EXPLANATORY MEMORANDUM TO

THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT NO. 2) REGULATIONS 2004

2004 No. 2996

1. This explanatory memorandum has been prepared by HM Treasury and is laid before the House of Commons by Command of Her Majesty.

2. Description

These regulations amend the Individual Savings Account Regulations 1998 to:

- allow the stakeholder cash deposit product into the cash component of the ISA;
- bring the stakeholder medium-term products and other qualifying life insurance products into the stocks and shares component of the ISA; and
- extend the 5% cash-like test currently imposed on collective investment schemes within the stocks and shares ISA component to life insurance and medium-term stakeholder products.

The regulations also remove the separate insurance component rules.

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

3.1 None

4. Legislative Background

4.1 The Treasury has introduced regulations, the Financial Services and Markets Act 2000 (Stakeholder Products) Regulations 2004, to create a new suite of savings and investment products known as the stakeholder suite of products. These will comprise of a new stakeholder cash deposit account and the stakeholder medium-term products.

4.2 These ISA regulations are required in order to allow the stakeholder cash deposit and medium-term products in to the ISA. They are being made under powers conferred by section 333 of the Income and Corporation Taxes Act 1988, section 151 of the Taxation of Chargeable Gains Act 1992 and section 75 of the Finance Act 1998. They are being made under the negative resolution procedure.

5. Extent

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

These regulations are subject to annulment and do not amend primary legislation.

7. Policy background

7.1 In December 2003 Treasury Ministers announced that the stakeholder medium-term products would be introduced into the ISA from April 2005. These products consist of unitised and insurance-based products. To prevent distortion from tax treatment it was announced that all stakeholder medium-term products and life insurance would be given access to the stocks and shares component of the ISA and the insurance component of the ISA would be removed.

7.2 It was also announced that all stakeholder and life insurance products would be subject to a test to limit 'cash-like' products to the Cash ISA component. The stakeholder deposit account will also be allowed within cash components.

7.3 These regulations provide for these changes. They merge the insurance component with the two remaining ISA components, 'cash' and 'stocks and shares'. They also modify the test used to identify investments which are cash-like, to ensure that it can be applied to medium-term stakeholder and insurance products.

7.4 In summary up to 5 April 2005 an investor has the choice of investing in a maxi ISA (max £7,000) or the three components of the mini ISA which are cash (max £3,000), stocks and shares (max £3,000) and insurance (max £1,000).

7.5 The effect of these regulations is that from 6 April 2005 an investor will be able to invest in a maxi ISA (max £7,000) or in the two components of the mini ISA, which will be cash and cash like equity products (max £3,000) and stocks and shares and insurance (max £4,000)

8. Impact

A Regulatory Impact Assessment is attached to this memorandum.

9. Contact

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