

# Fact sheet: Lifetime ISA (LISA)



LUCAS FETTES

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The Lifetime ISA – also known as LISA – is a type of ISA designed to help people aged between 18 and 39 save for their first home, or retirement.

## How do they work?

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Funds, including the government bonus, can be withdrawn from the LISA from age 60 tax-free for any purpose.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. Bonuses are claimed and 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Where contributions that have not yet received a bonus are withdrawn, the ISA manager will still be able to claim a bonus on the contributions in the same way as if the funds had not been withdrawn.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. Essentially, this means that you can open a LISA up until the day before your 40th birthday. However, you are able to make contributions until your 50th birthday.

You must also be either:

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

Lifetime ISAs can hold cash, stocks & 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.

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 in the 2020/21 tax year 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 (except ISAs invested in shares listed on alternative investment markets that may qualify for Business Property 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 year of this into their own LISA subject to the normal subscription criteria.

So, if a LISA holder dies, leaving a LISA valued at £30,000 at the date of their death, their spouse or civil partner will be entitled to an additional LISA allowance of £30,000. Where a cash subscription is paid, the spouse or civil partner has three years from the date of death to use this or if later, 180 days from the completion of the administration of the estate, and it can be paid in addition to their LISA allowance (2020/21 £4,000).

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.

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

## 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; or
- 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.

## LISA 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.

1. Governments can and do change the rules on tax efficient vehicles, like LISAs.
2. 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.
3. 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.
4. Any income generated from investments held in a LISA is variable and is not guaranteed.
5. 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.
6. LISA investments are liable to Inheritance Tax on death (except those eligible for Business Property Relief). Income Tax deducted at source on foreign dividends may be recoverable. There are no further Income Taxes to be paid on investments held within an ISA.
7. Past performance is no guarantee of future returns.
8. The price of units and the income from them can fall as well as rise.
9. The value of this investment is not guaranteed and on encashment you may not get back the full amount you have invested.

10. 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.
11. If a LISA government withdrawal charge is applied, you may receive less than you have paid in.
12. If the funds are withdrawn within the first year of investment, the 12 month government bonus payment will not be made.
13. 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.
14. 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.

## Contact us

If you would like further information on any of the above services or how we can help you, please do not hesitate to contact your Lucas Fettes Financial Planning adviser, call us on 01603 706 820 or email [info@lffp.co.uk](mailto:info@lffp.co.uk).

[www.lffinancialplanning.co.uk](http://www.lffinancialplanning.co.uk)

The contents of this fact sheet do not constitute financial advice. The impact of taxation (and any tax relief) depends on individual circumstances. This has been prepared based on our current understanding of UK Law, Taxation and HMRC practice, all of which could be subject to change in future. The value of investments can fall as well as rise and it may not always be possible to receive back the sum initially invested. Past performance is not necessarily a guide to future investment returns.

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