

Guidance for savers - Keydata investors

This guidance is for individuals who have invested in ISAs with Keydata Investment Services Ltd.

Certain Keydata ISA investments do not comply with the ISA rules.

In this guidance note we explain the implications for you.

Summary of key issues:

- Financial Services Compensation Scheme (FSCS) has announced that Keydata is in default and it will invite claims for compensation on non-qualifying ISA products.
- HM Revenue & Customs (HMRC) will pursue Keydata for tax due on these products prior to the date of administration (8 June 2009).
- FSCS and HMRC are developing a process whereby FSCS would pay compensation on behalf of eligible investors to HMRC each year, avoiding the requirement for investors to pay the tax to HMRC upfront and later claim it from FSCS.
- For those Secure Income Bond 1, 2 and 3 investors who have lost their capital, the Government intends to bring in a change to the ISA legislation so that they can replace an equivalent amount of capital in a new ISA on top of the usual ISA subscription limits.
- No investor loses their ISA tax wrapper as a result of Keydata's administration. Investors who currently have non-qualifying products will be able to regain their ISA tax exemptions once their investment matures or is redeemed. Investors who have lost capital can regain their ISA tax exemptions by replacing capital with a new ISA manager.

- The FSCS and HMRC will write to all affected individuals to explain what they need to do next.

There are four main categories of Keydata ISA investment. We refer in the detailed guidance below to the main Keydata ISA investments that fall into each category. However, because of the large number of ISA investments sold by Keydata, this is not necessarily a comprehensive list. A full list of Keydata products is available on the [Administrators' website](#) .

Category 1: Keydata Secure Income Bond Issues 1, 2 and 3

- If you have a Secure Income Bond 1, 2 or 3 investment you will be aware that the administrators have announced that the underlying assets for these investments have been liquidated and appear to have been misappropriated.
- For interest payments due up to the date when the Administration commenced, 8 June 2009, HMRC will be seeking to recover the tax payable from Keydata (via the Administrators) and not from you. Therefore you will not be required to pay tax on the interest received, or report the interest on any tax return, up to the date of the Administration on 8 June 2009. You will not receive a tax demand for tax on interest due on these products up to 8 June 2009.
- As no interest has become due since Keydata was placed into Administration on 8 June 2009, no further interest payments are expected.
- The FSCS has announced that it will shortly be inviting claims for compensation from investors in respect of the loss of their capital. Further information is available on [FSCS's website](#).
- The Government proposes to change the ISA rules to allow you to put the amount of your capital back into an ISA and thus regain your ISA tax exemptions. The new ISA rule will allow you to invest in a new ISA any amount up to the total you originally invested in your Secure Income Bond issue 1, 2 or 3 ISA (whether by annual subscriptions or a transfer from another ISA). You will not be restricted to the amount of any compensation

you may receive from the FSCS (which may be less than the total you originally invested). You will need to make your reinvestment in a single transaction and you will need to do so by 5 April 2011.

- HMRC will contact you with further details of the amount you can reinvest and what you need to do by the end of December 2009.

Category 2: five year versions of the following products: Secure Income Bond issue 4, Secure Income Plan issues 1 to 12 and 14, Defined Income Plan issues 1 to 8 and The Income Plan issues 1 to 12 and 14. (plus some other products, please refer to [list](#) on Administrators' website.

- For interest payments up to the date when the Administration commenced, 8 June 2009, HMRC will be seeking to recover the tax payable from Keydata (via the Administrators) and not from you.
- Therefore, on interest payments due up to the date of the Administration (8 June 2009) you will not be required to pay tax, or report the interest on any tax return. You will not receive a tax demand for tax on interest payments due on these products up to 8 June 2009.
- FSCS and HMRC are developing a process whereby FSCS would pay compensation on behalf of eligible investors to HMRC each year, avoiding the requirement for investors to pay the tax to HMRC upfront and later claim it from FSCS.
- FSCS will write to you with details of what to do next. In the meantime further information is available on [FSCS's website](#).
- You have not lost your ISA tax wrapper. You will be able to regain your ISA tax exemptions, if you wish, once your non-qualifying investment matures, or sooner should it become possible to redeem your investment early. To do this you will need to direct a new ISA manager to ask the Administrators to transfer the cash to them and they will then be able to purchase ISA-qualifying investments on your behalf.

Category 3: seven and ten year versions of the following products: Secure Income Bond issue 4, Secure Income Plan issues 1 to 12 and 14, Defined Income Plan issues 1 to 8 and The Income Plan issues 1 to 12

and 14. (plus some other products, please refer to [list](#) on Administrators' website.

- If you purchased a Keydata ISA investment which was to run for more than five years (typically seven and ten year bonds), your investment did not qualify for ISA tax exemptions at the date you purchased it.
- However, your investment now qualifies for ISA treatment.
- This is because all these investments are now listed on a Recognised Stock Exchange, and those with at least five years from the date of listing to maturity now satisfy the ISA eligibility rules.
- You will continue to receive tax free gross income, and you do not need to declare this income to HMRC.
- For any tax liabilities that arose before your investment became ISA qualifying HMRC will be seeking to recover the tax payable from Keydata (via the Administrators) and not from you. You do not need to return this liability to HMRC.

Category 4: Income Property Bond issues 1-6

- Up to the date when the Administration commenced, 8 June 2009, HMRC will be seeking to recover the tax payable from Keydata (via the Administrators) and not from you.
- Therefore you will not be required to pay tax on the interest received, or report the interest on any tax return, up to the date of the Administration (8 June 2009). You will not receive a tax demand for tax on interest received on these products up to 8 June 2009.
- We understand from the Administrators that, due to the performance of these investments, no further interest is currently expected to be paid to investors.

Frequently asked questions

1. Why do some of my investments held within the ISA wrapper not qualify for ISA purposes?

The ISA regulations require that securities held in stocks and shares ISAs must:

- be listed on a Recognised Stock Exchange
- and have a maturity date more than five years after they were first held in the ISA wrapper.

Some of the investments sold as ISA investments by Keydata fail one or both of these rules. Therefore the investments do not qualify for ISA tax exemptions. Some bonds were issued which were to run for seven or ten years. These did not initially qualify for the ISA as they were not listed on a Recognised Stock Exchange. But they are now listed so they are treated as ISA qualifying from the date of listing.

2. Are all of the investment products sold by Keydata non-qualifying ISA investments?

Not all of the Keydata ISA products fail the ISA qualifying rules. The main products affected are: Secure Income Bond issues 1, 2 and 3, Secure Income Bond issue 4, Income Property Bond issues 1 to 6, Secure Income Plan issues 1 to 12 and 14, Defined Income Plan issues 1 to 8 and The Income Plan issues 1 to 12 and 14.

A complete list of affected products is available at the [Administrator's website](#).

3. What is the tax position for the products that Keydata incorrectly sold me as an ISA qualifying investment?

For the period up to the Administration (8 June 2009) HMRC will be seeking to recover the tax from Keydata (via the Administrators) rather than from individual investors. For the period since administration, FSCS and HMRC are developing a process whereby FSCS would pay compensation on behalf of eligible investors to HMRC each year, avoiding the requirement for investors to pay the tax to HMRC upfront and later claim it from FSCS.

4. Why can't HMRC get the post-Administration tax from Keydata too?

The ISA rules allow HMRC to pursue the tax from the ISA manager but only up to the date the non-qualifying nature of the investments became apparent.

5. What can I do with my investment which is not ISA qualifying?

For products other than Secure Income Bonds 1-3:

The Administrators have advised that you cannot redeem your investment now. That situation could change in future, but if it doesn't you will need to hold it until it matures.

At redemption or maturity your investment will be valued and may realise a sum of cash. At that point you will either be able to:

- withdraw the cash
- or regain your ISA exemptions by finding a new ISA manager who will accept a transfer of the disposal/maturity proceeds from the Administrators. The new manager will ask the Administrators to transfer the cash to them and they will then purchase ISA-qualifying

investments for you. You will be entitled to the ISA tax exemptions from the date of redemption or maturity.

If you choose the second option you must do the transfer through the Administrators; this option will not be possible if you withdraw the cash yourself.

For Secure Income Bonds 1-3:

- If you have a Secure Income Bond 1, 2 or 3 investment you will be aware that the administrators have announced that the underlying assets for these investments have been liquidated and appear to have been misappropriated.
- The Government proposes to change the ISA rules to allow you to put the amount of your capital back into an ISA and thus regain your ISA tax exemptions. The new ISA rule will allow you to invest in a new ISA any amount up to the total you originally invested in your Secure Income Bond issue 1, 2 or 3 ISA (whether by annual subscriptions or a transfer from another ISA). You will not be restricted to the amount of any compensation you may receive from the FSCS (which may be less than the total you originally invested). You will need to make your reinvestment in a single transaction and you will need to do so by 5 April 2011.

6. What happens if I can't redeem my non-qualifying ISA investment?

As you can't redeem it currently you will need to wait until such time as you can redeem it, or else it matures. The Administrators will be able to advise you on this.

Once you can redeem the investment, or it matures, you will be able, if you wish, to transfer the proceeds to another ISA manager and regain your ISA tax exemptions (see 6 above).

7. So have I lost my ISA tax wrapper?

No. Your Keydata ISA currently holds a non-qualifying investment that does not qualify for the ISA tax exemptions. You can regain the ISA tax exemptions once you are able to redeem your investment, or it matures, by arranging for the Administrators to transfer the proceeds to another ISA Manager so that they can be used to purchase ISA qualifying investments.

8. I've used my 2009-10 ISA subscription allowance on a Keydata ISA that has been found to be non-qualifying. Can I use the allowance again?

No. You have used your 2009-10 ISA subscription. You will be able to regain the benefit of the ISA tax exemptions on that subscription once your investment matures (or you redeem it) and you can direct the proceeds to a new ISA manager who will invest in qualifying ISA investments on your behalf.

9. What if I haven't used all of my 2009-10 ISA allowance? Can I subscribe to a cash ISA with another ISA provider?

Yes, as long as the ISA subscription allowance for 2009-10 is not exceeded. The new ISA manager will be able to offer you further advice. If you have already subscribed to a cash ISA in 2009-10 you must top up this ISA rather than opening a second cash ISA.

10. What is the role of the Financial Services Compensation Scheme (“FSCS”)?

The FSCS is the UK's compensation fund of last resort for customers of financial services firms authorised by the Financial Services Authority. The FSCS is a non-profit making, independent organisation, funded by compulsory levies on authorised firms.

Under FSCS rules, for eligible claims relating to Investment business, a maximum of £48,000 (100 per cent of the first £30,000 and 90 per cent of the next £20,000) can be paid in compensation per person per firm. Each claim is assessed on a case by case basis, in accordance with the FSCS rules, and in light of the available information.

Further information about the FSCS and its role in the Keydata situation is available on its [website](#).

11. I had a Secure Income Bond 1, 2 or 3 investment and want to regain my ISA exemptions by investing with a new ISA Manager. How do I do this?

You will need to make your reinvestment in a single transaction by 5 April 2011. HMRC will contact you with further details of how to do this by the end of December.

13. I am hoping to receive compensation from FSCS in respect of my Secure Income Bond 1, 2 or 3 investment. Do I need to wait for compensation from FSCS before investing with a new ISA Manager to regain my ISA subscription?

You do not need to wait to see if you will be eligible for compensation from FSCS. You can invest up to the amount of your original subscription with a new ISA manager any time up to the deadline of 5 April 2011. Please note, FSCS compensation is not guaranteed for all investors and may be less than the amount of your original ISA subscription. If you have any queries about how FSCS calculates compensation, or whether you may be eligible for compensation, you should contact FSCS direct.

14. Why might my FSCS compensation for my Secure Income Bond 1, 2 or 3 be less than my original ISA subscription?

The compensation sum may be reduced by the income payments that have been paid to you, or you may be subject to the maximum compensation that FSCS is able to pay (being 100 per cent of the first £30,000 of losses plus 90 per cent of the next £20,000, up to a maximum of £48,000). For advice about how your compensation is calculated you should go to the FSCS.

15. Where is the legislation that allows me to reinvest my compensation in an ISA?

The reinvestment will require a change to the ISA Regulations which the Government will lay in Parliament shortly.

16. Is my FSCS compensation for my Secure Income Bond 1, 2 or 3 taxable?

No.

17. What if I don't qualify for FSCS compensation?

If you have a Secure Income Bond 1, 2 or 3 you can still invest a sum up to the amount of your original ISA investment in a new ISA.

If you have another product that is currently paying interest you will need to return the interest to HMRC in the usual way (either through your self assessment return, or your tax office may be able to amend your PAYE coding).

18. Where can I obtain further information?

Advice about tax issues – telephone the ISA helpline for Keydata ISA queries on 0845 604 1701 or speak to your tax office.

FSCS: Further information about FSCS's role in relation to Keydata is available on its [website](#). You can also contact FSCS's Customer Services Team on 020 7892 7300 or 0800 678 1100 or by email: enquiries@fscs.org.uk.

The Administrators: The Administrators have a dedicated [website](#) relating to Keydata.