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Hello LISA

Saving for a first home or retirement at the same time

The start of the new tax year on 6 April 2017 saw the launch of the Lifetime ISA (LISA), which was announced in the 2016 Budget. This is a new type of Individual Savings Account (ISA) designed to help you save for a first home or for your retirement at the same time. To be eligible, you have to be aged between 18 and 39 years old (up until your 40th birthday).

SUPPLEMENTED BY A GOVERNMENT BONUS

You can save up to £4,000 a year into a LISA, and this will be supplemented by a government bonus of 25% of the money you put in. After year one, the bonus will be paid into your account monthly based on how much you pay in, but in the first year it will be paid in one lump sum at the end of the tax year.

The maximum bonus that you can receive is £1,000 each year. You'll obtain a bonus on any savings you make up until you reach 50 years of age, at which point you won't be able to make any more payments into your account. You only receive the bonus on the new money that you pay in (or transfer from another ISA) during the tax year, rather than it being based on the overall value of your LISA.

COMBINATION OF DIFFERENT ISA TYPES

You will be able to have any combination of different ISA types and a LISA at the same time. For example, if you have a Cash ISA and a Stocks & Shares ISA already, you can also have a LISA. You can't pay in more than the annual ISA allowance however, which in the 2017/18 tax year (that started on 6 April) is £20,000, with a maximum of £4,000 going into the LISA. The ISA allowance relates to each person and not per household, so two first-time buyers could both receive a bonus when buying their first home together.

If you already have a Help to Buy: ISA, you'll be able to transfer your balance into a LISA at any time if the amount doesn't exceed £4,000. In the tax year 2017/18 only, you'll be able to transfer the full balance of your Help to Buy: ISA – as it stood on 5 April 2017 – into your LISA without affecting the £4,000 limit. Alternatively, you could keep your Help to Buy: ISA and open a LISA, although you'll only be able to use the bonus from one of these accounts towards buying your first home.

APPROACH TO RISK, INVESTMENT TIME FRAME AND MAKING INVESTMENT DECISIONS

LISAs can hold cash, stocks and shares qualifying investments, or a combination of both. The option that is right for you will depend on your approach to risk, your investment time frame and how confident you are making your own investment decisions.

You will be able to use funds held in a LISA after 12 months to buy a first home valued up to £450,000. You must be buying your home with a mortgage.

Alternatively, after your 60th birthday, you will be able to take out all your savings from your LISA tax-efficiently for use in retirement.

CONTINUING TO SAVE INTO YOUR LISA

A LISA can be accessed like a normal ISA at any time for any reason, but if not used as above, you'll have to pay a withdrawal charge of 25% of the amount you withdraw (being the government bonus plus a penalty of 5%). However, this withdrawal charge won't apply if you decide to cash in your account during the first 12 months after its launch.

If you want to use your LISA to save for a property as well as for retirement, once you've bought your first home, you will be able to continue saving into your LISA as you did previously. You'll continue to receive the government bonus on your contributions until you reach the age of 50. ■

GET THE MOST FROM YOUR TAX-EFFICIENT ALLOWANCE

Whatever your investment goals, we will be pleased to talk you through the different investment options available and discuss any which may be suited to your individual requirements, including how you can get the most from your 2017/18 ISA or LISA allowance. Please contact us for further information.

