EXPLANATORY MEMORANDUM TO

THE INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT) (NO. 3) REGULATIONS 2026

2026 No. 1130

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of His Majesty's Treasury and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 The Rt Hon Lucy Rigby MP, Economic Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Helen Page, Deputy Director for Pensions, Savings and Charities at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Frances Larke at HMRC can be contacted by email at the following address with any queries regarding the instrument: savings.audit@hmrc.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument amends the Individual Savings Account Regulations 1998 (the ISA Regulations) to reduce the Lifetime ISA (LISA) withdrawal charge to 20% from 29 October 2026 for individuals who withdraw funds to purchase property over the price cap of £450,000.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 A LISA is a tax-advantaged savings product which supports younger people saving for their first home or later life by providing a 25% government bonus on up to £4,000 of savings each year until they're age 50. These funds, including the Government bonus, can be used to purchase a first home up to the value of £450,000, and/or save for later life.

5.2 Withdrawals from a LISA are generally subject to a 25% charge on the amount withdrawn. This recoups the government bonus, any interest or growth arising, and a proportion of the individual's subscriptions to discourage such withdrawals and protect the long-term nature of the account, which is intended to be used for the purposes set out above. Exceptions from the withdrawal charge apply where an individual is terminally ill, where the individual is aged 60 or over, or where the funds are used to purchase a property valued at £450,000 or less.

5.3 At Autumn Budget 2026, the Government announced it would reduce the withdrawal charge to 20% for property purchases over the £450,000 LISA property price cap. This change supports first-time buyers whose intended purchase is above the cap. It will make the treatment of these withdrawals fairer by allowing affected savers to retain their own contributions while preserving the principle that the government bonus is available only for qualifying purchases within the LISA rules.

What was the previous policy, how is this different?

5.4 Previously, any unlisted withdrawals from a LISA were subject to charge of 25%. From 29 October 2026 this charge will continue to apply to chargeable withdrawals but with modification in respect of property purchases exceeding £450,000. A 20% withdrawal charge will apply to these property purchases.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument amends the ISA Regulations under powers contained in the Savings (Government Contributions) Act 2017 and other relevant powers relating to the ISA Regulations. The 21-day rule holds that legislation subject to the negative procedure should be laid before Parliament at least 21 days before it comes into force. The 21-day rule is being breached for this instrument. This approach has been taken to help prevent any market disruption that may be caused by first-time house purchasers stalling completion until the legislation takes effect. Introducing the change from 29 October will enable LISA account holders to benefit from the lower charge immediately if they are planning to purchase property exceeding £450,000.

6.2 Regulation 5D of the ISA Regulations specifies which subscriptions are disregarded for the purposes of the ISA subscription limits. Regulation 10A specifies who may invest in a Lifetime ISA with reference to payment limits. Regulations 5D and 10A of the ISA Regulations will be amended to ensure that where a property purchase fails and the withdrawn funds are returned to the LISA, the repayment of the lower withdrawal charge, applicable for property purchases exceeding £450,000, into the LISA will not count as an annual subscription.

6.3 Paragraph 5 of the Schedule to the ISA Regulations specifies the percentage charge which applies where an unlisted withdrawal is made. Paragraph 5 will be amended to provide that a withdrawal used for an otherwise qualifying first-home purchase above the £450,000 price cap will be subject to the reduced 20% charge. The existing 25% charge will continue to apply in all other chargeable cases.

6.4 Paragraph 6 of the Schedule to the ISA Regulations specifies the conditions which must be met if a property purchase is not to attract a withdrawal charge. This instrument inserts paragraph 6A into the Schedule to provide that where the

withdrawal is used towards the purchase price of a residential property by a first-time buyer which exceeds £450,000, and all the existing requirements in paragraph 6 are met, a 20% withdrawal charge applies.

6.5 Paragraph 10 of the Schedule to the ISA Regulations specifies the conditions which apply where a property purchase fails. This instrument inserts paragraph 10A into the Schedule to provide that where a property purchase, which exceeds the property price cap, fails and the withdrawn funds are returned to the ISA manager the withdrawal charge is repaid to the account. This change ensures the investor's LISA savings are returned to the position they would have occupied if the withdrawal had not been made.

6.6 This instrument makes consequential amendments to paragraphs 13 and 14 of the Schedule to the ISA Regulations regarding information returns and the repayment of the withdrawal charge.

Why was this approach taken to change the law?

6.7 The changes are being made by statutory instrument using existing powers to amend the ISA Regulations. This approach enables the policy changes to be implemented within the existing legislative framework for Lifetime ISAs.

7. Consultation

Summary of consultation outcome and methodology

7.1 A consultation was not undertaken as the policy change was announced and implemented from Autumn Budget 2026.

8. Applicable Guidance

8.1 HMRC's Guidance Notes for ISA managers available on the GOV.UK website[1] will be amended to reflect the changes to the ISA rules and reporting requirements.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument is available on the GOV.UK website[2].

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is that those financial institutions who provide LISA accounts will be required to identify house purchases by their LISA customers of £450,000 and above from the date of the change and apply the new 20% withdrawal charge. They will need to change their IT systems to accommodate reporting and paying the charge to HMRC. Conveyancers will need to make themselves aware of the change in approach to houses valued above £450,000.

[1] HMRC's Guidance Notes for ISA managers https://www.gov.uk/government/collections/isa-managers-guidance

[2] Tax Information and Impact Note: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

9.3 The legislation does impact small or micro businesses. Small and micro businesses which offer LISAs cannot be exempted from the requirements of these regulations. All LISA managers will need to adjust their systems to accommodate this change.

9.4 The impact on the public sector is that HMRC will need to implement changes to its IT systems to support the delivery of these changes, with current estimates placing these changes at around £0.5 million.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is that HMRC will continue to review compliance with the ISA Regulations using information provided via the LISA service by LISA managers and through regular contact with LISA managers.

10.2 The instrument does not include a statutory review clause, in line with the requirements of the Small Business, Enterprise and Employment Act 2015, because it amends a provision to vary tax.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This instrument breaches the 21-day rule convention for laying before Parliament at least 21 days before it comes into force. This approach has been taken to help prevent any market disruption that may be caused by first-time house purchasers who may stall completion until the legislation takes effect. Introducing the change from 29th October will enable LISA account holders to benefit from the lower charge immediately if they are planning to purchase property exceeding £450,000.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").