The new Lifetime ISA

1.1 This document sets out the high level design of the Lifetime ISA. This will form the basis of discussions with industry to finalise the parameters of the scheme and ensure it works in the simplest way for both savers and providers of savings products. Final details will be set out later this year.

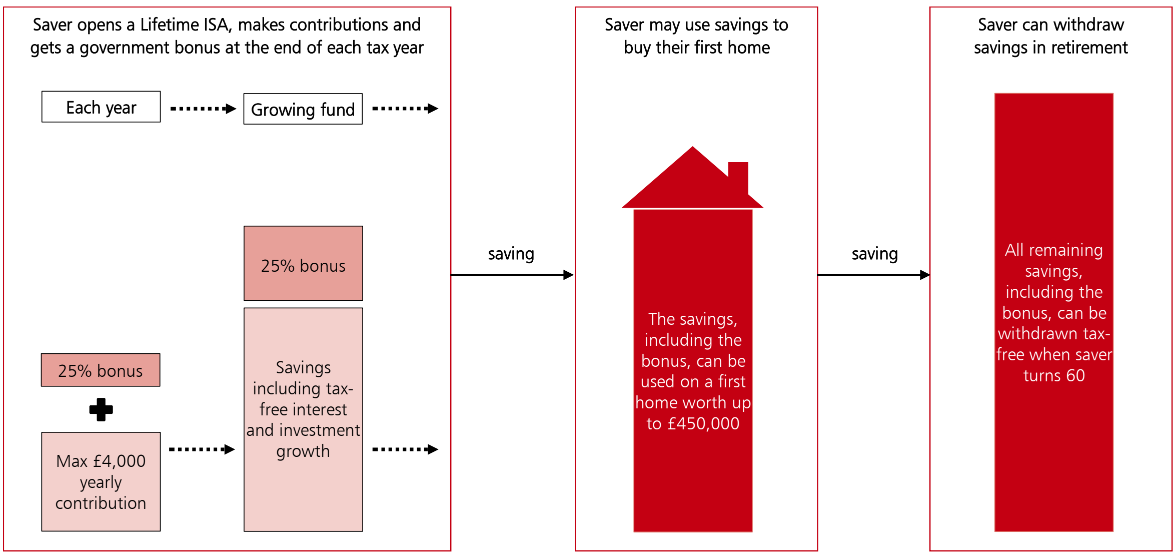
Overview

1.2 The Lifetime ISA will help young people save flexibly for the long-term throughout their lives. It will help them to simultaneously save for a first home and for their retirement, without having to choose one over the other. The Lifetime ISA is designed to work with the grain of existing ISA products and will be simple for savers to use. It will harness the simplicity and popularity of the ISA model, where contributions are made out of post-tax income but investment growth on savings and future withdrawals are tax-free.

1.3 From April 2017, people under the age of 40 will be able to open a Lifetime ISA and contribute up to £4,000 in each tax year. The government will then provide a 25% bonus on these contributions at the end of the tax year. This means that people who save the maximum each year will receive a £1,000 bonus each year from the government. Savers will be able to make Lifetime ISA contributions and receive a bonus from the age of 18 up to the age of 50.

1.4 Over their lifetime, savers will be able to have contributions of £128,000 matched by the government for a maximum bonus of £32,000, with investment growth on both their contributions and the government bonus. Tax-free funds, including the government bonus, can be used to buy a first home worth up to £450,000 at any time from 12 months after opening the account. The funds, including the government bonus, can be withdrawn from the Lifetime ISA from age 60 for any other purpose.

Chart 1.A: The Lifetime ISA



Source: HM Treasury

Detailed mechanics of the Lifetime ISA

Opening a Lifetime ISA

1.5 The Lifetime ISA will be available from April 2017. Individuals will be able to open a Lifetime ISA from the age of 18 until they turn 40.

1.6 Opening a Lifetime ISA will, in most ways, be identical to opening a regular ISA under the existing rules. An ISA manager (such as a bank, building society or investment manager) will apply their normal account opening processes which include asking for a National Insurance number and date of birth. Individuals will be able to open more than one Lifetime ISA during their lives, but will only be able to pay into one Lifetime ISA in each tax year.

Saving into a Lifetime ISA

1.7 Saving into a Lifetime ISA will also be very similar to saving into any other ISA. For example, contributions will be made with the individual's own cash. Qualifying investments in a Lifetime ISA will be the same as for a cash or stocks and shares ISA. Individuals will be able to transfer their Lifetime ISA within 30 days between providers to get the best deal, in line with the existing ISA rules.

1.8 There will, however, be a few additional rules:

- Any contributions to a Lifetime ISA will sit within the overall £20,000 ISA contribution limit
- The government bonus will be paid on contributions of up to £4,000 per tax year. There will be no monthly contribution limit
- Individuals will be able to contribute to their Lifetime ISA and will receive a government bonus on contributions up until the point they reach 50
- Individuals will be able to transfer savings from other ISAs as one way of funding their Lifetime ISA. In line with existing rules, transfers from previous years' ISA contributions do not affect that year's £20,000 overall ISA limit. During 2017-18 only, additional transfers may be made and matched from the Help to Buy: ISA, as explained in paragraph 1.16

1.9 The government wants it to be as easy as possible for individuals to save additional funds on top of those receiving a bonus (for example, if they want to contribute more than £4,000 a year or keep contributing after age 50) and will explore with the industry the best way to achieve that.

1.10 Savers will be able to contribute to one Lifetime ISA in each tax year, as well as a cash ISA, a stocks and shares ISA, and an Innovative Finance ISA, within the new overall ISA limit of £20,000 from April 2017.

The government bonus

1.11 The government will provide a bonus of 25% on contributions made during the year at the end of the tax year. This means that if an individual has made contributions of £4,000 into their Lifetime ISA by 5 April 2018, the government bonus will be £1,000.

1.12 The bonus will be paid into the Lifetime ISA at the end of each tax year, so that savers will also benefit from tax-free growth on the bonus from the time it is added. For example, a £4,000 contribution made by a 25 year old into a Lifetime ISA which grew at 4% a year would be nearly five times larger due to the government bonus and investment growth by the time they reach 60.

1.13 Lifetime ISA Managers will claim the bonus due on the accounts they manage from HMRC who will pay valid bonus claims (up to a maximum of £1,000 per person per tax year). Where the individual is purchasing a home having contributed in that same tax year, they will be able to receive their bonus in-year (i.e. they will not have to wait until the following tax year to receive the bonus).

Withdrawals

Using the government bonus to purchase your first home

1.14 Where people choose to withdraw savings from the Lifetime ISA to make a first home purchase:

- They will be able to withdraw up to 100% of their Lifetime ISA balance, including the government bonus. They will get the benefit from compound growth because the government bonus is paid each year
- Their withdrawal can only be put towards a first home located in the UK with a purchase value of up to £450,000
- There will be an initial minimum holding period of 12 months from account opening before withdrawals that include the government bonus can be made for a home purchase
- If they are buying their first home with someone else they can each use a Lifetime ISA and each benefit from their government bonus
- The detailed rules will be based on those for the Help to Buy: ISA, including that the withdrawal must be for a deposit on a property for the first time buyer to live in as their only residence and not buy-to-let
- They will inform their ISA manager of the purchase, who will claim any additional bonus due from HMRC, and the withdrawal will then be paid direct to the conveyancer. If a purchase falls through after a withdrawal has been made then the funds will be returned to the same ISA manager by the conveyancer and will not count against the annual contribution limit

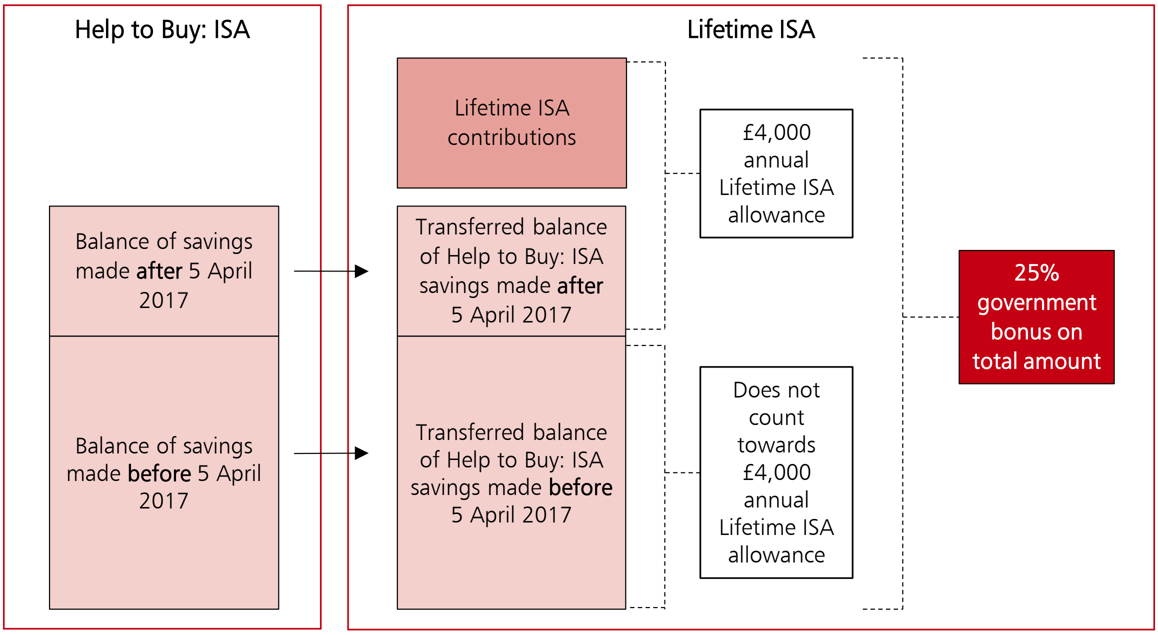
Interaction with the Help to Buy: ISA

1.15 The Help to Buy: ISA will be open for new savers until 30 November 2019, and open to new contributions until 2029. Savers will be able to save into both a Help to Buy: ISA and a Lifetime ISA, but will only be able to use the government bonus from one of their accounts to buy their first home. For example, if an individual holds a Help to Buy: ISA and a Lifetime ISA they may:

- Use their Help to Buy: ISA with its government bonus to purchase their first home, and save their Lifetime ISA with its government bonus for retirement
- Use their Lifetime ISA with its government bonus to purchase their first home, and withdraw the funds held in their Help to Buy: ISA to put towards this purchase without the government bonus
- Use their Help to Buy: ISA, including its government bonus, to purchase their first home and withdraw funds from their Lifetime ISA to put towards the purchase. In this instance the government bonus on the Lifetime ISA savings would be returned to government and the individual would be required to pay a charge, as set out below in paragraph 1.21

1.16 During the 2017-18 tax year only, those who already have a Help to Buy: ISA will be able to transfer these funds into a Lifetime ISA and receive the government bonus on those savings. Any Help to Buy: ISA funds that were saved prior to the introduction of the Lifetime ISA on 6 April 2017 will not count towards the Lifetime ISA annual contribution limit. Contributions made after this point to the Help to Buy: ISA and transferred across will count against the annual contribution limit. At the end of the tax year they will receive a bonus on the full amount of the transferred Help to Buy: ISA and their Lifetime ISA contributions. In line with the normal Lifetime ISA rules, Help to Buy: ISA savers will be able to purchase a first home with the government bonus 12 months from the date of opening their Lifetime ISA.

Chart 1.B: Transferring funds from the Help to Buy: ISA to the Lifetime ISA in 2017-18



Source: HM Treasury

Retirement

1.17 Full or partial withdrawals can be made from age 60. The withdrawal (including the bonus) can be used for any purpose, and will be paid free of tax. Funds can remain invested and any interest and investment growth will be tax-free.

Other circumstances for full withdrawal

1.18 Where people are diagnosed with terminal ill health, they will be able to withdraw all of the funds (including the bonus) tax-free, regardless of the individual's age. The definition of terminal ill health will be based on that used for pensions.

1.19 The Lifetime ISA will have the same inheritance tax treatment as all ISAs. Upon the death of the account holder, the funds will form part of the estate for inheritance tax purposes. Their spouse or civil partner can also inherit their ISA tax advantages and will be able to invest as much into their own ISA as their spouse used to have, on top of their usual allowance.

1.20 The government will also explore whether savers should be able to access contributions and the government bonus for other specific life events.

Other circumstances for partial withdrawal

1.21 Whilst this is a product aimed at encouraging saving for the long term, the government understands that circumstances change. The government therefore wants to ensure that people can access their own money but also still have an incentive to leave funds invested for the long term. The government therefore proposes that savers can make withdrawals at any time for other purposes, but with the government bonus element of the fund (including any interest or growth on that bonus) returned to the government, and a 5% charge applied. The individual will still have access to their savings and any interest earned on those savings minus the small charge.

1.22 The government will also explore with the industry whether there should be the flexibility to borrow funds from the Lifetime ISA without incurring a charge if the borrowed funds are fully repaid; for example, some US retirement plans allow 50% to be borrowed up to a maximum of $50,000.

1.23 Further details about how these rules will work will be announced after the government has engaged with industry and brings forward legislation to enact the Lifetime ISA in the autumn.