ADVISER GUIDE

Lifetime ISA: house purchase

Lifetime ISAs (or LISAs) were introduced in April 2017. They were targeted at younger generations offering the dual purposes of saving to fund buying a first house and saving to fund later life income.

To help encourage people to save, the Government gives a bonus of 25% on subscriptions of up to £4,000 a tax year paid to a LISA. However, to discourage people from withdrawing their savings before achieving their saving objectives, a charge applies to withdrawals, unless:

- it is to fund a first residential property purchase;
- the investor is over 60;
- the investor is in serious ill health; or
- the withdrawal is on death.

The withdrawal charge is set at 25% (but was temporarily reduced to 20% for the period 6 March 2020 to 5 April 2021, to help savers during the COVID-19 outbreak). The charge claws back the Government bonus plus an additional penalty.

This adviser guide explains the main requirements the investor and conveyancer have to meet to be able to use LISA funds to fund a house purchase without a withdrawal charge applying.

Eligibility

Someone taking out a LISA has to be older than 18 but younger than age 40. For the account to be valid, the investor has to both take out an account and pay into it by the day before their 40th birthday. Payments can continue until the day before the investor's 50th birthday.

The investor has to be resident in the UK (unless they are a Crown employee or a spouse or civil partner of a Crown employee) to take out a LISA and to pay into a LISA. If they move abroad, they have to stop subscriptions.

Investors cannot pay into two different LISAs in the same tax year.

Subscriptions

There is a payment limit on how much an investor can pay into a LISA of £4,000 each tax year. The Government will add a 25% bonus to every subscription up to this limit, meaning a total bonus of £1,000 is available each tax year.

Any subscriptions paid to a LISA are included within the overall ISA allowance, which is £20,000 for the 2022/23 tax year.

House purchase – the buyer

If an investor wants to use a charge-free withdrawal from a LISA to fund the purchase of a house, then they have to meet several requirements.

- They cannot have owned a residential property before in the UK or elsewhere in the world, including any property they may have inherited or jointly owned with someone else.
- It can be a joint house purchase with one or more other people. The other parties can also use the funds from a charge-free withdrawal from a LISA to fund the purchase of the house. There is no requirement that the other partners are first-time house owners (unless they are also planning on using LISA funds).
- The LISA investor's name does not have to appear on the mortgage paperwork, as long as their name is on the title to the property.
- The charge-free withdrawal to purchase a first home is only allowed once 12 months have elapsed since the first payment into the LISA.

House purchase – the property

The requirements that must be met for the property include those listed below.

- The property has to be in the UK; investors cannot use charge-free withdrawals from LISAs to help buy overseas property.
- The property purchase price has to be £450,000 or less. This limit applies to all of the UK; there is no differential for property in the London area.
- The property has to be a residential home and it has to be the only or main place where the investor will live. It is possible to use a charge-free withdrawal from a LISA to fund the purchase of a property that will be also be used as an occupational space – for example, where the individual works from home – as long as this is where the person is living and it is suitable for that purpose.
- The property cannot be a buy-to-let. When a LISA investor is not a UK resident but is a UK Crown employee serving overseas, or their spouse or civil partner is a UK Crown employee also serving overseas, they can temporarily let their property until they return to the UK and can occupy the property. It must still always be the intention of the investor to occupy the property as their main residence.
- The rules allow the charge-free withdrawal to be used to buy land for a self-build property.
- The property has to include a legal interest in land – so the LISA charge-free withdrawal could not fund the purchase of a houseboat.
- The property must be bought with loan taken as charge over the property, such as a mortgage. This cannot be a buy-to-let mortgage.

House purchase – the process

An overview of the process of funding a house purchase using a charge-free withdrawal from a LISA is shown below.

Investor completes Investor Declaration and passes to conveyancer

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Conveyancer makes appropriate checks and completes Conveyancer Decalartion

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LISA manager validates request, eligibility and declarations

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LISA manager sends payment to conveyancer

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Conveyancer completes purchase or returns funds to LISA manager

Withdrawals

The amount that can be withdrawn charge free has to be the amount specified under the sale and purchase agreement. It must be less than the purchase price of the property.

The house purchase has to complete within 90 days of the withdrawal. The conveyancer can hold onto the funds for that period. If the property purchase is continuing but isn't expected to complete within 90 days of withdrawing funds from the LISA, the conveyancer can request a 60-day extension, followed by a further 30-day extension if needed. LISA managers must report these extensions to HMRC.

The investor can make two or more charge-free withdrawals for the same property within this period. In practice, this may arise where an outstanding bonus has yet to be claimed from and paid by HMRC but the investor wants the majority of the funds paid to the conveyancer as soon as possible. A second charge-free withdrawal can then be made when the bonus has been credited to the account, if the property has not yet been bought at that point. A new investor declaration and conveyancer declaration must be provided for each withdrawal.

The investor does not have to withdraw the whole of the LISA funds – partial withdrawals are allowed. Likewise, the LISA does not have to close on withdrawal: it can remain open, even with a nil balance. The investor can then decide to restart making payments to it later.

Payment to the conveyancer

The funds withdrawn from the LISA have to be paid to the conveyancer directly – they cannot be paid to the investor. The LISA manager has 30 days to make the payment after receipt of valid declarations.

Declarations

Both the investor and the conveyancer have to sign a declaration giving details of themselves, the LISA and the property. Model declarations are available from the HMRC website.

In practice, it's not up to the LISA manager to decide whether the individual or the property is valid. It is up to the investor and the conveyancer to ensure they are complying with the requirements for a charge-free withdrawal, and then to make a declaration to this effect when requesting the withdrawal. The LISA manager isn't required to take any additional steps to verify that the information provided in the declarations is correct and should only prevent a charge-free withdrawal where they have reason to believe that the information given is untrue or incorrect.

What happens if the house purchase fails or does not complete?

If the house purchase fails or does not complete within the 90-day window (or 150 days, or 180 days, if extensions were applied for) after the funds are paid to the conveyancer, then the conveyancer must return the LISA money in full to the LISA manager. If there is any shortfall, then the conveyancer must explain why it has occurred.

The amount must immediately be repaid into the LISA account. A withdrawal charge must be applied to any shortfall. Any interest earned on the funds can be returned directly to the investor. If the LISA account was closed following the withdrawal, then the investor can open a new account to accept the returned funds, even if they have made payments to another LISA in the same tax year or if they are no longer resident in the UK.

If the LISA has been transferred to another LISA manager following the withdrawal, then the original LISA manager has to pass on the returned funds to the new LISA manager.

If the LISA funds have been returned, then the investor can still use a charge-free withdrawal to fund the purchase of a different property, as long as it's their first property and the declarations have been completed.

Important information

This information is based on current understanding of ISA tax rules. This is provided for information only; we do not provide advice.

Tax rules may change in the future and the tax treatment depends on personal circumstances. This guide is provided for professional advisers' use only.

A Lifetime ISA is not for everyone. If you withdraw money before age 60, other than to purchase your first home, you will pay a government withdrawal charge of 25%. This may mean you get back less from your LISA than you paid in. Also, 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.