



HM Treasury

# Help to Buy: ISA

## scheme outline

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March 2015





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# 1 Introduction

**1.1** The government is committed to supporting people who aspire to become homeowners. Recognising that increased deposit requirements had left many hardworking households unable to get onto the housing ladder, the government took decisive action by introducing the Help to Buy scheme in 2013. The two elements of Help to Buy have so far supported 83,000 people realise their dream of home ownership.

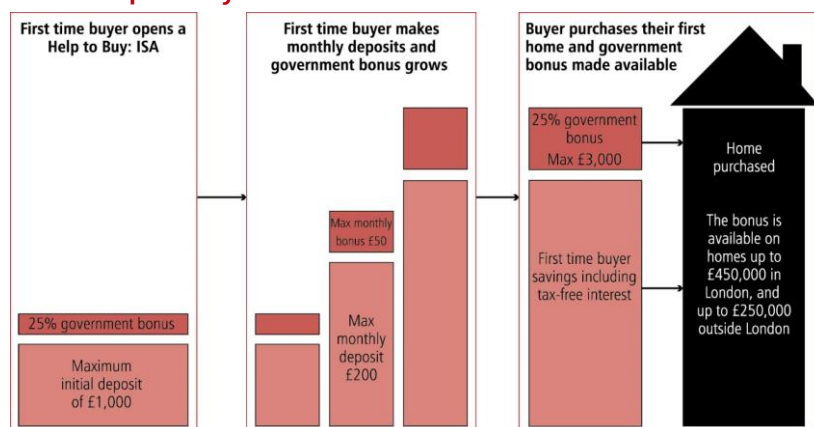
**1.2** Today the government is announcing a further expansion of the Help to Buy scheme. This expansion recognises that, despite the high loan to value mortgage market working well due to the success of Help to Buy, many first time buyers are still struggling to save enough to put down a deposit for their first home.

**1.3** This situation has been exacerbated by the low returns that savers have experienced since the onset of the financial crisis. The government recognises that many people are working hard and saving hard to get onto the housing ladder. The Chancellor of the Exchequer therefore announced, in today's Budget, the introduction of the Help to Buy: ISA.

**1.4** The Help to Buy: ISA will be available through banks and building societies. It is designed to reward people that are working hard to save up for their first home. First time buyers that choose to save through a Help to Buy: ISA will receive a government bonus to help them make the critical first step on the housing ladder. The bonus will represent 25% of the amount saved so, for the maximum monthly saving of £200, the government will contribute £50, with a maximum government contribution of £3,000 on £12,000 of savings. The bonus will be calculated and paid when you buy your first home. For basic rate taxpayers, this will be equivalent to saving completely free of tax for their first home. Accounts are limited to one per person rather than one per home so those buying together can both receive a bonus.

**1.5** This scheme outline document sets out the key elements of the new Help to Buy: ISA. The operational details will be finalised following discussions with industry. The government's aim is to provide a scheme that offers a tax-free government bonus to help people who are saving up to buy a first home worth up to £450,000 in London or £250,000 anywhere else in the UK. Accounts can be opened for a period of 4 years from the start date of the scheme.

**Chart 1.A: How the Help to Buy: ISA will work**

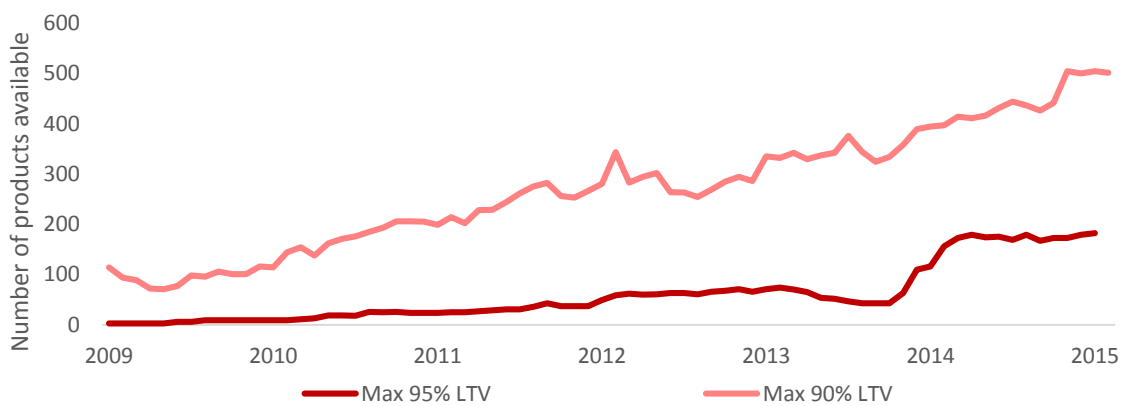


Source: HM Treasury

# 2 Trends in deposits for first time buyers

**2.1** The availability of high Loan to Value (LTV) mortgage products has increased significantly since the launch of the Help to Buy scheme in 2013, particularly at 95% LTV, as shown in Chart 2.A. This has helped open up the market to first-time buyers without relying on support from friends or relatives. The Council of Mortgage Lenders estimate that almost half (48%) of first-time buyers were unassisted in 2014, compared to only 34% in 2011, but the Government believes this is still too low.

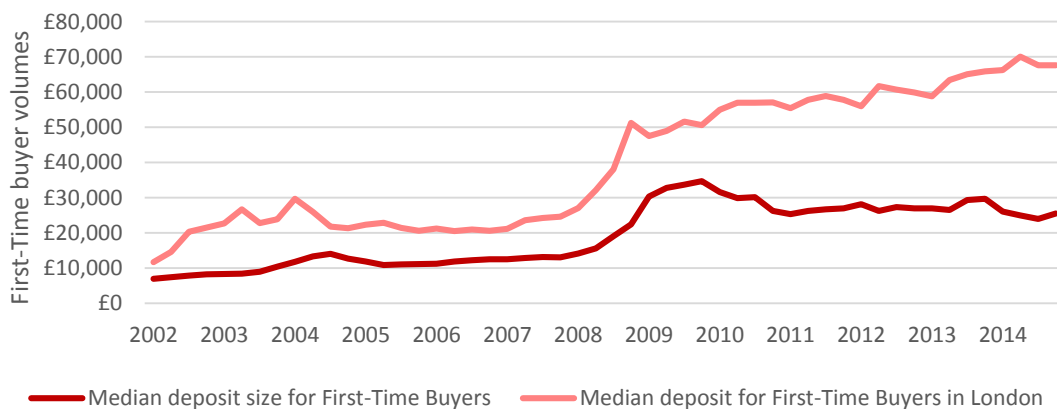
**Chart 2.A: Number of high LTV mortgage products available**



Source: Moneyfacts Treasury Reports UK Mortgage Trends

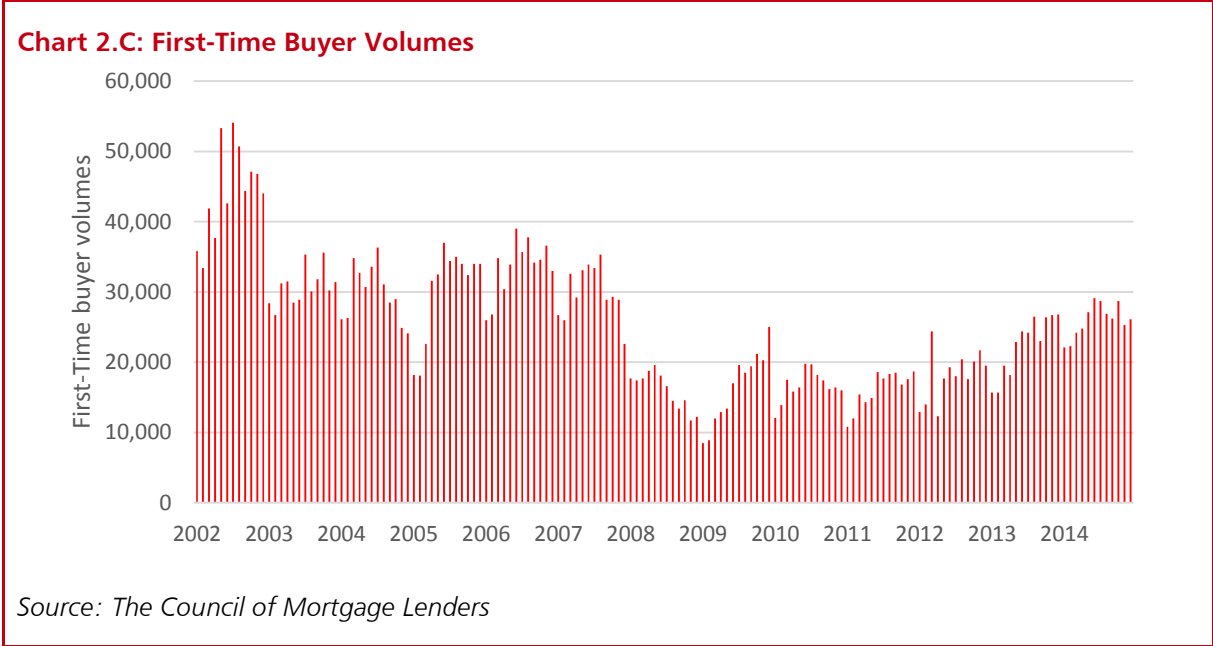
**2.2** There has been a corresponding fall in deposit sizes, with the median first-time buyer deposit size falling by 18% from the post crisis peak. However, median first-time buyer deposits remain high when compared to before the financial crisis, as shown in Chart 2.B.

**Chart 2.B: Median First-Time Buyer deposit size**



Source: Treasury analysis of data from the Council of Mortgage Lenders

**2.3** This is reflected in volumes of first-time buyers entering the housing market. As the housing market has recovered, and with the support of Help to Buy, first-time buyer volumes have begun to increase, but remain well below pre-crisis levels, as shown in Chart 2.C.



**2.4** One of the barriers to first time buyers wishing to buy their first property is the length of time required to build up a deposit. The rate of interest on savings has fallen significantly since 2008 as a result of the activist monetary policy needed to support the recovery.

**2.5** People making the difficult choices necessary to save towards buying their first home have been impacted by the low interest rate environment and the increase in deposits since the financial crisis. Today’s announcement will continue to build on existing government action in the housing market. The Help to Buy: ISA will support first time buyers by rewarding regular saving.



# 3 Help to Buy: ISA

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**3.1** This chapter sets out the high level design of the Help to Buy: ISA. This high level design will form the basis of further discussions with industry in order to ensure the scheme works in the simplest way for both savers and providers of savings products as well as for mortgage lenders.

## Overall design of the Help to Buy: ISA

**3.2** The Help to Buy: ISA is designed to work with the grain of the existing ISA products and will be simple for savers to access and for savings providers to operate.

**3.3** In broad terms, people saving for their first home through a Help to Buy: ISA will be able to save up to £200 a month into their account. The government will then top this amount up by 25%. So, for people who manage to save the maximum each month, the government will be topping up the account with £50 for every £200 saved. The government bonus will be capped at a total of £3,000 on £12,000 of savings.

**3.4** First time buyers will then receive the government bonus at the point they are ready to buy their first home. It can be put toward homes that are worth a maximum of £450,000 in London and £250,000 in all other areas of the UK.

## Detailed mechanics of the Help to Buy: ISA

**3.5** The scheme has certain eligibility rules and limits which are relevant at the point a person:

- opens a Help to Buy: ISA
- saves up through a Help to Buy: ISA
- qualifies for a government bonus under the Help to Buy: ISA; and
- buys a first home using the government contribution build up through their Help to Buy: ISA

## Opening a Help to Buy: ISA

**3.6** Opening a Help to Buy: ISA will, in most ways, be identical to opening a regular ISA under the existing cash ISA rules. A bank or building society will apply their normal account opening processes which include a minimum age of 16 years old and asking for a National Insurance Number. However, there are some additional requirements for Help to Buy: ISAs. In particular a Help to Buy: ISA

- is only available for first time buyers; and
- each first time buyer can only open one Help to Buy: ISA during the lifetime of the scheme

## Saving into a Help to Buy: ISA

**3.7** Saving into a Help to Buy: ISA will also be very similar to saving into any other cash ISA account (for example, interest received on the account will be tax free). There will, however, be some additional rules. The Help to Buy: ISA will have:

- a monthly maximum saving limit of £200

- an opportunity to deposit an additional £1,000 when the account is first opened
- no limit on how long the account can remain open

**3.8** As happens under the existing ISA rules, each provider of a Help to Buy: ISA will offer their own interest rate for each account. Providers will also be free to apply their normal ISA withdrawal rules to the account. The normal transfer rules for ISAs will also apply which will ensure that savers into Help to Buy: ISAs can move between providers in order to get the best deal.

**3.9** As is currently the case, it will only be possible for a saver to subscribe to one cash ISA per year. It will therefore not be possible for an account holder to subscribe to a Help to Buy: ISA with one provider, and another cash ISA with a different provider. However, first time buyers who have more than £200 to save every month will also be able to benefit from the major changes to the taxation of savings announced in today's Budget. From April 2016 individuals will benefit from a new Personal Savings Allowance of up to £1,000 for basic rate taxpayers, and up to £500 for higher rate taxpayers. Additional rate payers will continue to pay tax on all their savings income.

### **Help to Buy: ISA – government bonus**

**3.10** The government will help first time buyers to get onto the housing ladder by providing a government bonus for every saver who uses the scheme. The key features of the government bonus are:

- the government will provide 25% of the total amount saved in a Help to Buy: ISA (so, for every £200 saved, the government will be contributing a bonus of £50)
- the maximum government bonus that can be achieved through the scheme is capped at £3,000 (so the maximum amount of savings is £12,000)
- the bonus will apply to both the amount a person saves into their Help to Buy: ISA and the interest that is built up during the period the account is open
- the government bonus will be tax free

### **Help to Buy: ISA – using the government bonus for a home purchase**

**3.11** Given that the Help to Buy: ISA is designed to help first time buyers get onto the housing ladder, the scheme will be designed to ensure that the government bonus is used as intended. The government bonus will therefore only be paid at the point a first home is purchased. The high level design features are:

- the government bonus can only be put towards a first home located in the UK with a purchase value of £450,000 or less in London and £250,000 or less in all other parts of the UK
- the government bonus can only be used towards a property that is being used for the first time buyer to live in as their only residence and not buy-to-let. This will be enforced by the scheme administrator
- the government bonus can be claimed at any time, subject to a minimum bonus amount of £400
- the government bonus will be calculated by the scheme administrator on the account balance at the point of claim

- the value of the government bonus will then be used towards the purchase of a first home
- accounts are limited to one per person rather than one per home so those buying together can both receive a bonus

## **Scheme duration**

**3.12** Savers will be able to open a Help to Buy: ISA for a 4-year period after the date the scheme formally opens. Once an account is opened there is no limit on how long a person can save into a Help to Buy: ISA and no time limit on when they can use their government bonus.

## **Scheme administration**

**3.13** As with the Help to Buy: mortgage guarantee, the scheme will require an administrator to manage the regular requests to monetise the government bonus and monitor the scale of the government's liability. The administrator will play a key role in developing the systems and processes that will deliver the scheme. There will also be appropriate due diligence and a rigorous monitoring process.

## **Start date**

**3.14** The government intends the Help to Buy: ISA scheme to be available from Autumn 2015. Allowing a £1,000 initial deposit means that people who are saving between Budget Day and the autumn will have the opportunity to benefit from the government bonus on those savings.

## **Next steps**

**3.15** The government will work with the industry to finalise the operational details of the scheme.



### **HM Treasury contacts**

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