Kymin
Financial Planners

GUIDE TO THE

# LIFETIME INDIVIDUAL SAVINGS ACCOUNT

TAX-EFFICIENCY AND FLEXIBILITY FOR THE NEXT GENERATION

FINANCIAL GUIDE

# GUIDE TO THE LIFETIME INDIVIDUAL SAVINGS ACCOUNT

*Tax-efficiency and flexibility for the next generation*

In the March 2016 Budget, the Chancellor announced major improvements to Individual Savings Accounts (ISAs) with the introduction of a new Lifetime Individual Savings Account (LISA) from April 2017, designed to help young people save flexibly for the long term throughout their lives. The aim is to help them simultaneously save for a first home and for their retirement without having to choose one over the other.

## SIMPLICITY AND POPULARITY

The LISA is designed to work in conjunction with existing ISA products and be simple for savers to use by harnessing the simplicity and popularity of the ISA wrapper where contributions are made out of post-tax income but investment growth on savings and future withdrawals are tax-efficient.

## 25% BONUS RECEIVED

From 6 April 2017, people under the age of 40 will be able to open a LISA and contribute up to £4,000 in each tax year. The Government will then provide a 25% bonus on these contributions at the end of the tax year. This means that people who save the maximum each year will receive a £1,000 bonus each year from the Government. Savers will be able to make LISA contributions and receive a bonus from the age of 18 up to the age of 50.

## TAX-EFFICIENT GROWTH

The bonus will be paid into the LISA at the end of each tax year so that savers will also benefit from tax-efficient growth on the bonus from the time it is added. For example, a £4,000 contribution made by a 25-year-old into a LISA which grew at 4% a year would be nearly five times larger due to the government bonus and investment growth by the time they reach 60.

## £32,000 MAXIMUM LIFETIME BONUS

Over their lifetime, savers will be able to have contributions of £128,000 matched by the Government for a maximum bonus of £32,000, with investment growth on both their contributions and the government bonus. Tax-efficient funds, including the government bonus, can be used to buy a first home worth up to £450,000 at any time from 12 months after opening the account. The funds, including the government bonus, can be withdrawn from the LISA from age 60 for any other purpose.

## PAYING VALID BONUS CLAIMS

LISA managers will claim the bonus due on the accounts they manage from HM Revenue & Customs (HMRC) who will pay valid bonus claims (up to a maximum of £1,000 per person per tax year). Where the individual is purchasing a home having contributed in that same tax year, they will be able to receive their bonus and will not have to wait until the following tax year.

## OPENING A LISA

Individuals will be able to open a LISA from the age of 18 until they turn 40. Opening a LISA will, in most ways, be identical to opening a regular ISA under the existing rules. Individuals will be able to open more than one LISA during their lives but will only be able to pay into one LISA in each tax year.

## SAVING INTO A LISA

Saving into a LISA will also be very similar to saving into any other ISA. For example, contributions will be made with the individual's own cash. Qualifying investments in a LISA will be the same as for a Cash ISA or Stocks &

Shares ISA. Individuals will be able to transfer their LISA within 30 days between providers to get the best deal in line with the existing ISA rules.

**There will, however, be a few additional rules:**

- Any contributions to a LISA will sit within the overall ISA contribution limit (£20,000 in 2017/18)
- The government bonus will be paid on contributions of up to £4,000 per tax year
- There will be no monthly contribution limit
- Individuals will be able to contribute to their LISA and receive a government bonus on contributions up until the point they reach 50
- Individuals will be able to transfer savings from other ISAs as one way of funding their LISA. In line with existing rules, transfers from previous years' ISA contributions do not affect that year's £20,000 overall ISA limit. During 2017/18 only, additional transfers may be made from the Help to Buy ISA and the government bonus will be kept on those savings


## SAVING ADDITIONAL FUNDS

The Government said they want to make it as easy as possible for individuals to save additional funds on top of those receiving a bonus (for example, if they want to contribute more than £4,000 a year or keep contributing after age 50). Savers will be able to contribute to one LISA in each tax year – as well as a Cash ISA, a Stocks & Shares ISA and an Innovative Finance ISA – within the new overall ISA limit of £20,000 from April 2017.

## USING THE GOVERNMENT BONUS TO PURCHASE A FIRST HOME

**Where people choose to withdraw savings from the LISA to make a first home purchase:**

- They will be able to withdraw up to 100% of their LISA balance, including the government bonus. They will get the benefit from compound growth because the government bonus is paid each year
- Their withdrawal can only be put towards a first home located in the UK with a purchase value of up to £450,000
- There will be an initial minimum holding period of 12 months from account opening before withdrawals that include the government bonus can be made for a home purchase
- If you are buying your first home with someone else, you can each use a LISA and each benefit from the government bonus
- The detailed rules will be based on those for the Help to Buy ISA, including that the withdrawal must be for a deposit on a property for the first-time buyer to live in as their only residence and not buy-to-let
- They will inform their ISA manager of the purchase, who will claim any additional bonus due from HMRC, and the withdrawal will then be paid directly to the conveyancer. If a purchase falls through after a withdrawal has been made, the funds will be returned to the same ISA manager by the conveyancer and will not count against the annual contribution limit

The Help to Buy ISA will be open for new savers until 30 November 2019, and open to new contributions until 2029. Savers will be able to save into both a Help to Buy ISA and a LISA but will only be able to use the government bonus from one of their accounts to buy their first home.

**For example, if an individual holds a Help to Buy ISA and a LISA, they may:**

- Use their Help to Buy ISA with its government bonus to purchase their first home and save their LISA with its government bonus for retirement
- Use their LISA with its government bonus to purchase their first home and withdraw the funds held in their Help to Buy ISA to put towards this purchase without the government bonus
- Use their Help to Buy ISA, including its government bonus, to purchase their first home and withdraw funds from their LISA to put towards the purchase. In this instance, the government bonus on the LISA savings would be returned to the Government, and the individual would be required to pay a charge

## TRANSFERRING FUNDS

During the 2017/18 tax year only, those who already have a Help to Buy ISA will be able to transfer these funds into a LISA and receive the government bonus on those savings. Any Help to Buy ISA funds that were saved prior to the introduction of the LISA on 6 April 2017 will not count towards the LISA annual contribution limit.

## ANNUAL CONTRIBUTION LIMIT

Contributions made after this point to the Help to Buy ISA and transferred across will count against the annual contribution limit. At the end of the tax year, they will receive a bonus on the full amount of the transferred Help to Buy ISA and their LISA contributions. In line with the normal LISA rules, Help to Buy ISA savers will be able to purchase a first home with the government bonus 12 months from the date of opening their LISA.

## RETIREMENT

Full or partial withdrawals can be made from age 60. The withdrawal (including the bonus) can be used for any purpose and will be paid free of tax. Funds can remain invested, and any interest and investment growth will be tax-efficient.

## OTHER CIRCUMSTANCES

Where people are diagnosed with terminal ill health, they will be able to withdraw all of the funds (including the bonus) tax-efficiently, regardless of the individual's age. The definition of terminal ill health will be based on that used for pensions.

The LISA will have the same Inheritance Tax (IHT) treatment as all ISAs. Upon the death of the account holder, the funds will form part of the estate for IHT purposes. Their spouse or registered civil partner can also inherit their ISA tax advantages and will be able to invest as much into their own ISA as their spouse used to have, on top of their usual allowance.

The Government will also explore whether savers should be able to access contributions and the government bonus for other specific life events.

# WHAT TYPE OF SAVER ARE YOU?

Creating and maintaining the right savings and investment strategy plays a vital role in securing your financial future. Whether you are looking to invest for income, growth or both, we'll help you find out which of your ISA options is best for you. To discuss your situation, please contact us for further information.

**To find out more, please contact us.**

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