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Time for change: a review of the Individual Savings Account (ISA) regime

The AAT ISA Working Group

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1. Foreword

Individual Savings Accounts (ISAs) used to be a relatively simple, tax efficient savings vehicle. They were widely understood by the general public and proved attractive in encouraging people to save either in cash or shares, or indeed both.

Things have changed. There is now an ISA for every day of the week, offering unnecessary complexity, bureaucracy and confusion for consumers.

Some ISAs have age limits, some do not, some have a maximum savings limit of £20,000 per annum, one has a £4,128 limit (soon rising to £4,260), another £4,000 and the Help to Buy ISA offers a £50 bonus for every £200 saved (up to a maximum of £3,000).

Then there is the mind-boggling degree of interaction between ISAs which means whatever you save in a Lifetime ISA has to be deducted from how much you save in a Cash or Stocks & Shares ISA e.g. save the maximum £4,000 permitted into a Lifetime ISA and you can only save up to £16,000 (instead of £20,000) in a normal ISA.

Likewise, whilst a 15-year-old can open a Junior ISA and is ineligible for any adult ISA, a 16 or 17-year-old can open both a Junior ISA and an adult Cash ISA. At 18 it is adult ISAs only.

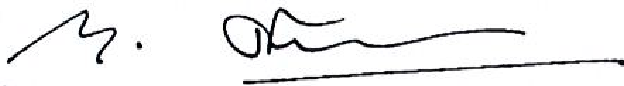
The introduction of more and more ISAs, the fact they interact poorly with each other, have a variety of different savings limits as well as different rules and requirements has made the ISA savings landscape far from clear. It is now difficult for many to understand and thus acts as a disincentive rather than an incentive to save.

The original objectives of several of the existing ISAs do not appear to be met either; for example, stocks and shares ISAs were supposed to encourage those without shares to invest in this way but they are almost exclusively used by people who would buy shares anyway. Similarly, justifying the Junior ISA is difficult when existing child savings accounts already meet their savings requirements and there is usually no income tax to pay on these.

Taking all of the above into account, the Association of Accounting Technicians (AAT) contended that the original objectives of each ISA needed to be carefully reviewed, that simplification to encourage greater levels of saving was required and that serious thought should be given to returning to a tax-free savings landscape that offers simple ISAs rather than unnecessary complexity.

A simplified and/or standardised ISA savings regime would make both their availability and features more widely understood and ultimately play a greater part in addressing the country's terrible savings ratio. It is also likely to have the advantage of being simpler to administer.

As Government has so far refused to take such an approach, the AAT ISA Working Group was established to undertake this work. Bringing together representatives from across the political divide and from the savings industry as well as utilising the expertise of national personal finance correspondents, AAT believes that the following offers a worthwhile, credible and thought-provoking contribution to the UK savings debate.



Mark Farrar,
AAT Chief Executive

2. AAT ISA Working Group members

Kirsty Blackman MP (SNP)

Kirsty is an active member of the UK Parliament for Aberdeen North having been elected to Parliament in 2015 and again in 2017.

Prior to her election in 2015, Kirsty was the SNP councillor for Hilton, Stockethill and Woodside in Aberdeen.

Kirsty is currently the Shadow SNP Spokesperson (Economy) as well as the SNP Deputy Leader in Westminster. Kirsty is particularly interested in all issues that affect her 70,000+ constituents in Aberdeen.

Sir Graham Brady MP (Conservative)

Sir Graham is MP for Altrincham & Sale West. First elected in 1997, Sir Graham was again elected by a majority of voters (51%) in June 2017.

Having served as Shadow Schools Minister, Shadow Minister for Europe, and as a member of the Treasury Select Committee from 2007-2010, Sir Graham has served as Chairman of the influential 1922 Committee for the past eight years.

Sir Graham has taken a keen interest in savings policy, championing employee share ownership and being a strong supporter of the more liberal regime for pensions and savings that has come into being in recent years.

James Daley

James is Managing Director of *Fairer Finance* and has been a consumer campaigner and financial journalist for more than 15 years. Before launching *Fairer Finance*, he worked for the consumer group, *Which?* where he campaigned for a better deal for customers of banks and insurers in the wake of the financial crisis.

James is frequently interviewed on national television and radio, and has regularly appeared on BBC shows such as Watchdog and Rip-off Britain as one of the team's financial experts.

Before working at *Which?* James spent 10 years as a business and finance newspaper journalist, latterly as the *The Independent's* personal finance editor.

Andrew Hagger

With more than 30 years' experience working for personal finance brands including Barclays, Virgin Money, Moneyfacts and Moneynet, Andrew uses his wealth of industry knowledge to help people understand what's good and what's not so special about some of the latest money products.

A frequent spokesperson on radio and television, Andrew wrote a weekly column in The Independent for six years before it closed and now writes for The Daily Mirror and a number of personal finance websites.

UK personal finance journalists voted Andrew 'Best Price Comparison PR' in 2009, 2010, 2011 and 2012 at the prestigious Headlinemoney awards.

Phil Hall

Phil has been Head of Public Affairs & Public Policy at AAT since June 2016 having previously worked for an MP, for Government and for the London Institute of Banking & Finance before running his own successful consultancy business from 2009-2016.

Phil is also a local councillor, a member of HMRC's Help to Save forum and until recently a board member at UCLH Biomedical Research Centre.

Chris Leslie MP (Labour)

Chris was elected as the Labour MP for Shipley from 1997-2005 and for Nottingham East in 2010 and again in 2015 and 2017.

Chris was a Cabinet Office Minister heading up Civil Service policy matters, Civil Contingencies and Emergency Planning before going on to become a Minister in the Office of the Deputy Prime Minister with responsibilities for Local Government and Regions policy and finally as a Minister in the Department for Constitutional Affairs with responsibility for the Courts and Elections policy.

Since returning to Parliament in 2010 Chris has undertaken a variety of Shadow Ministerial roles including as Shadow Treasury Minister, Shadow Chief Secretary to the Treasury and finally Shadow Chancellor in 2015.

Chris has also served as a trustee of a national debt advice charity, CCCS (Consumer Credit Counselling Services, now StepChange).

Brian Palmer

Brian was originally a consultant at Legal & General before going on to run his own high street accountancy practice for more than twenty years.

A past President of AAT, today Brian is Tax Policy Adviser to the organisation, representing AAT at various stakeholder forums and events. Brian is committed to making the UK tax system fairer, simpler and more transparent.

Laura Shannon

Laura has a wealth of personal finance experience. Currently the personal finance correspondent for The Mail on Sunday, Laura has previously been Money reporter at The Times and a business and finance writer at Metro.

Laura also had a productive spell as a freelance money journalist, writing for the *Daily Mail*, Independent on *Sunday*, *Sunday* Mirror, lovemoney.com, MoneySavingExpert.com, WeKnowMoney and CashQuestions among others.

3. A brief history

Individual Savings Accounts (ISAs) were introduced by HM Treasury under the Labour Government in 1999 to replace similar savings products - Personal Equity Plans (PEPs) and Tax-Exempt Special Savings Accounts (TESSAs) - that had been introduced by HMT under the Conservative Government in 1987 and 1990 respectively.

Whilst PEPS and TESSAs were created to boost the savings and investments of the general public at large, ISAs were initially aimed at providing greater help to those on lower incomes.

The original ISAs took the form of a simple cash savings product or a stocks and shares savings product (there was also an unpopular insurance ISA but this received minimal take-up and was scrapped in 2005).

Since their introduction in 1999, ISAs have been revised on numerous occasions by successive Governments with varying degrees of success.

The original savings limits of £3,000 for a cash ISA and £7,000 for a stocks and shares ISA have risen to £20,000 today, well above a simple year on year inflationary increase. In addition, the distinction between the two was scrapped so that both Cash ISAs and Stocks & Shares ISAs have an identical savings limit. These measures can arguably be said to have both simplified the ISA landscape and made ISAs more attractive.

Unfortunately, other changes over the past 19 years have succeeded in achieving the opposite.

4. The ISA landscape today

There has been considerable tinkering with ISAs since their introduction almost 20 years ago. Much of this was done with the best of intentions but the result has often been to add unnecessary complexity and confusion which is now contributing to a decline in overall ISA popularity - 11.1m adult ISA accounts were subscribed to in 2016-17, down by more than 1.5m on the previous year (12.7m, 2015-16). There was also an £18bn reduction in the amount saved[1].

An example of the complexity and confusion inherent within the regime relates to limits and ages. ISAs were originally designed for the over 18's but there is now a "Junior ISA" with a £4,128 annual savings limit (rising to £4,260 in April 2018). Confusingly 16 and 17 year olds can open both a junior ISA and a normal adult Cash ISA and upon reaching 18, only an adult ISA can be opened.

Several additional ISAs have entered the savings landscape over the past decade. As a result, today there are a range of different ISAs available for a variety of different audiences (some overlapping) attempting to serve a variety of different purposes at a variety of different life stages. These are:

Cash ISA
Objective: To help those with lower incomes accumulate funds for a rainy day, address the fact more than 16m have savings of less than £100, to boost the low savings ratio (5.2%) and to provide a simple tax-free savings option for all
Year of introduction: 1999

Stocks & Shares ISAs
Objective: To create a share owning democracy, incentivising those who don't own shares to buy them
Year of introduction: 1999

Insurance ISA
Objective: Designed for those who wanted to take more risk than the safety of a Cash ISA offered but less than investing in the stock market. Insurance ISAs were not dissimilar to endowment products
Year of introduction: 1999 (scrapped 2005)

Junior ISA
Objective: To encourage the savings habit in the younger generation and to encourage family members to help build up a nest egg for their children, especially for those who may otherwise have no savings
Year of introduction: 2011

Help to Buy ISA
Objective: To make first time buying easier for those struggling to afford a home
Year of introduction: 2015

Inheritance ISA
Objective: To enable married ISA savers, or those in a civil partnership, to inherit their partners tax-advantaged savings (Cash ISA, Stocks & Shares ISA or Innovative Finance ISA) when their partner dies. Protecting the savings of the 150,000 married ISA holders who die every year
Year of introduction: 2015

Innovative Finance ISA
Objective: According to gov.uk the rationale for the introduction of the Innovative Finance ISAs is, *"To increase the choice and flexibility available to ISA investors, encourage the growth of peer to peer lending and improve competition in the banking sector by diversifying the available sources of finance."*
Year of introduction: 2016

Lifetime ISA (LISA)
Objective: The LISA was designed with twin objectives in mind, to help first time buyers build a deposit for a residential property (short term) and to save for retirement (long term)
Year of introduction: 2017

[1] HMRC statistics, August 2017:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/640743/Full_Statistics_Release_August_2017.pdf

5. Strengths & weaknesses of the current ISA regime

Cash ISAs

Strengths:

- There is evidence that those on lower incomes make use of these accounts
- They are simple to understand and provide a tax-free savings vehicle for those who might otherwise not save
- Tax-free allowance of up to £20,000 (and the cumulative effect thereof)
- Convenience of not having to declare these savings on annual tax returns

Weaknesses:

- They do appear to be losing their attractiveness, with HMRC figures showing that the amount of money saved in a Cash ISA fell from over £58bn in 2015-2016 to £39.2bn in 2016-17
- One of the frequent criticisms for these accounts is that despite being “tax-free” even the best paying ISAs often pay less interest than standards savings accounts. On 22nd January 2018, the best paying easy access Cash ISA paid 1.16% (AA, Leeds BS & Paragon Bank) compared to a 1.5% savings account (Santander). Furthermore, a range of savings accounts with a limited maximum amount of savings pay substantially more e.g. Tesco pays 3% on balances up to £3,000 and Nationwide Building Society pays up to 5% on balances up to £2,500
- The new Personal Savings Allowance (PSA) introduced in April 2016, allows basic-rate taxpayers to receive £1,000 of cash interest, tax-free every year without the need of an ISA wrapper (£500 for higher-rate taxpayers)

Stocks and shares ISAs

Strengths:

- Given the falling attractiveness of the Cash ISA, for the reasons given above, the Stocks & Shares ISA is likely to increase in attractiveness owing to the potential for greater returns. This is partly evidenced by a modest £1.2bn increase in the amount paid into Stocks & Shares ISAs in 2016-2017
- Any vehicles that encourage wider share ownership are to be commended as they help break down the interests of the few in favour of the many but also because wider ownership means more people take an interest in the companies concerned, thus aiding accountability at a time when Corporate Governance in the UK is in desperate need of improvement
- They may not be as successful as they once were in attracting those who have never owned shares before but will inevitably do so to some degree
- Tax-free allowance of up to £20,000 (and the cumulative effect thereof) provides an affordable and long-term mechanism for individuals to gain and grow wealth
- 2017 saw record dividend pay-outs in the UK of over £94bn - it would be preferable if these dividends were being paid out to individual shareholders thus spreading wealth, rather than concentrating the proceeds of growth in the hands of the few
- Convenience of not having to declare these savings on annual tax returns

Weaknesses:

- They no longer serve their original purpose of encouraging wider share ownership amongst those on modest incomes who would otherwise not own shares
  Instead they are utilised by the better off (a stocks and shares ISA investor typically has an income of £30,000-£50,000 compared to a Cash ISA investor who has an income between £20-£30,000) and are generally held by those who already own shares but simply want to protect them from taxation
- Furthermore, the dividend allowance introduced in 2015 means that investors do not have to pay tax on the first £2,000 of their income (April 2018) irrespective of non-dividend income
- In addition, the annual tax-free Capital Gains Tax allowance of £11,700 (April 2018) provides further tax exemptions for shareholders

The Junior ISA

Strengths:

- There is merit in having a specific product simply from a take-up perspective
- It is also imperative that more children adopt a savings habit and having an account helps this
- Encouraging family members and friends to save from the point of birth is undoubtedly a welcome feature

Weaknesses:

- Existing, standard child savings accounts are not ordinarily subject to income tax anyway because they rarely benefit from sufficient taxable non-savings income to exceed the Personal Allowance (£11,850, 2018-2019). They will also be highly unlikely to exceed the Personal Savings Allowance (PSA) of £1,000

- The Junior ISA is effectively providing tax relief for relatively wealthy grandparents and parents who invest in the child/grandchild's account

The Innovative Finance ISA (IF ISA)

Strengths:

- Provides increased choice for investors
- Potential to improve competition in the banking sector by diversifying the available sources of finance
- Convenience of not having to declare these savings on annual tax returns

Weaknesses:

- Few products and consequently a low take-up
- Could be replaced with an investment allowance that would largely achieve the same objective
- It could also be argued that it dilutes the ISA brand

Lifetime ISA (LISA)

Strengths:

- A LISA can be used to buy a savers first home or to save for later life
- The government will add a 25% bonus to the subscriber's savings, up to a maximum of £1,000 per year if the maximum £4,000 is saved

Weaknesses:

- The LISA has not been implemented as was originally intended
- The age restrictions are unnecessary and limiting – savers must be over 18 and under 40 to open a LISA and cannot make contributions beyond the age of 50 – this can hardly be considered a "Lifetime"
- Savers cannot take their savings out of a Lifetime ISA until over 60 unless they pay a punitive penalty
- Savers pay a 25% penalty if they withdraw money or transfer the Lifetime ISA to another type of ISA before reaching age 60. As the FCA has repeatedly made clear, many investors may wrongly believe that the 25% charge is just giving up the 25% government bonus. In fact, the charge is equivalent to losing the whole government bonus, the returns on the bonus and paying a further 6.25% charge on the investor contribution portion of the withdrawn sum
- Overlaps and causes confusion with the Help to Buy ISA (although as highlighted below the Help to Buy ISA is due to be scrapped)
- A Lifetime ISA is probably not as effective in saving for later life as most pensions, although there is a bonus there is no employer contribution or tax relief. This could represent a considerable miss-selling problem in the future

Help to Buy ISA

Strengths:

- The scheme enables people saving for their first home to receive a 25% boost to their savings from the Government when they buy a property of £250,000 or less (£450,000 or less in London). This means that for every £200 saved, first-time buyers can receive a government bonus of £50. The maximum government bonus is £3,000
- The Help to Buy ISA has helped over 106,000 property completions and the median age of a first-time buyer in the scheme is 27 compared to a national first-time buyer median age of 30 – indicating it does make a real difference.[2] For these reasons it should be maintained…without an ISA badge

Weaknesses:

- These are due to be scrapped in 2019, or more accurately, rolled into the LISA, although subscribers can continue saving into their account until 2029
- However, irrespective of other reforms, Help to Buy ISAs should lose the ISA name from their title to avoid confusion. This should be relatively straightforward given there are already numerous other Government house buying schemes, Equity Loan, Shared Ownership etc. which do not have the ISA title associated with them
- Removing Help to Buy from the ISA family would also remove the confusing restrictions about investing in a Cash ISA whilst saving in a Help to Buy ISA as both would then be allowed

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[2] HM Treasury, January 2018: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/673042/Help_to_Buy_ISA_scheme_quarterly_statistics_December_2015-_30_September_2017.pdf

6. Considerations, explanations, solutions

Having identified the main strengths and weaknesses of the existing ISA regime, the Working Group were unanimous in believing the current ISA landscape needs to be made fairer, more easily accessible and that take-up rates must be increased.

In seeking to achieve this goal numerous alternatives were explored. The Working Group initially expressed a range of views from scrapping the entire ISA regime and starting with a blank sheet of paper – acknowledging the strong brand image of ISAs among particular age groups would mean keeping the brand - to making relatively minor changes such as improving portability and digitising transfers whilst keeping the regime much as it is today.

Perhaps the most innovative idea put forward by the Group was a proposal to introduce a Personal Investment Allowance (PIA) of £1,000 (£500 for higher rate tax payers) to mirror the Personal Savings Allowance (PSA) of £1,000 (£500 for higher rate taxpayers). This would remove the need for a Stocks & Shares ISA or an Innovative Finance ISA in the same way that the PSA appears to be radically reducing the need for a Cash ISA. It would also have the benefit of being very simple to operate and understand.

However, after much debate it was agreed that whilst attractive in theory such an idea would be inappropriate in practice and would also mean the removal of the ISA brand, the basic concept of which – saving money tax free - is still widely recognised, trusted and understood. This trust remains despite the increasing complexity and confusion created by additions and changes to the ISA landscape over the past decade.

Another novel idea related to investment limits. Instead of having an annual allowance, which now varies between ISA product and can often be confusing, ISA savers should instead be allowed to 'roll over' unused allowances for three years just like pension savers. This could be extended further to remove annual limits completely and replace them with a lifetime limit instead. This would increase fairness and simplicity and have the benefit of assisting those who have large sums of money for a short period of time e.g. house deposits, proceeds from a house sale before a replacement purchase is made and inheritance sums etc.

The Group noted with concern that debt in the UK is often encouraged, not least because it helps fuel growth. With household debt increasing 7% over the past five years[3], including a 20% increase in consumer credit, the evidence would appear to support such a view.

Conversely, savings appear to be discouraged as evidenced by the country's savings ratio of just 5.2%[4]. Working Group members all believe it should be as easy to save as it is to spend and that this is not currently the case.

Although there are merits in many of the current ISA products available, they do not represent a particularly coherent range of savings options, as established above, confusion and complexity reign. The amount being saved in ISAs is beginning to fall, the ISA regime has expanded to such a degree that there is now an ISA for every day of the week, the diverse savings limits, age restrictions and other criteria have resulted in a muddled and confusing savings landscape whilst the UK savings ratio remains stubbornly low and 40% of the working age population hold less than £100 in savings.[5] In short, the current ISA regime is not fit for purpose and simplification is essential.

Keen to avoid throwing the proverbial baby out with the bathwater, whilst maintaining a steadfast desire to create a savings culture from cradle to grave, the Working Group decided that the best means of addressing this problem is to create a new, flexible ISA wrapper into which other products can fit – the Everything ISA.

[3] Guardian, September 2017:
https://www.theguardian.com/business/2017/sep/18/uk-debt-crisis-credit-cards-car-loans
[4] Independent, December 2017:
http://www.independent.co.uk/news/business/news/uk-household-savings-fall-q3-2017-incomes-spending-ons-ratio-a8124086.html
[5] This is Money, March 2017 http://www.thisismoney.co.uk/money/saving/article-4348544/Two-fifths-UK-s-workers-100-savings.html

7. ISA reform recommendations

Help to Buy

The AAT Working Group recommends that the Help to Buy ISA should continue but without the ISA title.

As indicated previously, the Help to Buy ISA has helped over 106,000 property completions and the median age of a first-time buyer in the scheme is 27 compared to a national first-time buyer median age of 30 – indicating it has made a positive difference.[6] For these reasons it should be maintained in its current format with one notable exception, it should lose the ISA badge. This has never been an ISA in the traditional sense and losing the name will make no difference to its successful operation – but a real difference to public understanding of what an ISA actually is. There are numerous other Government house buying schemes, Equity Loan, Shared Ownership etc. which do not have the ISA title associated with them and Help to Buy should join this list.

Lifetime ISA

Likewise, the Lifetime ISA as it stands should be closed to new entrants. This ISA imposes age and numerous other restrictions. It also features a range of complicated bonuses and penalties as well as overlapping with the Help to Buy ISA. It may not always be as effective in saving for later life as most pensions, although there is a bonus there is no employer contribution or tax relief which could also represent a considerable mis-selling problem in the future.

Pensions

Saving into an ISA can often be a helpful supplement or in a small number of cases even an alternative to a pension. Since the introduction of the Lifetime ISA, the general savings landscape has further muddied with pensions. Whilst reforming pension savings was acknowledged as a worthy and necessary goal, not least because of the £25bn cost to the taxpayer in pension tax relief, there was no agreement that ISAs should provide a vehicle for pension reform.

With the objectives of simplicity and a need to encourage greater saving generally in mind, any pension changes should be considered separately to ISA reform at this time. In the interests of simplicity and raising understanding, the word “pension” should be avoided when talking about ISAs.

[6] HM Treasury, January 2018:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/673042/Help_to_Buy_ISA_scheme_quarterly_statistics_December_2015-_30_September_2017.pdf

The Everything ISA

The Junior, Cash, Stocks & Shares and Innovative Finance ISAs should be folded into a new ISA wrapper - the *Everything ISA*.

This may be given a different name if policymakers deem it necessary but *Everything ISA* was chosen for its simplicity as it "*does what is says on the tin*" i.e. it will provide a wrapper for every type of tax-free individual savings account. Other names considered included the Collective ISA, Personal ISA and Primary ISA as well as simply ISA (given this means Individual Savings Account and is therefore self-explanatory). The prospect of calling this a Lifetime ISA was also considered given it would be a truly cradle to grave offering as intended by Michael Johnson's original Lifetime ISA concept. This was rejected as it was likely to cause confusion with the current Lifetime ISA.

Existing ISAs (except the Help to Buy and Lifetime ISA) should be added to the *Everything ISA*.

These products would then be viewed in an *Everything ISA* dashboard of products. This would mean that an individual's Stocks and Shares, Cash and Innovative Finance ISA would all appear in a single portal, enabling individuals to monitor their savings products and keep a track of what is where, how much is being saved and how each is performing. This holistic view will help savers to keep in touch with their savings. The *Everything ISA* dashboard mirrors the rationale behind the decision to launch a pensions dashboard in 2019. The pensions dashboard brings together state, personal and workplace pensions together in a single place.

The costs of creating the dashboard should be met by industry (ISA providers) in the same way that the costs for creating the pensions dashboard were met by the pensions industry. However, it should be noted that the costs should be considerably lower than the pensions dashboard given the lower level of complexity - there is no requirement to interact between state savings, personal savings and workplace savings – all ISAs are currently personal savings provided by the financial services industry.

If policymakers wish to create particular ISA products in the future, these would still fall under the *Everything ISA* wrapper. For example, the Workplace ISA proposed by Michael Johnson and the Association of Consulting Actuaries or the Patient Capital ISA suggested by Neil Woodford – neither of which the ISA Group either supports or rejects.

Likewise, if Government wishes to terminate unsuccessful ISA products (such as the Insurance ISA in 2005) this can automatically be undertaken within the *Everything ISA* wrapper e.g. by transferring to other ISA products in the wrapper or by removal.

To promote simplicity and ease of operation, annual limits on all ISA saving products would be removed and instead an individual would enjoy a lifetime *Everything ISA* limit of £1m. The rationale for this figure being that it both replicates the current Pensions Lifetime Allowance and perhaps more importantly is equivalent to an annual allowance of £20,000 per year for 50 years, sufficient for most savers. It would also limit the overall operational costs to Government/taxpayers. Replacing annual limits with a lifetime limit will also address the fact that the current rules strongly favour those who are wealthy enough to invest £20,000 every year. Working group members were clear that this £1m limit is a contributions limit only i.e. savers are not allowed to invest more than £1m during their lifetime but the limit may be exceeded when interest payments and /or dividend payments are taken into account. This avoids penalising good investment performance as well as the complications of ongoing account monitoring by either the saver, HMRC or both.

The *Everything ISA* would be a truly cradle to grave operation with products available from birth to not just retirement but beyond.

An *Everything ISA* would be established when a baby's name is registered or child benefit is applied for, whichever is most administratively easy to undertake and achieves the greatest take-up. There should be no access to savings until the holder reaches age 18.

There was broad but not universal agreement from ISA Working Group members that the savings habit should be established from an early age and the principle of encouraging capital availability for all at the age of majority – no matter how small – is worthwhile, as was the case with the Child Trust Fund (CTF). Several ISA Working Group members suggested a starter payment of £500 into the *Everything ISA* upon registration of birth or registration for child benefit. Based on the £500m cost of the CTF in its last year of operation (2010/11) payable at a rate of £250 for most children (it was £500 for those who lived in a household with a combined income below £16,190) the cost

of adopting this £500 per child proposal would likely be in the region of £1bn per annum. This would be funded by the consistent underspend across the ISA family. For example, Lifetime ISA bonus payments have been reduced by £2.6bn, the Help to Buy ISA is costing over £600m less than originally thought, Innovative Finance ISAs have considerably lower take-up than was originally predicted. Government should give this serious consideration but if deemed unacceptable then at the very least the provision of an *Everything ISA* shortly after birth is a must.

There would be no upper age limit for the Everything ISA.

The *Everything ISA* must be disregarded for benefits purposes, for the purposes of completing a tax return and in relation to Capital Gains Tax.

When opening any savings account, a tick-box option stating "*Add this to your ISA?*" should be provided. This would increase awareness and consideration of opening an ISA whilst there would also be a recorded trail of money flowing into an ISA, which would be viewed on the dashboard too.

The *Everything ISA* is also likely to help address policy makers often stated concerns about an over reliance on a single asset class. Property is one such asset class that more and more view as an investment rather than a place to live. In addition to many homeowners banking on their home providing a financial nest egg, second homeowners and those investing in Buy-to-Let (BTL) have increased dramatically over the past twenty years - almost two million BTL mortgages with an aggregate value of over £210bn were in place in 2015 according to the CML (now UK Finance).

The nature of the dashboard is also likely to increase the number of people who have a spread of ISAs rather than a single ISA class because it will make transfers easier and will ensure a number of ISAs can be held under the same umbrella.

The cost to the Exchequer in providing tax relief via this new *Everything ISA* is difficult to quantify as establishing how much individuals will invest has always proved difficult in this area. This was recently demonstrated by the substantial overestimate of costs for the more recent ISA additions – Help to Buy, Lifetime ISA and the Innovative Finance ISA. In November 2017 the Office for Budget Responsibility (OBR) highlighted that the Lifetime ISA bonus payments over the next five have been cut by £2.6 billion, Help to Buy ISA original costings were estimated at £700 million in bonus payments by the end of the 2018 but have so far cost just £77 million and likewise Government estimated £800m would be invested in Innovative Finance ISAs by now but just £20 million has been.

According to HM Treasury figures, the estimated Exchequer cost of the tax relief for ISAs in 2015-16 was around £2.5 billion. Of course, it can be argued that this is an "opportunity" cost rather than a real cash flow cost as with pensions but nevertheless it is a consistent measure and for comparative purposes the Working Group believes the opportunity cost of tax relief will ultimately increase for the *Everything ISA* given the numerous attractive features and simplicity of the concept.

The likely increase in opportunity costs must be weighed against the likely increase in benefits. These include, but are not limited to, delivering a higher savings ratio - ensuring more people have more money which can help those from a diverse range of income backgrounds. For example, a "rainy day" fund for unexpected expenditure, reducing reliance on financial support from the state, common expenses such as going on holiday, having increased savings for important life events such as having a child or buying a house and accumulating an easily accessible, tax-free savings pot to complement any retirement savings.

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