

You and your Lifetime ISA

April 2017

What is a Lifetime ISA?

It is a new type of ISA which benefits from a government bonus. Money invested in a Lifetime ISA can be used to help you buy a first property or as savings towards your retirement. Like other ISAs, money you save in a Lifetime ISA is not subject to tax, but restrictions apply.

What age restrictions apply to a Lifetime ISA?

The minimum age you can open a Lifetime ISA is 18 and the Lifetime ISA must have been opened before your 40th birthday. You must also be either:

- Resident in the UK or, if resident abroad,
- A Crown Servant (for example a diplomat, civil servant or member of the armed forces) or,
- The spouse or civil partner of a Crown Servant

You can continue to contribute towards a Lifetime ISA until your 50th birthday.

You can withdraw from a Lifetime ISA without any restrictions once you are 60. Before then, restrictions apply.

How much can I invest in a Lifetime ISA?

You can invest up to £4,000 each tax year. Normally this will count towards your ISA limit (£20,000 in 2017/18 tax year). If you transfer from another ISA, other than a Lifetime ISA, it will not count towards the annual limit but will count towards the Lifetime ISA limit that year. The four examples below (all based on 2017/18 tax year allowance) may help you understand how it works:

1. You invest £3,000 in your Lifetime ISA and make no other investments. You have used £3,000 of your £4,000 Lifetime ISA allowance and £3,000 of your £20,000 annual ISA allowance.
2. You invest £4,000 in your Lifetime ISA and £16,000 in another ISA or ISAs. You have used your full Lifetime ISA allowance of £4,000, and your full annual ISA allowance of £20,000.

3. You transfer £4,000, subscribed in the current year to a Cash ISA, into the Lifetime ISA and do not invest in any other ISA in the tax year. You have used your full Lifetime ISA allowance of £4,000 and £4,000 of your annual ISA allowance of £20,000.
4. You transfer £4,000 from a previous tax year investment in a Cash ISA to the Lifetime ISA. and make no other ISA investment in the current tax year. You have used your full Lifetime ISA allowance of £4,000, and £0 of your current year ISA allowance of £20,000.

What investments can I place into a Lifetime ISA?

Different types of Lifetime ISAs will be available to you. Some will hold cash, others stocks and shares qualifying investments, and some will allow a combination of both. However, you will not be able to invest in qualifying loans and debentures which qualify for an Innovative Finance ISA in a Lifetime ISA

How much bonus will I receive from the government?

The government will pay a £1 bonus for every £4 you invest in your Lifetime ISA, up to a maximum of £1,000 each tax year. For example, if you invest the maximum amount of £4,000 in a tax year the government will pay a bonus of £1,000.

When can I withdraw my money?

Your Lifetime ISA is designed for long term saving and the government will charge you for taking money out of your Lifetime ISA except in certain circumstances. Your ISA manager may also charge you for taking money out.

The government will not charge you for taking money out of your Lifetime ISA if one of the following applies:

- You are using it to buy your first home worth up to £450,000
- You have been diagnosed with a terminal illness with less than 12 months to live
- You are aged 60 or more
- You are transferring your Lifetime ISA to another Lifetime ISA Manager
- If you die, in which case your Lifetime ISA will end on the date of your death

How do I make a valid withdrawal for a house purchase?

Once you have held your Lifetime ISA for 12 months you can take money out to put towards buying your first home and the government will not charge you for this if:

- The property is worth no more than £450,000 and
- You are buying your home with a mortgage and
- You use a conveyancer or solicitor to act for you in the purchase, and the funds are paid directly to them by your Lifetime ISA Manager

You must provide your ISA manager with the details of your conveyancer and a valid instruction to pay that conveyancer. The conveyancer will then confirm to the ISA manager whether your withdrawal is valid.

In most cases, you will have 90 days in which to complete the house purchase from the date your money is taken out of your Lifetime ISA and paid to your conveyancer.

After this time, if the money has not been used to buy a first home, you will need to pay it back into the Lifetime ISA. Otherwise the withdrawal may be subject to the government withdrawal charge.

Can I buy a house with someone else and both use our Lifetime ISAs?

Yes. More than one person can contribute their Lifetime ISA investment towards the first house purchase as long as each of you qualifies as a first time buyer. Also, there is no requirement for other purchasers to have a Lifetime ISA or be first time buyers.

How do I make a valid claim for terminal illness?

If you have been diagnosed with a terminal illness and have less than 12 months to live, you will be able to take money out of your Lifetime ISA without charge, provided you have written evidence from a doctor.

If you go on to make further payments to your Lifetime ISA, these will continue to qualify for a government bonus.

What happens if I need my money for other reasons?

Except during the tax year 2017/18, if you need to take money out of your Lifetime ISA for any reason other than those mentioned above, the government will charge you 25% of the amount you take out. Depending on the terms and conditions of your Lifetime ISA account, other charges may also apply.

For example, if the value of your Lifetime ISA, including bonuses, is £5,000 and you wish to take out the whole amount, the government will charge you £1,250, leaving you with £3,750. This amount may be reduced further, depending on the terms and conditions of the account.

Can I transfer my Lifetime ISA to another ISA manager?

Yes, but be careful to ensure you transfer your Lifetime ISA to another Lifetime ISA otherwise the government may charge you. If you transfer out of a Lifetime ISA into another type of ISA the government will charge you 25% of the value of your Lifetime ISA or the amount transferred if only a partial transfer is carried out.

I have a Help to Buy ISA, can I transfer this into the Lifetime ISA?

Until 5 April 2018, you can transfer your Help to Buy ISA to a Lifetime ISA and the full value of your Help to Buy ISA, as at 5 April 2017, will benefit from the government bonus. This will not count towards your £4,000 annual Lifetime ISA limit for 2017/18. Any money you have paid in since 5 April 2017, plus any interest added, can also be transferred but it will count towards the annual Lifetime ISA limit.

From 6 April 2018 it is still possible to transfer your Help to Buy: ISA to a Lifetime ISA, just like any other ISA. However, any amount you transfer will count towards your Lifetime ISA annual limit of £4,000.

I have more than £4,000 in my current ISA. What can I do?

With the exception of the Help to buy ISA in the 2017/18 tax year, the most you can transfer into a Lifetime ISA each tax year is £4,000. Where you have subscribed more than £4,000 in the current tax year, you may have to withdraw some funds before the transfer to a Lifetime ISA.

If any of the amount you transfer is from a previous tax year, this will count towards your £4,000 annual Lifetime ISA Limit but will not count towards your annual ISA limit of £20,000.

If you wish to transfer more than £4,000 to a Lifetime ISA manager, they must be able to accept the excess over £4,000 into another type of ISA.

What happens if I change my mind after making my investment?

In most cases, you can cancel your Lifetime ISA within 30 days of taking it out. If you invested in cash you will get back the full amount you invested. If you invested in stock and shares the amount you get back may be subject to the market movement of your investment.

I have a Help to Buy ISA, can I have a Lifetime ISA too?

You can hold both a Help to Buy ISA and a Lifetime ISA. However, you can use the bonus from only one of these towards buying your first property.

Can I have more than one Lifetime ISA product?

You are not allowed to pay in to more than one Lifetime ISA in the same tax year. However, you can open a Lifetime ISA with a new Lifetime ISA manager in a new tax year and keep your investments from the previous tax year(s) with your old Lifetime ISA manager(s).

Can I carry on my Lifetime ISA after I have made a house purchase?

Yes. You can continue saving into a Lifetime ISA after you have used your savings for a house purchase. Should your withdrawal take the amount in your Lifetime ISA down to zero, you should check with your Lifetime ISA manager that the Lifetime ISA will remain open. This is particularly relevant as you approach age 40 as your Lifetime ISA must still be open on your 40th birthday to enable you to put more money into the Lifetime ISA before you are aged 50.

What impact does my investment have on my means tested benefits?

Savings in a Lifetime ISA are treated as savings and as such may affect any means tested benefits you may have now or may apply for in the future.