

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>HMRC</b>	<b>Title:</b> <b>Impact Assessment of the decision to allow specified Northern Rock customers to reinvest withdrawn ISA funds.</b>	
<b>Stage:</b> Implementation Stage	<b>Version:</b> Final	<b>Date:</b> 11 February 2007
<b>Related Publications:</b>		

### Available to view or download at:

<http://www.hmrc.gov.uk>

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

From 13<sup>th</sup> to 19<sup>th</sup> September 2007 (inclusive), some Individual Savings Account (ISA) holders withdrew money from their ISA held with the Northern Rock bank. By withdrawing their funds in cash, these individuals lost their ISA tax advantages for money deposited both in 2007/08 and in earlier years. Under existing ISA rules, if they had wished to transfer their funds to a different ISA provider, to keep their tax advantages, they should have arranged for Northern Rock to transfer their investment formally to another ISA provider.

### What are the policy objectives and the intended effects?

Government is introducing legislation that will let HMRC amend its ISA regulations retrospectively, to allow affected individuals to put their withdrawn Northern Rock funds back into any cash ISA with any provider, but no later than 5 April 2008. The regulations will reinstate the ISA tax advantages that these individuals enjoyed before they withdrew their money.

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

The options were whether or not to allow individuals who withdrew their Northern Rock ISA funds in this period to reinvest these funds in another ISA. The Government decided that protecting the financial interests of these savers - in these exceptional circumstances - justified a departure from the usual transfer rules. On 18 October 2007 the Economic Secretary announced that funds withdrawn from 13<sup>th</sup> to 19<sup>th</sup> September (inclusive) could be put back into any cash ISA with any provider, by no later than 5 April 2008.

**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 investment sector.

**Ministerial Sign-off** For final proposal/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:

Angela Eagle .....Date: 22 February 2008

## Summary: Analysis & Evidence

<b>Policy Option:</b>	<b>Description:</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' We estimate a total cost of £75,000 for Northern Rock to produce and send out certificates with details of ISA withdrawals. There will also be a small marginal cost for Government of auditing the new process (alongside regular audits) and for other providers of inputting these payments.
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	<b>£ 75,000</b>	1	
	<b>Average Annual Cost</b> (excluding one-off)		
	<b>£ Nil</b>		
			<b>Total Cost (PV)</b> <b>£ 75,000</b>
Other <b>key non-monetised costs</b> by 'main affected groups' Nil.			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups'  The benefits of the measure to investors and banks/building societies are difficult to value but likely to be small in aggregate.
	<b>One-off</b>	<b>Yrs</b>	
	<b>£ 0</b>		
	<b>Average Annual Benefit</b> (excluding one-off)		
	<b>£ Small</b>		
			<b>Total Benefit (PV)</b> <b>£ Small</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' Northern Rock customers who withdrew ISA funds will benefit from being able to reinvest back into an ISA, and so retain the tax free status of their deposits. Some banks and building societies may also benefit to the extent that they are able to attract ISA deposits that would otherwise have remained with the Northern Rock.			

**Key Assumptions/Sensitivities/Risks** The cost to the exchequer (in lost tax) is zero on the basis that these funds were previously held in ISAs and therefore were tax free.

Price Base Year	Time Period Years	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £ Small (positive)
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What is the geographic coverage of the policy/option?	National			
On what date will the policy be implemented?	13 <sup>th</sup> September 2007			
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 N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)
Increase of	£ 0	Decrease of	£ 0
<b>Net Impact</b>			<b>£ 0</b>

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

# Evidence Base (for summary sheets)

## Purpose and Intended Effects of the Measure

### Background

1. On 18 October 2007 the Economic Secretary to the Treasury announced that the Government would allow individuals who withdrew cash from Individual Savings Accounts (ISAs) held at Northern Rock during the financial market disruption – losing their ISA tax advantages in the process – to re-deposit that money into a cash ISA with Northern Rock or with any other provider (by 5 April 2008), so restoring the tax advantages. This would apply to any withdrawals made between the 13<sup>th</sup> and the 19<sup>th</sup> September 2007 inclusive. To provide the correct legal framework for this measure, HMRC needs to amend its regulations, and the Government needs to pass legislation allowing HMRC to do this retrospectively.
2. This measure was devised as the best way to protect this group of savers, because it offered the individuals affected a choice of providers to reinvest their money with, while remaining focused on the target group (that is to say, those ISA holders at Northern Rock who withdrew their funds between 13<sup>th</sup> and 19<sup>th</sup> September inclusive). The British Bankers Association (BBA) and the Building Societies Association (BSA) were consulted about the proposed process and they confirmed that the option was workable. They assured the Government that their members would be able to put administrative changes in place to cope with the transfers from Northern Rock customers, and that some or all members would be willing to do this.

### Rationale for Government Intervention

3. The Government also considered taking no action and not allowing these individuals to reinvest their withdrawn funds in an ISA. In this case a number of former ISA holders would have lost the protective tax wrapper around their money, as they would not have been able to put more than the annual subscription allowance back into ISAs.
4. The Government decided the circumstances were so very exceptional that a departure from the strict transfer rules would on this occasion be justified.

A more detailed cost-benefit analysis of the measure is laid out below.

### Sectors and Groups Affected by the Measure

5. This measure affects the following groups:
  - Northern Rock
  - Other cash ISA providers
  - Northern Rock ISA holders who withdrew their funds between 13<sup>th</sup> and 19<sup>th</sup> September inclusive without following the ISA transfer procedures.
  - Her Majesty's Revenue and Customs.

### Costs

6. **For Northern Rock:**
  - For compliance purposes, Northern Rock wrote to all customers affected with certificates stipulating the date the money was taken out, the amount taken out and the account details. We do not have any direct evidence on how much it cost Northern Rock to write to its affected customers, but based on plausible assumptions we estimate that the Northern Rock may have incurred a one-off cost of around £75,000.
7. **For other providers:**
  - In order to accept these ISA payments, other providers needed to ensure that they registered them through their system for transfers (rather than for subscriptions). They may also have

needed to intervene clerically due to the irregular nature of the transfer. Consultation with the BBA and the BSA revealed that providers were broadly content to do this for marginal cost. Moreover, no provider was obliged to accept these subscriptions, and they will only have done so if the benefits out-weighed the costs.

**8. For the affected individuals:**

- Individuals who wanted to reinstate their tax advantages needed to follow the process for reinstating their ISA as set out in the terms of the Economic Secretary's announcement. This measure conferred no costs on individuals.

**9. For Government:**

- The Government will incur a small cost in auditing the additional process put in place, but this will take place alongside the existing audits on ISA providers.

## **Benefits**

**10. For Northern Rock:**

- This measure allows customers to reinstate their ISA with Northern Rock.

**11. For other providers:**

- This measure also offers other providers the chance to benefit from the business of the ISA customers who withdrew their accounts from Northern Rock, and to receive their investments as a transfer. However, this benefit is very hard to quantify exactly as it cannot be predicted how many former Northern Rock customers will have reinvested their ISAs, and if so, what proportion of the amount withdrawn will have been reinvested.

**12. For the affected individuals:**

- The affected individuals will be able to reinstate their tax advantages that they lost when withdrawing their funds without using the proper ISA transfer procedures. Savers will simply need to hand in the certificate which Northern Rock sent them in order to open the new ISA.
- They will also be able to choose from a variety of ISA providers with whom to re-invest their withdrawn money.

**13. For Government:**

- The measure is not intended to generate any specific benefits for the Government.

## **Small firms impact test**

14. This measure impacted on all cash ISA providers who chose to accept the irregular ISA transfers.

15. These providers will have required some level of clerical intervention in order to over-ride their normal ISA systems as these transfers will not be done through the established process for transferring ISAs. However, as with all ISA transfers, no provider was obliged to accept such a transfer.

## **Competition Assessment**

16. Due to the limited scope of the measure, it is unlikely to have any significant effect on competition in the ISA market. As with all ISA transfers, providers are able to choose whether or not to accept them.

## **Compliance risks**

17. The general rules governing ISA transfers mean that transfers may only be made between providers themselves. This rule enables HMRC to monitor and enforce the cash ISA annual subscription limit of £3,000 and so minimise non-compliance with the ISA regime. In the limited

number of cases affected by the measure, this rule is effectively being relaxed for a short period of time.

- 18.** The terms of the Economic Secretary's announcement stipulated that providers should allow individuals to reinvest funds with them only if they gave to the new provider a certificate from Northern Rock confirming the withdrawal of their ISA funds from their Northern Rock ISA during the required period. This process was similar to the previous HM Revenue and Customs rules on matured Tax Exempt Special Savings Accounts (TESSAs), whereby individuals were allowed to roll over into ISAs. The new ISA provider will retain the certificate so that it could not be used again, thereby minimising any risk of non-compliance.
- 19.** HMRC will continue to carry out their audits of financial institutions operating the ISA scheme and as part of the usual audit practice HMRC will specifically audit the certificates.
- 20.** Any minimal compliance risk that does exist has been further reduced by the limited lifespan of the measure, given that it affects only withdrawals from Northern Rock ISAs between 13<sup>th</sup> and 19<sup>th</sup> September 2007, and that final transfers will have had to be done by the end of the 07-08 tax year as set out under the terms of the EST announcement.

## 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	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No