HM Treasury

Individual Savings Account: UK ISA

Consultation

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UK ISA: Consultation

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Chapter 1 Introduction

Background

1.1 An Individual Savings Account (ISA) is a tax advantaged savings account, where income and gains arising from within the account are not subject to UK income tax or capital gains tax. There are four types of adult ISAs: Cash ISA, Stocks and Shares ISA, Innovative Finance ISA, and Lifetime ISA and individuals can subscribe up to £20,000 across all ISAs for the year 2024/25. The Lifetime ISA has its own subscription limit of £4,000 per year which forms part of the overall £20,000 limit.

1.2 ISAs have become popular savings products that provide an incentive for individuals to save and invest, as appropriate for their circumstances. In 2021/22 over 11 million ISAs were subscribed to. This is why, at Autumn Statement 2023, the government made changes to simplify them and provide more choice to savers, making it easier for people to choose the best ISAs for their needs and move money between them.

1.3 The government is now looking to introduce the UK ISA. This will have a new ISA allowance of £5,000 in addition to the existing ISA allowance, and will provide a new tax-free savings opportunity for people to invest in the UK, sitting alongside a wider package of measures.

1.4 The UK ISA will provide individual investors with an additional opportunity to save whilst supporting investment in the UK and benefiting from its growth. Alongside this, the UK ISA will also build on the government's Mansion House and Autumn Statement 2023 measures to reform the pensions market to unlock investment into high growth sectors and improve the competitiveness of the UK as a listing destination.

1.5 This document sets out the objectives for the new ISA allowance, as well as options for defining and implementing it.

Policy Objectives

1.6 The main objective for the UK ISA is to support a culture of investment in the UK and to give people the opportunity to invest and benefit from the UK's vibrant capital markets and high-growth companies. It will also support the wider work being done to increase the capital available for UK businesses and to support the competitiveness of UK equity capital markets.

Scope of the consultation

1.7 This consultation seeks views on how to design and implement a UK ISA.

1.8 Chapters 2 to 4 set out options for designing and implementing the UK ISA. The aim of this consultation is to gather views on those options and their relative merits. The views expressed will inform the government's final design.

1.9 This consultation does not ask for views on the principle of introducing a UK ISA or alternative options for achieving the policy objectives.

Responding to the consultation

1.10 All views are welcomed within the scope of the consultation, and we would be particularly interested to hear from:

- UK companies that could benefit from the UK ISA.
- Individuals, particularly those who would want to invest in, or would benefit from, a UK ISA.
- ISA managers and others involved in the investment industry including those who may be considering offering a UK ISA.
- Fund managers who may want to create qualifying funds.
- Industry representative bodies.

1.11 Responses to this consultation should be sent to HM Treasury by 6th June 2024.

1.12 Please email enquiries and consultation responses to ukisaconsultation@hmtreasury.gov.uk.

Chapter 2
Defining the UK ISA

2.1 This chapter sets out an approach to defining the UK ISA to support investment into the UK. This section explores different investments that could be included in a UK ISA such as ordinary shares, collective investment vehicles, corporate bonds, gilts and cash.

2.2 As a starting point the government could replicate some of the previous approach to Personal Equity Plans (PEPs) for the UK ISA. The government believes that as these investments can already be included in ISAs, and are understood by ISA managers, they would be easy to implement, while supporting the policy objectives.

Shares in UK companies

2.3 There are a number of definitions the government could draw on to define 'UK companies' as eligible investments for the UK ISA. As previously employed in PEPs the approach could be to define eligible UK companies as ordinary shares in companies that are incorporated in the UK and are either listed on a UK recognised stock exchange or admitted to trading on a UK recognised stock exchange.

2.4 The UK recognised stock exchanges are Aquis Stock Exchange, Cboe Europe Limited, and the London Stock Exchange, including the Alternative Investment Market (AIM).

2.5 This approach would enable the UK ISA to support a range of UK companies, from small companies trading on AIM, to medium or large UK companies that are listed on the London Stock Exchange. It could also support UK companies across a range of sectors such as construction, healthcare and technology. This approach also means that it would be easy for investors and ISA managers to identify eligible companies. However, it would not take into account the proportion of the listed group's commercial activities conducted in the UK, as defined for example by source of revenue or location of assets.

Question 1: Should ordinary shares in UK incorporated companies that are either listed on a UK recognised stock exchange or admitted to trading on UK recognised stock exchange be eligible for the UK ISA?

Collective investment vehicles

2.6 Collective investment vehicles are widely used investment vehicles and can enable investors to spread their risks. To help ensure that the UK ISA appeals to a range of investors and to increase the choices available to them, the government proposes that collective investment vehicles could be included in the UK ISA.

2.7 The government could also replicate a previous approach for collective investment vehicles in PEP for the UK ISA. When introduced, PEPs allowed investments in authorised unit trusts and / or investment trusts if at least 75% of the value of the investments held by the fund were invested in eligible UK companies.

Question 2: Should collective investment vehicles be eligible for the UK ISA and if so, which vehicles specifically? What should be the minimum requirement for each of the underlying investments and how would each be monitored by ISA managers?

Corporate bonds

2.8 Corporate bonds are issued by some companies as a way of raising finance, in addition to issuing shares. As corporate bonds could help UK companies increase the financing available to them and can qualify for a stocks and shares ISA, the government proposes that corporate bonds issued by ISA eligible companies should also be included in the UK ISA.

Question 3: Should corporate bonds be eligible for the UK ISA?

Gilts

2.9 While the government is particularly focussed on supporting UK equity markets, investment in gilts (UK government bonds) also helps to support the UK economy through financing public services and investment.

2.10 Allowing investment in gilts within a UK ISA could provide retail investors with a wider range of assets to choose from.

Question 4: Should gilts be eligible for the UK ISA?

Cash

2.11 Although cash will be required to purchase eligible investments for the UK ISA, the government proposes that there should be restrictions to prevent the use of the additional allowance for investment in cash or cash-like products (see chapter 3).

Other Investments

Question 5: Are there other investments that already qualify for an ISA that should be eligible for the UK ISA? How would they meet the policy objectives?

Chapter 3
Design of the UK ISA

3.1 This chapter sets out suggestions for the main design principles of the UK ISA, such as rules on subscriptions and transfers, so that it can meet its policy objective of supporting investment into the UK.

3.2 As announced at Spring Budget 2024 the UK ISA will be a new ISA with its own £5,000 annual allowance in addition to the existing £20,000 annual ISA allowance. Design considerations include rules around subscriptions to more than one UK ISA, transfer rules and the holding of cash in the UK ISA.

3.3 While the government will look to replicate existing ISA rules where possible to provide consistency, there will be a trade off with ensuring the design meets its policy objective, and some bespoke rules will be required. This section sets out some of the areas where government thinks bespoke rules should be considered.

Subscriptions to more than one UK ISA

3.4 The UK ISA could allow subscriptions to a number of different UK ISAs in the same tax year. This would keep it in line with other ISAs and could provide investors with more choice. However, as the UK ISA annual allowance is lower than the general ISA annual allowance, it could be simpler for investors if they are only allowed to subscribe to one UK ISA in a tax year. It would also lower the risks of investors subscribing over the UK ISA limit.

Question 6: Should the UK ISA allow subscriptions to multiple UK ISAs in the same tax year?

Transfers into a UK ISA

3.5 There are a number of options that could be considered for transfers into a UK ISA from other types of ISAs. One option would be that no transfers would be allowed from general ISAs into a UK ISA. This would maximise simplicity for the UK ISA; however, could cause some confusion as the same transfer rules do not apply to other ISAs.

3.6 Another option could be to allow transfers from the other types of ISAs up to the subscription limit of the UK ISA. Alternatively, there could be no limit on transfers from other types of ISAs into the UK ISA. This could allow investors to transfer any funds already invested in ISAs into the UK ISA, though, this could make it more difficult for both ISA investors and managers to keep a track of transfers.

Question 7: Should transfers from any type of ISA to a UK ISA be allowed? Should there be a limit on transfers from other types of ISAs to a UK ISA?

Transfers out of a UK ISA

3.7 To prevent people from using the new UK ISA allowance and transferring the balance immediately to another type of ISA, for example to a cash ISA, the government proposes that transfers from a UK ISA to another type of ISA will not be permitted. Investors will be free to release the funds from those investments and either re-invest them within the UK ISA, transfer to another UK ISA or hold the funds outside the ISA.

Question 8: Are there any downsides to the government's proposals on transfers out of a UK ISA?

Cash holding rules

3.8 To meet the policy objectives of the UK ISA the government suggests that cash holding rules should be included. These rules should disincentivise investors from holding cash in the UK ISA, other than for the purposes of investing.

3.9 Examples include applying the basic or other rate tax to interest on cash held within the UK ISA, not allowing interest to be paid on cash in a UK ISA, or having a de minimis amount for cash held in a UK ISA.

Question 9: Should the UK ISA have cash holding rules? Which rules should be included in the UK ISA?

Existing ISA rules for the UK ISA

3.10 To maintain consistency with the existing Stocks and Shares ISA regime and rules, that are well understood by ISA managers and ISA investors, the government proposes that the UK ISA:

- will have the same tax benefits as an ISA
- will allow investors access to funds within 30 days
- will include UK focused investments that would otherwise already qualify for an ISA

Question 10: Are there any other design features that the government should consider at this stage?

Question 11: Are there any other unintended consequences from this approach?

Chapter 4
Delivery and compliance

4.1 Following consultation, the government will confirm the final scheme design before bringing forward any necessary legislation. It will also set out more detail on the timeframe for implementation and the necessary reporting tools.

Timelines

4.2 We recognise that providers will need time to familiarise themselves with this new proposition, and should they choose to offer it, make the necessary IT and reporting changes before any new products are offered.

4.3 To help assess those timelines, the government wants to understand whether existing and potential ISA managers would consider offering the UK ISA, when they would look to offer it, and what they would need to deliver it.

4.4 At Autumn Statement 2023, the government announced it would digitalise the ISA reporting system. HMRC is establishing stakeholder forums and communication channels for ISA managers and relevant trade bodies to ensure the pace and sequencing of the move to a digital system reflects the needs of ISA providers and investors, as well as the requirement to upgrade HMRC's own infrastructure.

4.5 As the government considers the delivery implications of the UK ISA proposal, it will consider whether there are delivery interactions between these reforms, and take those into account when setting out more detail on the next steps. It will consider the extent to which timelines for the introduction of the UK ISA and digital reporting could align.

Question 12: Would you be interested in offering a UK ISA based on the design set out in chapter 2 and 3?

Question 13: How long would it take for you to launch a UK ISA product and when would you start building it following this announcement?

Question 14: What would the cost implications be and what operational changes would you need to undertake?

Compliance

4.6 ISA managers are responsible for managing accounts in accordance with the ISA regulations. Any specific UK ISA requirements will be managed by them and policed by HMRC through the existing rolling audit programme.

4.7 Unique to a UK ISA, ISA managers would be required to monitor qualifying investment rules for any restricted offering on an ongoing basis to ensure they continue to meet any qualifying requirements.

Question 15: What, if any, issues do you foresee from a compliance perspective for the UK ISA? Please provide details.

Chapter 5
Summary of questions

Question 1: Should ordinary shares in UK incorporated companies that are either listed on a UK recognised stock exchange or admitted to trading on UK recognised stock exchange be eligible for the UK ISA?

Question 2: Should collective investment vehicles be eligible for the UK ISA and if so, which vehicles specifically? What should be the minimum requirement for each of the underlying investments and how would each be monitored by ISA managers?

Question 3: Should corporate bonds be eligible for the UK ISA?

Question 4: Should gilts be eligible for the UK ISA?

Question 5: Are there other investments that already qualify for an ISA that should be eligible for the UK ISA? How would they meet the policy objectives?

Question 6: Should the UK ISA allow subscriptions to multiple UK ISAs in the same tax year?

Question 7: Should transfers from any type of ISA to a UK ISA be allowed? Should there be a limit on transfers from other types of ISAs to a UK ISA?

Question 8: Are there any downsides to the government's proposals on transfers out of a UK ISA?

Question 9: Should the UK ISA have cash holding rules? Which rules should be included in the UK ISA?

Question 10: Are there any other design features that the government should consider at this stage?

Question 11: Are there any other unintended consequences from this approach?

Question 12: Would you be interested in offering a UK ISA based on the design set out in chapter 2 and 3?

Question 13: How long would it take for you to launch a UK ISA product and when would you start building it following this announcement?

Question 14: What would the cost implications be and what operational changes would you need to undertake?

Question 15 What, if any, issues do you foresee from a compliance perspective for the UK ISA? Please provide details.

Chapter 6
Responding to the consultation

6.1 HMT intends to hold a number of round table meetings during the course of this consultation to provide an opportunity for financial institutions to participate and engage in open discussions.

6.2 This consultation will run from 6th March 2024 until 6th June 2024. Responses should be sent by email to: ukisaconsultation@hmtreasury.gov.uk.

6.3 We are unable to respond to letters sent in the post at the moment. Please use the email address provided above to ensure your response is taken into account. When responding, please say if you are making a representation on behalf of a business, charity, individual, representative body or any other organisation. In the case of representative bodies, please provide information on the number and nature of people you represent.

Processing of personal data

This section sets out how we will use your personal data and explains your relevant rights under the UK General Data Protection Regulation (UK GDPR). For the purposes of the UK GDPR, HM Treasury is the data controller for any personal data you provide in response to this consultation.

Data subjects

The personal data we will collect relates to individuals responding to this consultation. These responses will come from a wide group of stakeholders with knowledge of a particular issue.

The personal data we collect

The personal data will be collected through email submissions and are likely to include respondents' names, email addresses, their job titles and employers as well as their opinions.

How we will use the personal data

This personal data will only be processed for the purpose of obtaining opinions about government policies, proposals, or an issue of public interest.

Processing of this personal data is necessary to help us understand who has responded to this consultation and, in some cases, contact certain respondents to discuss their response.

HM Treasury will, apart from the name of the respondent, not include any personal data when publishing its response to this consultation.

Lawful basis for processing the personal data

Article 6(1)(e) of the UK GDPR; the processing is necessary for the performance of a task we are carrying out in the public interest. This task is consulting on the development of departmental policies or proposals to help us to develop effective government policies.

Who will have access to the personal data

The personal data will only be made available to those with a legitimate need to see it as part of consultation process.

This consultation is being run in partnership with His Majesty's Revenue and Customs (HMRC), which means that we will be sharing your consultation response with them. Personal data received in responses will be shared with HMRC in order for them to also understand who responded to the consultation.

As the personal data is stored on our IT infrastructure, it will be accessible to our IT service providers. They will only process this personal data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we hold the personal data for

We will retain the personal data until the consultation process has been completed and the policy is implemented. After this, we will only retain personal data if it is embedded in a response, but we will not use it for any unrelated purposes.

Your data protection rights

Relevant rights, in relation to this activity are to:

- request information about how we process your personal data and request a copy of it
- object to the processing of your personal data
- request that any inaccuracies in your personal data are rectified without delay
- request that your personal data are erased if there is no longer a justification for them to be processed
- complain to the Information Commissioner's Office if you are unhappy with the way in which we have processed your personal data

How to submit a data subject access request (DSAR)

To request access to your personal data that HM Treasury holds, please email: dsar@hmtreasury.gov.uk

Complaints

If you have concerns about Treasury's use of your personal data, please contact our Data Protection Officer (DPO) in the first instance at: privacy@hmtreasury.gov.uk

If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner at casework@ico.org.uk or via the ICO website.