ISAS

# MPs call for abolition of LISA just 16 months after launch

April 2017 first LISAs available

@HANNAHGODFREY23

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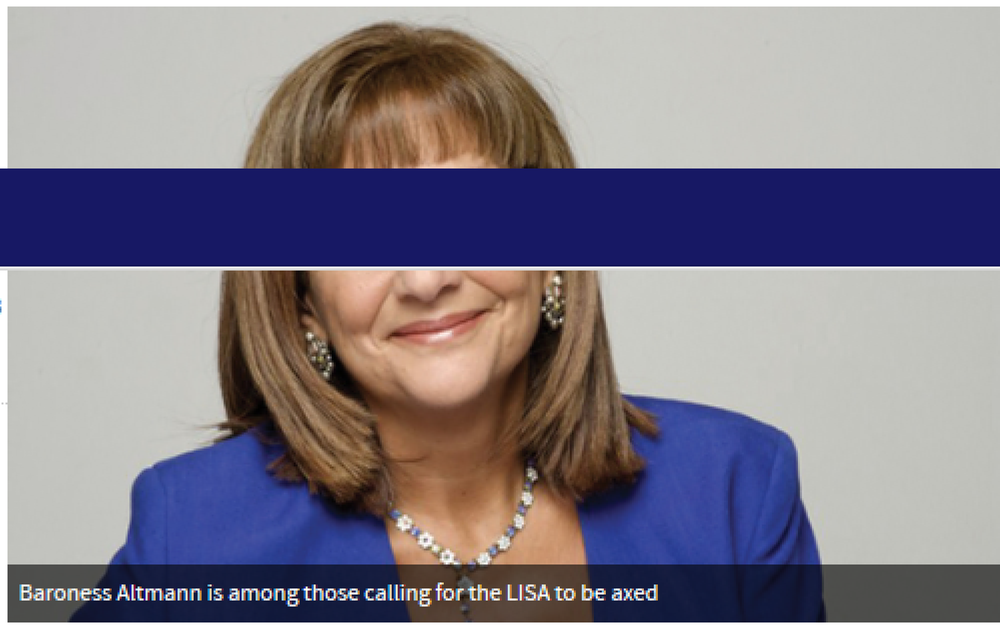

Baroness Altmann is among those calling for the LISA to be axed

**The Treasury Committee has called upon the government to abolish the lifetime ISA (LISA) just 16 months after it was first made available, after receiving persistently negative feedback on the product.**

In its latest report, *Household finances: income, saving and debt,* the Treasury Committee recommended the government abolish the savings product.

Published on Wednesday, the report said: "This inquiry has received strong criticism of the LISA over its complexity, its perverse incentives, its lack of complementarity with the pensions saving landscape and its apparent lack of popularity with the industry and pension savers. The government should abolish it."

Former pensions minister Baroness Ros Altmann was a witness to the inquiry. She said: "I would urge the Committee to recommend abolishing the LISA; just scrap it. It is, in my view - and I have seen this for so many decades - another mis-selling scandal waiting to happen."

The LISA allows those aged between 18 and 50 to save up to £4,000 a year towards a pension or a first home tax free, with the promise of a 25% government

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bonus capped at £1,000 a year. However, withdrawal for any other purpose will **trigger a 25% exit penalty** levied by the government.

The Committee said the 25% bonus and 25% withdrawal charge system is problematic, as many savers don't realise the withdrawal charge applies to the entire investment, and as such, will lose more than the government bonus should they choose to withdraw money early.

The LISA was announced in the 2016 Budget, but **the first products** were not available until April 2017. The likes of Hargreaves Lansdown, **AJ Bell**, Nutmeg, and the Share Centre offer the product, but otherwise take up among providers has been low.

## 'Dent consumer confidence'

AJ Bell personal finance analyst Laura Suter said scrapping the product after just 18 months in the market could dent consumer confidence, while Hargreaves Lansdown head of policy Tom McPhail said he would like to see a proper consultation done before scrapping the product entirely.

"The LISA is proving popular with those who are eligible so we'd want to see a proper consultation process before the government took any steps in this direction," he said.

## Flat rate of relief

The Committee also suggested the government may want to consider whether there should be fundamental pension taxation reform.

In particular, it said, the government should give serious consideration to replacing the lifetime allowance with a lower annual allowance, introducing a flat rate of relief, and promoting understanding of tax relief as a bonus or additional contribution. The report also suggested tax relief on pension saving is poorly understood.

Tax relief has become less generous in recent years, with the annual allowance at £40,000 compared to £255,000 in 2010/11, and the lifetime allowance now £1.03m, down from £1.8m.

McPhail said he supported simplifying the tax relief system: "The Committee's proposals for abolition of the lifetime allowance limit, offset by a lower annual allowance and a flat rate of government tax relief top up would enjoy widespread support," he said.

Suter was less optimistic about the proposals: "If a flat rate of tax relief encouraged more pension savings it would be a positive outcome, but the report also concludes that tax relief does not work as an effective incentive to saving, so it's hard to see how it would make a significant difference.

"Before such a radical overhaul to the system we would want to see evidence that it would achieve the goal of getting more people saving for their retirement."

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