

ISAs have a role in UK savings, but the creation of ISA...

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As [The Independent](#) reports:

The number of "Isa millionaires" has surged to more than 4,000, according to HM Revenue & Customs (HMRC) figures.

Some 4,070 savers were sitting on Isa pots worth more than £1m, as of April 2021, according to the data, obtained following a freedom of information (FOI) request on behalf of financial services network the Openwork Partnership.

The number of Isa millionaires has nearly tripled year-on-year from 1,480 in 2019/2020, according to the HMRC figures.

ISAs are Individual Savings Accounts. Introduced in 1999 to replace a previous Tory-created tax-incentivised savings plan, ISAs were meant to achieve three things.

First, they were meant to increase savings, even though all that savings in the form that ISAs represent is to withdraw money from active use in the economy.

Second, they were supposedly targeted at those with more limited means to save because caps on the annual amount that could be saved were relatively limited at first, obviously with the intention of reducing the opportunity for abuse.

Third, they were meant to do this by providing a subsidy in the form of tax-free income and capital gains for sums saved within the ISA.

Until 2010 the total annual subscription limit was at most £7,200, with half of that having to be held in shares. Since then, the limits have increased considerably. £20,000 may now be saved per annum, with all of that being capable of being held in cash if the saver so desires. However looked at, saving £20,000 per annum is not an economically normal activity.

So, how do ISA millionaires come about? That required good stock picking and saving in shares, probably to the maximum amount each year. The result is a considerable likely

tax subsidy to those who have used the scheme in this way.

What is clear is that the spirit of this scheme, which was focused on smaller savers, is being abused as a result.

Both the horizontal equity and vertical equity of the tax system are being undermined as a consequence. Income of similar sorts is not being taxed in the same way (horizontal inequity), and progressive taxation is being undermined (vertical inequity). At the same time, tax subsidies (ISA subsidies cost about £4 billion a year) are not being used as intended.

The action required to address this abuse is threefold. First, there should be a lifetime maximum subscription to ISAs. £100,000 might be fair and is still well beyond the reach of most people.

Second, in exchange for the tax relief, the funds saved should be used for social purposes. [I have long suggested green bonds be issued to assist this.](#)

Third, if the funds in an ISA grow to more than a limit (£200,000 would appear generous), then funds in excess of that sum must be transferred to an account not enjoying tax exemption.

As it is, this relief is being used to increase income and wealth inequality in the UK, and that is unacceptable and is not a purpose of tax relief. The suggested reforms seem to be an obvious step to take in that case.

PS: This may become one of the recommendations in the report I am preparing on available tax reforms within the UK economy. It's simple, it's fair, and it's not hard to do. It will create tax justice and save money wasted on those who do not need it. Why would a politician refuse to do it?