

## What you need to know about the Lifetime ISA

The latest Individual Savings Account (ISA), the Lifetime ISA (LISA), launched on 6 April 2017 and is designed to help individuals buy their first home or save for retirement.

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Up to £4,000 per tax year is eligible for the 25% bonus. So for every £4 an individual pays in the government will add £1.

### Other types of ISAs are:

- cash ISAs (includes junior version and Help to Buy)
- stocks and shares ISAs (includes junior version)
- innovative finance ISAs (peer-to-peer loans)

### Key Lifetime ISA facts

#### Who can open a LISA?

Individuals aged 18-39 living in the UK.

#### Who can pay into a LISA?

LISA account holders aged 18-49 and also their parents and grandparents.

#### How much can be paid in?

Up to £4,000 per tax year is eligible for the 25% bonus. People can pay more but won't receive additional government bonus. All payments count towards the overall annual ISA limit, which is £20,000 for the 2017/18 tax year.

#### What are the bonuses?

For every £4 paid in the government will add £1 (capped at £1,000 a year) up to the age of 50.

| *The bonus is paid on the payments in, not on the overall amount saved, interest or investment growth.*

The maximum bonus is £32,000, based on opening a LISA at age 18 and paying in £4,000 each year until age 50.

#### When is the bonus paid?

In the first year it will be paid annually but from the 2018/19 tax year onwards the bonus will be paid monthly.

#### Can LISAs invest in stocks and shares?

Yes, they can be invested in either cash or stocks and shares.

#### Are withdrawals tax-free?

Yes, as with other types of ISA, withdrawals are tax-free.

#### Are withdrawals penalty-free?

It depends, if the money is used to purchase a first property, or is withdrawn after the age of 60, there are no penalties. If the money is withdrawn before age 60 and not used to purchase a first property (or in certain circumstances of terminal ill-health), a 25% penalty plus an additional penalty charge of 5% will apply.

| *The 25% penalty returns the government bonus and any interest or growth on that bonus. These penalties will only take effect from April 2018 (the timing of the first government bonus).*

The only exception to this is if someone is diagnosed with terminal ill health, in which case they can withdraw all of the funds tax-free and penalty-free, regardless of age.

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First-time buyers must not own or have ever owned a home anywhere in the world to be eligible to use a LISA to purchase a first home.

## Transfers between ISAs

LISAs can be transferred between providers. Money can be transferred into a LISA from other types of ISA (but the money transferred will not qualify for the government bonus). Money can also be transferred from a LISA to another type of ISA (if before age 60, this will count as a chargeable withdrawal so the penalties will apply).

## Can LISAs be passed on to a partner?

Yes, spouses and civil partners can inherit the value of a LISA.

## First-time buyers using a LISA to purchase a first home

Some or all of a LISA can be used at any time after 12 months of opening the account to purchase a first home. Couples who individually own LISAs can use both towards buying a property together.

| *First-time buyers must not own or have ever owned a home anywhere in the world.*

First-time buyers buying a first home with someone else who is not a first-time buyer can still use the first-time buyer's bonus towards the property purchase.

First homes must be in the UK, have a purchase price of £450,000 or less, be the only home owned, be where the first-time buyer intends to live (i.e. not for buy-to-let) and be purchased with a mortgage.

## What is yet to be decided by the government (as of April 2017)?

- Whether withdrawals can be made without penalty before age 60 for other specific life events.
- Whether withdrawals (borrowings) can be made without incurring a penalty, as long as it is repaid.

## LISAs vs Help to Buy ISAs

The value of a LISA (including the government bonus) can be paid to the conveyancer and used as a deposit once contracts have been exchanged. If the purchase falls through, or the LISA withdrawal is not used towards the property purchase within three months after the withdrawal, the money must be returned to the LISA by the conveyancer.

Help to Buy ISAs will be available until 30 November 2019 (and payments in can continue until 2029).

| *With Help to Buy ISAs the bonus is paid after completion, so the bonus can't be used as part of the deposit to purchase the property.*

In addition, the maximum value of the property differs slightly with Help to Buy ISAs - valued up to £450,000 in London but up to £250,000 elsewhere.

Individuals can own both a LISA and a Help to Buy ISA, but will qualify for the government bonus from only one of these accounts towards the purchase of a first home.

## Transitional opportunity

For the 2017-18 tax year only, Help to Buy ISA savings built up before 6 April 2017 can be transferred into a LISA and will qualify for the 25% LISA government bonus. Individuals can still pay in the £4,000 LISA allowance for the 2017/18 tax year, but should understand that any payments into the Help to Buy ISA made on or after 6 April 2017 will count against the annual LISA allowance.

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Withdrawals can be made (without penalty) from a LISA if you are age 60, or earlier if you are purchasing your first home.

## LISAs vs pensions

We summarise in the table below some of the key differences between LISAs and pensions.

	Lifetime ISA	Pension
<b>Who is eligible?</b>	People aged 18-39 for opening (aged 18-49 for paying in)	People aged 16+
<b>Annual limit on payments in</b>	£4,000	Annual allowance (normally £40,000, and 'carry forward' may be available)
<b>Employer payments</b>	None	Yes (auto-enrolment law)
<b>Government contribution</b>	25% bonus (equivalent to 20% tax relief)	20% tax relief (basic rate payers) 40% tax relief (higher rate payers) 45% tax relief (additional rate payers)
<b>Tax treatment on payments in</b>	From post-tax income	From pre-tax income (or equivalent)
<b>Tax treatment on withdrawals</b>	Tax-free	25% tax-free, rest subject to income tax
<b>When can withdrawals be made?</b>	Age 60 or earlier for purchase of first home (without penalty)	From age 55 (unless ill-health)
<b>Subject to inheritance tax?</b>	Yes	No

## Want to know more?

The following links give further information:

- HMRC – What you need to know about the new Lifetime ISA:  
[www.gov.uk/government/news/lifetime-isas-available-from-6-april-2017](http://www.gov.uk/government/news/lifetime-isas-available-from-6-april-2017)
- HM Treasury – Design of the Lifetime ISA: Technical note:  
[www.gov.uk/government/publications/design-of-the-lifetime-isa-technical-note](http://www.gov.uk/government/publications/design-of-the-lifetime-isa-technical-note)
- Government Lifetime ISA campaign:  
<https://lifetimeisa.campaign.gov.uk/#saving>

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

✉ [info@barnett-waddingham.co.uk](mailto:info@barnett-waddingham.co.uk)

☎ 0333 11 11 222

🖱 [www.barnett-waddingham.co.uk](http://www.barnett-waddingham.co.uk)



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