TheCityUK

HM Treasury, First Time Buyer (FTB) ISA: Consultation

TheCityUK response

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes over 12% of the UK's total economic output and employs almost 2.5 million people, with two-thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

Introduction

Individual Savings Accounts (ISAs) remain an important tool for tax-efficient saving and investing in the UK. They allow individuals to grow their money without paying tax on interest, dividends, or capital gains. Compared to other international equivalents, they are uniquely generous. Alongside wider reforms to encourage individual investment, changes to the ISA regime should empower individuals to make informed decisions about how best to build long-term wealth in line with their financial goals.

We support reforms that help first-time buyers save for a home and enable individuals to access the products that best meet their needs. However, any new product should be straightforward, easy to understand and capable of being delivered through existing ISA and HMRC infrastructure where possible. This will be important for take-up, provider delivery and the long-term effectiveness of the product. Changes should be consistent with the government's wider policy objectives and maintain a simple, accessible ISA landscape, with products presented in clear language, and unnecessary complexity kept to a minimum to support take-up.

Questions

Question 1: Would you be interested in offering the new First Time Buyer product?
We support the establishment of a First-Time Buyer product. As TheCityUK does not offer financial products itself, it would not be responsible for providing such a product. However, many of our member firms would be well placed to do so.

Question 2: How long would it take for you to launch the new First Time Buyer product and when would you start building it following its announcement?
The final specification will determine deliverability and timeframes for launch. Our members need clarity on payment limits, transfer rules, processing, reporting and bonus calculations before it is possible to assess the operational impact, delivery timetable and commercial viability.

Question 3: What would the cost implications be and what operational changes would you need to undertake?

A lack of uptake of the Lifetime ISA has been linked to the complexity of sign-up and administration processes. We therefore recommend that the government ensures the final design is as simple as possible, with proportionate compliance checks and clear operational requirements. As with the timeframes, the cost and operational changes for providers will depend on the final technical specification, including payment limits, transfer rules, processing, reporting and bonus calculations.

Question 4: Should the new First Time Buyer ISA seek to rebalance the relationship between the subscription limit, price cap and bonus?

Yes, while we recognise the fiscal constraints and the need to target support to those who need it most, we believe that the government should consider a property price cap higher than the current LISA cap of £450,000, specifically to £500,000, to ensure the longevity of the product.

In the next five years, Savills currently forecasts UK house price growth of 18.5%[1] to 2030. Applying this forecast time horizon, would imply a property value of approximately £533,250 by 2030. A £500,000 cap therefore provides additional headroom. The case for a higher cap is particularly strong when regional differences are considered, and the current cap is already below the average purchase price for first-time buyers in London.

Question 5: Should the First Time Buyer ISA adopt a lifetime cap on the bonus received, as well as an annual limit?

Yes, we believe that the annual limit will help build gradual savings for the individuals the government intends to support. We also support introducing a lifetime cap to help manage the impact on taxpayers within a constrained fiscal environment.

We believe the bonus calculation should be kept as simple as possible. Calculating the bonus on subscriptions less withdrawals could be difficult to administer and explain, particularly where interest has accumulated over several years. A simpler approach based on account value should be considered, provided it remains consistent with the government's fiscal and policy objectives.

We encourage the government to reconsider its decision to pay the bonus only on completion of a home purchase. Paying the bonus earlier would enable individuals to build a larger deposit, improving affordability and supporting access to home ownership. If the bonus remains linked to completion, we believe the conveyancer, rather than the ISA manager, should apply for it. The conveyancer is better placed to confirm that the property purchase meets the qualifying criteria, which would help align the bonus process with the transaction and reduce unnecessary verification requirements for ISA managers.

Question 6: How could the rules for withdrawal for purchasing a home improve those applying to the Lifetime ISA?

We support the government's proposal not to apply a withdrawal charge, as this is a more proportionate approach that recognises individuals' circumstances can change over time. Lessons from the Lifetime ISA demonstrate how withdrawal penalties can create confusion, be perceived as punitive, and potentially discourage saving and investment, while also raising questions about alignment with Consumer Duty principles.

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[1] Savills UK | Savills revises UK house price forecast as higher mortgage costs weigh on demand

We believe that any withdrawal rules for the FTB ISA should be underpinned by clear, plain-English explanations that help savers understand how and when funds can be accessed. A simple and transparent framework would improve consumer confidence, reduce operational complexity for providers, and make the product more attractive to both savers and firms

The proposed 90-day completion window also appears too restrictive. It could create operational complexity and customer complaints where transactions are delayed or fall through for reasons outside the saver's control.

Question 7: Are there any improvements we could make to the approach set out for holders of Help to Buy ISAs and Lifetime ISA looking to use the new FTB product?
Yes, we believe a simpler approach would be to allow existing LISA holders to transfer into the new FTB ISA without receiving any additional government bonus on transferred balances. Requiring consumers to operate two separate products, while restricting subscriptions to only one in a tax year, risks creating unnecessary complexity, confusion and administrative burden. A transfer mechanism would provide a clearer customer journey while maintaining fiscal neutrality. Any transfer mechanism should be clear, straightforward to process and capable of being delivered through existing ISA and HMRC infrastructure wherever possible.

Question 8: Do you foresee any issues or complexities from applying cash holding rules to FTB ISAs?
Yes, as we have previously set out, anti-avoidance rules often contradict the broader policy intent of encouraging individual investment by making regimes overly complex. We believe applying anti-avoidance rules would be disproportionate, could reduce the take-up of the product and go against the government's policy objective of encouraging more individual investment. More broadly, we remain concerned about the impact of anti-avoidance rules on the simplicity and uptake of ISA products.

Question 9: Do you foresee any issues or complexities arising from the FTB ISA transfer rules regime set out here?
Yes, we believe that preventing transfers from a Stocks & Shares ISA into an FTB ISA runs counter to the policy objective of encouraging greater participation in investing and enabling individuals to use their savings in a way that supports their financial goals. A first-time buyer's savings journey is rarely linear. Individuals often spend several years building a deposit, during which their risk appetite and circumstances may change. Savers may initially invest for growth through a Stocks & Shares ISA before seeking to de-risk as they approach a property purchase. Preventing transfers between products would create an arbitrary cliff edge, limiting flexibility at a key point in the savings journey and making it harder for individuals to manage their finances effectively.

It would also add unnecessary complexity to a system that works best when it is simple and easy to navigate. A dedicated FTB ISA should support long-term saving and wealth accumulation. Restricting transfers from Stocks & Shares ISAs could inadvertently discourage investment, encourage continued reliance on cash savings, and undermine the broader objective of fostering a stronger culture of individual investment.

Question 10: What, if any, additional challenges do you foresee from a consumer and provider perspective, for the introduction of a new FTB ISA?
Yes, we believe several circumstances could lead to delays in property purchase timelines, affecting an individual's ability to receive a bonus and potentially undermining confidence in the product. The

final design should therefore avoid unnecessary operational complexity, provide a clear route for delayed or failed transactions, and ensure responsibilities between ISA managers, conveyancers and HMRC are clearly defined.

Conclusion

The FTB ISA should be developed as part of a stable and coherent savings and investment framework that supports first-time buyers while avoiding unnecessary complexity for consumers and providers. To be successful, the product must be simple to understand, straightforward to administer and aligned with the government's wider ambition to encourage long-term saving, investment and financial resilience. Implementation must also reflect the wider ISA change programme, with delivery dependent on the final technical requirements and the need for providers to prioritise this alongside other reforms and systems changes. As we set out in From cash to confidence: Building an investing nation, the government should take the opportunity to establish a new First-Time Buyers ISA alongside a longer-term 'North star' for individual investment, which would set the principles guiding the development and changes to any ISA regimes.