EXPLANATORY MEMORANDUM TO

THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT) (NO. 2) REGULATIONS 2026

2026 No. 1018

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of His Majesty's Treasury (HMT) and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 Rt Hon Lucy Rigby KC MP, Economic Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Helen Page, Deputy Director for Pensions, Savings and Charities at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Frances Larke at HMRC can be contacted by email at the following address with any queries regarding the instrument: savings.audit@hmrc.gov.uk. Alternatively, the department can be contacted by telephone: 03000 571777.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument amends the Individual Savings Account Regulations 1998 (the ISA Regulations) to deliver the Government's decision to set the annual Cash ISA subscription limit for investors below the age of 65 at £12,000 from 6 April 2027. For investors aged 65 or over, the annual Cash ISA limit will remain at £20,000.

4.2 To ensure the new Cash ISA limit is not circumvented this instrument also: provides that transfers from a stocks and shares ISA (S&S ISA) or innovative finance ISA (IF ISA) to a Cash ISA are prohibited where the account holder is below the age of 65; defines investments deemed to be 'cash like' for the purposes of the Regulations and provides restrictions on their holding; and introduces a flat rate charge of 22% on any interest paid on cash held in a S&S ISA and IF ISA.

Where does the legislation extend to, and apply?

4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 An ISA is a tax-advantaged savings product providing relief from tax to individuals. The ISA rules, including which investments qualify for inclusion and the basis on

which accounts must operate, are set out in the ISA Regulations. One such rule provides how much can be subscribed annually to an ISA or ISAs by an individual. Currently, up to £20,000 can be subscribed annually and the rules do not differentiate between the amount which can be subscribed to Cash, S&S or IF ISAs.

5.2 At Autumn Budget 2025, the Government announced that, with effect from 6 April 2027, the annual Cash ISA limit for those below the age of 65 will be set at £12,000, within the overall annual ISA limit of £20,000. Savers aged 65 and over will continue to be able to save up to £20,000 in a Cash ISA annually. On 23 June 2026, the Government announced that, to support the change, a number of rules will be introduced which will minimise the opportunity for the lower Cash ISA limit to be circumvented, while preserving the flexibility needed for legitimate investment activity within non Cash ISAs.

5.3 The Government's policy objective for the change to the Cash ISA limit is to incentivise investment in stocks and shares over cash savings and encourage better returns for savers. The reduction of the Cash ISA limit will encourage those who save more than £12,000 in Cash ISAs to consider investing in S&S or IF ISAs if they want to fully benefit from the £20,000 annual ISA limit.

5.4 The anti-circumvention rules are intended to ensure the reduced Cash ISA limit operates as intended and cannot be circumvented, for example, by holding large cash balances or 100% cash-like products earning tax free interest within non Cash ISAs, or by routing subscriptions through non Cash ISAs before transferring them into Cash ISAs.

5.5 In recognition of the need of those approaching retirement to restructure and derisk their investments, the Government has retained the Cash ISA limits at £20,000 for those aged 65 and above and will allow transfers into Cash ISAs for this group.

5.6 This instrument amends the ISA Regulations to provide that, from 6 April 2027, investors aged 64 or under at the end of the year may only subscribe £12,000 to a Cash ISA in that year. It amends the transfer rules to provide that a transfer of funds from a S&S or IF ISA to a Cash ISA can only take place where the account investor is aged 65 or over at the end of the year in question.

5.7 The instrument also amends the ISA Regulations to provide that Money Market Funds (MMF) are qualifying investments for a S&S ISA and provides that MMFs cannot comprise 100% of the value of non-cash investments in a S&S ISA. It also provides that where interest is paid or credited on cash deposits held in a S&S or IF ISA the ISA manager must pay a flat charge at the savings basic rate.

5.8 The instrument also makes a number of consequential changes to ensure the Cash ISA limit is not circumvented.

What was the previous policy, how is this different?

5.9 The ISA Regulations provide that investors can save up to the total of £20,000 annually in Cash ISAs, S&S ISAs or IF ISAs or any combination of the three. At Autumn Budget 2025, it was announced that the Cash ISA limit would be reduced to £12,000 for those aged under 65 with effect from April 2027.

5.10 The ISA Regulations do not define MMFs as separate eligible investments for S&S ISAs and there is no restriction on the proportion of individual investments which can be held in an ISA. On 23 June 2026, the Government announced that investments in MMFs could not comprise 100% of a S&S ISA's investment portfolio.

5.11 The ISA Regulations provide that transfers of funds can be made between any type of ISA. On 23 June 2026, the Government announced that a transfer of funds from a S&S or IF ISA to a Cash ISA could not occur where the account investor is aged below 65.

5.12 The ISA Regulations place no restrictions on the holding of cash in a S&S or IF ISA. On 23 June 2026, the Government announced that where interest was paid on cash deposits held in a S&S or IF ISA a flat charge at the savings basic rate would be charged.

6. Legislative and Legal Context

How has the law changed?

6.1 Regulation 2 of the ISA Regulations provides definitions for the purposes of the ISA Regulations, including the definition of investments which qualify for inclusion in an ISA under Regulations 7 and 8.

6.2 This instrument will create a definition of a MMF for the purposes of Regulations 7 and 8, and a definition of alternative finance return for the purpose of Regulations 21, 22A, 24 and 26.

6.3 Regulation 2D prescribes the regulations which do not apply to junior ISA accounts. This instrument will amend Regulation 2D to provide that Regulation 22A does not apply in the case of junior ISAs.

6.4 Regulation 4 provides the general conditions with which an account must comply if it is to qualify for relief from tax, including that the account must comply with the subscription limits set out at Regulation 4ZA. This instrument will amend Regulation 4 to include a reference to the cash ISA limit at Regulation 4ZA.

6.5 Regulation 4ZA provides the overall annual subscription limit for ISAs. This instrument will amend Regulation 4ZA to provide that where an individual is 64 or under at the end of the year, they may only subscribe £12,000 to a Cash ISA in that year.

6.6 Regulation 4A provides for the repair of an account made invalid because subscriptions have exceeded the overall annual subscription limit at Regulation 4ZA. This instrument will amend Regulation 4A to differentiate between subscriptions in excess of the overall annual subscription limit and those in excess of the Cash ISA limit.

6.7 Regulation 5DDB provides that the terms and conditions of an ISA may provide for the account holder to replace, in whole or part, cash withdrawn from ISA (a "flexible account") without it affecting the individual's annual subscription limit. This instrument will amend Regulation 5DDB to provide that any replacement of funds to a Cash ISA must not exceed the cash subscription limit at Regulation 4ZA.

6.8 Regulation 7 specifies the kind of investments which may be held in a S&S ISA. This instrument will amend Regulation 7 to provide that MMFs are qualifying investments for a S&S ISA and that MMFs cannot comprise 100% of the value of non-cash investments in a S&S ISA.

6.9 Regulation 8 specifies the kind of investments which may be held in a Cash ISA and includes outdated references to MMFs. This instrument will amend the definition of MMFs to reflect current usage.

6.10 Regulation 10 specifies who may qualify to invest in an ISA and refers to a single overall subscription limit. This instrument will amend Regulation 10 to reflect the introduction of a separate Cash ISA subscription limit.

6.11 Regulation 12 specifies the conditions for applying to open an ISA and requires the applicant to declare that he will not subscribe more than the single overall subscription limit. This instrument will amend Regulation 12 to reflect the introduction of a separate Cash ISA subscription limit.

6.12 Regulation 21 provides the rules which apply where an account is transferred and includes references to "age 18 or over" which no longer have effect. This instrument will amend Regulation 21 to provide that a transfer of funds from a S&S or IF ISA to a Cash ISA can only take place where the account investor is aged 65 or over at the end of the year in question. It will also remove the otiose references to "age 18".

6.13 Regulation 22 provides an exemption from tax of account income and gains. It defines alternative finance returns and makes reference to cash deposits solely in the context of a cash component. This instrument amends Regulation 22 to remove the reference to alternative finance returns – which will be defined in Regulation 2 (Interpretation) and removes the reference to the cash component – as cash may be deposited in other ISA components.

6.14 This instrument amends the ISA Regulations to insert Regulation 22A. Regulation 22A will provide that where a sum of interest or alternative finance return is paid or credited on cash deposits held in a S&S or IF ISA, the ISA manager shall pay to HMRC a flat charge of 22% which is representative of the savings basic rate.

6.15 Regulation 24 provides that an ISA manager may make claims, conduct appeals and agree on behalf of the account investor liabilities for and reliefs from tax in respect of an account. Regulation 26 requires the ISA manager to make returns to HMRC in respect of such repayments, income or gains. This instrument amends Regulations 24 and 26 to refer to Regulation 22A.

6.16 Regulation 31 specifies the returns of information an ISA manager must deliver to HMRC. This instrument amends Regulation 31 to require ISA managers to report the market value of funds held in a MMF and the sum which is payable to HMRC under Regulation 22A.

Why was this approach taken to change the law?

6.17 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 Policy officials in HMRC and HMT have regular discussions with industry representatives and ISA managers on the operational design of ISAs, potential improvements, and the application of the ISA rules. These discussions have informed the proposed changes which will support the Government's policy objectives.

7.2 Additionally, technical consultation on the draft legislation and the operational consequences of the changes took place between 25 June and 2 August 2026. Limited comments were received on the text of the amending legislation, with the majority of comments concentrating on the Government's policy decision. Where technical comments were received, they have informed the drafting of the amending legislation.

8. Applicable Guidance

8.1 HMRC's Guidance Notes for ISA managers available on the gov.uk website[1] will be amended to reflect the changes to the annual cash ISA limit and associated rules.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument is available on the gov.uk website.[2]

Impact on businesses, charities and voluntary bodies

9.2 The impact on those business offering ISAs is significant. ISA managers will be required to monitor subscriptions and investments to ensure that ISAs comply with the new cash subscription limits and rules concerning money market funds. HMRC will support implementation by providing ISA managers with clear guidance regarding new obligations and processes required. There is no impact on charities or voluntary bodies.

9.3 The legislation does impact small or micro businesses.

9.4 Small and micro businesses offering ISAs cannot be exempted from the requirements of these regulations. The new cash ISA limit applies to all cash ISAs available to individual investors regardless of the size of the ISA manager.

9.5 The impact on the public sector is that HMRC will need to implement changes to its IT systems to support delivery of this measure, with current estimates placing these changes at around £0.2 million. This investment forms part of the wider Digitalisation of ISAs (DISA) programme.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is that HMRC will continue to review compliance with the ISA Regulations using information provided annually and through regular contact with ISA managers and other public sector bodies.

10.2 The instrument does not include a statutory review clause and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015 because it amends a provision to vary tax.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

[1] Guidance Notes for ISA managers: https://www.gov.uk/government/collections/isa-managers-guidance

[2] Tax Information and Impact Note: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").