Med-Ex
financial advisory services limited

The Grist Mill Top Office, Coldharbour Mill, Uffculme, Devon, EX15 3EE
Telephone: 01884 841046 Fax: 01884 841048
e-mail: nickmiles@med-ex.co.uk
Director: N Miles DipPFS

Med-Ex *On-Call*

SUPPLEMENT

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THE LIFETIME ISA (or LISA, to you and me)

Since our last newsletter, quite a lot of you have expressed an interest in the new Lifetime ISA (LISA), either for yourselves or your children, so we thought it may be useful to provide you with some more detailed information about this product.

In this factsheet, we shall be looking at how the LISA may be used, its merits and draw-backs, as well as considering how it stacks up against a registered pension or Help to Buy ISA.

A FEW KEY FACTS ABOUT THE LIFETIME ISA

- **The purpose of the LISA is to encourage people to save money and use the funds to buy a first home (worth up to £450,000 and bought with a mortgage), or to provide a means of saving for retirement from age 60. Encashments in these circumstances will not incur a penalty (but see the warning below).**
- **It is available to UK residents aged between 18 and 40 years old.**
- **You can save up to £4,000 in each tax year, subject to the overall annual ISA allowance (£20,000 for 2017/18). Any LISA bonuses from the government will NOT count towards the overall ISA limit.**
- **Any savings invested before your 50th birthday will attract a government bonus of 25% (so if you save £4,000 into a LISA during the tax year, you will receive a bonus of £1,000, bringing the amount invested up to £5,000).**
- **When you reach 50, your savings will continue to earn interest or investment returns.**
- **The bonus will be added monthly from April 2018. For contributions made in 2017/18, the bonus will be added in April 2018.**
- **While funds remain invested, any interest and investment growth will be tax free.**
- **You can only pay into one LISA in any given tax year.**
- **Any funds which are not used to buy a first property can be rolled forward and, if encashed after age 60, will not incur a penalty.**
- **If you are buying a house with someone else, you can both use a LISA and benefit from the bonus.**

PLEASE NOTE - PENALTIES FOR EARLY WITHDRAWALS

If encashment is made in any circumstances other than for the purchase of a first home, retirement after age 60 or diagnosis of a terminal illness, an encashment penalty of 25% OF THE AMOUNT ENCASHED will apply (except on encashment before 6 April 2018, because no bonus will have been added at that time). If you incur a withdrawal charge, this may mean you receive back less than you have invested. For example, if you contribute £4,000 and receive a £1,000 bonus, and then withdraw this £5,000, you will be subject to a £1,250 government penalty, so you will only get back £3,750. You should therefore only consider investing in a LISA if you do not expect to need to access your money early.

POINTS TO CONSIDER BEFORE INVESTING IN A LIFETIME ISA

- Are you happy to consider this a medium to long term investment to save money for the purposes of buying your first home or to supplement your retirement income?
- Do you have other savings that you can access for unforeseen expenses and/or emergencies?

Lifetime ISA vs Help to Buy ISA

The Help to Buy ISA is a type of Cash ISA designed to help first-time buyers to get onto the property ladder. Like the Lifetime ISA, the government will add a 25% bonus. You cannot have an 'active' cash ISA for the current tax-year, but you can transfer up to £1,200 from a previous cash ISA to the Help to Buy ISA at inception. The government bonus is 25% of the amount paid to the Help to Buy ISA plus interest, but none will be paid unless there is at least £1,600 in the account. The maximum bonus is £3,000.

The bonus is not paid until the money in the Help to Buy ISA is used towards buying a qualifying property, ie a home, in which the investor will live, costing up to £450,000 in London or £250,000 outside London, and it must be bought with the aid of a mortgage. Up to £200 per month can be paid into a Help to Buy ISA, but in the month it is opened, an extra £1,000 can be paid. Payments can continue into the account even when the maximum bonus has been earned.

For those saving for their first home, there is now a choice to be made between the LISA and the Help to Buy ISA. Savers who have both a Help to Buy ISA and a LISA will only be able to use the government bonus from one of their accounts to buy their first house.

	Lifetime ISA	Help to Buy ISA
Availability	6 April 2017 onwards	Closing to new savers on 30 Nov 2019; open to new contributions until 2029
Eligibility	UK residents aged 18-40	UK residents aged 16+
Aim	First home or retirement	First home
Type of ISA	Cash or Stocks & Shares	Cash
Maximum contribution	£4,000	£2,400 (£3,400 in the first year) Monthly payments only
Government bonus	25% on contributions made up to age 50	25%
Max bonus	£1,000 a year from age 18-50 (ie maximum of £32,000)	£3,000
When is the bonus paid?	April 2018 for 2017/18 and monthly from 2018/19	When you buy your first home - paid directly to the conveyancer.
Maximum property value	£450,000	£250,000 outside London, £450,000 in London, to qualify for the bonus
Transfers in from existing Isa	Yes	No
Full withdrawal conditions	Initial minimum holding period of 12 months from account opening before withdrawals including the government bonus can be made for a home purchase (withdrawal must be paid to conveyancer). No encashment penalty if saver is diagnosed with terminal illness.	Money can be withdrawn at any time but cannot be replaced straight away. For example, if £200 is deposited and £50 is withdrawn in the same month, another deposit can only be made in a following month.
Partial withdrawal conditions for money not used for permitted purposes	25% penalty on amount encashed after 5 April 2018	No penalty but you will not qualify for the bonus on any amounts you withdraw

Lifetime ISA vs Pension

Depending on your personal circumstances and tax position, the Lifetime ISA could also be used to supplement your retirement income. Like private pensions, it grows tax free (though contributions are made from taxed income). Withdrawals are also tax free if you encash it after age 60. It could therefore be a good additional option for those who have already maximised their pension provision.

For employees who have a workplace pension that their employer contributes to, it would generally not be sensible to opt out and lose the employer contribution. However, anyone under the age of 40 who can afford to save over and above paying into their workplace pension might want to consider opening a LISA alongside their pension for any excess long-term savings.

A Lifetime ISA should generally be considered a supplement to a pension, not a replacement.

	Lifetime ISA	Pension
Maximum amount you can save each year	£4,000	£40,000
Government top-up/tax relief	25% bonus based on annual subscriptions added monthly (after April 2018), on contributions paid until investor reaches age 50	Income tax relief on every contribution at marginal rate of income tax
Taxation	Growth is tax-free. Withdrawals are tax-free from age 60.	Growth is tax-free. On withdrawals, 25% is tax-free and the rest is taxed at your income tax rate.
When can it be accessed for retirement income	Age 60 (accessible before for a 25% penalty)	Age 55
Liability to Inheritance Tax	Yes	No, but death benefits paid on death at age 75+ may be subject to income tax.

HOW TO INVEST

A Lifetime ISA can be invested in cash or stocks and shares. If you expect to use the money for buying your first home within five years, cash is likely to be the most suitable option. If you don't intend to access the money for longer than five years, you may prefer to invest in stocks and shares, which offer the potential for higher returns and could allow you to reach your goal sooner.

Providers have been slow off the mark to offer the new LISA, and at the present time there are only six available: Skipton Building Society, which offers a Cash LISA, and AJ Bell Youinvest, Hargreaves Lansdown, Nutmeg, The Share Centre and Foresters Friendly Society, which offer Investment LISAs.

You will need to apply directly if you are interested in opening an account, as none of these deal with IFAs. We anticipate that other providers will become available later this year, and we will of course keep you updated.

Med-Ex Financial Advisory Services Limited The Grist Mill Top Office, Coldharbour Mill, Uffculme, Devon EX15 3EE
Tel: 01884 841046 Fax: 01884 841048 E-mail: nickmiles@med-ex.co.uk Web: www.med-ex.co.uk
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