Spring Budget 2024
A UK ISA to boost the UK economy?

Last weeks' Spring budget was an opportunity for the Chancellor to gain some brownie points amongst voters ahead of a widely anticipated election later this year. Whilst the Chancellor provided some relief to workers in the form of another cut in National insurance, and a boost to child benefit, the income tax cuts hoped for by some in his party which would have encompassed a wider range of people did not materialise.

Amongst the range of measures announced the one of particular interest to us as investment managers was the 'British ISA'. This idea had been touted at the Autumn Statement but has now finally materialised. The British or UK ISA is an additional £5,000 allowance, which can be used to invest in UK investments (consultation is ongoing to determine which investments would qualify). The initiative aims to revitalise the UK stock market which has been struggling in recent years versus other developed markets by encouraging investment in UK companies.

The announcement has proved divisive with many critics suggesting it will have little impact, so here are our thoughts on some of the pros and cons.

As an additional ISA allowance

It will provide an additional £5,000 tax free wrapper allowance for UK investors, given the overall ISA allowance hasn't increased from £20,000 for some time this will be a welcome increase for some. However, the majority of people in the UK don't use the full £20,000 allowance each year and many savers still prefer cash ISAs, meaning the likely impact on UK companies may be far lower than the government figures somewhat optimistically suggest. There is also concern that this additional ISA (on top of Lifetime ISAs, choice of cash or investment ISA and the innovative finance ISAs) could cause confusion for investors.

What will qualify for investment?

Consultation on this is underway until 6th June 2024, but with most of the FTSE 100 being large globally diverse companies, allowing these stocks to qualify would not seem to achieve the aim of boosting the UK economy specifically. Potentially this means that it could point investors towards mid and small cap shares. There is also debate around investment vehicles used with a question mark currently over the use of funds. As with BPR (Business Property Relief) rules it could then lead to issues further down the line in the ongoing management of these ISA's, whereby shares that once qualified then fall outside the remit of the ISA.

Risk profile of ISA and suitability for investors.

Risk, suitability, and cost will be dependent on the final details of how the ISA will

operate but there are some issues to consider.

If the ISA only allows individual shares rather than funds this could lead to increased risk through lack of diversity as well as potentially high dealing costs.

Assuming collective investment vehicles are allowed this reduces stock specific risk, but the likelihood remains that it would channel investment to mid and small cap stocks which would skew the risk higher. If gilts and bonds are allowed as some are suggesting this could provide opportunities for lower risk investors.

For more information on our DFM offering please visit our website or contact a member of our Business Development Team:

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