Lifetime ISA (LISA)

From 6th April 2017, adults under the age of 40 (up to the day of their 40th birthday) can open a LISA.

Once open, you are able to pay in up to £4,000 each tax year up to the age of 50. The government will add a 25% bonus to these contributions at the end of the tax year, so those who save the maximum amount will receive a £1,000 bonus each year from the government.

These tax-free funds, including the government bonus, can be used to help buy a **first home** worth up to £450,000 at any time from 12 months after first saving into the account.

Alternatively, funds can be withdrawn from the LISA from age 60 tax-free for any purpose.

LISA holders can also access their savings if they become terminally ill, with less than 12 months to live, but withdrawals at any other time will be subject to a 25% government charge.

LISAs will have the same Inheritance Tax treatment as other ISAs and will form part of the estate.

Opening a LISA

ISA managers (such as banks, building societies, platforms or investment managers) have been able to offer the LISA since 6th April 2017, subject to HMRC approval.

Individuals will be able to open a new LISA any time from their 18th birthday up to their 40th birthday, and will still be able to pay into an existing account until their 50th birthday.

Individuals will be able to transfer their LISA between ISA managers and can open more than one LISA during their lives, but will only be able to contribute to one LISA in each tax year.

As with all long-term investments, individuals will need to consider whether a LISA is appropriate for their current circumstances and future savings needs.

Saving into a LISA

Individuals will be able to make contributions of up to a total of £4,000 per tax year. There will be no monthly contribution limit. If individuals pay more than they are allowed into a LISA account, the excess contributions will be removed from the account, but will not count as a withdrawal.

Payments to a LISA must usually be made in cash, although any investment which is currently eligible for a Cash or Stocks & Shares ISA can also be held in a LISA. Only individuals' own money may be contributed to their LISA accounts (i.e. employers or other parties will not be able to contribute).

New amounts contributed to a LISA will count against the overall ISA limit for the year, as well as the LISA limit. However, where investments are transferred to a LISA from an existing ISA of a different type, the value transferred to the LISA will count against the £4,000 LISA limit only.

During the 2017/18 tax year only, those who already have a Help to Buy ISA will be able to transfer any funds (including interest) accrued before 6th April 2017 to a LISA without this counting towards the annual limit. They will receive a 25% government bonus on the full value of the transferred funds.

Individuals can transfer funds from a LISA to another type of ISA, but this will count as a chargeable withdrawal from the LISA. Furthermore, unlike other types of ISAs, if individuals withdraw money from a LISA this will not increase the amount that they are able to pay into a LISA during that year.

Only UK residents, Crown employees and their spouses or civil partners may save into a LISA.

The Government Bonus

The government will provide a bonus of 25% on all contributions to a LISA within the limits.

The bonus will be paid only on the amount paid in, and not on any interest or investment growth. This means that if an individual invests the maximum £4,000 in a year, but after investment the LISA pot increases or decreases before the claim is made, they will still receive a bonus of £1,000.

The ISA manager will claim the bonus from HMRC and pay this into the individual's LISA. There will be no minimum size of bonus that a provider can claim. ISA managers will submit claims for 2017/18 to HMRC after the end of the tax year. From 2018/19 the bonus can be claimed and paid monthly.

In the event of withdrawals that are not made for a first home purchase, after age 60, or due to a terminal illness, a 25% charge will be applied to the value of the withdrawal. This essentially repays the Government bonus, with a share of the interest or growth received on the funds.

The government is continuing to consider whether there should be the flexibility to borrow funds from the LISA without incurring a charge if the funds are fully repaid, and whether there should be other specific life events where individuals can have access to their LISA without a government charge.

Funds held in a LISA will be treated like funds held in an ISA in cases where an individual's capital needs to be assessed. Such assessment will recognise the need to deduct the 25% charge to access the funds where appropriate. This includes welfare and social care means tests, divorce, bankruptcy etc.

Purchasing a First Home

- Individuals will be able to withdraw up to 100% of their LISA balance, including the government bonus, up to the value of their deposit. There will be no minimum amount they must withdraw.
- The withdrawal can only be put towards a first home located in the UK with a purchase value of up to £450,000 and must be for a property for the buyer to live in as their only residence (not buy-to-let).
- The withdrawal must be at least 12 months after the first subscription into the LISA.
- If they are buying their first home with someone else also buying their first home they can each use a LISA and each benefit from their government bonus.
- Withdrawals must be paid direct from the ISA manager to a conveyancer. Once the ISA manager has received these confirmations they can pay the required funds without deducting the 25% charge.
- If a purchase falls through or the purchase does not proceed within 3 months after a withdrawal has been made, then the funds must be returned to the LISA manager by the conveyancer.

Reaching 60

Full or partial withdrawals can be made without charge from an individual's 60th birthday. The withdrawal (including the bonus) can be used for any purpose and will be paid free of tax, or the funds can remain invested in the LISA and any interest and investment growth will be tax-free.