product. Those people aged 50 or over will be able to take advantage of the increased limits from 2009-10.

By expanding the existing ISA policy, this measure should also trigger indirect benefits arising from households' improved capacity to deal with unexpected financial needs by making use of additional savings in ISAs.

Small Firms Impact Test

The measure is not expected to impact disproportionately on small firms. In principle, all ISA providers, including those with fewer than 20 employees, will be affected by the measure, although the impact of the changes will vary according to providers' client bases. Small ISA providers are subject to the same HMRC risk-based investor compliance programme as all ISA providers.

Competition Assessment

The measure applies across the industry to all ISA providers and is therefore not expected to impact significantly on competition in the savings market.

Enforcement, Sanctions and Monitoring

Increasing the ISA limits will have minimal effect on HMRC's compliance regime. The ISA will have the same rules as it is now except that in 2009-10, only investors aged 50 or over will be able to subscribe additional amounts into their ISA.

In 2009-10, investors may need to take more responsibility for ensuring that they remain within the annual limits. It is possible that this will cause a small initial increase in breaches, with a resulting increase in the number of interventions required by HMRC.

HMRC will continue with its investor compliance programme and monitor the investment limits to ensure that individuals comply with the ISA scheme rules.

Specific Impact Tests

Sustainable Development

This change is not expected to have any significant impacts on sustainable development.

Legal Aid

This change is not expected to have any significant impacts.

Carbon Assessment & Other Environment

This change is not expected to have any significant environmental impacts.

Health Impact Assessment

This change is not expected to have any significant health impacts.

Race, Disability, Gender and Human Rights

This change is not expected to have any significant impact on race, disability, gender or Human Rights issues.

Rural Proofing

It is not expected that there will be any significant difference to the impact of the change in rural areas.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

