Lifetime ISA **Guide**

Designed with first-time buyers and retirement saving in mind, the Lifetime ISA is the latest tax-free savings account to be introduced by the Government.

As with other ISAs, tax is not paid on any interest, income or capital gains from cash or investments held within a Lifetime ISA. And in addition, this longer-term savings vehicle also comes with a Government bonus of 25% of the money that is put in, up to a maximum of £1,000 a year.

Opening

Launched on 6 April 2017, a Lifetime ISA can be opened by anyone who is resident in the UK for tax purposes and is aged 18 and over, but under the age of 40. Crown employees, such as diplomats and civil servants, are eligible too, along with their spouse or civil partner, as long as the age requirements are met.

Contributions

Up to £4,000 can be saved into a Lifetime ISA each tax year, up until the age of 50. However, the £4,000 limit, if used, will form part of an individual's overall annual ISA limit, which for the 2017/18 tax year is £20,000. It is possible to pay money into a Lifetime ISA in addition to a Stocks & Shares ISA, a Cash ISA and an Innovative Finance ISA each year.

Importantly for the saver, money paid into a Lifetime ISA receives an added 25% bonus from the Government, which on the maximum annual contribution of £4,000 could equate to an extra £1,000 a year until reaching age 50. Over a lifetime, this means it is possible to make contributions of up to £128,000 and receive a maximum bonus of £32,000 from the Government, with

continued overleaf

Key Facts

- **Lifetime ISAs are tax-free savings accounts designed with first-time buyers and retirement saving in mind.**
- **To open a Lifetime ISA, you must be aged 18 or over but under 40. Contributions can be made up until the age of 50.**
- **Savers can contribute up to £4,000 each tax year into a Lifetime ISA and receive a Government bonus of 25% on top of this, up to a maximum of £1,000 a year.**
- **Contributions into a Lifetime ISA will count towards a saver's overall ISA limit, which for the 2017/18 tax year is £20,000.**
- **First-time buyers can withdraw the funds penalty-free to use as a deposit on a first home worth up to £450,000. The other opportunity to withdraw funds penalty-free is from age 60, when the money can be taken and used for any purpose.**

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interest and/or investment growth on both. While payments cannot be made into a Lifetime ISA after the age of 50, the account can remain open, with savings being kept on a tax-free basis for as long as the money remains in the account.

Withdrawals

When it comes to making withdrawals from a Lifetime ISA, the rules are of deliberate benefit to first-time buyers and prospective retirees, with the funds, including the bonus, able to be used in the first instance as a deposit on a first home. If the funds are not used for this purpose, they can be withdrawn penalty-free from age 60 for any purpose. Penalty-free access will also be allowed in the event of terminal illness or death.

Savers looking to make withdrawals at any other time will have to pay a 25% withdrawal charge on the amount taken out. This effectively returns the bonus element to the Government, including any interest or growth on that bonus.

A withdrawal charge will also be applied if transferring a Lifetime ISA to a different type of ISA, although transferring to another Lifetime ISA with a different provider can be performed penalty-free.

Saving for your first home

The savings and bonus held within a Lifetime ISA can be used towards buying a first home without incurring a withdrawal charge as long as the house is worth less than £450,000 and a mortgage is being used to make the purchase. Homebuyers must also use a conveyancer or solicitor to act on their behalf in the purchase, so that the saved funds can be paid directly to them by the Lifetime ISA provider.

Another nuance for potential property purchasers to consider is that the Lifetime ISA must be open for at least 12 months before the funds can be withdrawn to buy a home; the first time eligible, penalty-free savings will be available will be 6 April 2018. Yet as the bonus for the 2017/18 tax year is unlikely to be paid for a few months after this, those wanting to use their Lifetime ISA savings and bonus for buying a property in April, May or possibly June 2018 may face a delay in securing the whole sum they are entitled to.

Accounts are limited to one per person, rather than one per home, so those buying with another first-time buyer, who each have a Lifetime ISA, can both use the Government bonus.

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Better than a Help to Buy ISA?

Although it is possible to save into both a Lifetime ISA and Help to Buy ISA, homebuyers will only be able use the bonus from one of the accounts when purchasing a home. Anyone with a Help to Buy ISA in the age range of 18-40 years old should consider transferring into a Lifetime ISA before 5th April 2018 to make things simpler and more flexible, while preserving the all-important Government bonus.

The Lifetime ISA offers higher contribution allowances and the option to build a bigger deposit by investing rather than just saving in cash, both of which suggest a Lifetime ISA is the preferable option for investors in the target age range. In addition, the bonus payment is more immediate with a Lifetime ISA and will be available in time for the exchange of contracts; with a Help to Buy ISA the bonus isn't paid until completion of a property purchase. Government rules allow the Help to Buy ISA to be transferred into a Lifetime ISA in the 2017/18 tax year without counting towards the £4,000 Lifetime ISA limit. However, given the need to wait 12 months from the point of opening a Lifetime ISA before buying a house, anyone looking to make a purchase in the near future may want to continue with a Help to Buy ISA.

Better than a pension?

While a Lifetime ISA can be used to save for retirement, a workplace pension should remain the priority given the employer pension contributions and tax relief that are on offer. Generally, a Lifetime ISA should be considered as a complement to a traditional pension rather than a replacement.

Some finer details

What we also know is that from the 2018/19 tax year, the bonus will be paid monthly, rather than at the end of the tax year as first planned. This will allow savers to gain from compound growth on the bonus. It has also been confirmed that the bonus will be based on the contribution, not on the value, meaning that if someone makes a £4,000 contribution to a Stocks & Shares Lifetime ISA, and the pot decreases before the bonus is claimed, they will still receive a £1,000 bonus.

Among the other technicalities confirmed by the Treasury, it will not be possible to make contributions over and above the annual £4,000 limit that is eligible to receive the bonus.

While the overarching rules will apply to all, different Lifetime ISA providers are still likely to impose different terms and conditions on their offerings. The interest rates available are likely to vary too. As yet, few providers have shown their hands with regards to Lifetime ISAs, with Skipton BS currently the only provider to confirm it will launch a cash Lifetime ISA sometime in June 2017.