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CHARTERED CERTIFIED ACCOUNTANTS



Lifetime ISAs

A guide to the Lifetime ISA.

Announced by Chancellor George Osborne in Budget 2016 and launching on 6 April 2017, the Lifetime ISA is designed to provide a tax-efficient option for people saving for a first home or retirement.

Buying a first home and saving for retirement represent 2 of the most important aspects of a person's financial life, but the latter can often fall by the wayside in the face of other challenges.

The logic of the Lifetime ISA is that a person will continue to save for their twilight years once they have purchased their first property if they are given the same incentives.

The government has revealed a 'high level design' of the Lifetime ISA but the final details will be set out later in the year.

So what are the details of the new measures?

Who is eligible?

You must be aged between 18 and 40 to open a Lifetime ISA and can save up to £4,000 per annum. The government will pay a 25% bonus on the amount saved each year, thus if a saver contributes the maximum of £4,000 to the ISA the government will add £1,000.

An individual can save using the Lifetime ISA and receive a bonus until they are 50. It is specifically aimed at individuals who are saving for a first home or towards their retirement.

The money saved using the ISA can only be spent on a first home or withdrawn from the ISA when the saver reaches 60.

Individuals who currently own property or who are over 40 are therefore not eligible for a Lifetime ISA. In the first instance it is suggested that potential savers who are not eligible for a Lifetime ISA should look at a personal pension.

Individuals who are over 40 but have not yet purchased their first home should consider the Help to Buy ISA or high interest savings accounts.

It should be noted that the government is consulting with ISA providers and the financial services industry on the best way for individuals to save more than the £4,000 or continue contributing to the ISA after they reach 50 years old.

Talk to us about your savings strategy.

How it works

Any eligible individual can open a Lifetime ISA from April 2017.

Opening a Lifetime ISA follows the same procedure as opening any other type of ISA: select a provider, produce the correct documentation and start saving.

Individuals are permitted to open more than 1 Lifetime ISA during their lives but may only pay into 1 during each tax year. Savers may open a Lifetime ISA in addition to any other ISAs that they save into.

The bonus is paid at the end of each tax year which means that individuals will benefit from tax-free growth on the bonus from the instant it is added.

Saving with a Lifetime ISA will not differ greatly from saving with any other form of ISA. The qualifying investments will be exactly the same as they would be for a cash or stocks and shares ISA.

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Lifetime ISAs

If an individual wishes to transfer their ISA to a different provider this will have to be done within 30 days.

There will be a number of additional rules which savers must abide by when saving with a Lifetime ISA:

- all of the contributions must fall within the annual £20,000 (2017/18) ISA contribution limit
- the 25% bonus paid by the government will be paid on contributions of up to £4,000 per tax year
- there is no monthly limit on contributions which can be paid into a Lifetime ISA
- individuals can contribute to the ISA and receive the annual bonus until they are 50
- savings from other ISAs can be transferred to a Lifetime ISA. The transferred savings will not affect the £20,000 annual ISA contribution limit.

The maximum amount a saver can contribute to the ISA during their lifetime is £128,000. The 25% government bonus payments can mean an additional £32,000 can be added to the ISA during its duration. The savings and the bonus are also subject to investment growth.

Withdrawals

Savings in a Lifetime ISA for a first home can be withdrawn after 12 months from the date it was opened. After the saver reaches the age of 60 the funds may be withdrawn from the ISA to use as they wish.

However, if the saver is diagnosed with a terminal illness it may be withdrawn earlier.

Withdrawals to purchase a first home

There are a number of conditions when an individual wants to use their Lifetime ISA to purchase a first home.

The property must be valued at less than £450,000, be for them to live in and be located in the UK. If they are purchasing the property with someone they may both use funds from their own Lifetime ISAs including the government bonuses.

They must inform their Lifetime ISA manager who will inform HMRC and claim any extra bonus due. The withdrawal will be paid to the conveyancer. If the purchase does not complete, the additional funds are returned to the ISA manager and will not count against the annual ISA limit.

The Lifetime ISA and the Help to Buy ISA

Savers can save into a Lifetime ISA and a Help to Buy ISA simultaneously but may only use the bonus from 1 of the accounts towards their first home.

Individuals who already have a Help to Buy ISA may transfer funds into a Lifetime ISA and benefit from the bonus in the 2017/18 tax year. Help to Buy ISA funds saved prior to 2017 will not count towards the ISA contribution limit.

Contact us about purchasing your first home.

Early withdrawal of funds

Funds can be withdrawn at any time before the saver turns 60 but savers will have to pay a 5% charge.

Early withdrawal of funds from a Lifetime ISA also means that savers will not receive the bonus paid or interest accrued on the money.

The Lifetime ISA is subject to the same inheritance tax as all other ISAs. A spouse or civil partner can inherit the ISA tax advantages and can invest as much into their own ISA as their spouse used to have, in addition to their own allowance.

Annual investment limit

Individuals can save up to £15,240 a year (2016/17) across all types of ISAs. Some types of ISAs have restrictions on how much you can contribute each month or year.

Certain combinations of ISAs are not permitted. For example, you cannot contribute to a cash ISA and a Help to Buy ISA in the same tax year.

	2016/17	2017/18
ISAs	£15,240 a year	£20,000 a year
Help to Buy ISAs	£200 a month plus an additional £1,000 in the first month	TBC
Lifetime ISAs	n/a	£4,000 a year
Junior ISAs	£4,080 a year	TBC

Is the Lifetime ISA right for me?

Before deciding whether to save using a Lifetime ISA, Help to Buy ISA or any of the myriad ISAs or savings opportunities currently available, it is sensible to consult an accountant who will be able to advise you which is best suited to your financial needs and requirements.

We can help you make effective use of ISAs.