LIFETIME ISA VS. PENSIONS

Bloomsbury Wealth®

An Individual Savings Account (ISA) provides freedom from both income and capital gains tax (CGT). There are five types of ISA available offering benefits to taxpayers, including the Lifetime Individual Savings Account (LISA).

On 6th April 2017, the LISA was introduced and can be considered to be an alternative or additional savings plan to pension planning depending on individual circumstances. This infographic will compare and contrast the characteristics of LISAs and pension plans in order to highlight the main features of both:

	LIFETIME ISA	PENSION PLAN
1 Eligibility	UK resident, aged 18-39.	UK resident, aged 18+ (it is possible for a parent/grandparent to contribute on a child's behalf).
2 Contributions	Savers can place a maximum of £4,000pa into their LISA, subject to a maximum of £20,000pa into all ISAs. For example, if an individual subscribed £4,000 to their LISA, they would have £16,000 remaining of their annual subscription for the current tax year.	Savers can add a maximum of £40,000pa into a pension plan (assuming pension benefits have not been accessed flexibly), although this figure is reduced on a tapered basis by £1 for every £2 earned over £240,000pa to a minimum annual allowance of £4,000pa. An employer can pay into a pension on your behalf.
3 Tax relief	The government will add 25% to any amount contributed by the individual, up to a maximum of £1,000pa (ie. 25% of £4,000). These contributions stop once the taxpayer reaches age 50.	Taxpayers can claim tax relief at varying rates depending on their marginal rate of income tax. Any employer contributions are not subject to National Insurance or income tax.

	LIFETIME ISA	PENSION PLAN
4 Growth	A LISA can either be invested into cash, investment funds or stocks and shares.	A pension plan can be invested into a wider range of investments such as funds, equities, bonds, commercial property, or kept as cash.
5 Tax on fund	Savers will pay no CGT or income tax when withdrawals are made, as long as they are over the age of 60 or the funds are being used for a first-time house purchase (conditions apply).	Savers will pay no CGT but they will have to pay income tax on up to 75% of any withdrawals. Any withdrawals in excess of the lifetime allowance (LTA) are subject to the LTA tax charge.
6 IHT	The amount held in the LISA is included when calculating an individual's estate for inheritance tax (IHT) liabilities.	The amount held in a pension plan is generally not included when calculating an individual's estate for IHT liabilities.

If you would like to find out how you could make the most of your annual allowance, please read our Guide to Pensions - http://www.bloomsburywealth.co.uk/guide-to-pensions

or get in touch https://www.bloomsburywealth.co.uk/get-in-touch