EXPLANATORY MEMORANDUM TO
THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT) REGULATIONS 2006.

SI 2006 No. 3194

1. This Explanatory Memorandum has been prepared by HM Revenue and Customs and is laid before the House of Commons by command of Her Majesty.

2. Description

These Regulations amend the Individual Savings Account Regulations 1998 (S.I. 1998/1870) to exempt from tax building society bonuses paid in respect of an Individual Savings Accounts. It also exempts such payments from counting towards the annual subscription limit if they are paid directly into the account.

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

None

4. Legislative background

4.1 These regulations are being made under powers conferred by sections 694(1), (3) and (5) and 701(1) of the Income Tax (Trading and Other Income) Act 2005 and section 151 of the Taxation of Chargeable Gains Act 1992. The regulations are being made under the negative resolution procedure.

4.2 Regulation 22(1) of the Individual Savings Account Regulations 1998 sets out the details of the exemption from tax of account income and gains. The effect of the amendments is to allow building society bonuses paid in respect of an Individual Savings Account to be paid directly into that account tax free.

5. Territorial extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

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

7. Policy background

7.1 The Individual Savings Account is a tax-advantaged savings account, and was introduced in 1999. The ISA regime allows individuals to save, without being subject to tax on any income or gains on those savings.

7.2 The existing Individual Savings Accounts regulations require annual bonuses paid to people who hold their Individual Savings Account with building societies to be paid net of tax, unless the person who owns the account is a non-taxpayer and has

filled in a form provided by HMRC (the R85) to allow any payments to be made gross. Payments of annual bonuses are not exempted from tax.

7.3 This change will help building societies as the annual bonus will be exempted from tax and provided it is paid by the building society directly in to the Individual Savings Account it will not count towards the subscription limits.

7.4 In order to align the Individual Savings Account rules with the Child Trust Fund, these regulations mirror the provisions set out in the Child Trust Fund (Amendment No. 3) Regulations 2006 (S.I. 2006/3195)

7.5 HMRC informally consulted on the analogous change with Child Trust Fund providers in November 2006. The change was welcomed in the consultation. As both the ISA and the CTF are tax advantaged savings accounts, the change has also been carried through to the ISA.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it imposes no new impacts on business, charities or voluntary bodies.

8.2 The impact on the public sector is negligible.

9. Contact

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