Lifetime ISA: updated design note

1.1 This document sets out the design of the Lifetime ISA, following discussions since Budget 2016 with potential providers and other interested parties. It follows on from the high-level design of the Lifetime ISA set out at:

https://www.gov.uk/government/publications/design-of-the-lifetime-isa-technical-note

1.2 The Lifetime ISA is being legislated for through the Savings (Government Contributions) Bill, which was introduced to Parliament on Tuesday 6 September. The bill and accompanying documents can be found at:

http://services.parliament.uk/bills/2016-17/savingsgovernmentcontributions/documents.html

Overview

1.3 The Lifetime ISA will help young people save flexibly for the long-term throughout their lives. 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.

1.4 From April 2017, adults under the age of 40 will be able to open a Lifetime ISA and pay in up to £4,000 each tax year. They will be able to continue making contributions up to the age of 50. The government will add a 25% bonus to these contributions. This means that individuals who save the maximum will receive a £1,000 bonus each year from the government.

1.5 Tax-free funds, including the government bonus, can 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. The funds, including the government bonus, can be withdrawn from the Lifetime ISA from age 60 tax-free for any purpose. Lifetime ISA holders can also access their savings if they become terminally ill. Savers will also be able to make withdrawals at any time for other purposes, but with a 25% government charge applied to the amount of withdrawal. This returns the government bonus element of the fund (including any interest or growth on that bonus) to the government with a small additional charge applied.

Detailed mechanics of the Lifetime ISA

Opening a Lifetime ISA

1.6 ISA managers (such as banks, building societies or investment managers) will be able to offer the Lifetime ISA from April 2017, subject to HMRC approval. Managers will be responsible for ensuring that ISA legislation and account rules are applied correctly.

1.7 Individuals will be able to open a new Lifetime ISA any time from their 18th birthday up to and including their 40th birthday. After this date they will not be able to open a new Lifetime ISA. They will still be able to pay into an existing account until their 50th birthday and can also transfer their Lifetime ISA between ISA managers, including to a new manager.

1.8 Opening a Lifetime ISA will be similar to opening any other ISA, although further information and declarations may be required as part of an application. An ISA manager will be required to collect the applicant's National Insurance number and date of birth, as well as other relevant information and declarations, and should also record the date of the first contribution to the account.

1.9 Individuals will be able to open more than one Lifetime ISA during their lives, but will only be able to contribute to one Lifetime ISA in each tax year.

1.10 As with all long-term investments, individuals will need to consider whether a Lifetime ISA is appropriate for their current circumstances and future savings needs. The Financial Conduct Authority (FCA) will publish a consultation this autumn on the regulatory framework for the Lifetime ISA.

Saving into a Lifetime ISA

1.11 Individuals will be able to make contributions of up to a total of £4,000 per tax year. There will be no monthly contribution limit. They will be able to contribute to their Lifetime ISA up to and including their 50th birthday. If individuals pay more than they are allowed into a Lifetime ISA account, the excess contributions will be removed from the account and will not count as a withdrawal.

1.12 Payments to a Lifetime ISA must usually be made in cash, although as with stocks and shares ISAs it will also be possible to transfer shares from certain tax-advantaged employee share schemes or from another ISA into a Lifetime ISA. Any investment which is currently eligible for a cash or stocks and shares ISA can be held in a Lifetime ISA. Only individuals' own money may be contributed to their Lifetime ISA accounts.

1.13 New amounts contributed to a Lifetime ISA will count against the overall ISA limit for the year, as well as the Lifetime ISA limit. However, where a previous year's funds or investments are transferred to a Lifetime ISA from an ISA of a different type, the value transferred to the Lifetime ISA will count against the £4,000 Lifetime ISA limit but not the overall ISA limit for the year.

1.14 If individuals withdraw money from a Lifetime ISA, this will not increase the amount that they are able to pay into a Lifetime ISA during that year.

1.15 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.

1.16 Only UK residents, Crown employees and their spouses or civil partners may save into a Lifetime ISA.

The government bonus

1.17 The government will provide a bonus of 25% on all contributions to a Lifetime ISA 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 an individual invests £4,000 in a year, but after investment the pot decreases before the claim is made, they will still be entitled to a bonus of £1,000.

1.18 The ISA manager will claim the bonus from HMRC and pay this into the individual's Lifetime ISA. Managers will not be required to hold government bonus payments separate from other Lifetime ISA funds or invest them differently. There will be no statutory minimum size of bonus that a provider can claim.

1.19 ISA managers will submit any claims for 2017-18 to HMRC after the end of that tax year. From 2018-19 the bonus will be claimed and paid on a monthly basis.

1.20 The government wants the benefits of saving into a Lifetime ISA to be clear to savers and the government bonus to be as visible as possible. The government will discuss how to best achieve this with potential providers and other interested parties.

1.21 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.

Transfers

1.22 Individuals will be able to transfer their Lifetime ISA between ISA managers. An account must be transferred within 30 days of an account holder's request.

1.23 There will be no limit on the amount that can be transferred. Where individuals transfer funds that have not yet received a bonus, it will be the responsibility of the ISA manager to whom the funds have been transferred to claim any bonus due on the transferred funds from HMRC. The bonus will still be calculated on the total contributions to the Lifetime ISA account during the relevant period.

1.24 Where funds or investments are transferred to a Lifetime ISA from an ISA of a different type, the value transferred to the Lifetime ISA will count against the Lifetime ISA contribution limit but not the overall ISA limit for the year. Partial transfers of funds from previous years' ISA contributions will be permitted. However, where funds are transferred that contain contributions made in the same year, those contributions must be transferred in full.

1.25 During the 2017-18 tax year only, those who already have a Help to Buy: ISA will be able to transfer any funds (including interest) built up before 6 April 2017 into a Lifetime ISA without these counting towards the Lifetime ISA contribution limit. They will receive a 25% government bonus on the full value of the transferred funds.

1.26 Contributions to a Help to Buy: ISA made on or after 6 April 2017 can still be transferred to a Lifetime ISA, like any transfer from an ISA of a different type, but will count against the Lifetime ISA contribution limit for the year in which they are transferred.

1.27 Individuals can transfer funds from their Lifetime ISA to another type of ISA, but this will count as a chargeable withdrawal from the Lifetime ISA. The same will apply where funds are transferred to any account that is not an ISA, or to any financial institution that is not an ISA manager.

Withdrawals

Using the Lifetime ISA to purchase your first home

1.28 Where an individual withdraws savings from a 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, up to the value of their deposit. There will be no minimum amount they must withdraw.
- The withdrawal can only be put towards a first home located in the UK with a purchase value of up to £450,000. The withdrawal must be for a property for the first time buyer to live in as their only residence and not buy-to-let. The definition of a first time buyer will be the same as that in the rules for the Help to Buy: ISA.
- The withdrawal must be at least 12 months after the first subscription into the Lifetime ISA. This 12 month period applies to each Lifetime ISA account that an individual opens and equally applies to funds transferred from a Help to Buy: ISA.

- If they are buying their first home with someone else also buying their first home they can each use a Lifetime ISA and each benefit from their government bonus.

1.29 To make a withdrawal, the individual will need to certify to the ISA manager that they are a first time buyer and that the property has a value of less than £450,000. Withdrawals must be paid from the ISA manager direct to a conveyancer.[1] An account holder will need to supply the ISA manager with full details of their conveyancer, and instructions to pay the withdrawn amount directly to that person. The conveyancer will also be required to certify to the ISA manager that they meet the conditions to be an eligible conveyancer. Once the ISA manager has received these confirmations they can pay the required funds to the conveyancer without deducting the charge.

1.30 The Lifetime ISA and the Help to Buy: ISA are different products with different purposes. The Help to Buy: ISA is a short-term savings product targeted at supporting people buying their first home. Individuals can close their account and access all of their savings, without charge, to go towards their deposit at the point of exchange of contracts on their first home. Just prior to completing the purchase of their first home, when their conveyancer is certain the transaction will go ahead, the conveyancer will apply for the 25% government bonus on the individual's behalf. The bonus is added to the deposit at this point, increasing the equity that the individual has in the property. The timing of the bonus payment at completion reflects the fact that entitlement to the bonus arises from the savings being used towards an eligible housing transaction.

1.31 The Lifetime ISA is a long-term savings product. As outlined in paragraph 1.19 the bonus is paid regularly (at the end of 2017/18, and monthly from 2018/19 on) to enable individuals to receive compound growth on the bonus, appropriate for a long-term savings product. As outlined in paragraph 1.18 ISA managers will not be required to hold government bonus payments separate from other Lifetime ISA funds. To enable individuals to access their own Lifetime ISA savings at exchange of contracts, as they can in the Help to Buy ISA, individuals will be able to withdraw all of their Lifetime ISA up to the value of their deposit, including any government bonus, at the point of exchange of contracts.

1.32 If a purchase falls through or the purchase does not proceed within 3 months after a withdrawal has been made, then the funds must be returned to the Lifetime ISA manager by the conveyancer. The amount returned must be the same that left the account. Any interest on funds accrued whilst held by the conveyancer can be paid direct to the individual and will not be a withdrawal. The Government is continuing to work closely with industry on the finer details of this policy, and will confirm the final details in the autumn.

Interaction with the Help to Buy: ISA

1.33 The Help to Buy: ISA will be open for new savers until 30 November 2019, and savers will be able to claim a bonus until 1 December 2030. 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 those accounts to buy their first home. For example, if an individual holds a Help to Buy: ISA and a Lifetime ISA they may:

- Transfer their Help to Buy: ISA into a Lifetime ISA and use the Lifetime ISA to purchase the property. As set out in paragraph 1.28 this must be at least 12 months after the first subscription to the Lifetime ISA. As set out in paragraph 1.26,

---

[1] A conveyancer will be defined as:

(a) in England and Wales, a "conveyancer" as defined under rule 217A of the Land Registration Scheme Rules 2003;

(b) in Scotland:
- a "solicitor" or "advocate" as defined under section 65 of the Solicitors (Scotland) Act 1980; or
- a "conveyancing practitioner" as defined under section 23 of the Law Reform (Miscellaneous Provisions) (Scotland) 1990; or

(c) in Northern Ireland, a person enrolled as a solicitor of the Court of Judicature of Northern Ireland pursuant to the Solicitors (Northern Ireland) Order 1976.

any transfers in 2017-18 of Help to Buy: ISA funds built up before 6 April 2017 will not count against the £4,000 Lifetime ISA contribution for 2017-18.

- 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 the future.
- 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, incurring a charge as set out in paragraph 1.35.

Reaching 60

1.34 Full or partial withdrawals can be made without charge from an individual's 60th birthday. The withdrawal (including the bonus) can be used for any purpose, and will be paid free of tax. However, if the account holder prefers, funds can remain invested and any interest and investment growth will be tax-free.

Other circumstances for full withdrawal

1.35 If a Lifetime ISA holder is terminally ill and has less than 12 months to live, they will be able to withdraw all of the funds (including the bonus) without any government charge, regardless of their age. There will be no restrictions on how they are able to contribute to a Lifetime ISA in the future. The individual will need to provide the ISA manager with evidence from a medical practitioner that they have less than 12 months to live in order for funds to be paid without any charge being deducted. This is intended to operate in a similar way to the process for pensions.

1.36 Fees and charges for managing a Lifetime ISA may be paid directly to the Lifetime ISA manager from the Lifetime ISA without incurring a government charge.

Other circumstances for partial withdrawal

1.37 Whilst this is a product aimed at encouraging saving for the long-term, the government understands that circumstances change. The government wants to ensure that people can access their own money, but still have an incentive to leave funds invested for the long-term. Savers will be able to make withdrawals at any time for other purposes, but with a 25% government charge applied to the amount of the withdrawal. This returns the government bonus element of the fund (including any interest or growth on that bonus) to the government with a small additional charge applied. The individual will still have access to their savings and any interest earned on those savings minus the small charge.

1.38 ISA managers must allow individuals access to their funds without the government charge in all the circumstances laid out in this document for an account to qualify as a Lifetime ISA.

1.39 The charge will be collected and paid to HMRC by the ISA manager. It will be reported to HMRC at the same time as the bonus is claimed. The ISA manager must not apply the 25% charge on behalf of the government if the account holder meets any of the specified conditions for charge-free withdrawal.

1.40 The normal ISA rules in relation to an account holder's access to their savings or investments will apply, regardless of whether the government charge applies to the withdrawal or not. An account holder should usually be able to withdraw their savings and investments within 30 days of requesting them.

1.41 The government is continuing to consider whether there should be the flexibility to borrow funds from the Lifetime ISA without incurring a charge if the borrowed funds are fully repaid, and whether there should be other specific life events where individuals can have access to their Lifetime ISA without a government charge. However, the government has decided that these will not be a feature of the product when it becomes available in April 2017.

Treatment in other circumstances

1.42 Funds held in a Lifetime ISA will be treated like funds held in an ISA in cases where an individual's capital needs to be assessed. Such assessment will recognise the need to deduct the 25% charge to access the funds where appropriate. This includes:

- welfare and social care means tests, which will take the surrender value of Lifetime ISA funds into account as individual capital
- divorce, where Lifetime ISA funds will be treated as a normal asset
- bankruptcy, where Lifetime ISA funds will be treated as a normal asset
- direct recovery of debt, where the existing rules for stocks and shares ISAs will apply

1.43 Lifetime ISAs will have the same inheritance tax treatment as other ISAs. Upon the death of the account holder, the account will form part of the estate for inheritance tax purposes. The spouse or civil partner of a deceased Lifetime ISA holder will have an Additional Permitted Subscription (APS) equal to the amount held in all their ISAs, including the Lifetime ISA, at death (including any government bonus in the Lifetime ISA). The money will no longer be inside a Lifetime ISA 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 annum of this into their own Lifetime ISA subject to the normal subscription criteria.