Planning

2018

NW BROWN
WEALTH MANAGEMENT

Lifetime ISAs

How Lifetime ISAs (LISAs) Work

Similar to its predecessor, the Help to Buy ISA, the LISA is intended to encourage those below the age of 40 to save, with incentives provided if the savings are used in a particular way. As with all ISAs, you must be resident in the UK, or a Crown servant, their spouse, or civil partner.

Anyone between ages 18 and 39 may open a LISA, and they can save up to £4,000 each tax year until age 50. Contributions receive a 25% government bonus, bringing the total investment to £5,000.

As with an ISA, growth, income and withdrawals are tax free. Any contributions made (not including the government bonus) will count towards your ISA allowance - currently £20,000 per tax year.

Who are they for?

While the account owner must be 18-39 to set it up, parents and grandparents may of course gift money to go towards these savings, although they cannot invest directly on their behalf.

These gifts could be used as part of an Inheritance Tax saving exercise – for example as a regular gift out of disposable income, or using the annual exemption of £3,000. More details on inter-generational gifting and its tax advantages can be found in our previous article.

Who Offers LISAs?

The majority of ISA providers have been loath to offer LISAs, with only six providers offering a LISA as at mid-January this year.

There are six providers, one is a Cash LISA (Skipton Building Society), and five are Stocks and Shares LISAs (Hargreaves Lansdown, The Share Centre, Nutmeg, MoneyBox, and AJ Bell), whose offer ranges from fixed asset allocation services to the whole of market.

Restrictions

The government bonus will be retained as long as the LISA is used once you are aged 60 or over, to buy your first home, or you are terminally ill with less than 12 months to live. If the funds are not used for these purposes then a 25% penalty will be applied.

For the LISA to be used on a first home, the following circumstances must be met:

- You must never have owned any property anywhere in the world before;
- The property must cost £450,000 or less;

- You must buy the property at least 12 months after opening the LISA;
- You must use a conveyancer or solicitor to act for you in the purchase;
- You must purchase using a mortgage;
- It must not be used as a Buy-to-Let.

The 25% penalty does not rescind the initial bonus and the gains associated with it, it is 25% of the total amount. For example, if you invested £4,000 and received £1,000 bonus making a total of £5,000, then the 25% penalty will be £1,250, and you will only get £3,750 back. This means that, unless you are certain that these funds are going to be used in one of the two ways, your ultimate return could be significantly below that of a traditional ISA arrangement.

Should I get a LISA?

First Time Buyers

The initial 25% bonus gives it a significant head start on alternative savings products on the market and, if used alongside other savings, can help people get on to the housing ladder who may not have been able to previously.

If invested in stocks and shares, the initial increase has the added bonus of softening the downside in the event of a falling market.

If properly budgeted for, and appropriately ring-fenced specifically to buy a home, a LISA could be a useful planning tool.

Retirement Planning

Pensions are often significantly more valuable than LISAs, and generally worth considering first.

The tax relief received on personal contributions will be either equal or superior to the bonus from a LISA. Within the pension a contribution will receive basic rate tax relief (effectively a 25% uplift), with higher and additional tax relief (an additional 20% and 25%) being claimed as a part of a member's tax assessment.

Unlike LISAs, where withdrawals are tax-free, you are able to access 25% of your pension tax-free, with the remainder taxed at your marginal income rate. If carefully planned, you may potentially receive greater tax relief on the contributions than the tax you pay upon taking income.

Pensions are less flexible than LISAs, as you cannot touch them until retirement age except for in highly exceptional circumstances. However, while a LISA is technically flexible, in that you can access it at any age, the penalty is prohibitive enough whereby a person wanting flexibility should probably dismiss the LISA as an option.

It should be noted that these are not mutually exclusive from one another, and should both be utilised if you have the capacity.

Conclusion

If you or a loved one is saving for a first home or retirement, and there is capacity available, a LISA could be an option. We will weigh up the benefits versus an ISA, pension, and other products in the context of your wider circumstances. Due to the LISA's limitations of use it may form a very small part of your wider financial planning.

For more information please contact your Wealth Manager, or alternatively call us on 01223 720 208.