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Chartered Accountants

Lifetime ISAs

Incorporating the Lifetime ISA into your savings strategy.

The past few years have seen several innovations in the savings account market. Gone are the days when savers only had cash and stocks and shares ISAs to choose from. Nowadays you can open specialist accounts designed to help you save for your first home and for your retirement. These innovations have helped to position the humble individual savings account as a powerful and flexible means of both saving your money and earning a return on your deposits.

In April, the Lifetime ISA became the newest entry to the market. In this guide we look at how you can use Lifetime ISAs.

The government introduced the Lifetime ISA with the intention of helping young people to either save for their first home or build up their retirement savings. As such, Lifetime ISAs are only available to people aged between 18 and 39 years old. You cannot open a Lifetime ISA once you turn 40.

Saving into a Lifetime ISA

You are able to save up to £4,000 a year into a Lifetime ISA and you can do this from the age of 18 until you reach your 50th birthday. Assuming you started contributing at the age of 18, you could put a maximum of £128,000 into a Lifetime ISA over the 32-year term.

Any amount saved into a Lifetime ISA will use up some of your annual ISA allowance (£20,000 in the 2017/18 tax year). Saving the annual maximum of £4,000 into a Lifetime ISA will therefore leave you with £16,000 to save into other ISAs.

The Lifetime ISA is particularly attractive for the government bonus, which amounts to 25% of the value of your annual ISA contribution. For example, if you deposit £1,000 into a Lifetime ISA during the 2017/18 tax year the government will top up your account with an extra £250. Saving the maximum £4,000 each year will result in the government providing you with an extra £1,000.

The government will continue to pay out bonuses until you reach the age of 50. The maximum government contribution is therefore £32,000 – assuming you pay in £4,000 each year between the ages of 18 and 50.

Transfers and withdrawals

You should only use the savings contained in a Lifetime ISA for retirement or to take your first steps on the property ladder. Withdrawing the funds before your 60th birthday or spending them on something other than a first home will result in the government charging a 25% exit fee, although you can withdraw the proceeds without being charged if you are terminally ill. This charge will not apply to withdrawals made during the 2017/18 tax year and will come into force from April 2018.

You can change your Lifetime ISA provider at any time without incurring a charge. You are also able to transfer funds held in your Lifetime ISA to other types of ISA. However, this will be seen as an unauthorised withdrawal and any amount transferred will be subject to the 25% charge.

Equally, you can transfer money held in other ISAs into your Lifetime ISA and receive the government bonus on it. Check with your provider before doing this as there may be withdrawal charges.

Saving for your first home

You can use savings held in a Lifetime ISA to contribute towards the cost of purchasing your first home. However, you will have to satisfy several important conditions to avoid being charged for the withdrawal:

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Lifetime ISAs

- the value of the home must not exceed £450,000
- you must buy the property with a mortgage
- the property must be used for residential purposes (rather than for buy-to-let purposes)
- you must not already own a residential property, either in the UK or abroad
- you must use an intermediary (such as a solicitor or conveyancer) for the purchase and your Lifetime ISA savings must be transferred directly to them.

Lifetime ISAs v Help to Buy ISAs

Help to Buy ISAs work in a similar way to Lifetime ISAs. They are specialist savings accounts for people wanting to buy their first home and the government makes a 25% contribution based on your deposits and interest. The key difference here is the government will provide the bonus when you buy a property, rather than making annual transfers.

You can open both a Lifetime and Help to Buy ISA simultaneously, but you will only be able to claim the government contribution on one of them to buy a home. You are able to transfer savings held in a Help to Buy ISA to a Lifetime ISA. Doing this before the start of the 2018/19 tax year will see you receive the Lifetime ISA bonus on your Help to Buy and Lifetime ISA savings.

Help to Buy ISA advantages:

Accessibility: Anyone over the age of 16 can open a Help to Buy ISA; this is less restrictive than the 18-39 age range on Lifetime ISAs

Withdrawals: you can use your savings to buy a house as soon as you've saved £1,600; Lifetime ISA holders must wait 12 months if they want to access the government bonus.

Help to Buy ISA disadvantages:

Government contribution: The maximum government bonus on savings in a Help to Buy ISA is £3,000 (compared to £32,000 in a Lifetime ISA)

Maximum contribution: You are only able to deposit £2,400 a year (£200 each month) into a Help to Buy ISA (compared to £4,000 a year in a Lifetime ISA)

Maximum property price: You cannot buy a home worth more than £250,000 (£450,000 in London) with a Help to Buy ISA (compared to £450,000 with a Lifetime ISA).

Saving for your retirement

Lifetime ISAs can be used to contribute towards your retirement savings. Using the account for this purpose will tie up your money until you reach your 60th birthday. Making withdrawals before this date will incur the 25% charge. Following this date you can choose to withdraw your savings as a single lump sum or make partial transfers. Any cash or investments held in the ISA will continue to generate income after you turn 60.

The government advises that Lifetime ISAs are not intended to substitute pension savings but to supplement them. How much importance you attach to using them for retirement income will depend on your employment.

If you're employed and already contributing to a workplace pension scheme through auto-enrolment, you may wish to pay into a secondary retirement account – especially if you've used up your annual maximum contribution.

However, if you're self-employed and not actively contributing to a workplace pension, a Lifetime ISA may be a useful alternative to setting up a personal or self-invested personal pension.

Lifetime ISAs v pensions

	Lifetime ISA	Pension
Age	You must be between 18 and 39 to open an account. You can continue paying in until your 50th birthday	18+
Contributions	Annual maximum: £4,000 Total maximum: £128,000	Annual tax-free maximum: £40,000 Total tax-free maximum: £1 million
State contribution	The government contributes 25% at the tax year-end	You receive tax relief on your contributions at your marginal rate provided you do not exceed the annual or lifetime allowances
Employer contribution	None	Through auto-enrolment: 2017/18: 1% minimum 2018/19: 2% minimum 2019 onwards: 3% minimum
Tax	Tax-free withdrawals	Contributions under the annual and lifetime allowances, and withdrawals of up to 25%, are tax-free
Withdrawals	Withdrawals can be made at any time; withdrawing before the age of 60 incurs a 25% charge	Pensions cannot usually be accessed until you reach the age of 55

Talk to us about your savings and investments.