TISA

Response by TISA to:
First Time Buyer ISA: Consultation

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About TISA

Supporting the financial journey through life

The Investing and Saving Alliance (TISA) is committed to improving the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

We care about the entire financial life of consumers: from their first savings account opened to ensuring people can age and retire with dignity. TISA believes that savings and investments play a significant role in the lives of people and small businesses. Consumers benefit when they put aside money for their future. Saving and investing can provide a buffer for emergencies; help people achieve big and small goals throughout their lifetime; and give people quality of life in later years.

TISA is a not-for-profit membership organisation and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. We have approximately 270-member firms involved in the supply and distribution of savings and investment products and associated services. Our members include the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, FinTechs, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

Our work, your influence

With a focus on four key workstreams that best support the consumer and UK financial services, TISA has become a leading industry voice and ally for delivering consumer focused initiatives.

Our policy work reflects TISA's broad scope of interests and aims on meeting the needs of UK consumers, members and our industry. From improving financial education, inclusion and accessibility, right through to savings, investments and retirement planning, the work we do with our members to **influence policy** is crucial in enhancing the industry we operate in and driving positive change.

As part of our commitment to delivering focused and impactful consumer outcomes, TISA's policy working groups have been structured into **three distinct workstreams**:

1. **Consumer Protection**
   Protecting the best interests of UK consumers in their financial journeys.

2. **Consumer Access**
   Considering issues that could directly impact access to financial products.

3. **Effective Products**
   Examining key considerations and legislation relating to products across the investing and saving landscape.

All groups focus on both strategic and technical elements of policy/regulation. Key outputs from our workstreams can include recommendations to government and regulators on developing a financial services framework that protects and benefits UK consumers, finding solutions to operational/infrastructure challenges and developing standards of good practice on the interpretation and implementation of new regulation.

We provide a channel for firms to have their say on the policy we develop and present, contribute to our technical and regulatory interpretation work and, importantly, gain insights from other TISA members, policy makers, government and regulators.

Find out **more about TISA here:** https://www.tisa.uk.com/about-tisa/

Executive Summary

There have been numerous changes to the ISA scheme over recent years and, taking account of the expected changes to the ISA rules in April 2027, including the reduction in the Cash ISA annual limit and the additional complexities resulting from this change, the overall ISA landscape that will result from these changes will be considerably more complex.

So, although we support any attempts to help first time buyers purchase their first home, we have some concerns over the proposal for another First Time Buyer ISA (s).

We know from engagement with member firms over recent years how complex the ISA rules have become from the industry's perspective and the obvious assumption is that the average consumer must find them equally complex and confusing.

The initial discussions between the government and the industry regarding the introduction of digital ISA reporting in April 2028 has already highlighted the complexity and difficulties of monitoring monthly ISA returns, identifying any breaches and providing the necessary repair instructions to ISA managers. Should another ISA be thrown into the ISA mix at the same time, or potentially two new ISAs ie. a Cash First Time Buyer ISA and a Stocks & Shares First Time Buyer ISA, looking at the complexity of how these ISAs may interact with the current rules, the likelihood of consumer breaches would almost certainly increase, and it could become extremely complex for the government to police the rules and effectively identify such breaches.

We would also mirror the concerns of others in the industry that not allowing holders of a Stocks & Shares First Time Buyer ISA to transfer into a Cash First Time Buyer ISA and also not being able to fully de-risk their Stocks & Shares First Time Buyer ISA into cash (under the upcoming ISA changes in April 2027) at an appropriate time could be detrimental to the ISA client.

TISA, like others in the industry, has been vocal in our support of simplifying the ISA landscape and, together with the expected ISA changes in April 2027, we believe that the introduction of another, or perhaps two, new ISAs could have a detrimental effect on the overall ISA scheme in the eyes of both the industry and the consumer and potentially even reduce levels of saving and investment.

Although TISA accepts some of the negative aspects of the Lifetime ISA, we would favour a further review of this ISA as an alternative to the introduction of another First-Time Buyer ISA (s). All the evidence suggests that paying the government bonus immediately, as is the case with the Lifetime ISA, is a significant attraction for savers and investors. This evidence supports the option of simply making changes to the Lifetime ISA rather than bringing out another new ISA (s).

Although the proposed FTB ISA, as a stand-alone product, has numerous benefits and advantages over the Lifetime ISA, it is the additionally complexity that it adds to the overall and already complex ISA landscape that poses the most concern.

We appreciate, however, that the political will may be to introduce a new ISA for house purchase reasons, so we have provided some additional comments to the questions below, much of this based on feedback we have received from member firms.

Consultation Questions:

Question 1: Would you be interested in offering the new First-Time Buyer product?

As TISA do not offer an ISA product, we are reliant on the feedback from our member firms. The initial and informal feedback we have received to date suggests mixed support for the new ISA.

Question 2: How long would it take for you to launch the new First-Time Buyer product, and when would you start building it following its announcement?

As above, it is difficult for TISA to provide a decisive view on this but taking into account member views on other new ISA products in the past, the suggestion would be a minimum of 18 months meaning that April 2028 would be the earliest implementation date (assuming the start of a tax year is the preferred approach).

Other views suggested a 9–12-month minimum period from the final regulations being finalised and there was also concern that launching the new ISA in April 2028 would clash with the implementation of digital ISA reporting and due to the significant resources required for these changes, this could deter ISA managers from offering the new First Time Buyer (FTB) ISA at this time.

Also, it isn't clear whether reporting requirements for the new FTB ISA will be stand-alone reporting, as is the case with the Lifetime ISA, or whether they will form part of the new digital ISA reporting and this could impact on the time required by ISA managers to prepare a launch for the FTB ISA.

TISA was heavily involved with the launch of the Lifetime ISA which was announced in the Autumn Budget of 2016 with a planned start date of April 2027. This created many problems and was the most likely reason as to why take of the Lifetime ISA was significantly less that the government had hoped for.

Question 3: What would the cost implications be and what operational changes would you need to undertake?

Ideally, the operational changes would need to be as simple and cost efficient as possible.

As mentioned in Question 2, TISA was heavily involved in the Lifetime ISA launch and the reasons provided by member firms as to why they chose not to launch a Lifetime ISA was both the complexity of the product and the cost of setting up the necessary systems for the digital LISA reporting.

Although covered in later questions, there was concern over the proposed method for calculating the government bonus which will require ISA withdrawals to be monitored, and it was felt that this could add significant costs to ISA manager's current systems and processes. It is unclear at this stage how the digital ISA reporting will impact on this.

Question 4: Should the new First Time Buyer ISA seek to rebalance the relationship between the subscription limit, price cap and bonus?

There was strong agreement that the price cap for the FTB ISA would need to be the same for the Lifetime ISA and the Help to Buy: ISA, for the limited time it has remaining.

Assuming that the Lifetime ISA will continue as outlined, there could be a scenario where an individual or a couple plan to use both a Lifetime ISA and a FTB ISA to help purchase the same property. This would obviously be problematic if the two products have differing price caps.

Regarding the current house price cap of £450,000, this has remained the same since the Lifetime ISA was launched almost a decade ago and if house price growth had been taken into account over this period, the price cap would be significantly higher. Although we appreciate the cost constraints that the government will have and the fact that, outside of London and the South East, the current £450,000 price cap will be adequate for the vast majority of first time buyers, we would support a modest increase to this price cap (suggest £500,000) and also either legislation to increase the cap each tax year (maybe tag the cap to average house price inflation) or, at the very least, a commitment by the government to review the price cap on an annual or regular basis.

We would hope that a modest increase to the price cap would still enable the government to offer a 25% government on the new FTB ISA. If any increase to the price cap comes at the cost of a lower government bonus, I don't think we would support such an approach.

In addition to the price cap being consistent across all products, we think that the government bonus should also be consistent across all house purchase products.

Question 5: Should the First Time Buyer ISA adopt a lifetime cap on the bonus received, as well as an annual limit?

There was some support from member firms in setting a maximum government bonus (it is £3,000 for a Help to Buy: ISA) but we think that would add yet further and unnecessary complexity to the ISA and could mean that the new FTB ISA is less attractive than the Lifetime ISA which has no such cap, albeit the bonus is, effectively, limited by the annual subscription limit and the age restriction for making contributions (currently age 50).

We would, therefore, make the same argument with the FTB ISA in that the inclusion of an annual subscription limit would be sufficient to restrict any future government bonus and that applying a lifetime cap could disincentivise potential savers/investors.

We share the concerns from member firms that the proposed approach of basing the bonus on 'net' subscriptions (ie. subscriptions minus withdrawals) will be difficult to police/monitor and could add significant costs should ISA managers be required to make system changes to monitor all withdrawals on an ongoing basis. Current proposals suggest that this information would not be identified as part of the monthly digital ISA reporting

There is also a concern over the fairness of the proposed approach. In the case of a Stocks & Shares FTB ISA where there had been significant growth followed by several withdrawal over multiple tax years, you could have a scenario where there could still be significant funds remaining in the FTB ISA at the time of withdrawal for house purchase but the net subscription could be small (or even 'nil') meaning no bonus would be paid.

So, we would support the use of an alternative approach for calculating the government bonus.

Paying the bonus on the value (or withdrawal amount) of the FTB ISA would seem to be a logical/pragmatic option and, especially for stocks & shares FTB ISAs, would be in line with the government's objectives of trying to encourage greater investment in stocks & shares ISAs.

Question 6: How could the rules for withdrawal for purchasing a home improve those applying to the Lifetime ISA?

General feedback from the industry since the launch of the Lifetime ISA in April 2017 suggest that this process runs reasonably smoothly so we have no specific suggestions on this issue.

There were suggestions as to whether it might it be easier/simpler for the conveyancer to claim the bonus from HMRC and some concerns as to whether the 90-day period was long enough.

There is also an issue with the 12-month rule before allowing the bonus to be claimed. With the Lifetime ISA, where the bonus is paid immediately, the funds can be withdrawn for house purchase after the account has been open for 12 months. With the proposed FTB ISA, where the bonus is paid at the point of withdrawal, the ISA manager is only able to 'claim' the bonus after the 12-month opening period and the ISA manager has to wait until they have been notified by the buyer's conveyancer of the buyer's intention to withdraw funds before they can then claim the bonus from HMRC. So, this could potentially add several weeks onto the 12-month period.

Question 7: Are there any improvements we could make to the approach set out for holders of Help to Buy ISAs and Lifetime ISA looking to use the new FTB product?

We agree that the proposed approach probably seems the simplest and most logical.

If the Lifetime ISA is to remain valid going forward, then allowing subscriptions to either a Lifetime ISA or a FTB ISA in each tax year would seem fair and reasonable.

Also, permitting funds currently held in a Help to Buy: ISA to be transferred into a FTB ISA simply mirrors the current approach with Lifetime ISAs.

Where an individual does hold both a Help to Buy: ISA and a FTB ISA, the assumption is that subscriptions could still be in the same tax year to both products but, as is the case with the Lifetime ISA, they would not be eligible to claim the bonus on both products. Is that the correct understanding?

An alternative approach suggested by a member firm was to permit transfers from a Lifetime ISA into a FTB ISA but 'ringfence' the transferred funds in some way so that they would not be eligible for a further/future government bonus. Although this proposal appears to have some merits, it leaves questions about how to treat growth on the transferred funds and how will these funds be identified when the final bonus is claimed.

Question 8: Do you foresee any issues or complexities from applying cash holding rules to FTB ISAs?

Yes, as outlined in the executive summary, this will result in further complication to the overall ISA rules ie. where a Cash FTB ISA subscription counts towards the £12,000 cash ISA limit but a (Cash) Lifetime ISA subscription doesn't (because the Lifetime ISA, due to the withdrawal charge, is not viewed as an obvious anti-circumvention tool).

The overall ISA rules are becoming ludicrously complicated.

We believe that a negligible number of individuals would attempt to circumvent the new/reduced £12,000 Cash ISA limit by subscribing up to £12,000 in a Cash ISA and a further sum of up to £4,000 (or what the chosen annual limit is for a FTB ISA) in a Cash FTB ISA.

For that reason, the rules would be a lot clearer and simpler if the government just 'bit the bullet' and stated that no subscriptions to a Lifetime ISA or a Cash FTB ISA count towards the £12,000 limit or, at the very least, allowed for some kind of initial period (possibly 12 months) to assess whether any circumvention restrictions are actually required.

Question 9: Do you foresee any issues or complexities arising from the FTB ISA transfer rules regime set out here?

Again, it's going to add further complexity to the overall ISA transfer landscape but if the decision is made to proceed with the FTB ISA (s), then the proposed approach is probably the only logical option. So, no stocks & shares ISA product can be transferred into any cash ISA product.

We would, however, point to our comments in the executive summary that by not permitting either the transfer of a Stocks & Shares FTB ISA in a Cash FTB ISA or the full de-risking of a Stocks & Shares FTB ISA, which could be subject to market falls in the weeks/months prior to completion of the house purchase, this could have a negative outcome for the consumer.

Additional question – what about the over 65 age brackets. Albeit it is an unlikely scenario, for consistency, will those individuals aged 65 or over still be permitted to transfer a S&S FTB ISA into a Cash ISA or a Cash FTB ISA?

Question 10: What, if any, additional challenges do you foresee from a consumer and provider perspective, for the introduction of a new FTB ISA?

Just additional complexity as already outlined.