

TAXREP 6/07

INDIVIDUAL SAVINGS ACCOUNTS: PROPOSED REFORMS

Comments dated 31 January 2007 from the Tax Faculty of the Institute of Chartered Accountants in England & Wales to HM Treasury in response to the consultation document issued on 6 December 2006.

Contents	Paragraph
Introduction	1–2
Detailed comments	3–7
Who we are	Appendix 1

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INTRODUCTION

1. This document sets out the comments of the Tax Faculty of the Institute of Chartered Accountants in England and Wales (ICAEW) in response to the consultation document issued by HM Treasury on 6 December 2006 entitled *Individual Savings Accounts: proposed reforms*. We are pleased to have the opportunity to respond to this consultation.
2. Information about the ICAEW and the Tax Faculty is given in Appendix 1.

DETAILED COMMENTS

3. Our comments are made from the point of view of our members and the clients whom they advise, and of individuals generally who may invest in Individual Savings Accounts (ISAs). We have not commented on the position of ISA-providers.
4. In general we very much welcome these proposals to simplify the ISA regime and to bring Personal Equity Plan (PEP) holdings within it.
5. We are pleased to note that the Government has proposed that ISAs will 'become a permanent part of the savings landscape'. This will provide welcome certainty to taxpayers in their financial planning. However, in our view the maximum limit of £7,000 is due for review, as it has remained at that level since 1999/00. Indeed, if ISAs are to be made permanent, it would seem reasonable to index the limit automatically each year, although we recognise that the cost implications would need to be considered further.
6. In paragraph 1.12 the consultation document refers to the tax treatment of interest on uninvested cash within PEPs and ISAs.
 - Firstly, the treatment within PEPs is currently more favourable than within ISAs and this will need to be made very clear to former PEP investors when their investments become ISAs or they may be caught unawares.
 - Secondly, we suspect that many people are unaware that interest on uninvested cash within stocks and shares ISAs suffers a flat rate deduction of 20%. Again this needs to be made clear. Alternatively, the possibility of a de minimis limit before applying the flat rate charge could be considered.
7. In paragraph 1.18 the document notes that investors will have to monitor the £3,000 cash and £7,000 overall limit on their ISA investments in any one year. This has always been the case, but will be more of a challenge with the proposed new rules offering more opportunity to make a variety of ISA investments with different providers and in differing amounts. HM Revenue & Customs (HMRC) will monitor the overall limits for each taxpayer as they do now, but the difficulty is that they will not spot a breach of the limits until some time after the event, at which point the arrangements have to be unpicked. A taxpayer who has unwittingly breached the limits may suffer tax and other financial costs.

- The Government needs to ensure that HMRC's computer systems are fully geared up to monitor the new ISA rules. We are not aware of any problems with how this system is working at present, but on the other hand, we have had ample experience recently of new or upgraded HMRC computer systems failing to live up to what was expected of them.
- Secondly, we recommend that the Government should make it obligatory to include a very prominent health warning about ISA limits on any application forms. The format and content of these warnings should be similar for all providers so that they are instantly recognisable by investors, which should help to get the message across.

JMM
31 January 2007

APPENDIX 1

WHO WE ARE

1. The Institute of Chartered Accountants in England & Wales is a professional body representing some 128,000 members. The Institute operates under a Royal Charter with an obligation to act in the public interest. It is regulated by the Department of Trade and Industry through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy (which includes taxation).
2. The Tax Faculty is the centre for excellence and an authoritative voice for the Institute on taxation matters. It is responsible for tax representations on behalf of the Institute as a whole and it also provides services to more than 11,000 Faculty members who pay an additional subscription.
3. Further information is available on the ICAEW website, www.icaew.com.