

FINAL REGULATORY IMPACT ASSESSMENT (RIA)

CHANGE TO ISA SUBSCRIPTION LIMITS

1. Purpose and intended effect

The ISA scheme is designed to encourage more people to save and more people to save more. One of the proposals in the Budget gives the ISA scheme a further boost. The subscription limits for 1999-2000 of up to £7000 overall, including up to £3000 in cash, will be kept for a further year.

Originally, these limits were going to be reduced for 2000-2001 to £5000 overall, including up to £1000 in cash. This reduction will now be deferred until 2001-2002. The Regulations introducing the revised limits are The Individual Savings Account (Amendment) Regulations 2000 SI 2000 No 809 which take effect from 6 April 2000.

2. Benefits

Nearly 6.7 million accounts have been opened in the first nine months by savers who have put over £17 billion into ISAs, including some £8.2 billion into the cash component. This is extremely clear evidence that taxpayers have benefited from the ISA initiative; and are likely to welcome its further extension.

ISA providers will benefit from the increased business that the retention of the existing subscription limits for a further year will bring. Individual savers will also benefit in that they will be able to save up to £2000 more tax free than was originally intended in the second year of ISAs.

3. Costs

The short interval between the Budget announcement of the higher subscription limits for 2000-2001 and 6 April when they come into effect, means that ISA providers will incur additional administrative costs. These relate to changing at short notice, promotional literature, forms, and advertising, and also some systems and staff re-training costs. There may also be some instances of where clients may have to be re-advised.

The indications are that some large providers have prepared early and may face costs of up to £100,000 in respect of printing and administration/systems while other equally large providers have waited to the Budget before finalising their literature and will have incurred negligible costs (that is well under £10,000 for such providers). There appears to be a similar wide range of response further down the scale. One middle ranking provider estimated the cost as precisely £100. Other evidence from IFAs indicated a wide disparity in their level of preparedness.

Estimating the overall costs from this evidence suggests a total one-off cost of £2 to £5 million in respect of abortive work for printing, advertising changes, extra administration and short notice systems changes. There is a good deal of uncertainty and this is reflected in the range of the one-off compliance cost.

4. Consultation

In the period since the Budget, informal soundings have been taken with a number of ISA providers, to ascertain the extent of these additional compliance costs for the different sizes and types of organisations involved. We are very grateful to the providers who took part in this sample for their assistance. Further consultation with ISA providers will be taking place in the future as part of the review of the operation of ISAs, which was also announced in the Budget.

5. Summary

The change to the limits will result in additional one-off compliance costs to ISA providers of some £2 to £5 million, but as members of the industry have already acknowledged, these will be substantially outweighed by the additional savings business that the retained limits will bring.

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