STATUTORY INSTRUMENTS

2017 No. 466

INCOME TAX
CAPITAL GAINS TAX

The Individual Savings Account (Amendment No. 2) Regulations 2017

Made - - - -	*21st March 2017*
Coming into force - -	*6th April 2017*

The Treasury make the following Regulations in exercise of the powers conferred by section 151 of the Taxation of Chargeable Gains Act 1992(**1**), sections 694, 695, 696, 699 and 701 of the Income Tax (Trading and Other Income) Act 2005(**2**) and sections 1 and 4(2)(a) and (b), (5) and (6) of, and paragraphs 2(2), 3, 4, 7, 8(2), (5) and (6), 9(1), (2), (3) and (5) and 11 of Schedule 1 to, the Savings (Government Contributions) Act 2017(**3**).

Citation and commencement

1. These Regulations may be cited as the Individual Savings Account (Amendment No. 2) Regulations 2017 and come into force on 6th April 2017.

Amendment of the Individual Savings Account Regulations 1998

2. The Individual Savings Account Regulations 1998(**4**) are amended as follows.

Regulation 2

3.—(1) Amend regulation 2 (interpretation) as follows.

(2) In paragraph (1)—

(**1**) 1992 c. 12. Section 151 was amended by section 85 of the Finance Act 1993 (c. 34), paragraph 436 of Schedule 1 to the Income Tax (Trading and Other Income) Act 2005, section 40(6) of the Finance Act 2011(c. 11) and section 27(2) of the Finance Act 2016.(c. 24).

(**2**) 2005 c. 5. Section 694 was amended by section 40(2) of the Finance Act 2011. Sections 695 and 696 were amended by paragraph 132 of Schedule 4 to the Commissioners for Revenue and Customs Act 2005 (c. 11). Section 699 was amended by section 40(4) of the Finance Act 2011 and paragraph 132 of Schedule 4 to the Commissioners for Revenue and Customs Act 2005. Section 701 was amended by section 40 of the Finance Act 2008 (c. 9) and section 40(5) of the Finance Act 2011.

(**3**) 2017 c. 2.

(**4**) S.I.1998/1870; relevant amending instruments are: S.I. 2000/2079, 2002/3158, 2006/3194, 2007/2119, 2011/1780, 2012/1871, 2013/605, 2014/1450, 2015/608, 2015/869, 2015/941, 2016/16, 2016/364, 2016/977 and the Individual Savings Account (Amendment) Regulations 2017.

(a) in the definition of "account investment"(**5**)—

(i) for "or an innovative finance component" substitute ", an innovative finance component or a Lifetime ISA component", and

(ii) after "8" insert ", 8ZA"(**6**),

(b) after the definition of "CTA 2010"(**7**) insert—

""current year payments" has the meaning given in regulation 10A(3)(**8**);",

(c) after the definition of "eligible child"(**9**) insert—

""eligible conveyancer" has the meaning given in paragraph 7 of the Schedule;",

(d) after the definition of "gilt-edged securities" insert—

""government bonus" has the meaning given in the Schedule;",

(e) after the definition of "lender"(**10**) insert—

""Lifetime ISA" has the meaning given in regulation 4(1ZB)(**11**);",

""Lifetime ISA payment limit" has the meaning given in regulation 4ZA(1A);",

""Lifetime ISA qualifying individual" has the meaning given in regulation 10A;", and

(f) after the definition of "plan shares"(**12**) insert—

""qualifying addition" has the meaning given in the Schedule;".

(3) In the Table in paragraph (2) after the entry for "Qualifying investments for a cash component" insert—

"Qualifying investments for a Lifetime ISA component	8ZA"

Regulation 2A

4. In regulation 2A (meaning of account investor)(**13**)—

(a) in paragraph (2) after "junior ISA account" insert "nor a Lifetime ISA", and

(b) after paragraph (5) insert—

"(6) In relation to a Lifetime ISA, "account investor" means an individual who—

(a) makes, or has made, a qualifying addition to a Lifetime ISA, and

(b) at the time of each qualifying addition by the individual into the Lifetime ISA, is a Lifetime ISA qualifying individual.".

Regulation 2D

5. In regulation 2D (regulations that do not apply to junior ISA accounts)(**14**)—

(a) after "4A," insert "4AA(**15**),",

(**5**) The definition of "account investment" was amended by S.I. 2016/364.
(**6**) Regulation 8ZA is inserted by these Regulations.
(**7**) The definition of "CTA 2010" was inserted by S.I. 2012/1871.
(**8**) Regulation 10A is inserted by these Regulations.
(**9**) The definition of "eligible child" was inserted by S.I. 2011/1780.
(**10**) The definition of "lender" was inserted by S.I. 2016/364.
(**11**) Regulations 4(1ZB) and 4ZA(1A) are inserted by these Regulations.
(**12**) The definition of "plan shares" was inserted by S.I. 2008/704.
(**13**) Regulation 2A was inserted by S.I. 2011/1780 and amended by S.I. 2012/1871.
(**14**) Regulation 2D was inserted by S.I. 2011/1780 and amended by S.I. 2012/1871, 2014/1450, 2015/869, 2016/16 and 2016/364.
(**15**) Regulation 4AA is inserted by these Regulations.

(b) omit "5B,", and

(c) for "8A, 10, 11, 12," substitute "8ZA, 8A, 10 to 12, 12B(**16**),".

Regulation 4

6.—(1) Amend regulation 4 (general conditions for accounts and subscriptions to accounts)(**17**) as follows.

(2) In paragraph (1) after "innovative finance account" insert "or a Lifetime ISA".

(3) In paragraph (1ZA) for "(1B)(ba) to (e)" substitute "(1B)(ba) and (c), d(i) and (e)".

(4) After paragraph (1ZA) insert—

"(1ZB) A Lifetime ISA is an account in respect of which—

(a) the conditions in paragraphs (1A)(a) and (cb), (1B)(bb), (c), (d)(ii), (e) and (f) and (5) to (10) are fulfilled; and

(b) the application to open the account is made in accordance with regulation 12B."

(5) In paragraph (1A)—

(a) in sub-paragraph (a) for "or an innovative finance account" substitute ", an innovative finance account or a Lifetime ISA", and

(b) after sub-paragraph (ca) insert—

"(cb) a Lifetime ISA is made up of a single Lifetime ISA component only;".

(6) In paragraph (1B)—

(a) after sub-paragraph (ba) insert—

"(bb) a Lifetime ISA qualifying individual may only make a qualifying addition to a single Lifetime ISA in a particular year;",

(b) at the end of sub-paragraph (c) insert—

"or, in the case of a Lifetime ISA, to which only one Lifetime ISA qualifying individual makes a qualifying addition",

(c) for sub-paragraph (d) substitute—

"(d) subject to regulations 5DDA(2)(e)(**18**) and 7(2)(h), it is—

(i) an account that is not a Lifetime ISA account to which the qualifying individual subscribes only by payment to the account manager of a sum or sums of the individual's cash, or

(ii) a Lifetime ISA to which the Lifetime ISA qualifying individual makes qualifying additions only by—

(aa) payment to the account manager of a sum or sums of the individual's cash; or

(bb) a transfer of qualifying investments for a Lifetime ISA component from another account of the account investor;", and

(d) after sub-paragraph (e) insert—

"; and

(**16**) Regulation 12B is inserted by these Regulations.
(**17**) Regulation 4 was amended by S.I. 2002/1974, 2011/1780, 2014/1450, 2015/869, 2016/364 and 2016/977.
(**18**) Regulation 5DDA was inserted by S.I. 2015/869.

(f) in the case of a Lifetime ISA the current year payments made by a Lifetime ISA qualifying individual do not in aggregate in any year exceed the Lifetime ISA payment limit in regulation 4ZA(1A)(**19**).".

(7) In paragraph (6)—

(a) in sub-paragraphs (c) and (d) after "qualifying investments for an innovative finance component," insert ", a Lifetime ISA component", and

(b) in sub-paragraph (fa) after "any cash shall be transferred or paid to him" insert "or, where paragraph 6(12) of the Schedule applies, an eligible conveyancer".

(8) At the end of paragraph (7) insert—

"Where the account is a Lifetime ISA and an amount is being withdrawn for the purpose of a first-time residential purchase by the account investor under paragraph 6 of the Schedule, the period of 30 days referred to in sub-paragraph (a) runs from the date on which the account manager receives the information from the account investor's conveyancer in accordance with paragraph 8(2) and (3) of the Schedule.".

(9) After paragraph (8) insert—

"(9) A Lifetime ISA opened in accordance with regulation 12B is to be treated as such an account notwithstanding that the account investor reaches 50 years of age or over and that no further qualifying addition can be made to the account.

(10) A Lifetime ISA in relation to which an account manager has received notification of closure within 30 days after the latest applicable cancellation period start date for the purposes of the Conduct of Business Sourcebook (published by the Financial Conduct Authority under FISMA 2000(**20**)) is to be treated for all purposes of these Regulations as never having been such an account.

(11) Where a Lifetime ISA is opened ("the new account") on a transfer from another such account ("the original account") of the account investor, the latest applicable cancellation period start date for the original account is to be treated for the purposes of paragraph (10) as the latest applicable cancellation start date for the new account.

(12) If during the year 2017-18 after the opening of a Lifetime ISA a withdrawal is made other than in any of the circumstances specified in paragraph (13) or described in paragraph 11 of the Schedule the account is to be treated for all purposes of these Regulations as never having been such an account.

(13) The circumstances specified in this paragraph are where—

(a) the withdrawal is by way of a transfer to another Lifetime ISA in accordance with regulation 21;

(b) the account investor is suffering from a terminal illness (within the meaning of paragraph 4(2) of the Schedule); or

(c) the withdrawal is made at a time after the account investor's death.".

Regulation 4ZA

7. In regulation 4ZA (subscriptions to an account other than a junior ISA account)(**21**) after paragraph (1) insert—

(**19**) Regulation 4ZA(1A) is inserted by these Regulations.
(**20**) The Conduct of Business Sourcebook published by the Financial Conduct Authority can be obtained from https://www.handbook.fca.org.uk/handbook/COBS/15/?view=chapter and from the Financial Conduct Authority, 25 The North Colonnade, London E14 5HS.
(**21**) Regulation 4ZA was inserted by S.I. 2011/1780.

"(1A) The overall Lifetime ISA payment limit in respect of current year payments for any Lifetime ISA qualifying individual for any year is £4,000.".

Regulation 4A

8. In regulation 4A (repair of certain incompatible account and excess subscriptions – accounts other than junior ISA accounts)(**22**) after paragraph (6) insert—

"(7) This regulation is subject to regulation 4AA.".

New Regulation 4AA

9. After regulation 4A insert—

"**Application of the repair provisions to Lifetime ISAs**

4AA.—(1) The following modifications to regulation 4A apply where one or more of the accounts to which the investor subscribes in the relevant year is a Lifetime ISA.

(2) Where an investor has made current year payments in excess of the Lifetime ISA payment limit in regulation 4ZA(1A) to a single Lifetime ISA, an officer of the Board may direct the removal of the excess and proceeds representing the excess, whether or not the overall subscription limit in regulation 4ZA(1) has been exceeded.

(3) Where an investor has exceeded the overall subscription limit in regulation 4ZA(1), but has not exceeded the Lifetime ISA payment limit in regulation 4ZA(1A), the excess shall be removed from the accounts which are not Lifetime ISAs.

(4) Where an investor has made current year payments or a payment described in regulation 10A(4)(c) to more than one Lifetime ISA, only one account will be a valid account which is eligible for the payment of a government bonus.".

Regulation 5D

10. In regulation 5D (subscriptions disregarded for the purposes of the subscription limits in regulations 4ZA and 4ZB)(**23**)—

(a) in the heading and in paragraph (1) for "4ZA" substitute "4ZA(1)",

(b) after paragraph (2)(a)(i) insert—

"(ia) a defaulted Lifetime ISA subscription;

(ib) a returned withdrawal from a Lifetime ISA following failure of a purchase to complete under paragraph 10(1) of the Schedule;", and

(c) after paragraph (2)(c) insert—

"; and

(d) in a case within paragraph (2)(a)(ib) the account manager of the Lifetime ISA to which the subscription is made is provided with the information specified in paragraph 9(3)(b) of the Schedule.".

(**22**) Regulation 4A was inserted by S.I. 2002/3158 and the heading was substituted by S.I. 2011/1780. Relevant amending instruments are S.I.2007/2119, 2011/1780, 2014/1450 and 2016/364.
(**23**) Regulation 5D was inserted by S.I. 2012/1871.