

A guide to Lifetime ISAs



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This information is based on our understanding of current legislation and HMRC guidance. AJ Bell Youinvest does not offer investment or tax advice. If you're unsure please consult a suitably qualified financial adviser. Tax treatment depends on your individual circumstances and tax rules may change in the future. The value of your investments can go down as well as up and you may get back less than you originally invested.

| Is the Lifetime ISA for me?

Are you between 18 and 39 years old? And looking to buy your first home, or save for retirement? Then the Lifetime ISA may well be for you.

For every £4 you save into a Lifetime ISA, the government will add £1. Since you can put in up to £4,000 per year, that means an annual bonus of up to £1,000. And because the bonus applies every year from your 18th birthday until you turn 50, you're looking at potentially £32,000 of free money.

However, unless you're 60 or older, or are using the Lifetime ISA to buy your first home, you'll be hit with a government withdrawal charge of 25% on any money you take out. Even taking into account the government bonuses, this can mean you get out less than you put in. And, as we'll see, you should think carefully about using a Lifetime ISA as a pension alternative, particularly if you have a workplace pension, or are a higher earner.

So, is the Lifetime ISA right for you? That's the £32,000 question this guide will help you answer.



Can I open a Lifetime ISA?

To open a Lifetime ISA, you have to be between 18 and 39 years old, and resident in the UK.

Although you need to be 39 or younger to open an account, you can keep paying into an account you've opened (and receiving the bonus) until you turn 50. After that, you won't be able to make any more payments.

If you're approaching 40, and worried you'll miss out, you can open a Lifetime ISA and make the minimum deposit of £500 (or set up a regular payment of £25 per month). This will mean you can keep investing until you turn 50 and qualify for the government bonuses.

The newest addition to the ISA family

Like other ISAs, the Lifetime ISA is a 'wrapper' that shelters your investments from tax on interest, income and capital gains. As a member of the ISA family, it counts towards your annual overall ISA limit, which for the 2022/23 tax year stands at £20,000. So, for example, if you save the maximum £4,000 in your Lifetime ISA, you'll still have £16,000 to use up in one or more of your other types of ISA.

DID YOU KNOW?

You can, just as with other adult ISAs, choose to have multiple Lifetime ISAs at one time: but only one account can be opened, and paid into, per tax year. You can, just as with other adult ISAs, choose to have multiple Lifetime ISAs at one time: but only one account can be opened, and paid into, per tax year.

| What can I invest in?

You can choose to invest in cash (so you get interest), or in stocks and shares (so you get share growth – or loss – and dividend income). At AJ Bell Youinvest, we offer a stocks and shares Lifetime ISA that gives you the freedom to choose from a wide range of shares, funds, ETFs, investment trusts and more.

| The government bonus – and when it's paid

The government will pay you 25% of what you pay into your Lifetime ISA – up to a maximum bonus of £1,000 per year. This bonus is based solely on the amount you pay in, and not on any investment growth or interest. Just as with the money you pay in, you can invest the bonuses you receive wherever you like.

You'll usually get your bonus a few weeks after paying money into your Lifetime ISA.



| How much could I save?

GET MOVING WITH A LIFETIME ISA

You can open a LISA from age 18 to 39 and can contribute until you reach age 50.



There is a 25% penalty if you take your money out for any other reason.

1

Fill up your LISA



£5,000
to invest in
funds, shares
& cash

2

Money grows tax-free

10 years of annual £5,000
investment could become



3

Take your money out

You can take your money out without penalty in 3 situations:



Buy your first home
(up to £450,000)



After you
turn 60



If you're
terminally ill

Past performance is not a guide to future performance and some investments need to be held for the long term. The value of your investments can go down as well as up and you may get back less than you originally invested. Tax treatment depends on your individual circumstances and rules may change. ISA rules apply.

If you choose to save in a Lifetime ISA instead of enrolling in, or contributing to, your workplace pension scheme you will miss out on the benefit of your employer's contributions to that scheme and your current and future entitlement to means tested benefits may be affected.

**This assumes a 4% investment return each year after charges. The FTSE All-Share has returned 6.7% a year for the past 10 years.*

Source: AJ Bell

The government withdrawal charge – and when it applies

There are three circumstances when you can withdraw money from your Lifetime ISA without paying the government withdrawal charge of 25%

- When buying your first home
- When you reach the age of 60
- If you become terminally ill

It's essential to remember this 25% charge applies to your total withdrawal. Which means you won't just be handing back the 25% government bonus, but money you've put in yourself, too.

For example, let's imagine you save £1,000 in a Lifetime ISA over a year, earning you a £250 bonus. If you decide later to withdraw the £1,250 your government withdrawal charge will be £250 so you'd receive back just your original £1,000. If you instead decided to withdraw the £1,250 after 6 April 2022, your government withdrawal charge would then be 25% so won't be £250, but £312.50. So you would walk away with only £937.50 (or 6.25% less than you paid in). Given how punitive this penalty is, the Lifetime ISA may not be right for you if you're unwilling to lock your money away until you buy your first home, or turn 60.

| Buying your first home

You can withdraw some, or all, of your Lifetime ISA without paying the government withdrawal charge if you use it to buy your first home. This first home must be:

- In the UK
- Worth £450,000 or less
- The only home you will own
- Where you intend to live (not a buy-to-let)
- Purchased with a mortgage

Keep in mind that your Lifetime ISA needs to be open for at least a year before you can use it to buy your first home.

Something else to think about is what kind of Lifetime ISA is right for your schedule. If you want to buy your first home within the next three years, it may be better sticking to a cash Lifetime ISA. But since investing, generally, is less risky over the long term (because you have longer to ride out any short-term dips in the market), you may want to open a stocks and shares Lifetime ISA if you plan to buy later rather than sooner.

Money withdrawn from a Lifetime ISA to buy your first home won't be paid to you – we'll pay it directly to your solicitor/conveyancer. You can only use this money to buy your first home itself, and not for any additional costs such as solicitor fees, or furniture and fittings.

Also, if you're buying with someone else, and you're both first-time buyers, you can both use your Lifetime ISAs and get the bonus.

To buy your first home with a Lifetime ISA, you'll need to contact your solicitor/conveyancer. They'll ask you to complete a declaration, before sending their own declaration to your Lifetime ISA provider. Your Lifetime ISA money will be sent to your solicitor/conveyancer directly.



| How long would it take me to save for a deposit?

In 2016, the average deposit for first-time buyers was £32,321. Putting the maximum £4,000 per year into a Lifetime ISA, and assuming 4% investment growth net of fees, you could save enough in just under six years.

I Saving for retirement

With its 25% government bonuses, the Lifetime ISA is clearly an attractive retirement savings vehicle. But how does it compare to a pension? The answer is: it's complicated.

A Lifetime ISA, broadly speaking, works best alongside a pension, as another efficient way of saving for your retirement. A pension can entitle you to more 'free money' – both from the taxman and from employers – so opting out of a workplace pension to open a Lifetime ISA could leave you out of pocket.

But equally, there are circumstances in which a Lifetime ISA, not a pension, could suit you better. To give you a better idea of how the two compare, here's an overview:

WHAT MIGHT MAKE A PENSION MORE SUITABLE

If you're employed, you're likely to get additional contributions from your employer. Currently, employers have to pay at least 3% of an employee's qualifying earnings into a qualifying pension scheme. If you opt out of such a scheme to save into a Lifetime ISA instead, you'll lose the benefit of these employer contributions.

If you're a basic-rate tax payer and save £80 into a pension, 20% tax relief turns it into £100. This is the same net gain as a Lifetime ISA (save £80, and get a £20 bonus). But if you're a higher-rate taxpayer, you receive 40% tax relief. So, effectively, saving £100 will cost you as little as £60 – making a pension much more generous than a Lifetime ISA for bigger earners (and even more generous if you're an additional-rate taxpayer).

With a Lifetime ISA, you can't make additional contributions once you've reached age 50, and you can't access your cash until you turn 60. By comparison, you'll be able to access a private pension earlier, at age 55 (57 from 6 April 2028).

If you save into a Lifetime ISA, your current and future entitlement to means-tested state benefits may be affected. Savings in a pension are only taken into account once you reach state pension age, or earlier if you start taking benefits.

WHAT MIGHT MAKE A LIFETIME ISA MORE SUITABLE

A pension will be completely locked away until the age of 55 (57 from 6 April 2028). With a Lifetime ISA, you can make early withdrawals – but will pay a government withdrawal charge of 25% if you do so.

After you turn 60, you won't pay tax when drawing retirement income from a Lifetime ISA. When making withdrawals from a pension, you pay tax at your personal rate, aside from a 25% tax-free lump sum.

Just as with a personal pension, if you're self-employed (and don't have a workplace pension), you can pay into a Lifetime ISA when it suits you, giving you flexibility should earnings fluctuate.

If you're a higher- or additional-rate taxpayer saving for retirement, a pension may be better until you hit the annual (£40,000* a year) and lifetime (£1.055m) pension allowances – at which point hefty tax charges apply. If you then save into a Lifetime ISA, you can avoid these charges and still benefit from government incentives.

**You may have an annual allowance of less than £40,000 if you're a high earner or have flexibly accessed your pension benefits.*

If you are a resident in Scotland, different rates of tax apply. Figures and examples on this page are based on rates for non-Scottish residents.

Compare Lifetime ISAs, Stock and shares ISAs and SIPP

	Lifetime ISA	Stocks & shares ISA	SIPP
Age you can start	18 – 39	18 +	Any age
Annual Savings limit	Max £4,000 per year (overall ISA limit will be £20,000)	£20,000 across all ISAs	Max £40,000 per year. Highest earners restricted to as little as £10,000.
Upper age limit for paying in	50	None	75 (for tax relief)
Lifetime Savings Limit	None	None	Currently £1,073,100 including payments in and investment growth.
Government contribution	25% bonus	None	20% tax relief (equivalent to 25% bonus) paid into pension. Higher rates of tax relief can be claimed separately
Employer top-ups	None	None	Can be paid
Investment options	Either cash or stocks & shares	Stocks & shares	Some restricted to limited range of funds, some offer wide range of investments including property.
Tax on investment growth	None	None	None, as long as you stay inside the lifetime allowance
Age you can access	Anytime – however only penalty free after 60 or to fund first home purchase up to £450,000 before 60	Any	55 (57 from 6 April 2028)
Early access penalty	25% of the amount being withdrawn	None	No early access permitted unless in ill health
Position on death	Subject to IHT but there are no further tax charges and the spouse can inherit value of LISA as additional subscription allowance	Subject to IHT but there are no further tax charges and the spouse can inherit the value of the ISA as additional subscription allowance	Free of IHT, potentially tax charges if die after 75

Transfers and Lifetime ISAs

You can transfer money from other ISAs into your Lifetime ISA – and out again – but it's important you remember the following rules:



TRANSFERRING A LIFETIME ISA

If you already have a Lifetime ISA (LISA) with another provider, you can transfer the full value of this into another Lifetime ISA. Transferring an existing Lifetime ISA won't be counted as a payment into your LISA, so it won't use up your £4,000 annual payment limit. However, if you have already used up your £4,000 allowance, you can't pay any more into your LISA once it's been transferred. As the payments you've made into your Lifetime ISA have already been counted in your overall ISA allowance of £20,000, the transfer won't change the amount you have left of that.



TRANSFERRING IN ISAS

You can transfer cash from Stocks and shares ISAs, cash ISAs and Help to Buy ISAs into a Lifetime ISA and you will receive the 25% government bonus on the amount transferred.

The transfer will count as a payment into the Lifetime ISA so you can only transfer in up to £4,000. If you've already made payments into your LISA, you can only transfer in the amount you have left of your annual LISA allowance. As any payments you've made into your ISA this tax year have already been counted in your overall ISA allowance of £20,000, the transfer won't change the amount you have left of that. If the value of your current year savings in your Stocks and shares ISA is more than £4,000, you won't be able to transfer part of it over. This is because HMRC rules don't allow you to split your current year subscriptions between ISAs. You could however transfer cash from any subscriptions you've made in previous years. To find out more about transferring into an AJ Bell Youinvest Lifetime ISA, visit youinvest.co.uk/lifetime-isa/transferring-into-a-lifetime-isa



TRANSFERRING MONEY OUT

You can transfer your Lifetime ISA to a Lifetime ISA with another provider, without it counting as a withdrawal. However, if you transfer from your Lifetime ISA to any other type of ISA, it counts as a chargeable withdrawal and you'll have to pay the government withdrawal charge of 25%.

What you get with an AJ Bell Youinvest Lifetime ISA

Up to £1,000 per year is just one of the bonuses you can look forward to when opening a Lifetime ISA with AJ Bell Youinvest. Here are some of the others:

- ✓ **Low-cost investing** – deal from £1.50 and never pay more than £9.95 per online deal
- ✓ **Wide investment range** – choose from 4,000 funds and shares from 24 markets, in addition to investment trusts and ETFs
- ✓ **Easy to manage** – access your account online 24/7 and deal on the go with our mobile app

With a long-term investment like a Lifetime ISA, it's important to know your money is in safe hands. And few hands are safer than ours. With assets under administration of £74.1 billion, AJ Bell is one of the UK's largest and financially strong online investment platforms.

Not only that, but we have more than 20 years' experience helping people invest. Whether you're an investing buff or an investing beginner, we can make it easier for you with our:

- **Regular investment service** – letting you save as little as £25 per month
- **Portfolio ideas** – regular articles and videos and a Favourite funds list
- **Customer support** – we're here to answer your queries with two UK-based customer services teams, webchat and email support
- **AJ Bell funds** - effort-free investing. All you need to do is pick your risk level and how much you'd like to put in. We do the rest

You can also open a SIPP, ISA and Dealing account with AJ Bell Youinvest, giving you the convenience of managing all your investments under one roof.

OPEN AN ACCOUNT

Find out more about AJ Bell Youinvest Lifetime ISA and apply, simply visit youinvest.co.uk/lifetime-isa



