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Response to Individual Savings Account: UK ISA Consultation

ShareSoc is the voice of the UK's 11+ million individual investors.

You may publish our response on any website and you may reproduce it, in whole or in part.

ShareSoc is pleased to respond to this UK ISA consultation.

The initiative by HM Treasury to incentivise support for UK companies and the investment industry via the UK ISA is most welcome. With more visible Government support, hopefully an increasing proportion of savings will be invested in UK companies.

A significant proportion of ISA savings currently take the form of Cash ISAs. In our view, this causes consumer harm since cash tends to underperform equities substantially over the long term.

There is a basic need to overcome the widespread suspicion and mistrust that surrounds personal investing in the UK. We believe that the UK ISA should be accompanied by a serious education initiative, which will bolster both the UK ISA and individual investment in British companies in general. This initiative, which should be delivered via multiple channels, including television, should clearly illustrate the benefits of investing in the UK at both a personal and societal level.

We strongly suggest that the UK ISA initiative be accompanied by removal the 0.5% stamp duty on purchases of shares within the UK ISA and a raft of other measures. While increasing the fiscal incentive to invest via a UK ISA, this will cause minimal reduction to the current tax take from Stamp Duty. Please note that ShareSoc favours the abolition of stamp duty on all UK shares.

The incremental approach, of adding the UK ISA limit to, existing ISA limits, has removed many potential lines of objection/criticism. We view this as a particularly positive step to getting the new UK ISA up and running quickly.

ShareSoc believes that alternative options listed under our response to Q10 have merit and are worthy of consideration by The Treasury. They have differing advantages in terms of deliverability and impact.

In our view, Government should concurrently address the myriad of critical issues that impact UK stock valuations. The consultation states that the UK ISA will build on the Government's Mansion House and Autumn Statement 2023 measures to reform the pensions market to unlock investment into high growth sectors and improve the competitiveness of the UK as a listing destination. We would also point to FCA reform, FRC reform into ARGA, the erosion of shareholder rights through nominee structures (which are obligatory for ISAs and SIPPs), Investment Trust cost disclosure rules, and pension rules that encourage the holding of bonds over equities, transparency and effectiveness of FCA and FRC enforcement processes.

The UK ISA needs to be part of an integrated, thoughtful, planned, integrated, purposeful, long-term strategy to increase savings and investment in the UK, create jobs, growth and prosperity for all.

There is much to be done.

About ShareSoc

ShareSoc represents the interests of individual investors in the United Kingdom to regulators and government, and offers a range of investor education, information and networking services to its members and to the investing public. We regularly submit responses to consultations that impact the broad community of individual investors. Our focus and expertise relates to investments in shares, either directly or via funds/investment trusts. Improving investor knowledge and understanding is essential as some 23 million people now invest via their pensions, over 5 million own shares and more than 13 million have ISAs and / or SIPPs.

Financial Education is a key area of our focus. The ShareSoc website hosts significant financial education content, including our Investor Academy and our ShareSoc Investing Basics video series. The content of both is freely available to the public at large, schools and to adult education services.

Our responses to your 15 questions are below.

Question 1: 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?

Yes.

Question 2: a) Should collective investment vehicles be eligible for the UK ISA and if so, which vehicles specifically?

To be eligible, collective investments should be at least 75% invested shares that are UK traded or listed. This should be measured on the total of investments at the year end, with a manager given six months to sell any non-qualifying investments if the threshold falls below the required 75% and re-invest the proceeds in UK companies.

For simplicity for ISA managers, collective investment vehicles should self-certify whether they are qualifying or not and the vehicle's auditors should verify that this self-certification is valid. If a fund loses its qualification, the investor's shares should be sold by the ISA manager.

Re vehicles, our view is:
ETFs - Yes
Investment Trusts – Yes
OEICS – Yes
VCTs – Yes (secondary market only)

2: b) What should be the minimum requirement for each of the underlying investments and how would each be monitored by ISA managers?

Listed on, or admitted to trading on, a UK stock exchange (regardless of jurisdiction of incorporation)

Question 3: Should corporate bonds be eligible for the UK ISA?

Yes, bonds issued by qualifying companies should be eligible.

Question 4: Should gilts be eligible for the UK ISA?

No. Tax incentives for individual investment in government debt should be addressed separately.

Question 5: 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?

Cash should qualify. Holding cash is an option on buying shares more cheaply in the future if the market falls.

It may be possible to simplify the ISA regime by removing the cash ISA allowance and allowing existing cash ISAs to transfer into the UK ISA. Cash ISAs could then be phased out (currently £313 bn and doing very little socially useful purpose). Part of the money in Cash ISAs could then be invested in UK companies which would provide jobs, growth and prosperity. NS&I could offer a limited alternative for cash savings as well.

Question 6: Should the UK ISA allow subscriptions to multiple UK ISAs in the same tax year?

No. We agree with your reasons stated for only allowing contributions to only one UK ISA per year.

Question 7: 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?

Yes for Cash ISAs. £5,000 per year.
No for other ISAs.

Question 8: Are there any downsides to the government's proposals on transfers out of a UK ISA?

We agree transfers should not be permitted. Otherwise, the whole rationale for increasing the annual ISA limit from £20,000 to £25,000 is destroyed.

A key part of the proposal is that people invest in the UK for the long-term. It will be up to individuals to decide if they wish to sell shares and diversify their investments. However, this can be achieved within the UK ISA.

Question 9: Should the UK ISA have cash holding rules? Which rules should be included in the UK ISA?

No and None! We believe that the fewer rules the better.

Question 10: Are there any other design features that the government should consider at this stage?

Even if only about 800,000 people are now wealthy enough to use their £20,000 allowance in full in any year. On the generous assumption that all of those people have another £5,000 to invest, the extra cashflows into UK assets would equate to £4bn a year. That is equivalent to 0.2% of the current £2tn-plus value of the UK stock market.

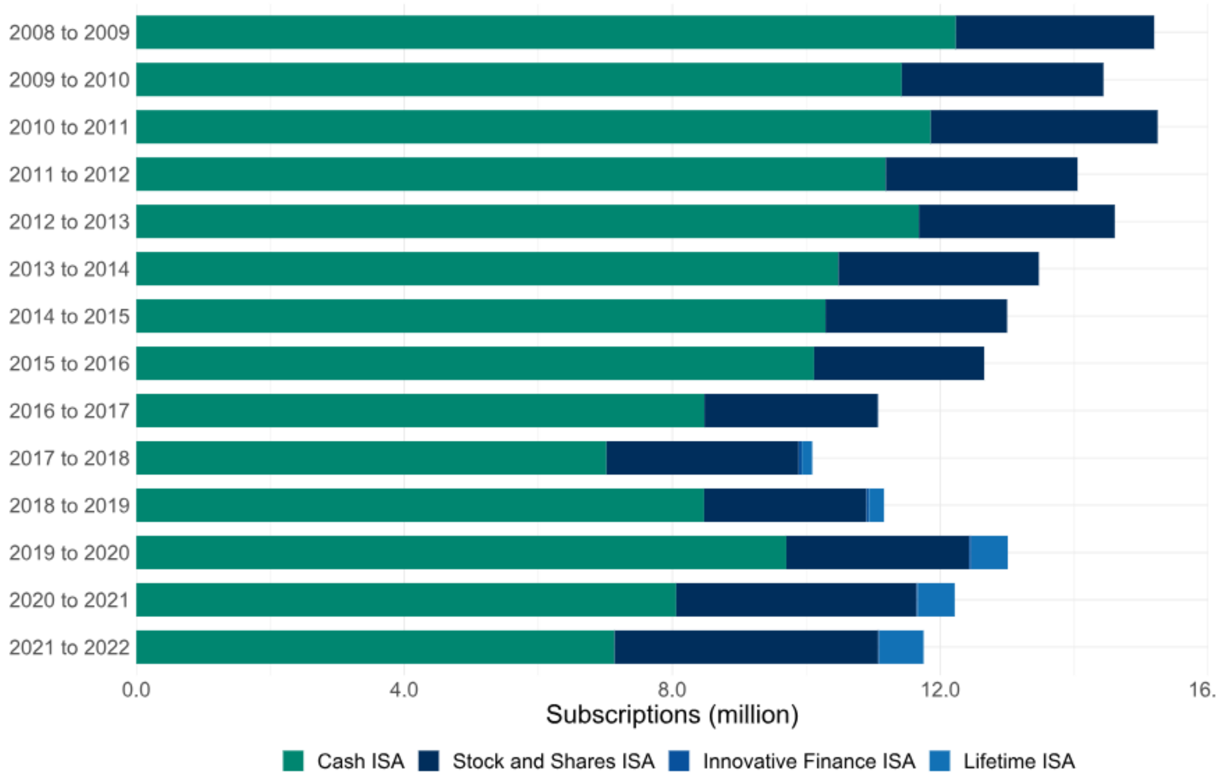
Over a period of say ten years this would be £40 billion and 2% of the UK stock market. Increasing individual ownership by 2% would be a significant increase and would be a significant impact on the supply and demand of shares. If we assume an elasticity of 1.5, then the £40 billion increase in demand for shares should lead to a £60 billion increase in market capitalisation, all other things being equal. The ONS data says the UK stock market has a valuation of £2.4 trillion, so the UK ISA should lead to a significant value increase. This benefit should be part of the cost benefit analysis.

Crunching the numbers on the likely take-up of the extra £5,000, the sums **do not** amount to "a rounding error," (contrary to what investment platform AJ Bell has said).

Cash Savings

There are also vast amounts of people with cash savings who do not invest in the stock market.

Chart 1: Number of Adult ISA accounts subscribed to during the financial year



Source https://www.gov.uk/government/statistics/annual-savings-statistics-2023/commentary-for-annual-savings-statistics-june-2023

This problem exists due to generally poor financial education on investing in the UK. This problem is widely discussed and acknowledged, but in practice very little is being done to address the issue. In contrast, huge amounts have been spent advertising cash ISAs with fixed and limited potential returns.

Cash ISAs are not a primary source of capital to UK companies. Many cash savers are unaware of the long-term benefits of investing in shares. The FCA has now acknowledged this is a problem and is working hard to reduce the proportion of savings held in cash.

As of April 2022, there was approximately **£313 billion in cash ISAs** (see Appendix 2). If 50% of this were invested in UK ISAs, this would further significantly boost the UK stock market valuations. The Government should research this and transparently set a KPI.

Market sentiment

The introduction of the UK ISA marks a turning point. Visible Government support will hopefully encourage individuals to invest in UK companies or to increase allocations to UK companies.

It will also send a message to overseas investors that the UK is open for business and producing more business-friendly policies; this may help in reversing the trend since 2016 of overseas investors allocating a smaller proportion of their funds to the UK. Combined, these effects will hopefully ensure that UK stock market valuations match those of our global peers.

This improved Government approach might complement the UK ISA, quite well and be part of an integrated, thoughtful, planned, integrated, purposeful, long-term strategy to increase savings and investment in the UK, create jobs, growth and prosperity for all.

Comparison of Existing ISA and UK ISA

A key question is which ISA should an investor choose? The existing ISA has higher limits and exactly the same tax benefits as the UK ISA. The existing ISA will also have a much wider range of possible investments. As currently designed, the UK ISA will appeal more to those who reach the existing ISA £20,000 p.a. subscription limit (c 85% subscribed less than £20,000 in the latest year for which ONS publish data).

In order to have mass appeal, the UK ISA needs a further boost. Government advertising/marketing may help. However, platforms will have to follow the requirements of the new FCA Consumer Duty in their marketing. We therefore believe that the UK ISA needs further tax or financial incentive, such as:

i. Exemption from Stamp duty
ii. Matching of investments, eg £1 for every £5 invested up to maximum of £1,000 (match) p.a.
iii. Provide a corporation tax benefit, for all those companies with >20% individual investors. This could be scaled if the current agreed norm is 20%, then, e.g.:
    - If > 20% individual investors, corporation tax is 20%
    - If <10% individual investors, corporation tax is 25%
    - Linear interpolation between these numbers.

    This might complement the UK ISA quite well and be part of an integrated, thoughtful, planned, integrated, purposeful, long term strategy to increase savings and investment in the UK, create jobs, growth and prosperity for all.

Stamp Duty

We made the following points in our response to the 2020 HMRC Consultation **Modernisation of the Stamp Taxes on Shares Framework.**

> *The UK stock markets exist to promote investment in UK companies. A transaction tax on the purchase of UK shares has exactly the opposite effect.*
>
> *Many large investors, institutions and high-frequency traders are able to avoid stamp duty through the use of options and CFDs. This penalises individual investors relative to large investors and*

institutions. A key design principle for a future stamp duty regime should be fairness between different types of market user.

Stamp duty discourages short term trading. We support the concept that there should be an incentive for patient capital, i.e. long term investing. Stamp Duty provides friction. However, HFTs (high Frequency Traders) and others can avoid STS on shares. If the new STS has a design principle to provide friction (and this is possibly a big if), then it is logical to extend this principle to HFTs and others. (France is an interesting example in this respect.)

ShareSoc's view is that STS should be set at a lower rate (say 0.05%) and applied to all trades including HFT, CFD and spread betting.

The UK is now an outlier compared to the US (no stamp duty nor transaction tax), France (no stamp duty on shares, 0.3% Financial Transaction Tax), Italy (who removed stamp duty when the process became electronic) and others.

The UK ISA offers an opportunity, if the Government is keen to support UK business, to remove stamp duty on shares purchased in the UK ISA. This would provide a financial incentive for individuals to use the UK ISA rather than the existing ISA.

Matching of investments.

A modest match of £1 for each £5 invested up to a maximum of £1,000 should create the incentive. The financial benefits of the resulting higher savings, more investment by UK companies in the UK and consequent higher UK stock market valuation may mean this approach is self-funding.

However, only those with sufficient assets or excess disposable income will be able to invest in the UK ISA. This proposal is open to criticism that it is pandering to those who are already the better off, though the Lifetime ISA could be similarly criticised.

Bankruptcy, Administration and ownership of shares

Beaufort, SVS, Home REIT [and add others] have highlighted the costs of administration when the platform goes into administration. The costs are high because of the lack of clarity of who beneficially owns what. Dual name on the register of the nominee and the beneficial owner is required to resolve this and will hugely reduce administration costs (95% reduction in costs) and time for any future administrations.

Dual name on the register will also enable shareholder rights to be passed to the beneficial owner and allow communication from the issuer direct to their beneficial owners.

Other Options

As mentioned above, removal of stamp duty and investment matching should be considered.

ShareSoc believes that the following alternatives are worthy of serious consideration by HM Treasury. They have differing advantages in terms of deliverability and impact.

1. UK ISA per Government proposal, but exempt from stamp duty
2. Increased ISA allowance of £25,000 p.a. with a requirement that at least 50% of new contributions must be used to purchase UK companies or qualifying funds.
3. Replace 0.5% stamp duty with [0.1%] friction tax on all UK and Non-UK share purchases by UK domiciled investors. This would apply to all UK/overseas shares purchased, and options and CFDs. Neutral to positive tax impact, but improves attractiveness to overseas investors.
4. Consider reducing the £20k allowance to £15k, and allowing £10k in the UK ISA.
5. Provide a corporation tax benefit, for all those companies with >20% individual investors. This could be scaled if the current agreed norm is 20%, then, e.g.:
   If > 20% individual investors, corporation tax is 20%
   If <10% individual investors, corporation tax is 25%
   Linear interpolation between these numbers.

The need for a transparent cost benefit analysis

A cost benefit analysis should be commissioned. It should be transparent and published. It is important that policy decisions are underpinned by data, logic and mathematical modelling. This discipline will greatly help the Treasury and Government prioritise its work.

Question 11: Are there any other unintended consequences from this approach?

The UK ISA enforces a degree of home bias, which has been shown in multiple academic studies to be sub-optimal.

This is mitigated by:

i. the fact that the UK ISA will effectively only be accessible to relatively wealthy investors,
ii. the negative effect of home bias will be offset for those investors to some degree by the fiscal benefits,
iii. better financial education will mean some of current cash ISAs are moved into UK ISAs, which will improve long term returns of those investors.

Question 12: Would you be interested in offering a UK ISA based on the design set out in chapter 2 and 3?

n.a.

Question 13: How long would it take for you to launch a UK ISA product and when would you start building it following this announcement?

n.a.

Question 14: What would the cost implications be and what operational changes would you need to undertake?

n.a.

Question 15 What, if any, issues do you foresee from a compliance perspective for the UK ISA? Please provide details.

As noted above, Beaufort, SVS, Home REIT and others have highlighted the costs of administration when the platform goes into administration. The costs are high because of the lack of clarity of who beneficially owns what. Dual name on the register of the nominee and the beneficial owner is required to resolve this and will hugely reduce administration costs and time for any future administrations.

Dual name on the register will also enable shareholder rights to be passed to the beneficial owner, and allow communication from the issuer direct to their beneficial owners.

The shareholder rights embodied in the Companies Act have been significantly diluted or removed by the nominee system and the way ISAs are currently operated. These rights need to be restored. Mark Austen in his Secondary Market Review made this point.

We would be pleased to meet with you to answer any questions on our response.

Yours sincerely

Cliff Weight
ShareSoc Policy and Campaigns Committee

Appendix 1: ShareSoc Example Pages from our Website

1. ShareSoc Investor Academy
https://www.sharesoc.org/investor-academy/

Your place for
Investment Education

ShareSoc supports and encourages individuals to invest directly in the stock market. We are an independent, not-for-profit organisation, created & managed by individual investors, for investors. Subject to adequate education about stock market investment, the primary benefits of investing directly are:

- Elimination of fees charged by managers of collective investment schemes, which can have a significant impact on your returns. We acknowledge, however, that in some circumstances, collective investment schemes, especially investment trusts, can be a useful component of an individual investor's portfolio.

- Control over your specific investment decisions, and direct influence, through your voting rights, over the management of the businesses you choose to invest in. Such direct ownership interest, by well-informed investors, should improve business management and is to the benefit of UK Plc.

If you're **new to investing**, our **Investing Basics series** is a great place to start and we highly recommend that all investors familiarise themselves with the content.

You will also find a variety of additional educational content and resources within the ShareSoc Investor Academy. **Full members** have the added benefit of being able to access exclusive online investor resources as well as discounts on a number of Investor Services.

Some parts of the Investor Academy are under construction at present. Please bear with us whilst we strive to complete these ASAP. Your subscriptions and donations to ShareSoc will help us to increase the resources we have available to develop and maintain our educational offering.

2. ShareSoc Investing Basics

Learn Investing basics with our 10 easy 10-minute videos.
Throughout the free investing course you'll learn the principles of stock markets, how investing works and when to buy or sell, to the various routes into share ownership and the best ways to research potential investments.

Who Is The Investment Course For?

Are you just starting to think about investing and want to learn more? Or perhaps you are just starting to invest, i.e. are you a just starting your investing journey?

Have you got a workplace pension or an investment ISA that you don't really understand?

Perhaps you've decided to figure out how investing works, finally dug out a book or search the internet – and lost the will to live within three seconds? Or maybe you're an established investor wondering how you're ever going to get that 'boring but important' investment message across to your laid back family?

If any of those stories sound familiar, then Investing Basics could be the investing course you need to unlock that key piece of information holding you back.

Investing Basics Videos

1. **Introduction to Investing**
2. **The Miracle of Compounding**
3. **Risk and Business**
4. **Supercharge your Research**
5. **Fun, Fun Funds**
6. **When Should I Invest?**
7. **When Should I Sell?**
8. **How to Buy Shares and Funds**
9. **Discovering Great Investments**
10. **Summary and Recap**

- **Sponsors & Endorsements**

Appendix 2. Data on UK savings and investment market

Data on the UK savings and investment market is not readily available due to its complex and ever-changing nature, here's a general overview from [Gemini] based on available data:

Overall Market Size:

Estimating the total size of the UK savings and investment market is challenging due to various factors. However, a report from the Investment Management Association (IMA) in 2022 suggests the total UK collective investment funds under management stood at around **£12.7 trillion**. This figure likely doesn't encompass all individual savings accounts, personal investments, and cash holdings, so the market size is likely significantly larger.

Breakdown by Category (Estimates):

- **Cash:** Precise figures are unavailable, but cash holdings in the UK are generally considered to be a **significant portion** of personal wealth. A 2021 report by the Financial Conduct Authority (FCA) suggests **around 40% of UK adults** hold some form of cash savings.
- **Cash ISAs:** According to HM Revenue & Customs (HMRC), the total value of cash ISAs in the UK as of April 2022 was approximately **£313 billion**.
- **Stocks and Shares ISAs:** Precise figures are unavailable, but the IMA report mentioned earlier suggests **around £374 billion** was invested in UK equity funds in 2022. While not all of this would be held within Stocks and Shares ISAs, it gives a rough indication of the potential size of this segment.
- **Other Accounts:** This category encompasses a wide range of options, including workplace pensions, personal pensions outside of ISAs, investment bonds, and other savings products. Estimating the total value is challenging, but it's likely to be a **significant portion** of the overall market.

Important Note:

It's important to remember that these figures are estimates and subject to change due to market fluctuations, individual saving and investment behavior, and the overall economic climate. Additionally, the specific breakdown within "other accounts" is complex and constantly evolving.

Further Resources:

- Investment Management Association (IMA): https://en.wikipedia.org/wiki/Investment_Management_Association
- Financial Conduct Authority (FCA): https://www.fca.org.uk/
- HM Revenue & Customs (HMRC): https://www.gov.uk/government/organisations/hm-revenue-customs

Sources

1. podcasts.apple.com/ci/podcast/hmrc-transforming-payroll-in-a-pandemic-with/id1366619632?i=1000521297973

ONS data can be seen here. It shows overseas up in % terms and in £ terms but reducing as a share of asset allocation. See https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2018#main-points

13. Total market value of UK quoted shares by sector of beneficial owner, 1989 to 2022 with pooled and excluded shareholdings allocated across the other sectors1,2

At end year | £ billion

Sector	1989	1990	1991	1992	1993	1994	1997	1998	1999	2000	2001	2002	2003	2004	2006	2008	2010	2012	2014	2016	2018	2020	2022
Insurance companies	93.9	91	110.2	119.8	159.8	167.2	298.8	325.5	389.6	380.9	310.6	230.1	236.9	254.2	272.8	154.9	160.6	108.8	118.3	100.3	76.9	54.9	61.8
Pension funds	154.8	140.4	165.7	199.5	251.5	211.8	279.8	325.8	353.8	321.2	250	180.1	218.7	232.6	235.8	148.8	103.3	82.4	60	60.6	44.1	39.3	38
Rest of the world	64.5	52.7	68.1	80.7	130.2	124.3	355.2	460.9	596.9	645.9	555.2	414.1	494.2	537.6	742.4	481.1	789.5	933.2	1073.6	1100.5	1098.2	1220.5	1394.6
Banks	3.3	3.2	1.1	3	4.7	3	0.8	8.4	18	26	19.8	24.2	30.1	39.7	63	40.6	46.6	33.4	27.8	36.7	41.0	67.4	82.5
Other financial institutions	5.8	3	4.4	2.7	4.5	9.8	16.1	40.4	56.4	51.4	111.2	88.4	113.4	122.1	179.1	115.3	225.3	114.9	142.5	166.1	162.6	277.8	302.6
Public sector[3]	10.2	9	6.8	11.3	10.2	5.8	1.1	1.4	1.7	0.6	0.7	1.3	1.4	1.4	2	13	54.4	44.3	51.8	22.6	17.4	15.0	13.5
Unit trusts	29.7	27.3	30.4	38	52.7	51.8	53.1	30.1	29.6	19.1	20	13.8	20.4	21.1	30	21.3	161.9	167	181.4	193.7	185.1	160.9	182.8
Investment trusts	7.9	6.9	7.8	12.8	19.8	15	15.1	19.2	21.5	24	25.3	15	23.4	37.3	45.1	22.1	39.2	30.6	36	42.6	26.0	21.7	22.1
Charities	11.7	8.2	12.8	11.2	12.5	9.9	24.3	20.4	24	24.8	16.1	13.1	15.9	16.2	16.1	8.7	15.6	10.6	22.8	20.7	18.1	19.1	16.9
Private non-financial companies	19.3	12.7	17.6	11.3	11.7	8.7	14.8	20.9	39.9	26.9	15.3	9.1	9.9	9.6	33.5	34.7	40.7	40.1	39.2	45	40.5	30.7	42.5
Individuals	104.3	90.5	105.3	125.4	141.1	154.6	208.8	250.8	275.8	289.9	229.9	165.5	203.9	208.4	238.5	117.8	194.6	184.6	247.5	251.5	261.8	261.2	260.5
Total[4]	505.4	444.9	530.2	615.7	798.7	761.9	1267.9	1503.7	1807.2	1810.7	1554.1	1154.6	1368	1480.2	1858.2	1158.4	1831.8	1749.9	2000.8	2040.3	1971.7	2168.5	2417.8

Source: Office for National Statistics

1 Not available for all years
2 Data between 1998 and 2008 are partially based on analysis conducted in 1997 - see bulletin for details
3 Public sector comprises local government, central government and public corporations
1. Components may not sum to the total because of rounding

global market cap $Trillion	30	120
UK owned by ROW £bn	645.9	1394.6
UK allocation as % of global	2.2%	1.2%
	1.26	1.26
UK owned by ROW$bn	813.834	1757.196
UK allocation as % of global	2.7%	1.5%

Note: we are not sure of £/$ exchange rate in 2000.