EXPLANATORY MEMORANDUM TO

THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT) REGULATIONS 2011

2011 No. 782

1. This explanatory memorandum has been prepared by H.M. Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

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 principal Regulations to increase the annual subscription limits for 2011/12 and subsequent tax years, and as announced by the Government, the increase is in line with the Retail Prices Index (RPI).

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 The individual savings account ("ISA") is a tax advantaged savings account, introduced in 1999. It allows individuals to save, through an ISA, without being taxed on any income or gains arising from or received in relation to those savings.

4.2 The principal Regulations set out the overall subscription limit for the tax year (regulation 4(2)) and then specify how much of the overall limit can be subscribed to a cash account (regulation 4(3)). Investors aged between 16 and 18 can only subscribe up to 50% of the overall limit to a cash account, and for the tax year 2009/10 only, investors who reached age 50 before 6 April 2010 had higher subscription limits. For the tax year 2010/11 there was a single set of subscription limits for investors over the age of 18.

4.3 The Government announced at Budget 2010 that from 6 April 2011 the ISA limits would be increased on an annual basis in accordance with the RPI. The RPI for September 2010 is being used to work out the

4.4 Following indexation a single set of subscription limits will apply for investors over the age of 18 with the cash ISA limit half the overall limit. As previously, investors aged between 16 and 18 will only be able to subscribe up to 50% of the overall limit to a cash account.

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 ISA subscription limits have been increased from time to time since the scheme started. Indexing the limits on an annual basis will retain the value of the subscription limit in real terms. However the change being made by this instrument simply increases the subscription limits for the tax year 2011/12 and subsequent tax years. Further amendment regulations will be needed to cater for an indexed rise in 2012/13 and later years.

7.2 Regulation 4 of this instrument amends regulations 4(2) and (3) of the principal Regulations and sets the overall limit of subscriptions that can be made by an investor in a tax year to £10,680, of which up to £5,340 can be subscribed to a cash account. An investor aged 16 or over but under the age of 18 at the end of the tax year, can subscribe up to 50% of that limit (£5,340) into a cash account in that year.

7.3 Regulation 5 of this instrument omits regulation 4(4) from the principal Regulations. Regulation 4(4) was of an illustrative nature only in that it provided examples of the possible ways that the overall subscription limit could be split.

8. Consultation outcome

8.1 A formal consultation was not undertaken.

9. Guidance

9.1 H.M. Revenue and Customs Guidance Notes for ISA managers will be updated to reflect the changes to the ISA. The Guidance Notes are available at http://www.hmrc.gov.uk/isa/isa-guidance-notes-2008.pdf

10. Impact

10.1 The impact on ISA managers by the changes made by these Regulations is that they will need to ensure that they have systems in place to accept subscriptions at the new higher limits. In addition, the changes made by these regulations will benefit all ISA investors who wish to subscribe to their ISAs and will have a positive impact on saving by individuals.

10.2 There is no impact on the public sector.

11. Regulating small business

11.1 All ISA managers will be affected by these changes. Certain cash ISA providers are likely to be regarded as small by virtue of their employment (less than 20 employees) and business 'turnover'.

12. Monitoring & review

12.1 H.M. Revenue and Customs will monitor compliance with the increased subscription limits by analysis of the annual returns of subscriptions made by ISA managers.

13. Contact

Simon Turner at the H.M. Revenue and Customs Tel: 0151 472 1654 or email: simon.turner@hmrc.gsi.gov.uk can answer any queries regarding the instrument.