



Lifetime Isa

The lifetime Isa is the latest recruitment to the fast-expanding range of Isa products.

In the run up to the budget 2016, the current pensions tax relief system was under threat. But instead of going ahead with major change, the Treasury announced a new type of savings plan for the under 40s.

This factsheet explains the lifetime Isa in more detail, and discusses who could find it a useful way to save. The final details for the product – how it will work and how it will be sold – were only confirmed days before the launch date of April 2017. Nucleus Financial will therefore continue to monitor the developing picture, and we anticipate that in time the Nucleus wrap will feature a lifetime Isa.

General rules

Anybody who is over age 18 and under age 40 can open a lifetime Isa and pay in up to £4,000 each tax year. In addition, the government will pay a bonus into the lifetime Isa of 25% of the subscription. The individual can continue paying into the lifetime Isa until the day before their 50th birthday.

The lifetime Isa fund can be withdrawn in full if the individual is aged 60 or over, if it is being paid towards the purchase of a first home worth £450,000 or less, if the individual dies or is in serious ill health, or if the fund is transferred to another lifetime Isa. In other circumstances, there will be a 25% withdrawal charge.

Types of Isa

From 6 April 2017, there will be four different types of Isa:

1. Cash
2. Stocks and shares
3. Innovative finance; and
4. Lifetime

Each tax year, a client can only save into one Isa of each type. So in 2017/18, a client could only save into one lifetime Isa, although they could also save into a cash Isa and a stocks and shares Isa at the same time.

Where an individual transfers their current year's subscriptions from one Isa type to another, then for that tax year, it's counted as saving into the receiving Isa type.

Subscription limits and current payment limits

There is an overall subscription limit of £20,000 from 2017/18. This covers subscriptions to all Isas (except junior Isa), including lifetime Isa. However, an individual can only save in a lifetime Isa up to the current payment limit, which is currently £4,000. Subscriptions over the £4,000 current payment limit are not allowed.

The following don't count towards the current year payment limit:

- Defaulted lifetime Isa subscriptions;
- Returned lifetime Isa withdrawals after the purchase of a first home falls through;
- Interest or growth within a lifetime Isa;
- Government bonus payments; or
- Transfers in from another lifetime Isa

Individuals need to be aware of both these limits.

Example – Mohammad

In April Mohammad pays in £14,000 into his stocks and shares Isa. He also has a regular payment (split monthly) into his cash Isa of £3,000 a year. Mohammad wants to open a lifetime Isa as well. If he does, he will be restricted to £3,000 to the lifetime Isa, otherwise he will breach his overall Isa subscription limit of £20,000.

Repair and void

Exceeding the overall subscription limit

Usually, where an individual has paid in more than the overall subscription limit the HMRC will ask that the Isa is 'repaired' by returning to the individual the excess subscriptions which cause the limit to be breached (ie the last Isa subscriptions to be paid). Tax (at the individual's marginal rate) has to be paid on any investment growth relating to this money.

However, if one of the Isas is a lifetime Isa, then (as long as the current payment limit hasn't been exceeded) the excess subscriptions will be removed from one of the other Isa types and not from the lifetime Isa – even if the lifetime Isa was first subscribed to later in that tax year than the other Isas.



Lifetime Isa

Exceeding the current payment limit

If the individual exceeds the lifetime Isa payment limit, the lifetime Isa must be repaired. The excess subscriptions must be removed (without a withdrawal charge). Any government bonus that has been paid must be returned to HMRC.

Two lifetime Isas in one tax year

If the individual pays into two (or more) lifetime Isas in one tax year, then the second lifetime Isa will be declared to be invalid. The second lifetime Isa has to be 'repaired' by returning the subscriptions to the individual. Tax (at the individual's marginal rate) has to be paid on any investment growth relating to this money, although no withdrawal charge is paid. Any government bonus that has been paid must be returned to HMRC.

Government bonus

A government bonus of 25% will be paid on 'qualifying additions' to a lifetime Isa. These are:

- current year payments (maximum of £4,000 in 2017/18); and
- for 2017/18 only a single transfer of funds from a help-to-buy Isa

The Isa manager is responsible for claiming the bonus from the government. For the tax year 2017/18, the Isa manager will claim bonuses after the end of the tax year. For all subsequent tax years, the bonus will be claimed each month.

Withdrawal charge

The lifetime Isa fund can be paid out in full if:

- the individual is aged 60 or over;
- it is being paid to the purchase of a first home, where the value is £450,000 or less;
- the individual dies;
- the individual is in serious ill health (and a medical practitioner provides written evidence they have less than 12 months to live); or
- the fund is transferred to another lifetime Isa.

In all other circumstances if the fund is withdrawn there will be a withdrawal charge of 25% of the fund – which reclaims back all the government bonus paid (plus any growth earned on it), as well as 6.25% of the individual's subscriptions (plus any growth earned on them).

Product and adviser charges

All fees or charges paid directly to the ISA manager to manage the lifetime ISA are not subject to the withdrawal charge.

But any adviser charges paid from the lifetime Isa to the adviser will be subject to a withdrawal charge of 25%. Advisers may therefore wish to be paid in a different way – either direct or from the general account.

Example – Jennifer

Jennifer pays £4,000 into a lifetime Isa in May 2017. Her lifetime Isa also receives a government bonus of £1,000. It grows by 5% (net) for the next three years. In May 2020, she decides to withdraw her lifetime Isa fund, when it is worth £5788.13.

The £4,000 subscription = £4,630.50; and

The £1,000 government bonus = £1,157.63

The withdrawal charge will be 25% of the total fund = £1,447.03.

This is equivalent to the return of the government bonus of £1,157.63 plus another £289.41, which is 6.25% of £4,630.50.

The withdrawal charge will be deducted by the Isa manager and paid to the government.

There will be no withdrawal charge applied in 2017/18 tax year only (as government bonus is not claimed until the end of the tax year).

Individuals must be told about the withdrawal charge when they first open a lifetime Isa.

Transfers

Individuals can transfer their lifetime Isa to other Isa types. If they do then there will be a withdrawal charge of 25%. If they transfer to another lifetime Isa there will be no withdrawal charge.

Transfers in from other Isa types will not count towards the overall subscription limit, but will count towards the current payment limit of £4,000 and will receive a government bonus. Transfers in from other lifetime Isas will not count towards either limit and won't receive any government bonus.

House purchase

Funds can be withdrawn without any withdrawal charge to be put towards the purchase of a first time residential property, as long as it's at least 12 months since the first payment to the lifetime Isa. The house has to be in the UK, and the purchase price has to be £450,000 or less. The individual has to live in the property.

If the individual is buying the house with another person, then they can both use their own lifetime Isas to fund the purchase. If the person they are buying the property with has already bought a house, then the individual can still use their own lifetime Isa (as long as they meet all the requirements).



Lifetime Isa

An individual cannot use a lifetime Isa and a help-to-buy to fund the purchase of the same house.

The Isa manger will pay the lifetime Isa funds direct to an eligible conveyancer.

If the house purchase falls through the funds have to be returned to the lifetime Isa. They will not count towards the current year payment limit (nor receive a bonus).

Transfer from help-to-buy Isa (2017/18 onwards and funds from 6 April 2017)	No	Yes	Yes
APS	No	Yes	Yes

Interaction with help-to-buy Isa

Individuals can open a help-to-buy Isa before 30 November 2019, and contributions to existing plans can then continue to 2029. Individuals can have both a lifetime Isa and a help-to-buy Isa.

Funds built up in a help-to-buy Isa before 5 April 2017 can be transferred to a lifetime Isa in the tax year 2017/18 and won't count towards the current payment year limit of £4,000, but will receive a government bonus. (The transfer must not breach the 'one lifetime Isa per tax year' rule.)

In subsequent tax years (and for funds built up after 6 April 2017), individuals can transfer their help-to-buy Isas to a lifetime Isa, but it will count towards the current year payment limit and again will receive a government bonus.

Summary

Where is the subscription from?	Subject to the £20,000 Isa subscription limit?	Subject to £4,000 current year payment limit?	Receives government bonus?
Member's subscription	Yes	Yes	Yes
Transfer from another Isa type	No	Yes	Yes
Transfer from another lifetime Isa	No	No	No
Transfer from help-to-buy Isa (2017/18 only and funds at 5 April 2017)	No	No	Yes

If you only read one thing read this

- Individuals can open a lifetime Isa if they are over age 18 and younger than age 40. They can continue contributing until the day before their 50th birthday. They can pay up to £4,000 into a lifetime Isa and receive a government bonus of 25% on these payments in.
- Lifetime Isa funds can be paid out in full when the individual is over age 60, to pay towards a first house purchase, when the individual dies or is in serious ill health. In other circumstances a withdrawal charge of 25% will apply – reclaiming any government bonus paid plus 6.25% of the account holder's subscriptions.
- Lifetime Isas can be transferred to other Isas but there will be a 25% withdrawal charge (unless it's to another lifetime Isa). Other Isas can be transferred to lifetime Isas. The transfer will not count towards the current year's payment limit but will receive a bonus (unless it's from another lifetime Isa).
- Funds can be withdrawn without any withdrawal to be put towards the purchase of a first residential property worth £450,000 or less.
- Funds built up in a help-to-buy Isa before 5 April 2017 can be transferred to a lifetime Isa in the tax year 2017/18 and won't count towards the current payment year limit of £4,000, but will receive a government bonus.

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