

AMI Factsheet: Help to Buy and Lifetime ISAs

Introduction

This factsheet has been prepared by the Association of Mortgage Intermediaries as an introductory briefing to Help to Buy (H2B) ISAs and Lifetime ISAs (LISAs). While intermediaries aren't expected to provide tax or savings advice to consumers, the purpose of this guide is to help members understand how the two ISAs work, in particular how the H2B ISA can be beneficial for first time buyers.

Help to Buy ISA

In the 2015 Budget the government announced it was introducing another element to the Help to Buy range. In December that year the Help to Buy ISA was launched. With the Help to Buy mortgage guarantee scheme having closed to new loans on 31 December 2016, the Help to Buy initiatives now consist of:

- Equity loan
- Shared ownership scheme
- ISA

The Help to Buy ISA is a cash ISA which will continue to open to new savers until 30 November 2019 and allow contributions until 30 November 2029. In 2016 the government reported a lower than expected take up of Help to Buy ISAs, suggesting that not enough consumers are aware of the benefits.

Overview

- ❖ Only first time buyers are eligible and the price of the property must not exceed £250,000 (outside of London) or £450,000 (in London)
- ❖ The contribution allowance is monthly rather than annual – a maximum of £1,200 in the first month of opening and a maximum of £200 each month after. Any unused allowance cannot be rolled over to the next month.
- ❖ A 25% bonus on the balance of the account, which may include interest, is paid by the government between exchange and completion. A minimum of £1,600 needs to be saved to qualify for the government bonus. The maximum bonus payable is £3,000, i.e. on a balance of £12,000. Savers can contribute in excess of this but no bonus will be payable on the excess.
- ❖ There are limitations on holding any other cash ISAs and a H2B ISA. If a cash ISA has been opened or contributed to in the same tax year as a H2B ISA being opened, the cash ISA will have to be closed and transferred to the H2B ISA (only the amount up to the first month's maximum) with any remaining balance transferred elsewhere.

The timing of the government bonus is an important change that has been made to the scheme's design since it was first announced. This makes it even more beneficial for eligible first time buyers to open a H2B ISA if they are already proceeding with a house purchase (but is perhaps more complicated if they are already contributing to a cash ISA). This is because even if a customer only opens a H2B ISA as late as when they seek advice on the mortgage, they would still be able to use the bonus towards the deposit. Below shows how this might work in practice (based on a non-interest bearing account):

Timeline	Activity	Amount saved
10 Jan	Customer contacts mortgage broker who completes factfind. Broker makes customer aware of H2B ISA	
15 Jan	Broker makes recommendation	
20 Jan	Customer opens H2B ISA and transfers the monthly maximum from an account currently holding the deposit for the property	£1,200 (month 1)
25 Jan	Customer offer on property accepted. Adviser proceeds with application and solicitors are instructed.	
9 Feb	Lender issues binding offer	
14 Feb	Customer pays into H2B ISA	£200 (month 2)
17 Mar	Customer pays into H2B ISA	£200 (month 3)
20 Apr	Customer pays into H2B ISA	£200 (month 4)
3 May	Customer pays into H2B ISA earlier this month, knowing that contracts are due to exchange soon	£200 (month 5)
4 May	Customer withdraws H2B funds and obtains closing statement from ISA manager	
10 May	Customer provides closing statement to solicitor who applies for government bonus	
17 May	Exchange of contracts	
25 May	Government bonus paid, forming part of the deposit	£500
30 May	Completion	

This is an approximate timetable as exact timings will depend on many factors, including whether the solicitor is registered with the H2B ISA scheme.

Further information on H2B ISA, including detailed eligibility criteria and what happens if the purchase falls through, can be found on page 6.

Lifetime ISA

The Lifetime ISA will launch 6 April 2017 for savers either purchasing their first home or retiring. It will be an addition to the current ISA wrapper range:

- Cash ISA (including a junior version and Help to Buy ISA)
- Stocks and shares ISA (including a junior version)
- Innovative Finance ISA

The LISA can be either a cash ISA or stocks and shares ISA.

Overview

- ❖ Savers under 40 can open an account and use the proceeds to either purchase their first property (the price must not exceed £450,000) or for retirement (from age 60)
- ❖ The annual contribution allowance is £4,000. Contributions cannot be made after age 50.
- ❖ A 25% bonus on the contributions made, i.e. excluding any gains or losses, is paid by the government at the end of the 2017/18 tax year (no matter when they opened the account during the year) and monthly thereafter.
- ❖ Early withdrawals (except in the case of terminal illness) will incur a penalty of 25% of the account balance. In these cases savers may receive less than they paid in.

The early withdrawal penalty is not straightforward as the 25% charge returns the government bonus (including any interest or growth) plus an additional charge borne by the consumer. An example of how this might work (not taking into account any interest or investment growth/loss) is:

Action	Year 1	Year 2
Consumer contribution	£4,000	
Government bonus	£1,000	
Balance	£5,000	
Consumer withdrawal		£5,000
Government charge (25%)		-£1,250
Balance to consumer		£3,750
Consumer loss of capital		-£250

Comparison

The key features of both the Help to Buy and Lifetime ISAs are set out below:

	H2B ISA	LISA
Eligibility		
Minimum age	16	18
Maximum age	None	40 to open account 50 for contributions
Purpose	First residential property up to £250,000 (outside London) or £400,000 (in London)	First residential property up to £450,000 or retirement
Contributions		
Maximum	£1,200 in first month; £200 per month thereafter Any excess contributions do not receive a bonus	£4,000 each tax year Any excess contributions are returned to saver
Minimum	£1,600 to receive bonus	None
Bonus	25% of account balance subject to a maximum bonus of £3,000 minimum bonus of £400	25% of contributions
Bonus paid	Between exchange and completion	At the end of 2017/18 tax year then on a monthly basis thereafter
Withdrawal to receive bonus	Before or at exchange, depending on individual requirements	Minimum 12 months from opening then: before or at exchange if for property purchase or from age 60 if for retirement or earlier if terminal illness
Early withdrawal	Allowed but will not increase the monthly allowance (i.e. the same way this works with other cash ISAs)	25% penalty on the balance which will usually mean that saver receives less than contributed
Account		
Type	Cash	Cash or stocks and shares
Other ISAs	Any cash ISA opened or contributed to in same tax year needs to be transferred in	No restrictions on other ISAs being held
Multiple ISAs	Only one H2B ISA can be held at any time	Allowed but can only contribute to one LISA each tax year
Transfers in	Allowed with no impact on monthly allowance	Allowed but will count towards the £4,000 annual allowance ¹ . They will however not count towards the overall ISA allowance.

¹In 2017/18 tax year only any transfers in will not count towards the annual LISA limit and they will qualify for a 25% bonus if they are held for a minimum of 12 months from opening.

The amounts saved in both ISAs contribute to the overall ISA limit of £15,240, which will rise to £20,000 from 6 April 2017. Savers can contribute to both schemes simultaneously, but can only receive the government bonus once where the proceeds will be used for a property purchase. A saver who holds both H2B ISA and LISA may therefore:

- Transfer their H2B ISA into the LISA and use the LISA with government bonus to purchase the property (e.g. if the property is over £250,000 outside of London)
- Use the H2B ISA with government bonus to purchase the property and defer LISA with government bonus for retirement
- Use LISA with government bonus to purchase the property together with H2B ISA but without government bonus
- Use H2B with government bonus to purchase the property together with LISA but with early withdrawal charge

Summary

The LISA is a more complex product than other ISAs because it caters for two different consumer needs likely to be short-medium term (property purchase) or long term (retirement) and the consumer may change the purpose during its lifetime. Consumers may see it as a hybrid of both an ISA and a pension and may not understand the impact of the early withdrawal charge.

Any advice around LISAs should form part of an individual's overall financial planning. Because of the potential risks of LISAs, the FCA has introduced specific rules around communications, disclosures and cancellation rights in order to protect consumers.

In initial conversations brokers can determine how a customer would benefit from the H2B ISA, even if the account would be open for a short period of time. Brokers may therefore want to outline these benefits and suggest eligible first time buyers make use of this opportunity.

However any similar advice around LISAs may be outside of scope so brokers may want to limit these discussions to how LISAs operate. The interplay with pension contributions and other investments may make this advice "regulated" and firms may have to consider limiting permissions on this to avoid potential future liability.

Useful support material

The government savings [infographic](#) on savings for consumers

Help to Buy ISA

- The government Help to Buy website – [ISA FAQs](#)
- The government Help to Buy ISA website for [ISA managers and conveyancers](#)
- Full ISA [scheme rules](#)
- The government Help to Buy ISA [factsheet for consumers](#)

Lifetime ISA

- The government LISA note on the updated [scheme design](#)
- The government LISA [factsheet for consumers](#)
- The FCA [policy statement and final rules](#) on LISA regulation