

What are Help to Buy ISAs?

Help to Buy ISAs have been available since December 2015, and were introduced by the government to help ease the difficulty that rising house prices were causing first-time buyers. The government tops up your savings with a 25% bonus at the point of the property purchase.

KEY ISSUES

Help to Buy ISAs are a means for first-time buyers to boost their savings with a government bonus. Maximum contributions are £1,200 in the first month and £200 per month thereafter.

Lifetime ISAs (LISAs) can be used for the same purpose, with a higher maximum contribution limit of £4,000 per year. LISAs can also be used to fund retirement with tax-free withdrawals from the age of 60.

There are strict rules to qualify and for how the funds are used.

To qualify for a Help to Buy ISA you must:

- Be aged 16 or over
- Have a valid National Insurance number
- Be a UK resident
- Be a first-time buyer (and not own or have owned a property in the UK or elsewhere)
- Not contribute to another cash ISA in the same tax year (if you've already contributed to a cash ISA in the tax year you may be able to transfer, depending on the amounts involved)

And the property you are buying must:

- Be in the UK
- Be purchased with a mortgage
- Cost up to £250,000 (or up to £450,000 in London)
- Not be a second home or a buy-to-let property
- Not be rented out after you buy it

How do Help to Buy ISAs work?

First, you'll need to open an account with one of the registered providers ([click here](#) to see who's in the scheme). You can deposit a lump sum of up to £1,200 in your first month, and up to £200 per month thereafter. Bonuses are limited to between £400 and £3,000. This means you'll need to save at least £1,600 to get any bonus, and savings of £12,000 will attract the maximum bonus level. Bonuses are not applied until the point of the property purchase - your solicitor or conveyancer will apply for your government bonus. Once received they'll add it to the money you're putting towards your first home. You can withdraw money from a Help to Buy ISA at any time, but remember that withdrawals will reduce your balance, which is used to calculate your bonus. And if you want to put it back into your Help to Buy ISA, you're limited to a maximum contribution of £200 per month.

What are Lifetime ISAs?

Lifetime ISAs or LISAs were announced in the 2016 Budget, and have been available since April 2017. You must be aged between 18 and 40 to open a LISA account. They offer all the benefits of a traditional ISA (tax-free interest and tax-free withdrawals), but are designed to help younger savers put money away for their retirement, or for a deposit on their first home.

For any savings you put into your LISA before your 50th birthday, you will earn a bonus from the government of 25%. You can save any amount you like each month, up to a maximum of £4,000 per year. You can then use your savings plus any bonus you've earned as a deposit on your first home, or withdraw it tax-free from age 60. A saver putting away the maximum amount of £4,000 into a LISA each year from age 18 to 50 would have contributed £128,000 and be entitled to a government bonus of £32,000. In reality the bonus is likely to be more than this because it will be calculated on the fund value which will include any tax-free interest and investment growth.



LISAs to fund first homes

Like a Help to Buy ISA, LISA funds and bonus can be used to buy a first home up to the value of £450,000, and also like Help to Buy ISAs, accounts are limited to one per qualifying person, so if you and your partner qualify, you can both save in a LISA and benefit from the government bonus.

If you already have a Help to Buy ISA you can still open a LISA. You can either transfer your Help to Buy ISA savings into the LISA (you'll only keep the government bonus if you do this in the 2017/18 tax year), or you can continue saving into both (the total amount you can save into all ISAs will be £20,000 from April 2017), but you'll only be able to use the bonus from one to buy a home.

Properties purchased using the LISA bonus will have to be the purchasers' main residence and not used for buy-to-let.

Any remaining funds in your LISA after paying for your deposit can remain in the account, and be added to. You'll be able to withdraw residual funds partially or fully from age 60 as a form of tax-free retirement income.

LISAs for retirement funding

If you're already a homeowner, you won't be able to use your savings and bonus for a house purchase. Instead you can save in a LISA to help fund your retirement. Any savings you make up until your 50th birthday and the bonuses you've accrued on those savings can be withdrawn (fully or partially) tax-free from the age of 60. These withdrawals can be for any purpose.

Other withdrawals from a LISA

You will be able to withdraw funds from a LISA account other than for the purchase of a first-home or after age 60. If you do so, you'll lose the government bonus applicable to that amount, including any interest or growth on that bonus, and you'll have to pay a 5% charge for the privilege. The rules around LISA withdrawals are not yet finalised, and the government is looking at exploring whether there should be flexibility to borrow funds from a LISA without incurring a charge, if the funds are fully repaid.

How will the LISA bonuses be paid?

The bonuses payable on a LISA will be calculated based on the contributions received in each tax year. For example, if you have contributed £4,000 by 5 April 2018 (even if you paid all of this in one lump sum on 5th April 2018) you'll be entitled to a government bonus of £1,000.

LISA managers (providers) will claim the bonus due on the accounts they manage from HM Revenue & Customs (HMRC). HMRC will pay valid bonus claims (up to a maximum £1,000 per person, per tax year). In this way, savers will benefit from tax-free growth on their bonuses from the time they are added. Individuals who are purchasing their first home in the same year as they have contributed, will receive their bonus in-year (they won't have to wait until the following tax year).

Where to find more information

If you'd like to find out more about Lifetime ISAs, or Help to Buy ISAs, the following websites may be useful. Or you can [contact Aspira](#) to speak to a financial planner about your savings arrangements.

<https://www.helptobuy.gov.uk/help-to-buy-isa/faq/>

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508176/Lifetime_ISA_final.pdf

