EXPLANATORY MEMORANDUM TO

THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT) REGULATIONS 2025

2025 No. 733

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 and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 Emma Reynolds 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 Claire Cornell Johnson at HMRC: 03000 200 3300 or email: savings.audit@hmrc.gov.uk can be contacted with any queries regarding the instrument.

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 reflect developments in other legislation, clarify the position in cases of doubt and provide additional safeguards for investors.

4.2 Qualifying ISA investments include funds which are recognised by the Financial Conduct Authority (FCA). The FCA provided recognition through the Temporary Marketing Permissions Regime (TMPR) and began a transition to the Overseas Fund Regime (OFR) on 1 October 2024 until 31 December 2026. This instrument will amend the ISA Regulations to allow funds recognised under the TMPR and the Overseas Fund Regime (OFR) to continue as qualifying ISA investments during the transitional period and until the end of the transitional period providing certainty for investors.

4.3 Qualifying ISA investments for the innovative finance ISA include funds which would qualify for the stocks & shares ISA but for their redemption period, which must allow access within 30 days. This instrument will amend the ISA Regulations to include Long-Term Asset Funds (LTAFs) as a qualifying investment for the innovative finance ISA.

4.4 Investors must provide certain information to open an ISA, including a National Insurance number. Before April 2025, investors could declare that they did not have a National Insurance number as part of the application. This increased the number of ISAs with no National Insurance number, making it more difficult for HMRC to monitor subscriptions. This instrument will require a National Insurance number to be

provided where a subscription is made to any existing account, unless the investor is not entitled to a National Insurance number.

4.5 ISA managers may allow their cash, stocks and shares or innovative finance ISA to operate flexibly. This allows an investor to withdraw and replace funds, in the same tax year, without increasing the amount they have subscribed. This instrument will clarify the rules relating to the withdrawal of subscriptions made in the current year from a flexible account.

Where does the legislation extend to, and apply?

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

4.7 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 Individual Savings Account (ISA) is a tax-advantaged savings product providing relief from tax to individuals. The ISA rules, including which investments qualify for inclusion, the basis on which accounts must operate and the requirements individuals must meet to open an account, are set out in the ISA Regulations. One such rule is that only authorised or recognised funds may be held in a stocks & shares ISA.

5.2 This instrument amends the ISA Regulations to:

5.2.1 accommodate an orderly transition of qualifying investments which are recognised funds moving from the TMPR to the OFR from 1 October 2024 to 31 December 2026. This will provide certainty that any recognised funds that were qualifying investments at the start of the transition period will remain so until 31 December 2026.

5.2.2 to provide that Long Term Asset Funds (LTAFs) are a qualifying investment for an innovative finance ISA.

5.2.3 clarify that funds paid in (subscribed) to an ISA in a tax year which are subsequently withdrawn from a flexible account (which allows the replacement of funds withdrawn in a tax year) may be subscribed to any other ISA in that same year.

5.2.4 require that, from 6 April 2027, National Insurance numbers are provided when subscribing to an account, to protect the integrity of the tax-free savings landscape.

What was the previous policy, how is this different?

5.3 The TMPR was put in place after the EU exit to provide recognition for authorised overseas collective investment schemes wishing to market to retail investors in the United Kingdom. The FCA began a transition from the TMPR to the OFR (which is replacing the TMPR) on 1 October 2024 until 31 December 2026.

5.4 During the transition, funds will be given ‘landing slots’ by the FCA to apply to the OFR, and when each ‘landing slot’ ends, any fund not recognised under the OFR will not be a recognised fund. It is difficult for consumers to identify which funds are

recognised and which are not during this time, without checking the status of each fund on a daily basis.

5.5 The ISA Regulations provide that funds which would otherwise be eligible for a stocks and shares ISA but for their limited liquidity are eligible for the innovative finance ISA. LTAFs are defined separately by the FCA to other authorised funds and existing definitions within the ISA Regulations do not provide for their inclusion as a qualifying investment.

5.6 The ISA Regulations require, amongst other things, that certain information is provided by an investor to enable an ISA to be opened. From 6 April 2025, the provision of a National Insurance number was made mandatory when opening new accounts by SI 2024 No. 1022, however this was not applied retrospectively. The change made by this instrument will require a National Insurance number to be provided where a subscription is made to any account, unless the investor is not entitled to a National Insurance number.

5.7 The ISA Regulations set out the basis on which accounts must operate, including the treatment of funds withdrawn from a flexible account. The changes will clarify the rules relating to the withdrawal of subscriptions made in the current year from a flexible account.

6. Legislative and Legal Context

How has the law changed?

6.1 Regulation 2 of the ISA Regulations provides the definition of investments which qualify for inclusion in an ISA under Regulation 7.

6.2 This instrument will create a definition of an LTAF to accommodate this new, Financial Conduct Authority (FCA) defined, collective investment scheme.

6.3 Regulation 4ZA of the ISA Regulations requires certain information to be provided to subscribe to an ISA.

6.4 To protect the integrity of the tax-free savings landscape, address a lacuna and mirror the approach with Lifetime ISAs, this instrument will amend Regulation 4ZA to require the provision of a National Insurance number where the investor is entitled to one, from 6 April 2027.

6.5 Regulation 5DDB provides that a cash, stocks and shares or innovative finance ISA may operate flexibly allowing the investor to withdraw and replace funds in-year. This instrument will amend Regulation 5DDB to require that where current year subscriptions are withdrawn from a flexible account, the amount subscribed in the tax year is reduced.

6.6 Regulation 7 of the ISA Regulations specifies the kind of investments which may be held in a stocks and shares ISA.

6.7 This instrument will amend Regulation 7 to provide that any funds which were recognised funds within the TMPR at the start of the transitional period are allowed to remain as ISA qualifying investments until 1 January 2027. This instrument also amends Regulation 7 to require that from 1 January 2027 only recognised funds within the OFR can qualify for a stocks and shares ISA.

6.8 Regulation 8A specifies the kind of investments which may be held in an innovative finance ISA. This includes funds which would otherwise be eligible for a stocks and shares ISA but for their limited liquidity.

6.9 The instrument will amend Regulation 8A to provide that LTAFs, as newly defined in Regulation 2, qualify for an innovative finance ISA.

Why was this approach taken to change the law?

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

7. Consultation

Summary of consultation outcome and methodology

7.1 Policy officials have regular discussions with industry representatives and ISA managers on the operational design of ISAs, potential improvements, and to clarify application of the ISA rules. These discussions have informed the proposed changes following concerns that ISA managers would be unable to identify qualifying recognised funds during the transitional period, potentially resulting in a breach of the ISA rules, and that LTAFs should be included as a qualifying investment for an innovative finance ISA. Additionally, technical consultation on the draft legislation and the operational consequences of the changes, took place between 4 April and 30 April 2025. Technical comments received in relation to the operation and management of recognised funds 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 ISA rules.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument will be published on the gov.uk website[2].

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies. Allowing funds that were recognised under the TMPR on 1 October 2024 to remain as qualifying ISA investments until the end of the transitional period to the OFR on 31 December 2026 will provide certainty and stability for ISA managers and consumers. Changes to the requirement for the individual to provide a National Insurance number when subscribing to an ISA from 6 April 2027 will require some ISA managers to obtain missing information and prohibit subscriptions for individuals who have not provided the necessary information. Introduction of the requirement in June 2025 allows ISA managers time to collect this information before it is mandated.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because the changes do not affect how businesses interact with HMRC.

9.5 There is no, or no significant impact on the flow or allocation of funds to an ISA.

[1] Guidance Notes for ISA managers: http://www.gov.uk/government/collections/isa-managers-guidance
[2] Tax Information and Impact Note: https://www.gov.uk/government/publications/individual-savings-account-and-child-trust-funds-amendment-regulations-2025

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, 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.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative resolution 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”).