GUIDE TO

SAVING AND INVESTING FOR A CHILD'S FUTURE

HOW TO ENSURE YOUR CHILDREN OR GRANDCHILDREN GET THE BEST FINANCIAL START IN LIFE

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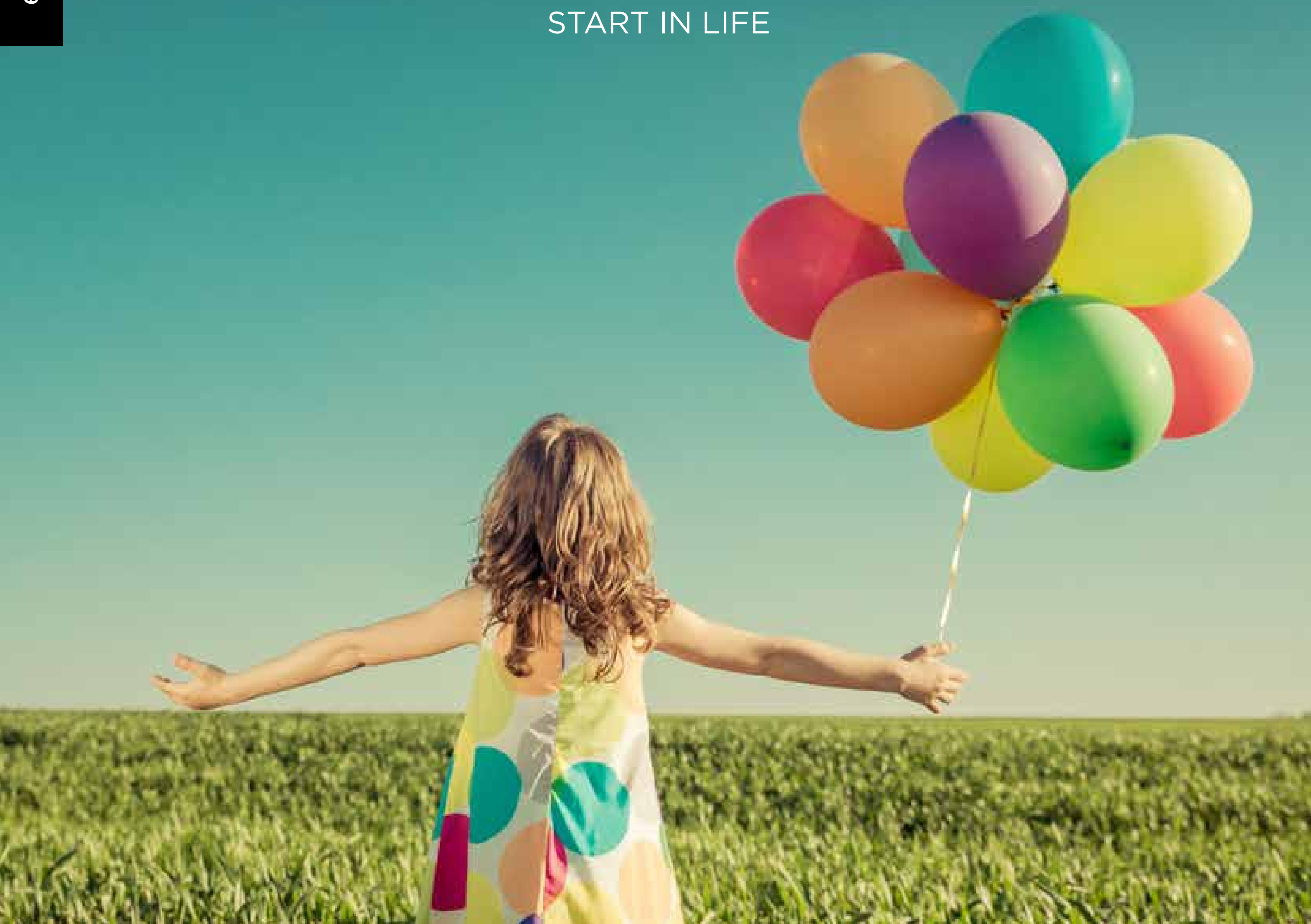

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How to ensure your children or grandchildren get the best financial start in life

Whether you want to teach your children or grandchildren smart money-management strategies, help them pay for university or set them up for financial success as adults, it's important to jump-start saving and investing for them early on.

Whether it is saving for school or university education, or to provide a deposit on a first home, giving your children or grandchildren a good start in life is among most people's top priorities.

As a parent, guardian or grandparent, you'll want to provide the best future for them. Christmas is an excellent time to encourage children to start thinking about the value of money. Many children have hundreds of pounds spent on them at Christmas. But could that money be put to better use? Rather than buying yet more toys for your children or grandchildren, why not consider setting up a tax-efficient Junior ISA for them?

With today's kids likely to need thousands of pounds to get them through university and on to the property ladder, a Christmas gift that will help with some of these expenses is well worth considering. As with all investing, the earlier you start, the better. And even saving a relatively modest sum each month can be very effective over the long term – especially if it is well invested.

If the investment is allowed to grow, it could build up into a sizeable sum. The money could then be given to the child as an adult. The capital may be enough to cover tuition fees and possibly board and lodging as well, or a deposit for their first property.

Whether you'd like a structured or flexible approach to saving or investing for a child or grandchild's future, we've put together a selection of different options you may wish to consider:

Junior Individual Savings Account (JISA)

A JISA is a tax-efficient children's savings account where you can make contributions on the child's behalf, subject to an annual allowance. Any gains do not incur Capital Gains Tax, and they will not be considered part of the parents' or grandparents' estate for Inheritance Tax purposes.

Nevertheless, the child will automatically get access to the money when they turn 18 and can choose what to do with it. If the account stays in the parents' or grandparents' names, however, the parents or the grandparents would be able to decide how the money is used, but it would be considered part of their estate for Inheritance Tax purposes for seven years after it has been gifted to the adult child or grandchild.

There are two types of JISA – a Cash JISA and a Stocks & Shares JISA:

- **Junior Cash ISAs** – these are essentially the same as a bank or building society savings account. But Junior Cash ISAs come with one big advantage – your child doesn't have to pay tax on the interest they earn on their savings, and you don't have to either
- **Junior Stocks & Shares ISAs** – with a Junior Stocks & Shares ISA account, you can put your child's savings into investments like shares and bonds. Any profits you earn by trading shares or bonds are tax-efficient.

A child's parent or legal guardian must open the Junior ISA account on their behalf. Money in the account belongs to the child, but they can't withdraw it until they turn 18, apart from in exceptional circumstances. They can, however, start managing their account on their own from age 16.

The Junior ISA limit is £4,368 for the tax year 2019/20. If more than this is put into a Junior ISA, the excess is held in a savings account in trust for the child – it cannot be returned to the donor. Parents, friends and family can all save on behalf of the child as long as the total stays under the annual limit. No tax is payable on interest or investment gains.

When the child turns 18, their account is automatically rolled over into an adult ISA. They can also choose to take the money out and spend it how they like.

Pensions

A pension is one of the greatest gifts you could give children this Christmas. Children's pensions benefit from the same advantages as adult pensions. That means no tax is payable on income from investments or capital growth in the pension, provided they remain within the annual and lifetime allowances.

A child's parent or guardian will need to set up the pension, but once opened, grandparents, friends and relatives can make contributions into it.

You could pay in a lump sum all at once, or spread your contributions out across the year by investing a smaller amount each month. If the maximum annual contribution is made (£2,880 per year), the state will top it up by £720 (i.e. 20% government tax relief is added to the account), making a total contribution of £3,600.

A Junior Self-Invested Personal Pension (Junior SIPP) is a tax-efficient way to start building a nest egg for your child or grandchildren. You can contribute lump sums or start a regular savings plan, and friends and family are able to contribute too, up to a maximum total gross contribution of £3,600.

Investment account

For tax reasons, this approach may be best suited to grandparents. Grandparents can set up a designated account for a grandchild and invest a capital sum in it. The grandchild's initials are put in the designation box when the account is set up, creating a bare trust.

As a result, HM Revenue & Customs will view income and gains from the investment as being attributed to the minor, who will have their own Income Tax and Capital Gains Tax allowance, so there will be no tax implications for the grandparents.

Any money invested in this way leaves the grandparents' estate seven years after it has been gifted. At 18, the grandchild is legally entitled to the money, however, and can use it as they see fit – which may not necessarily be for education.

Many parents and grandparents want to set up their children or grandchildren to enjoy a secure financial future. Yet paying down student debt is not necessarily the best option if they have spare capital to invest. They could also consider helping their children or grandchildren to save towards a deposit for a property or start a pension for them so that they have security in later life. ■

Want to boost your child or grandchild's financial future?

The way you save and invest and the type of plan you choose will depend on many factors. These include how much you wish to invest, for how long, and whether you have a cash lump sum or will be investing out of your income. To discuss the options available to you, please contact us. We look forward to hearing from you.

> **"Whether it is saving for school or university education, or to provide a deposit on a first home, giving your children or grandchildren a good start in life is among most people's top priorities."**

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

TAX TREATMENT DEPENDS ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN THE FUTURE.

LOOKING TO GIVE THEM A FLYING START?

Let us help debunk the myths around children's savings and investments and explain how taking the right approach could make all the difference to your child's or grandchild's future.

Don't leave it to chance – please talk to us to review the options available.

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