

Lifetime ISAs

starting early

How you decide to invest your money can have a profound effect on what it is worth in the future. You can, for example, choose to help your children and invest funds in a Lifetime ISA to take advantage of the bonus the government add to the pot.

In the illustrations below, twin sisters Ella and Anna want to invest funds for their two children; Anna takes advantage of investing in a Lifetime ISA for her son Jake, but Ella does not. From an initial investment of £12,000, Jake ends up £42,933 better off because of Anna's wise choice of tax vehicle.

Ella

Ella: aged 35 years old
Ben (son): aged 1 year old

Ella invests £12,000 in a unit trust for the benefit of Ben.

The fund achieves 7% per annum growth

The fund is left to grow with no contributions or withdrawals.

At age 33 Ben wants to buy his first house.

The value of the investment is now £111,988.

Ben's salary is in line with the UK average of £34,226.

Therefore he has to pay £17,793 capital gains tax.

This leaves £94,195 for Ben to use towards his property purchase.

Anna

Anna: aged 35 years old
Jake (son): aged 1 year old

Anna invests £12,000 in a unit trust for the benefit of Jake.

The fund achieves 7% per annum growth .

When Jake reaches age 18, the value of the investment is £39,308.

Every year from when Jake is age 18 until age 33, he transfers £4,000 into a Lifetime ISA and the £1,000 bonus is added.

Jake pays a small amount of capital gains tax each year and uses his £3,000 allowance.

At age 33 Jake wants to buy a house.

As he has used his allowance throughout there is no further tax due.

Jake therefore has £137,128 to use towards a property purchase

This example is intended as an informative piece and does not constitute advice. Past performance is for illustrative purposes only and cannot be guaranteed to apply in the future.

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