
STATUTORY INSTRUMENTS

2004 No. 2996

INCOME TAX

**The Individual Savings Account
(Amendment No. 2) Regulations 2004**

Made - - - - 16th November 2004
*Laid before the House of
Commons* - - - - 16th November 2004
Coming into force - - 7th December 2004

The Treasury, in exercise of the powers conferred upon them by section 333 of the Income and Corporation Taxes Act 1988(1), section 151 of the Taxation of Chargeable Gains Act 1992(2) and section 75 of the Finance Act 1998, make the following Regulations:

Citation, commencement and effect

1.—(1) These Regulations may be cited as the Individual Savings Account (Amendment No. 2) Regulations 2004 and shall come into force on 7th December 2004.

(2) These Regulations (except regulation 3(b)) shall have effect from 6th April 2005.

Amendment of the Individual Savings Account Regulations 1998

2. The Individual Savings Account Regulations 1998(3) are amended as follows.

3. In regulation 2(1)(a)—

(a) in the definition of “account investment”, for “, a cash” to the end substitute “or a cash component, as the case may be, within the meaning of regulation 7 or 8”;

(b) in the definition of “assurance undertaking”, for “8” to the end substitute “2 of the Council Directive of 5th November 2002 concerning life assurance (No. 2002/83)”;

(c) insert at the appropriate place the following definition—

““the Stakeholder Products Regulations” means the Financial Services and Markets Act 2000 (Stakeholder Products) Regulations 2004(4);”.

(1) 1988 c. 1; section 333 was amended by section 70 of the Finance Act 1991 (c. 31) and by sections 75 and 123(7) of, and Part 3(15) of Schedule 27 to, the Finance Act 1998 (c. 36).
(2) 1992 c. 12; section 151 was amended by section 85 of the Finance Act 1993 (c. 34), by section 64(2) of the Finance Act 1995 (c. 4) and by section 75(6) of the Finance Act 1998, and was extended by section 123(7) of the Finance Act 1998.
(3) S.I. 1998/1870; relevantly amended by S.I. 1998/3174, 2000/2079 and 3112, 2001/3629 and 3778, 2002/3158 and 2003/2747.
(4) S.I. 2004/2738.

4. In regulation 2(2) omit the definition of “qualifying investments for an insurance component”.
5. In regulation 4—
 - (a) in paragraph (1)(a) omit “and an insurance component”;
 - (b) in paragraph (2) omit “, and no more” to the end;
 - (c) in paragraph (3) omit sub-paragraph (b); and
 - (d) in paragraph (3)(c) for “£3,000” substitute “£4,000”.
6. After regulation 4B(5) insert—

“Removal of insurance components at 6th April 2005

4C.—(1) This regulation applies to accounts which include (or are made up of) an insurance component immediately before 6th April 2005 (“the transitional time”).

(2) Where all the policies of life insurance falling within regulation 9, held under the component at the transitional time, were issued in respect of an insurance made before 6th April 2004, the component—

- (a) if the account is, or had been, designated as a maxi-account, shall be treated on and from 6th April 2005 as merged into the stocks and shares component for that account; and
- (b) if the account is, or had been, designated as a mini-account, shall be treated on and from 6th April 2005 as a stocks and shares component of the same account.

(3) Where any of the policies of life insurance falling within regulation 9, held under the component at the transitional time, were issued in respect of an insurance made on or after 6th April 2004—

- (a) the condition in regulation 7(15) shall be applied to those policies on 6th April 2005 (modified as if the date referred to in that condition were 6th April 2005);
- (b) if all those policies satisfy that condition, paragraph (2)(a) or (b), as the case may be, shall apply to the component;
- (c) if any of those policies does not satisfy that condition, the component—
 - (i) if the account is, or had been, designated as a maxi-account including a cash component, shall be treated on and from 6th April 2005 as merged into the cash component for that account; and
 - (ii) in any other case, shall be treated on and from 6th April 2005 as a cash component for the same account.”.

7. In regulation 7(2)(6) add at the end—

- “(m) units in a relevant collective investment scheme specified as a stakeholder product by regulation 5 of the Stakeholder Products Regulations, in circumstances where the units satisfy the condition in paragraph (15);
- (n) policies of life insurance falling within regulation 9, issued in respect of an insurance made on or after 6th April 2005, in circumstances where the policy satisfies the condition in paragraph (15);
- (o) policies of life insurance falling within regulation 9, issued in respect of an insurance made before—
 - (i) 6th April 2004, in a case where regulation 4C(2)(a) or (b) applies, or

(5) Regulation 4B was inserted by regulation 4 of S.I. [2002/3158](#).

(6) Regulation 7(2) was amended by S.I. [1998/3174](#), [2000/2079](#) and [3112](#), [2001/3629](#) and [3778](#), and [2003/2747](#).

- (ii) 6th April 2005, in a case where regulation 4C(3)(b) applies.”
8. In regulation 7(10)(c)(i) omit “, or an insurance component,”.
9. In regulation 7(15)(7) for “were first” substitute “became”.
10. In regulation 7(16)—
- (a) in sub-paragraph (a) add at the end “, and in the case of a policy of life insurance, under whose terms some or all of the benefits are determined by reference to fluctuations in, or in an index of, the value of any property of any description (whether or not specified in the policy or contract), that property or that index”;
- (b) in sub-paragraph (b) after “paid” insert—
- “or payable include premiums paid or payable under a policy of life insurance, and”;
- (c) in sub-paragraph (c) add at the end “and, in the case of a policy of life insurance, omitting any benefits payable in the event of the death of the account investor”.
11. After regulation 7(16) add—
- “(17) Where a policy of life insurance confers on the person to whom it is issued an option to have another policy issued for it or to have any of its terms changed, the condition in paragraph (15) shall only be satisfied if it would also be satisfied if each or any of the changes capable of being made in pursuance of such an option had been made.”.
12. In regulation 8(2)(8) add at the end—
- “(j) a deposit account specified as a stakeholder product by regulation 4 of the Stakeholder Products Regulations;
- (k) units in a relevant collective investment scheme specified as a stakeholder product by regulation 5 of the Stakeholder Products Regulations, in circumstances where the units do not satisfy the condition in regulation 7(15);
- (l) policies of life insurance, falling within regulation 9, issued in respect of an insurance made on or after 6th April 2005, in circumstances where the policy does not satisfy the condition in regulation 7(15);
- (m) policies of life insurance, falling within regulation 9, issued in respect of an insurance made before 6th April 2005, in a case where regulation 4C(3)(c)(i) or (ii) applies.”.
13. In regulation 9—
- (a) for the heading substitute “Insurance policies”;
- (b) for paragraphs (1) and (2) substitute—
- “(1) Policies referred to in regulation 7(2)(n) or (o) or 8(2)(l) or (m) must, subject to compliance with paragraphs (4) to (7), satisfy the conditions specified in paragraph (3).
- (2) In paragraph (1) “policies” includes rights under a linked long-term contract specified as a stakeholder product by regulation 6 of the Stakeholder Products Regulations.”;
- (c) in paragraph (3)(b)(i) omit “an insurance component of”;
- (d) in paragraph (4) omit “which is a qualifying investment for an insurance component falling within paragraph (2)(a)”.
14. In regulation 14—

(7) Regulation 7(15) and (16) were inserted by S.I. 2003/2747.

(8) Regulation 8(2) was amended by S.I. 1998/3174, 2001/3629 and 2003/2747.

- (a) in paragraph (2)(b)—
 - (i) in paragraph (iii) omit the words from the beginning to “only,”;
 - (ii) in paragraph (iv) omit the words from the beginning to “only,”;
 - (iii) in paragraph (v) for the words from the beginning to “only, an” substitute “any”;
- (b) in paragraph (3)(a)—
 - (i) in paragraph (ii) omit “any”;
 - (ii) omit paragraph (iii) and for the word “or” which precedes it substitute “and”.
- 15.** In regulation 22(1)—
 - (a) in sub-paragraph (a)(v) omit “held” to the end;
 - (b) in sub-paragraph (c) omit “held under an insurance component”.
- 16.** In both the heading to regulation 23 and paragraph (1) of that regulation, omit “or insurance component”.
- 17.** In regulation 25(5)—
 - (a) for “qualifying investments for an insurance component of any account” substitute “policies of life insurance falling within regulation 9”;
 - (b) for “the qualifying investments held under any such component” substitute “such policies”.
- 18.** In regulation 31—
 - (a) in paragraph (4) for “The” substitute “Subject to paragraph (5), the”;
 - (b) in paragraph (5)—
 - (i) for the words from the beginning to “applied” substitute “Paragraph (4) shall apply to policies of life insurance falling within regulation 9”; and
 - (ii) omit “, and of cash”.
- 19.** In regulation 31(7)(b) omit paragraph (iii) and the word “and” which precedes it.
- 20.** In regulation 35(6)(a) omit “held under an insurance component”.
- 21.** In regulation 35(8) omit “held under an insurance component”.
- 22.** In both regulation 36(8) and (9)(a) for “basic” substitute “lower”.

16th November 2004

Jim Murphy
John Heppell
Two of the Lords Commissioners of Her
Majesty’s Treasury

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Individual Savings Account Regulations 1998 (S.I.1998/1870: “the main Regulations”). They will come into effect on 6th April 2005. The principal effects of these Regulations are (a) to allow the new stakeholder cash deposit account and stakeholder medium-term products to be held within Individual Savings Accounts (“ISAs”) from 6th April 2005, (b) to apply a “cash-like test” to stakeholder medium-term products, and policies of life insurance issued on or after 6th April 2004, to determine whether, on and from 6th April 2005, they are to be held in a stocks and shares component or cash component of an ISA, and (c) to provide for the removal of insurance components of ISAs on 6th April 2005.

Regulation 1 provides for citation, commencement and effect and regulation 2 for amendment of the main Regulations.

Regulation 6 provides for the removal of insurance components at 6th April 2005, and determines whether investments held under such components at that time become held under a stocks and shares component (where they all pass the “cash-like test” in regulation 7(15) of the main Regulations), or otherwise become held under a cash component.

Regulation 7 provides that stakeholder medium-term products, and life insurance policies issued on or after 6th April 2004, which pass the “cash-like test,” and life insurance policies issued before 6th April 2004 (and held in an ISA immediately before 6th April 2005), may be held within a stocks and shares component.

Regulation 12 provides that stakeholder cash deposit accounts, and life insurance policies issued on or after 6th April 2004 which fail the “cash-like test,” may be held within a cash component.

Regulations 3 to 5, 8 to 11, and 13 to 21 make consequential and technical amendments to the main Regulations.

Regulation 22 reduces the rate of tax which must be accounted for and paid by account managers, or is assessed on the account manager or account investor, on gains made on life insurance policies held in a void ISA, to the lower 20% “savings rate.” This aligns the rate with the rate of tax imposed on basic rate taxpayers on gains on policies held outside an ISA

A Regulatory Impact Assessment is available on the Inland Revenue website: www.inlandrevenue.gov.uk.