

The Pensions Advisory Service is unable to give individual specific advice and you should seek alternative tax or independent financial advice.

This spotlight will give you information on the Lifetime Individual Savings Account (LISA) which was introduced by the government in April 2017.



## What is a LISA?

On 6 April 2017 the government introduced a new way of saving known as a Lifetime Individual Savings Account – or LISA for short.

Anyone between the ages of 18 and 39 can open a LISA and contribute up to £4,000 per tax year. The government will add a bonus of 25% of any contributions paid in each tax year, meaning a maximum of £5,000 can be paid into a LISA in any tax year.

The LISA savings can be withdrawn tax free in the following circumstances:

- If and when you buy your first home
- When you reach age 60
- If you become terminally ill with less than 12 months left to live
- If you pass away
- If you transfer your LISA to another LISA

If you wish to access your LISA in any other way you will be subject to a withdrawal charge.

How you invest your LISA funds will be the same as other ISAs, so you can invest in a:

**Stocks and Shares LISA** where the savings are invested and the value of the LISA will go up or down depending on how well the investments perform.

**Cash LISA** where the savings are not invested and attract interest only.

## When will I receive the government bonus?

The government will add a 25% bonus on any contributions made into a LISA. Any interest or investment growth added to the LISA will not attract the bonus. An example is shown below;

Your contribution	£4,000
Interest or Investment growth at 1%	£40
Government bonus (25% of £4,000)	£1,000
LISA value	£5,040

During the 2017/18 tax year any bonuses added to the LISA will be paid at the end of the tax year. From April 2018 bonuses will be paid monthly in arrears.

The maximum which can be paid into a LISA each tax year is £4,000, therefore the maximum bonus paid each tax year will be £1,000.

## How much will I have to pay as a withdrawal charge?

If you wish to withdraw your LISA savings in a way which is not permitted you will become subject to a withdrawal charge of 25% of the sum you wish to withdraw.

If you are taking funds from your LISA in the 2017/18 tax year you will not be subject to a withdrawal charge. Although it is worth remembering no government bonus will be paid in this period.

If you do become subject to the withdrawal charge you may find you end up receiving less than what you originally paid in. For example,

Your contribution	£4,000
Government bonus	£1,000
Amount in LISA before withdrawal	£5,000
Withdrawal charge (25% of £5,000)	£1,250
Total paid back	£3,750 (£250 less than the original contribution)

If you had been saving into a Stocks and Shares LISA and your investments have not performed as well as you had hoped, you may receive less than the example shown. Similarly, if they perform better than you had hoped the total paid back may be higher.

## Can anyone save into a LISA?

To be eligible to open a LISA you need to meet the following criteria;

- Aged between 18 – 39; and
- UK resident; or,
- Crown Employee (Diplomat or Civil Servant); or,
- Spouse or Civil Partner of a Crown Employee

Contributions, but not including the government bonus, made to a LISA will count towards the annual ISA allowance of £20,000 (2017/18) so anyone who has already used up their allowance will not be able to make further contributions into a LISA.

Additionally, you can only contribute into a LISA until age 50. So, you will be able to open a LISA if you are 39 or under but contributions into the LISA can only be made until you reach age 50.

## How can I use my LISA to buy a property?

To use a LISA to buy a property you must meet the following conditions;

**You need to be a first time buyer.** This means you have never owned a property or land either by yourself or with another person. Anyone who has ever had an interest in property or land (for example if they have inherited all or part of a property) or owned a building which is suitable for use as a dwelling will also not be considered first time buyers.

**The property is not worth more than £450,000.** It will also need to be your only home and where you will live.

**The property must be purchased with a mortgage.** The property must also be in the UK and purchased at least 12 months after opening the LISA.

If these conditions are not met then a withdrawal charge will be applied.

The LISA savings will be paid directly to the conveyancer or solicitor, for example at the exchange of contracts.

If you are buying a property with another person who has savings in a LISA they can also use these to buy a property providing they also meet the criteria above.

Once the property has been bought the LISA may remain open so individuals can carry on saving. However, as they will no longer be classed as first time buyers the funds can only be accessed tax free once the individual reaches age 60.

## How can I use a LISA to save for retirement?

LISAs can be used to save for retirement; although unlike pensions, a LISA can only receive savings up to age 50.

Once the LISA holder reaches age 60 they can take their savings tax free either as a lump sum or as several smaller payments.

Savings made into the LISA do not count towards an individual's contribution limits for pension tax relief (known as the Annual Allowance).

It is possible to contribute to a pension and save into a LISA at the same time. Many employees may have been automatically enrolled into a workplace pension scheme which will also be receiving employer pension contributions. As a LISA is not classed as a pension scheme, employers are not required to contribute to a LISA in the same way they may be required to contribute to a pension scheme.

You will get a 25% bonus added to your LISA savings regardless of how much you earn. So, anyone who is a higher rate tax payer may receive 40% tax relief on their pension contributions but will still only receive 25% bonus on their LISA contributions.

	LISA	Pension Contribution (Basic / non tax payer)	Pension Contribution (Higher rate tax payer)
Contribution	£100	£100	£100
Bonus / tax relief	£25	£25	£50

## Can I access my LISA in any other way?

Besides purchasing your first home, or reaching age 60, you can access your LISA tax free in the following ways;

**You become terminally ill;** if you discover you have 12 months or less to live you will be able to access the funds in your LISA tax free.

**You pass away;** if you pass away before withdrawing some or all of the funds in your LISA the savings will form part of your estate. If you have a spouse or civil partner they can inherit your ISA allowance. So, as well as their normal ISA allowance they can add a tax-free amount to their ISA up to the value of your LISA when you pass away.

**Transfer to another LISA;** if you wish to transfer from one LISA to another LISA you will not be subject to a withdrawal fee. However, if you transfer to another type of ISA you will be subject to a withdrawal charge.

## What else should I think about?

**Divorce;** if you get divorced the value of your LISA will be taken into account when the marital assets are valued in a similar way to your pension savings.

**Bankruptcy;** if you file for bankruptcy your LISA will be taken into account when your assets are valued. If your savings are in a pension scheme they will usually be protected against any claim made if you are not receiving an income from them at that time.

**State benefits;** if you need to claim certain state benefits your LISA savings will normally be taken into account. If you have sufficient savings in your LISA you may not be eligible to receive state benefits. If your savings were in a pension scheme they will not be taken into account when you are assessed for eligibility to state benefits, unless you are already receiving payments from it, or you have reached your State Pension Age.

## About Us

The Pensions Advisory Service (TPAS) works to make pensions accessible and understandable for everyone. We provide independent and impartial information and guidance about pensions, free of charge, to members of the public.

We help with all pension matters covering workplace, personal and stakeholder schemes and also the State Pension. We answer general questions, help with specific queries and offer guidance for people with complaints about their private pension scheme.

### Contacting us



Pensions Helpline  
(Monday- Friday 9:00am- 5:00pm)

**0300 123 1047**



Online enquiry form

[www.pensionsadvisoryservice.org.uk/online-enquiry](http://www.pensionsadvisoryservice.org.uk/online-enquiry)



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