STATUTORY INSTRUMENTS

2016 No. 977

INCOME TAX
CAPITAL GAINS TAX

The Individual Savings Account (Amendment No. 3) Regulations 2016

Made - - - -	*10th October 2016*
Laid before the House of Commons - - - -	*10th October 2016*
Coming into force - -	*1st November 2016*

The Treasury make these Regulations exercising the powers in sections 694, 695, 696, 699 and 701(1) and (5) of the Income Tax (Trading and Other Income) Act 2005(**1**) and section 151 of the Taxation of Chargeable Gains Act 1992(**2**).

Citation and commencement

1. These Regulations may be cited as the Individual Savings Account (Amendment No. 3) Regulations 2016 and come into force on 1st November 2016.

Amendment of the Individual Savings Account Regulations 1998

2. The Individual Savings Account Regulations 1998(**3**) are amended as follows.

3. In regulation 2(1)(a) (interpretation)—

(a) for the definition of "outstanding principal balance", substitute—

> ""outstanding principal balance" means, in respect of a qualifying investment for an innovative finance component, the amount in respect of the investment owing to the account investor at any time;";

(b) at the appropriate places insert—

(**1**) 2005 c.5; sections 694 and 701 were amended by section 40 of the Finance Act 2011 (c.11), sections 695 and 696 were amended by paragraphs 131 and 132 of Schedule 4 to the Commissioners for Revenue and Customs Act 2005 (c. 11). Section 701(5) was inserted by section 40 of the Finance Act 2008 (c.9).

(**2**) 1992 c.12; section 151 was amended by section 85 of the Finance Act 1993 (c.34), section 64(2) of the Finance Act 1995 (c. 4), paragraph 436 of Schedule 1 to the Income Tax (Trading and Other Income) Act 2005, section 40(6) of the Finance Act 2011 and section 27(2) of the Finance Act 2016 (c. 24).

(**3**) S.I. 1998/1870; relevant amending instruments are: S.I. 2014/1450, S.I. 2015/869, S.I. 2016/16 and S.I. 2016/364.

""charity" has the meaning given in paragraph 1(1) of Schedule 6 to the Finance Act 2010(**4**);";

""debenture" includes any instrument creating or acknowledging indebtedness within the meaning of article 77(1) and (2) of the Regulated Activities Order 2001(**5**) but with the omission of the words "such of the following as do not fall within article 78;";

""transferable security" has the meaning given in section 102A(3) of FISMA 2000(**6**);".

4. In regulation 4(6)(c) and (d) (general conditions for accounts and subscriptions to accounts) after "stocks and shares component," insert "qualifying investments for an innovative finance component".

5. In regulation 5DDA (additional permitted subscription to an account other than a junior ISA account) —

(a) in paragraph (3A), for "article 36H agreements", substitute "qualifying investments for an innovative finance component"; and

(b) in paragraph (11)(b), after sub-paragraph (iii) insert—

"(iv) those investments specified in regulation 8A(2)(ca); and ".

6. In regulation 6(2) (general investment rules), in paragraph (2), omit "by an account manager".

7. In regulation 8A (qualifying investments for an innovative finance component)—

(a) after sub-paragraph (2)(c), insert—

"(ca) debentures where the conditions in paragraph (4) are met;";

(b) after paragraph (3), insert—

"(4) The conditions in this paragraph are—

(a) the debenture is a transferable security issued by a company or a charity;

(b) the investment in the debenture is facilitated by a person carrying on an activity of the kind specified in article 25 of the Regulated Activities Order 2001(**7**) through an electronic system operated by that person in an EEA State for such purpose;

(c) that person or another, acting under an arrangement with that person or at that person's direction, in respect of the investment, treats the account investor as its client and undertakes on behalf of the account investor to—

(i) receive payments in respect of the debenture;

(ii) make payments, when due, in respect of the debenture to the account investor; and

(iii) exercise, or facilitate the exercise of, rights in respect of the debenture;

(d) the investment in the debenture is not part of a scheme or arrangement the main purpose, or one of the main purposes, of which is the avoidance of tax;

(e) the debenture is not made available to the account investor by reason of their or of another's status, whether past, present or prospective, as an employee, director, partner, trustee or the holder of any office;

(**4**) 2010 c. 13.
(**5**) S.I. 2001/344; article 77 was amended by S.I. 2010/86 and S.I. 2011/133.
(**6**) 2000 c. 8; section 102A was inserted by S.I. 2005/1433 and amended by section 1272 and paragraphs 1, 10(1) and (3) of Schedule 15 to the Companies Act 2006 (c.46), S.I. 2015/1755 and S.I. 2016/680.
(**7**) Article 25 was amended by S.I. 2001/3538 and S.I. 2006/3384.