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<http://www.attwoods.co.uk/attwoods-tax-blog/>

### **New Lifetime ISA – earn up to £1,000 a year**

Plans to introduce a new Lifetime ISA were unveiled in the 2016 Budget. The Lifetime ISA will be available from April 2017. It can be used either to save for a deposit for a first home or to save for retirement.

#### **Who can open one?**

A Lifetime ISA can be opened by anyone between the ages of 18 and 40. The procedure for opening a Lifetime ISA will be similar to that for existing ISAs. Savings into a Lifetime ISA will count towards the overall ISA limit for the year.

#### **Government bonus**

Sums saved in the account before the saver's 50th birthday will earn a Government bonus of 25% of the amount saved. The Government bonus will be paid on savings of up to £4,000 a year, making it possible to earn up to £1,000 a year by investing in a Lifetime ISA. The bonus will be paid at the end of each tax year.

#### **Save for your first home**

The Lifetime ISA can only be used to save for a deposit on a first home or to save for retirement. However, a person must hold the Lifetime ISA for at least 12 months before they can make withdrawals that include the Government bonus. The savings, together with the Government bonus, can be put towards the purchase of a house in the UK costing up to £450,000. Where a house is purchased jointly, each purchaser can use savings from a Lifetime ISA, together with the Government bonus.

Where a person already has a Help-to-Buy ISA, they can either keep it and use it to save for a first home or transfer it into a Lifetime ISA. It is possible to have both a Help-to-Buy ISA and a Lifetime ISA, but only the Government bonus from one of the accounts can be used to buy the first home.

#### **Trap**

The bonus is only available to first time buyers.

#### **Save for retirement – and earn a bonus of up to £32,000**

The other purpose of the Lifetime ISA is to save for retirement. A person who saves £4,000 a year from age 18 to age 50 will accrue savings of £128,000 (before interest) and earn a Government bonus of £32,000, giving them a savings pot of £160,000 (plus interest). The savings and the Government bonus can be withdrawn from age 60.

#### **Beware other withdrawals**

The aim of the Lifetime ISA is to encourage long-term saving for specified purposes. Although individuals will not be prohibited from making withdrawals for other purposes, they will lose the Government bonus on any withdrawals that they make for other purposes. In addition, they will suffer a 5% charge. So, if you save £100 either towards a first home or retirement, that £100 will be worth £125 (plus interest). However, if you use the savings for other purposes, be warned, you will only get £95 of your initial £100 back (plus any interest earned).

**Practical tip**

Use a Help to Buy ISA for your first home and the Lifetime ISA to save for retirement. For other savings, choose a different account.

Partner note: Technical note on Lifetime ISA – see [www.gov.uk/government/publications/design-of-the-lifetime-isa-technical-note](http://www.gov.uk/government/publications/design-of-the-lifetime-isa-technical-note).

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