Response by TISA to Individual Savings Account: UK ISA Consultation

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About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Our ambition is to improve the financial wellbeing of all UK consumers. We do this by convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of **all sectors of the financial services industry.** We have **over 200-member firms involved in the supply and distribution of savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives that influence policymakers** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **Governance, Conduct and Culture, Consumer Duty**, **MiFID II, CASS, ESG/RSI, Operational Resilience, Financial Crime Prevention,** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings, Investments & Pensions**. This reflects TISA's commitment to open standards and independent governance.

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Introduction and Summary of Recommendations

TISA welcomes the opportunity to respond to HM Treasury's Individual Savings Account: UK ISA Consultation.

We welcome the proposed additional £5,000 annual allowance that will be available to investors but in addition to the prescribed questions below, we would make the following points:

TISA, along with other industry bodies and firms in the industry has, in recent years, been looking at ways of simplifying the ISA landscape as it has become more complex and more confusing to both consumers and ISA managers due to numerous factors including the introduction of innovative finance ISAs, flexible ISAs, lifetime ISAs and various changes which impact deceased ISAs. There is, therefore, an argument that the introduction of an additional ISA to the suite of ISA types may add further complexity and confusion and the consultation acknowledges this when it states that the UK ISA may have to have incorporate bespoke rules in order to achieve its objectives. This would be mitigated to some degree, we would acknowledge, if the UK ISA is a stand-alone ISA type with both a separate annual limit and has minimal interaction with other ISA types. We appreciate that the government was not seeking views on the policy decision to launch a new UK ISA, but we thought it important to make this point.

Our key concern is that, without incentives to consider this as an investment option, this new ISA will primarily be of benefit to those ISA savers/investors who already fully utilise their £20,000 annual ISA allowance and who would, therefore, use the UK ISA in order to help protect a further £5,000 from UK income and capital gains tax. The government has already acknowledged this assumption. This would only be a very small percentage of current ISA savers/investors. So, it is unlikely, we would suggest, that the new ISA will provide any obvious benefits to the majority of ISA savers and investors and is unlikely to attract first time ISA consumers into the market.

Therefore, to make the UK ISA attractive and of benefit to a wider spread of ISA consumers, we believe, based on our experience in this area, and feedback from ISA managers, that this could be achieved if the UK ISA was to offer some additional benefits over and above those received from a normal stocks & shares ISA. An obvious example would be to align the UK ISA by providing the same government bonus offered by the lifetime ISA, or an incentive based on the investment type such as waiver of stamp duty, or something in between. We acknowledge there may be an additional cost and further complexity in offering such an incentive.

Were there an incentive, then, apart from those who are already maximising their allowance, we believe it would attract investment from new investors and those individuals who don't currently utilise their full annual ISA allowance. It would help make the UK ISA be seen as a more mainstream ISA product and not just a product aimed at a niche market.

We have provided our feedback below to the prescribed questions which we hope are helpful to the government and will help the UK ISA meet its policy objectives.

Much of the feedback advocates the need for simplicity, especially around the issues of qualifying investments for the UK ISA and ISA transfers into and out of the new UK ISA. Prior to and shortly after the introduction of the Lifetime ISA (LISA) in 2017, the feedback that TISA received from the industry suggested that the LISA, especially in the way that it interacted with other ISA types, was simply too complex and this deterred some firms from entering the LISA market. The low take up of the LISA to date has been acknowledged as being less that the government had anticipated.

So, keeping the new UK ISA as simple and easy to administer as possible is paramount as well as maximising the benefit to the ISA consumer and likelihood of the policy successfully meeting its objective (s) and helping the government's ambition of maintaining the simplicity of ISAs.

Also, given the UK plc investment agenda for workplace pension schemes, we need to be consistent in terminology and definitions across the wider set of UK investment products i.e., if it deemed eligible for UK ISA investment, it should be classed as a UK investment for pension investment and disclosure purposes too.

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Question Responses

Defining the UK ISA

Q1: Should ordinary shares in UK incorporated companies that are either listed on a UK recognised stock exchange or admitted to trading on UK recognised stock exchange be eligible for the UK ISA?

The simplest approach would be to permit shares in companies (regardless of their place of incorporation) that are listed or traded on a UK recognised stocks exchange, to be eligible for the UK ISA. This approach would impose additional restrictions in comparison to the stocks & shares ISA.

We would also support adding further restrictions to the eligibility criteria and only permitting shares in UK incorporated companies to be qualifying. This would be subject to there being a clear and transparent definition of 'UK incorporated'.

We would not support the addition of further restrictions relating to the proportion of the listed group's commercial activities conducted in the UK, as defined for example by source of revenue or location of assets. We strongly believe that this would require additional resources for ISA managers to accurately check such criteria and would be hard to clearly define in the ISA regulations.

Q2: Should collective investment vehicles be eligible for the UK ISA and if so, which vehicles specifically? What should be the minimum requirement for each of the underlying investments and how would each be monitored by ISA managers?

We believe that collective investment vehicles should definitely be allowed in the UK ISA in order for investors to spread their risk and diversify their holdings. The difficulty, where restrictions are imposed stipulating a minimum value of the fund to be held in UK companies (or UK investments which would require a clear definition), is setting a suitable limit (70%, 75%, 80% etc.) and how ISA managers would be expected to accurately determine whether the required threshold has been met.

Our view is that funds themselves would need to clearly stipulate what percentage of the fund is held in UK investments which ISA managers could then rely on for UK ISA inclusion purposes. It would simply be too onerous (if not impossible) a task for ISA managers to attempt to independently check the make up of funds.

Another possible and workable option put forward by several firms would be to make the qualifying criteria consistent with fund categories already in place through the Investment Association (IA).

Thought would also have to be given to the scenario of where a fund, over time, falls foul of the required UK investment percentage and ceases to be UK ISA qualifying. This would be extremely difficult for ISA managers to police on an ongoing basis. One option to help alleviate such scenarios would be to introduce a window of time (maybe 30/60 days) where a fund could remain in the UK ISA as long as it regains its qualifying status within the allotted period.

We believe that making the qualification criteria for funds too onerous and holding the ISA manager to be in breach of the rules should funds change their investment make up, could deter ISA managers from offering a UK ISA.

Q3: Should corporate bonds be eligible for the UK ISA?

We agree that corporate bonds should be available within the UK ISA to help provide a balanced portfolio and to help with risk management, especially where the ISA may be used in later life as part of retirement strategy. We would suggest retaining the same qualifying category that is currently used for stocks & shares ISAs which is 'qualifying securities' which could include loan notes, loan stock, debentures, Eurobonds etc.

We believe that the simplest approach would be to permit any securities offered by a UK incorporated company. There are numerous commercial reasons why UK incorporated firms may not always raise their dept through UK markets so we think it wouldn't be appropriate to restrict the qualifying criteria to securities that are listed/traded on a UK recognised stock exchange.

Q4: Should gilts be eligible for the UK ISA?

We see no reason why UK Gilts should not qualify to be held in the UK ISA as they offer similar benefits to company securities and they would be clearly identifiable as UK ISA qualifying. This would help meet the objective of the UK ISA supporting the UK in general, however, if the key objective is to support UK business/companies, then permitting government securities to be held may conflict with this objective.

Q5: Are there other investments that already qualify for an ISA that should be eligible for the UK ISA? How would they meet the policy objectives?

We would also advocate a separate category for UK authorised investment trusts. There is a separate category for UK investments trusts within the stock & shares ISA qualifying rules and we would suggest maintaining this approach with the UK ISA to maintain some consistency.

As with funds (collective investment schemes) covered in Question 2, restrictions could be imposed to stipulate a minimum value of the trust being invested in UK companies with the investment trust itself being responsible for labelling the trust as such. Note our comments above on the policing of ongoing qualification.

Design of the UK ISA

Q6: Should the UK ISA allow subscriptions to multiple UK ISAs in the same tax year?

We believe that a strong case can be made for adopting the approach for other adult ISAs (cash, stocks & shares & innovative) and permitting multiple subscriptions in the same tax year to the new UK ISA and, also, for only permitting subscriptions to one UK ISA in each tax year.

Permitting subscriptions to multiple UK ISAs per tax year helps maintain consistency and understanding among both ISA managers and ISA customers and would help drive competition in the market and provide ISA customers with the maximum amount of choice and flexibility.

Accepting that the maximum subscription to the UK ISA will be £5,000 per annum, which is similar to that of the LISA (£4,000) which still only permits subscriptions to one LISA per tax year, you could argue that there will be fewer reasons for investors to split their UK allowance among different UK ISA managers in each tax year. Only permitting subscriptions to one UK ISA per tax year would help simplify the rules which is a key factor, especially if another ISA is being thrown into the ISA mix.

Considering the recent changes to the ISA regulations, permitting subscriptions to multiple ISAs in each tax year, which TISA has always supported, I think we would support adopting the same approach with the UK ISA and permitting multiple subscriptions to UK ISAs.

Q7 Should transfers from any type of ISA to a UK ISA be allowed? Should there be a limit on transfers from other types of ISAs to a UK ISA?

The simple answer, you would think, would be yes, as this maintains the current approach of total flexibility among ISA types i.e., any ISA type can be transferred to any other ISA type.

By introducing the separate £5,000 limit and restricted qualifying investments for the UK ISA, however, in addition to the complexity of the current ISA transfer regulations/guidance, we feel that the potential problems and complexities may outweigh the benefits.

If the new rules only permitted transfers from other ISA types up to the limit of the UK ISA, this could replicate the approach taken with transfers into LISAs which causes significant confusion. This would introduce the concept of previous year funds being transferred into a UK ISA but treated as a current-year subscriptions in the UK ISA. Feedback received by TISA since the inception of LISAs suggests that such an approach is simply too confusing and difficult to administer, and we would not support such an approach with the UK ISA. This scenario/concern would only arise if there were financial incentives offered with the UK ISA.

There are also reporting requirements to consider should other ISA types be eligible to be transferred into the UK ISA without any restrictions. Under current rules, where all the current year subscriptions are transferred to a new ISA manager, current year subscription details are passed across to the new ISA manager and treated and reported by the new ISA manager as subscriptions to their ISA. So where, for example, current year subscriptions of £20,000 were transferred into a UK ISA (should this be permitted), the £20,000 should be reported as having been subscribed to the UK ISA which obviously exceeds the £5,000 limit. So, we believe that the current ISA reporting requirements would need amending to accommodate such an approach.

We have recently raised a similar issue with HMRC relating to transfers of current year subscriptions of other ISA types into LISAs where it appears as though ISA subscriptions are not being reported at all to HMRC.

We acknowledge that reporting requirements will be addressed as part of the wider project to fully digitalise ISA reporting, but our understanding is that the plan would be to launch the UK ISA before any changes to ISA reporting in 2026/27.

Weighing up the complexity and reporting concerns of permitting the transfer of other ISA types into the UK ISA, we believe that it would be simpler and preferable to just permit UK ISA to UK ISA transfers

albeit we acknowledge the views of some member firms who support this in order to maximise customer choice, flexibility, and consistency with the current ISA transfer rules.

Q8: Are there any downsides to the government's proposals on transfers out of a UK ISA??

Not permitting transfers out of a UK ISA to other ISA types would, undoubtedly, reduce choice and flexibility for the ISA investor but taking account of our comments above on reducing complexity/maintaining simplicity and the possible risk of investors simply using the UK ISA as a means of allocating extra funds to other ISAs, we would tend to side with the decision to not permit transfers of UK ISAs to other ISA types.

We should note that some member firms believed that transfers out of the UK ISA to other ISA types should be permitted in order to help maintain flexibility and customer understanding by not adding additional restrictions which could deter uptake of the UK ISA. It was suggested that the benefits of this additional flexibility would outweigh the risks, as mentioned above, of investors simply using the UK ISA as a means of allocating additional funds to other ISA types.

Another genuine concern was that investors could be encouraged to invest in the UK ISA during the initial marketing phase only to find themselves trapped and unable to transfer to another ISA type in the future should they choose.

Q9: Should the UK ISA have cash holding rules? Which rules should be included in the UK ISA?

Several suggestions have been put forward by the government as to how to address the holding of cash within the new UK ISA.

One option is to prevent interest being paid within the UK ISA for cash held on deposit. In addition to the negative impact on ISA investors, many firms have expressed their concerns as to how such an approach would impact on current Consumer Duty requirements. We acknowledge the suggestion that were this to be included in secondary legislation, ISA managers may not need to be concerned about Consumer Duty requirements. Due to the potential uncertainties surrounding Consumer Duty requirements and the fact that not receiving interest is not in the ISA customer's best interests, we wouldn't support this option.

We believe that the complexity of introducing some kind of de-minimus limit where a specified amount of cash could be held tax free, similar to that of personal equity plans (PEPs), would be far too complex to administer and could act as a deterrent to ISA managers offering the UK ISA.

Another suggested option is a return to the flat rate charge with some kind of restrictions on the holding of cash, such as a certain limit or for a specified period. We would also be non-supportive of this option. It also adds complexity to the rules which was reflected by the number of ISA managers that queried this rule with TISA over many years prior to its removal from stocks & shares ISAs. In addition to the complexity, the flat rate charge is obviously income tax by another name and never sat comfortably within the ISA brand.

The objective should be to make the UK ISA as attractive and tax efficient as possible therefore we believe that there should be no restrictions on the holding of cash which mirrors the approach of the stocks & shares ISA.

We believe that there will be negligible risk to the government. It is highly unlikely that a significant number of investors would choose to use the UK ISA purely for the purpose of trying to increase their cash holdings in a tax efficient environment i.e., to receive tax free interest.

We believe that any attempt to add additional restrictions to the UK ISA, regarding the holding of cash, purely as a way of deterring what we propose would be an insignificant number of individuals trying to seek some kind of loophole in the system, would add unnecessary complexity to the ISA as well as making it less attractive as a tax efficient savings vehicle.

In summary, we believe that the government need to accept this minimal level of risk if they wish to make the UK ISA as attractive as possible and maintain the ISA brand, free from UK income and capital gains tax.

Q10: Are there any other design features that the government should consider at this stage?

As mentioned in our introduction, in order to target the UK ISA at as wide a target market as possible and not just to the small percentage of ISA investors who currently fully utilise their £20,000 annual ISA allowance, the government could include some additional incentives such as:

- Offering some kind of government bonus in a similar way to the Lifetime ISA
- Making the UK ISA free from inheritance tax (IHT)
- Exempting UK ISA investments from Stamp Duty Reserve Tax (SDRT)

We acknowledge the additional cost to the government of offering additional incentives, but we believe that the UK ISA requires some additional benefits to help distinguish it from stocks & shares ISAs to help attract additional investment from a wider spread of the ISA market and not just the small percentage who currently subscribe £20,000.

The questions posed pre-suppose a number of additional requirements to those required for a standard ISA. It is our view that without incentives, firms are likely to see significantly increased costs with little scope for additional funds under management to offset these costs.

Moreover, without such an incentive it is difficult to see how advisers, (and the vast majority of sales of investment funds are through advisers or advised platforms) can sensibly advise customers to invest in such a product with more restrictions and less flexibility than a standard ISA. Which is a shame because we believe that a UK ISA would be attractive to newer investors and those with less than £20,000 to invest with appropriate incentives. We urge the Government to consider this.

Feedback from member firms also suggests that offering a higher annual limit than £5,000 may make the ISA more commercially viable and may encourage higher take up within the industry.

In terms of consistency across ISA types, we see no obvious reason as to why a UK ISA could not choose to offer flexibility in its terms & conditions and why the death of a UK ISA holder should be treated any differently to the death of an investor of another ISA type. So, the ISA would retain its tax efficient status for up to three years from death and provide the same additional permitted subscription (APS) benefits as other ISA types.

Q11: Are there any other unintended consequences from this approach?

Our key concern is that without any additional financial/tax benefits, as outlined above, the UK ISA will simply become an opportunity for the small number of privileged ISA investors who will now be able to shelter an additional £5,000 within a tax efficient ISA wrapper.

Delivery & Compliance

Q12: Would you be interested in offering a UK ISA based on the design set out in chapter 2 and 3?

TISA received feedback from several member firms. There was some enthusiasm to potentially offer the UK ISA, but it may depend on the complexity of the ISA and how difficult it may be to administer, especially regarding the policing of investments which qualify to be held. As mentioned in some of the above responses, the qualifying conditions for UK ISA investments would need to be as clear and transparent as possible.

There was also an expectation that the UK ISA would only be used by those investors who had fully utilised their £20,000 annual ISA allowance and would not attract any new ISA investors.

It was also mentioned that the likelihood of offering the UK would be increased if the launch of the UK ISA was accompanied by some kind of government campaign to help educate the public about the benefits of the new ISA.

It will be difficult for member firms to make any firm decisions on this until the final details of the UK ISA are confirmed.

Q13: How long would it take for you to launch a UK ISA product and when would you start building it following this announcement?

Feedback from member firms was mixed and suggested that an absolute minimum of 12 months would be required starting from the point that the final regulations are made available. Some responses suggested that the realistic timeframe, depending on other factors, may be between 18 and 24 months.

Q14: What would the cost implications be and what operational changes would you need to undertake?

Feedback from member firms suggested that multiple system changes and developments would be required in addition to numerous other processes that would need amending/developing and this, again, would depend on the final detail of the new ISA. No specific costs were provided.

Any reporting requirements for the UK ISA should be included within the digitalisation of ISAs and be consistent with requirements for other ISA types to ensure managers do not have to build 2 new reporting mechanisms to be able to offer this product as well as their existing ISAs.

Q15: What, if any, issues do you foresee from a compliance perspective for the UK ISA? Please provide details.

The key compliance concern raised by member firms is that of eligible assets within the UK ISA. In other words, ensuring that only eligible assets can be held in the UK ISA and the resources required to ensure compliance in this area. This obviously goes back to the need for the qualifying criteria to be as clear and simple as possible.

There was a suggestion that there could be a higher likelihood of oversubscriptions especially if the rules were to permit subscriptions to multiple UK ISAs in the same tax year.

It was also suggested the addition of a new ISA would complicate the ISA landscape still further increasing the likelihood of ISA investors not complying with the rules.

In addition to HMRC compliance, some firms were keen to point out that ISA managers will also have to comply with FCA requirements such as Consumer Duty where ISA managers will need to consider the target market for a UK ISA to help ensure that communications equip ISA investors to make decisions which are effective, timely and properly informed. It was suggested that a clear HM Treasury articulation of the proposed UK ISA target market would also help demonstrate how the UK ISA would benefit ISA investors.