

Amend the ISA Regulations to clarify that fractional shares are a qualifying investment

HM Treasury should amend the ISA Regulations to make it clearer that fractional shares are ISA qualifying investments.

I have recently become aware that HMRC does not consider fractional shares to be an ISA qualifying investment within the ISA Regulations. This puts at risk the ability of millions of ordinary UK investors to access tax-efficient investments in listed companies, myself included. Excluding fractional shares from ISAs is directly contrary to the policy objectives of the ISA, and against this Government's agenda to encourage wider retail savings and investment.

Listed shares are qualifying ISA investments, and this has allowed millions of people to invest for their futures in a tax-efficient way since ISAs were introduced. However many ordinary people are unable to afford to buy whole shares, or cannot diversify their holdings properly if they are limited to buying whole shares. Some of the largest and fastest growing companies in the world now trade with shares worth more than £1000 each. For the average UK earner saving 10% of their income every year, this means they would have to allocate half of that amount to buy a single share.

In response to this problem, a number of innovative investment firms, like Freetrade, have made it possible for customers to buy and sell fractional shares as well as whole shares. When a customer owns a "fractional share", this simply means that they are entitled to a part of a share, rather than a whole share. The investment firm holds this fractional share on behalf of its customers in exactly the same way as it holds whole shares for its customers, and investors have the same protections as when buying whole shares.

Fractional shares are not new - they have been around for as long as shares have been around, but traditional investment providers have not been set up to trade or hold them. But in recent years, a new generation of investment firms with scalable tech-based operations are giving customers access to fractional shares.

This development is really important for ordinary investors like me - it allows me to invest in, and spread my exposure across, a wider range of companies than I could otherwise. However, if fractional shares are not permitted in ISAs, this would affect my ability to make sensible investments in a tax-efficient way.

The UK risks falling behind if the ISA doesn't keep in step with innovations that change behaviours and increase access for ordinary people. Retail equity ownership is near all time lows in the UK and has fallen significantly behind other advanced economies, like the United States.

Luckily, there is a simple solution to this matter. The ISA Regulations could be amended to put the matter beyond doubt, by explicitly allowing for savers to hold fractional shares as a qualifying investment.

This amendment would immediately provide clarity and reassurance to millions of customers, myself included, who wish to hold fractional shares in their ISA and who could benefit from this sensible and safe innovation.