

Lifetime ISAs

Background

Lifetime ISAs (or LISAs) become available from 6 April 2017. The purpose of LISAs is to encourage younger individuals to save for first time house purchases and for retirement. The main points relating to contributions, investments and withdrawals are set out below.

Contributions

The key points on contributions are-

- LISAs can be taken out by individuals aged between 18 and 40, at the date the LISA is opened.
- The maximum contribution for a tax year is £4,000.
- At the end of the tax year, the government will add a “bonus” of 25% of the contributions.

Other points to note are-

- Once a LISA is opened, it will be allowed to accept contributions until the individual is aged 50.
- The government has not guaranteed that the rate of the bonus will remain at 25%.
- Initially, annual contributions will be restricted to £4,000. However, the government is considering in due course allowing further contributions, but without attracting the 25% bonus.
- The £20,000 ISA overall limit for 2017/18 covers all types of ISA- Lifetime ISAs, stocks and shares ISAs, cash ISAs and Innovative Finance ISAs.
- As with other types of ISAs, only UK resident individuals (and some other categories of individual) may take out a LISA.
- An individual will be allowed to contribute to only one LISA in a tax year, but can open other LISAs in other years.
- For 2017/18 only, an individual who already has a Help to Buy ISA will be able to transfer any funds built up before 6 April 2017 into a LISA attracting the 25% bonus, without the value counting towards the £4,000 contribution limit.

Investments

Any investment which is eligible for a cash or stocks and shares ISA may be held in a LISA. Plan managers may have their own rules.

The government bonus will be added after the end of the tax year for 2017/18 contributions, and on a monthly basis for later years.

Investment returns within a LISA will be tax-free, in the same way as other ISAs.

Withdrawals

There are two main circumstances in which funds can be withdrawn, in part or in whole, without any government charge-

- To fund a first time property purchase.
- On reaching age 60.

In addition, charge-free withdrawals are allowed in cases of terminal illness.

Property purchase

The main conditions are the property must be in the UK, the property cost is up to £450,000, it must be a first-time purchase and the property must be used as a main residence, and not a buy-to let. The property can be purchased jointly. Joint buyers can each use their respective LISA funds, but the property cost remains capped at £450,000. The funds are paid by the ISA directly to the conveyancer.

The property rules interact with those of Help to Buy ISAs. When a first-time home is bought, a government bonus can be used with either a Help to Buy ISA or a LISA, but not both. In many cases it will be advisable to transfer previous funds in a Help to Buy ISA into a LISA in 2017/18, so as to capture a bonus on the full value.

Age 60

Withdrawals can be from the individuals 60th birthday, and can be used for any purpose. Or the LISA can continue, with investment returns staying tax-free.

Taxable withdrawals

Other withdrawals have a 25% government charge applied to them, prior to payment. Therefore, the 25% charge applies indirectly not only to the amounts that attracted the bonus but also to investment returns within the LISA.

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