

Consultation on Draft Individual Savings Account (ISA) and Personal Equity Plan (PEP) amending regulations

Summary of Responses

The consultation on the draft regulations followed the announcement by the Chancellor in the Pre Budget Report in November 2000 that some changes would be made to ISAs and PEPs to enhance them. This announcement itself followed the review of the operation of ISAs which began work in April 2000, after the first full year of ISAs. A wide range of respondents had contributed to that review – savings industry representative bodies, individual ISA and PEP providers, consumer groups, independent financial advisers and individual savers :

The changes announced in the Pre Budget Report were :

- the extension of eligibility for cash ISAs to 16 and 17 year olds;
- the extension of ISAs to the spouses of Crown employees serving overseas;
- some administrative changes which would help streamline ISAs and increase the use of electronic business;
- the alignment of the PEP rules on investments, transfers and administration with the more flexible ISA rules.

All these changes will take effect from 6 April 2001.

Changes to the ISA and PEP rules are made through secondary legislation, by amending the statutory ISA and PEP regulations. Comments were sought on the wording of the draft amending regulations in order to establish whether they would satisfactorily bring the changes announced in the Pre Budget Report into effect.

The text of the draft regulations together with a detailed commentary were issued for consultation on 2 February 2001, inviting comments from members of the savings industry and others with an interest, such as ISA managers and PEP providers. (See Inland Revenue Press Release “ Individual Savings Accounts and Personal Equity Plan Draft Legislation Published ”, dated 2 February 2001, which advised that copies of these documents were available by post and were also on the Inland Revenue web site.)

We received a total of 18 responses of which 8 were from representative bodies, 6 from individual ISA managers and PEP providers, 3 from professionals or professional bodies and 1 from an individual respondent.

A full list of respondents is attached together with a summary of the views received and expressed. The terms of the consultation included a proviso that copies of individual responses would be made available only where respondents had waived their right to confidentiality. No respondent has done so.

Following this consultation the Individual Savings Account (Amendment) Regulations 2001 were laid before Parliament on 12 March 2001 and the Personal Equity Plan (Amendment) Regulations 2001 were laid on 13 March 2001.

Issued by Inland Revenue 13 March 2001

Comments received 2 February – 2 March 2001

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| | Representative Bodies |
| 1. | Building Societies Association (BSA) |
| 2. | Association of British Insurers (ABI) |
| 3. | Investment and Life Assurance Group (ILAG) |
| 4. | Association of Friendly Societies (AFS) |
| 5. | Association of Private Client Investment Managers and Stockbrokers (APCIMS) |
| 6. | Association of Unit Trusts and Investment Trusts (AUTIF) |
| 7. | British Banking Association (BBA) |
| 8. | PEP and ISA Managers' Association (PIMA) |
| | ISA and PEP providers |
| 9. | Skandia |
| 10. | Stocktrade |
| 11. | Fidelity Investments |
| 12. | Barclays, Stockbrokers |
| 13. | Marks and Spencer |
| 14. | Royal Bank of Scotland |
| | Professionals and Professional Bodies |
| 15. | Chartered Institute of Taxation (CIOT) |
| 16. | Pensions Management Institute |
| 17. | KPMG |
| | Individual Respondent |
| 18. | Mr B R Pursey |
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Summary of comments received

Both the changes announced in the Pre Budget Report and the draft regulations were generally well received, and there were only a very limited number of comments on the drafting. These have been carefully evaluated. As a result, changes have been made to the draft ISA regulations to align them with those for Stakeholder Pensions in treating a signed fax and other electronic communication including an electronic signature in the same way as a written declaration. In addition, the draft PEP regulations have been amended so that, in the annual PEP information return, PEP plan managers will no longer have to report plans closed down during the reporting year. A small technical

amendment is also being made to the definition sections dealing with depositary interests.

Two more general concerns about the effects of the amending regulations were expressed by some respondents.

The draft PEP regulations leave unchanged the existing treatment of interest paid on uninvested cash, which is different from the ISA equivalent. Some respondents would have preferred these rules also to be aligned with the ISA rules, which were felt to be easier for the industry to operate. There was however a general appreciation that this would have raised systems issues for some managers. Conversely two respondents wanted the PEP treatment carried over to ISAs on the basis that it is slightly more generous.

Some concern was also expressed about the application of the settlements legislation to cash ISAs for 16 and 17 year olds. This provides that where income from a child's savings provided by a parent exceeds £100 a year, this income is taxed as the parent's. The purpose of applying this legislation to ISAs is to prevent under-18s' cash ISAs being used, in effect, to increase a parent's tax free ISA allowance. Some recipients felt, however, that the complexity involved would be disproportionate to the likely amount of tax lost.