



MGP (Employee Benefits) Limited
16 The Courtyard, Common Lane,
Culcheth, Warrington WA3 4HA
Tel: 01925 765821
Fax: 01925 764871
Web: www.mgpeb.co.uk
Email: enquiries@mgpeb.co.uk

New Lifetime ISA

Harnessing the simplicity and popularity of the ISA wrapper

FACTSHEET

The Government said the introduction of a new Lifetime Individual Savings Account (LISA) will help young people save flexibly for the long term throughout their lives. The aim is to help them simultaneously save for a first home and for their retirement, without having to choose one over the other.

SIMPLICITY AND POPULARITY

The LISA is designed to work in conjunction with existing ISA products and be simple for savers to use by harnessing the simplicity and popularity of the ISA wrapper where contributions are made out of post-tax income but investment growth on savings and future withdrawals are tax-efficient.

25% BONUS RECEIVED

From April 2017, people under the age of 40 will be able to open a LISA 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 LISA contributions and receive a bonus from the age of 18 up to the age of 50.

TAX-EFFICIENT GROWTH

The bonus will be paid into the LISA at the end of each tax year so that savers will also benefit from tax-efficient growth on the bonus from the time it is added. For example, a £4,000

contribution made by a 25-year-old into a LISA 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.

£32,000 MAXIMUM LIFETIME BONUS

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-efficient 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 The funds, including the government bonus, can be withdrawn from the LISA from age 60 for any other purpose.

PAYING VALID BONUS CLAIMS

LISA managers will claim the bonus due on the accounts they manage from HM Revenue & Customs (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 and will not have to wait until the following tax year.

OPENING A LISA

Individuals will be able to open a LISA from the age of 18 until they turn 40. Opening a LISA will, in most ways, be identical to opening a regular ISA under the existing rules. Individuals will be able to open more than one LISA during their lives but will only be able to pay into one LISA in each tax year.

SAVING INTO A LISA

Saving into a LISA 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 LISA will be the same as for a Cash ISA or Stocks & Shares ISA. Individuals will be able to transfer their LISA within 30 days between providers to get the best deal in line with the existing ISA rules.

There will, however, be a few additional rules:

- Any contributions to a LISA will sit within the overall £20,000 ISA contribution limit





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- 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 LISA and 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 LISA. 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

SAVING ADDITIONAL FUNDS

The Government said they want to make it 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). Savers will be able to contribute to one LISA in each tax year – as well as a Cash ISA, a Stocks & Shares ISA and an Innovative Finance ISA – within the new overall ISA limit of £20,000 from April 2017.

RETIREMENT

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-efficient.

OTHER CIRCUMSTANCES

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

The LISA will have the same Inheritance Tax (IHT) treatment as all ISAs. Upon the death of the account holder, the funds will form part of the estate for IHT purposes. Their spouse or registered 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.

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

ARE YOUR FINANCIAL PLANS STILL ON TRACK AFTER BUDGET 2016?

There are likely to have been a number of key announcements in this Budget that could have a bearing on your current and future financial plans. To review what action you may be required to take to keep your plans on track, please contact us.

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation are subject to change. Tax treatment is based on individual circumstances and may be subject to change in the future. Although endeavours have been made to provide accurate and timely information, we cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough review of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions.

