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Lifetime ISA (LISA)

What is it?

Lifetime ISAs (also known as LISAs) are a new type of ISA designed to help people aged between 18 and 40 save up for their first home, or retirement. A LISA lets you save up to £4,000 per year. At the end of the tax year the Government will top up your ISA with a 25% bonus. You will be able to earn a 25% bonus on your LISA contributions up until the age of 50.

Any money you put into your LISA will be included as part of your annual ISA contribution limit.

Tax-free funds, including the government bonus, can then be used to help buy a first home worth up to £450,000 at any time from 12 months after first saving into the account. Funds, including the government bonus, can be withdrawn from the LISA from age 60 tax-free for any purpose. LISA holders can also access their savings if they become terminally ill. Withdrawals at any time for other purposes can be made but a 25% government withdrawal charge will be applied.

The government will provide a bonus of 25% on all contributions to a LISA within the limits. The bonus will be paid only on the amount paid in, and not on any interest or investment growth. This means that if you invest £4,000 in a year, but after investment the pot increases or decreases before the claim is made, you will still receive a bonus of £1,000.

The relevant ISA manager will claim the bonus from HMRC and pay this into your LISA. Managers will not be required to hold government bonus payments separate from other LISA funds or invest them differently. There will be no statutory minimum size of bonus that a provider can claim. ISA managers will submit claims each month and the bonus will then be paid on a monthly basis.

Where contributions that have not yet received a bonus are withdrawn, the ISA manager will still be able to claim a bonus on the contributions in the same way as if the funds had not been withdrawn.

Eligibility

To be eligible to invest in a LISA, you must be aged 18 or over but under 40 at the time the LISA is opened. You must also be either:

- resident in the UK
- a Crown Servant (for example a diplomat or civil servant)
- the spouse or civil partner of a Crown Servant

Lifetime ISAs can hold cash, stocks and shares qualifying investments, or a combination of both.

You can save up to £4,000 per tax year, and can continue to pay into it until you reach 50. The account can stay open after then, but you can’t make any more payments into it.

Your savings will be kept on a tax-free basis for as long as you keep the money in your LISA.

If you cease to be eligible to invest in a LISA, any existing ISAs will continue to be exempt from UK tax, but future contributions to regular investment ISAs must be terminated and no further single contributions may be made.

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You will be able to contribute to one LISA in each tax year, as well as a cash ISA, a stocks and shares ISA, and an Innovative Finance ISA, within the overall ISA limit of £20,000.

Contribution Limits

The current LISA maximum contribution limit is £4,000.

The overall maximum contributions to ISAs is £20,000.

Taxation

Any investment returns received will be tax free.

There is no personal tax on any income taken and no capital gains tax on any gains made.

The value of your LISA and other ISAs will be included in your estate for Inheritance Tax purposes on your death (ISAs invested in shares listed on alternative investment markets may qualify for up to 100% Business Relief).

On death

The spouse or civil partner of a deceased LISA holder will have an Additional Permitted Subscription (APS) equal to the amount held in all their ISAs, including the LISA, at death (including any government bonus in the LISA). The money will no longer be inside a LISA wrapper, so no government charge will apply on withdrawals. If the individual chooses to do so and is eligible, they will be able to pay up to £4,000 per annum of this into their own LISA subject to the normal subscription criteria.

The value of the inherited ISA allowance will normally be the higher of the total value of the ISA savings at the date of death or the value on the date the ISA savings stopped being exempt from UK Income Tax.

ISA savings stop being exempt from UK Income Tax when the first of the following occurs:

- the administration of the estate is completed;
- the account is closed; or
- three years after death.

So, if a LISA holder were to die, leaving a LISA valued at £30,000 at the date of their death or when the ISA savings stopped being exempt, their spouse or civil partner will be entitled to an additional ISA allowance of £30,000. £4,000 of this can be used to contribute to their own LISA but this can only be used in place of their own contribution, not in addition to it. The remaining £26,000 can be paid into an ISA in addition to the annual ISA subscription (£20,000 2019/20). Where a cash subscription is paid, the spouse or civil partner has 3 years from the date of death to use this or if later, 180 days from the completion of the administration of the estate.

Where the LISA assets are left to someone else in their will or are used to meet expenses from the estate, the spouse or civil partner is still entitled to the additional allowance and this cannot be claimed by anyone else even if they received assets from the LISA.

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The surviving spouse or civil partner can use the additional allowance to top up an existing LISA/ISA or open a new LISA/ISA with a LISA/ISA manager of their choice.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Withdrawals

You can withdraw the funds held in your LISA before you're 60, but you'll have to pay a withdrawal charge of 25% of the amount you withdraw.

If you transfer your LISA to a different type of ISA, you'll also have to pay a withdrawal charge.

A withdrawal charge won't apply if you're:

- using it towards a first home
- aged 60
- terminally ill with less than 12 months to live
- transferring to another LISA with a different provider

If you die, your LISA will end on the date of your death and there won't be a withdrawal charge for withdrawing funds or assets from your account.

Risk Considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these in relation to your particular circumstances.

- Governments can and do change the rules on tax efficient vehicles, like LISAs.
- A LISA is not a risk free product and the value of any LISA investment may be at risk due to the investments held within the wrapper.
- LISAs can grow but depending on market conditions, you may not realise the initial sum invested. There is no guarantee that you will get more out of a LISA investment than you have paid in.
- Any income generated from investments held in a LISA is variable and is not guaranteed.
- If you leave the UK and are no longer a UK resident, you can keep the LISA investment with its tax advantages but can't make any new contributions to the LISA.
- LISA investments are liable to Inheritance Tax on death (except those eligible for Business Relief).
- Income Tax deducted at source on foreign dividends may not be recoverable. There are no further Income Taxes to be paid on investments held within an ISA.
- Past performance is no guarantee of future returns.

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- The price of units and the income from them can fall as well as rise.
- The value of this investment is not guaranteed and on encashment you may not get back the full amount you have invested.
- Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended is still designed to meet your stated risk tolerance.
- If a LISA government withdrawal charge is applied, you may receive less than you have paid in.
- If the funds are withdrawn within the first year of investment, the 12 month government bonus payment will not be made.
- If you elect to save in a LISA instead of enrolling in, or contributing to a workplace pension scheme, an employer's pension contribution may be lost where there is an employer matching contribution structure in place.
- Contributions made to a LISA will be assessed as savings and current or future entitlement to any means tested benefits may be affected, whilst savings to a pension would not be classed as savings.