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ISA Technical Update



What's New?

- **ISA Limits – 2011/12 tax year**
- Funds of Alternative Investment Funds (FAIFs)
- ISA 5% test!
- Structured products!
- AIM shares!





ISA Limits – 2011/12

- Overall limit and stocks & shares limit – increase by **£480** → **£10,680**
- Cash ISA limit – increase by **£240** → **£5,340**





FAIFs

Defined in the FSA collective investment

ISA Purposes:

Ignore that a fund is a **FAIF** (*type of NURS*)

And apply the ISA rules on NURS:

- ISA 5% test
- Bi-monthly redemption



5% Test *for shares, insurance & authorised funds (except investment trusts)*

- The test is satisfied if, at the date the investments were purchased in the ISA,
 1. no guarantee/agreement that the investor would receive **95%+** of their purchase price at any time in the next **5 years**, *or*
 2. nature of investments held by the scheme did not **significantly limit risk** to investor's capital to **5% loss or less** at any time in next 5 years



5% Test *for shares, insurance & authorised funds (except investment trusts)*

- The following funds types are almost certain to **fail** the test and therefore qualify for cash ISA inclusion:
 1. **Cash funds** → majority of underlying funds on deposit
 2. **Money Market funds** (*according to IMA classification*)
 - *Until **2004**, these funds were specifically excluded*



5% Test *for shares, insurance & authorised funds (except investment trusts)*

- The funds types which cause the problem are various '**bond**' funds, either **government** or **company**:
 1. **Difficult** (*impossible!!*) to apply the 5% test accurately
 2. **Ongoing** discussions with **HMRC**



HMRC Guidance:

'Kick out Plans' *HMRC ISA bulletin 21*

'where a trigger event is conditional on a financial index reaching a predetermined point, the ISA regulations aren't breached'

TISA → we believe the same logic can be applied to all structured products/securities

as securities

- **Key rules** → terms of the security don't **require** the security to be redeemed within 5 years



AIM Shares

- Alternative Investment Market (**AIM**)
→ **not** deemed to be an HMRC
'recognised stock exchange'

- ISA Members can forward comments

Current ISA regulations:

Shares listed on AIM don't qualify for S&S ISA inclusion (*unless listed on another 'recognised stock exchange' ie. DUAL LISTED*)



AIM Shares

- Responses to **Christian Johnson**

HM Treasury

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