FINANCE UPDATES

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Hampshire Hill

Advice to complement your Lifestyle

LONG-TERM SAVING OPTIONS FOR CHILDREN

Tax-efficient ways to prepare for the future.

For wealthy parents and grandparents who want to financially assist younger generations, building a nest egg on their behalf can go a long way.

It can also potentially reduce the value of your estate for inheritance tax purposes, making saving for a child or grandchild a useful estate planning strategy – but where do you start?

As with any savings strategy, talking things over with an expert can provide you with clarity before you begin, while the earlier you start saving the bigger your nest egg should be.

Whether the savings are used to cover university tuition fees, a deposit on that first house, invest in a pension or simply to keep up with rising living costs, there are many options to consider.

SAVINGS

Setting up a savings plan for your child early on cannot only start the process, it can also help them understand the concept of savings that can develop into a healthy habit later in their life.

From your perspective, contributing towards a savings plan on a child's behalf gives you an easy option when it comes to ideas for birthday and Christmas gifts for many years to come.

And speaking of gifts, everyone has an annual exemption to make gifts worth up to £3,000 in 2019/20 without them being added to the value of your estate, although this is one of several rules that may or change in next month's Budget.

There are lots of junior savings accounts out there for you to choose from, many of which offer beneficial extras for children of various ages. That aside, finding a savings account with the best interest rate should be the main priority.

Regular savings accounts usually have higher interest rates than easy or instant access accounts, with the former being harder to withdraw those savings than the latter.

An important consideration for parents who place money into a children's savings account: you will be taxed at your marginal income tax rate if the savings gain more than £100 in interest in the tax year.

Grandparents, other relatives and friends, however, can place as much as they want into a children's savings account, although other implications may come into play.

JUNIOR ISAs

Junior ISAs offer a tax-efficient way to save money on behalf of a child as there is no tax on interest, dividends or investments that can grow within the ISA.

Putting small gifts into a junior ISA on birthdays, at Christmas, or on a regular basis for up to 18 years can soon add up to a decent amount for your child.

You can currently place up to £4,368 a year into a junior ISA. Any change to the junior ISA allowance for 2020/21 will be announced in next month's Budget.

Much like other adult ISAs, junior ISAs can take the form of either cash ISAs or stocks and shares ISAs.

Prolonged low interest rates, however, mean that the amount of money you put into a junior cash ISA may not actually grow much beyond the £4,368 you are able to save in 2019/20.

Money put into a junior cash ISA is protected up to £85,000 by the Financial Services Compensation Scheme (FSCS).

In contrast, a junior stocks and shares ISA offers potential for significantly higher growth and returns, although this type of ISA's value can rise as well as fall in line with market sentiment.

Cash put into a junior stocks and shares ISA is also protected by the FSCS up to £85,000, although returns are not guaranteed.

PREMIUM BONDS

Underwritten by the Treasury, premium bonds supplied by National Savings and Investments (NS&I) can be purchased on behalf of a minor.

Premium bonds are essentially savings accounts that offer account holders the chance to win tax-free prizes of between £25 and £1 million every month. Every £1 buys one premium bond with a unique number.

Since 1989, a minimum of 100 premium bonds needed to be purchased but from next month that threshold will fall to 25. The maximum amount of premium bonds one can hold is 50,000.

More than 21 million people hold premium bonds in the UK, with the large pull being the excitement of potentially winning the tax-free cash prizes over earning interest. The odds of winning, however, are around 24,500/1.

Money can be put in or withdrawn whenever you want, while the prize draws are selected at random by ERNIE – the NS&I's electronic random number indicator equipment.

As ERNIE picks the monthly winners at random, there is no guarantee that the savings will earn any prize money, essentially making them a secure way to save cash for a child as they are backed by the Government rather than a bank.

Children's bonds, also provided by the NS&I, used to allow you to invest a lump sum of between £25 and £3,000 on behalf of an under-16, but these were withdrawn on 30 September 2017.

PENSIONS

It's never too early to start contributing towards a child's pension, even if they will be waiting until the age of 57 – from 2028, at the time of writing – to start drawing it.

Pension rules can change over time but for now, one option could be to place up to £2,880 a year into a junior self-invested personal pension (SIPP) for a child or grandchild. You can do this for as many children or grandchildren as you like.

That figure benefits from 20% tax relief provided by the Government, worth up to £720 extra on top of maximum contributions of £2,880 per child or grandchild.

The junior ISA becomes the minor's responsibility from the age of 18.

TRUSTS

If you're a parent or grandparent, you can put money, property or investments into a trust, providing you meet certain criteria, and usually shield them from inheritance tax.

This involves transferring ownership of such assets to a trustee, usually resulting in the asset no longer counting towards the value of your estate and not being liable to inheritance tax when you die.

You decide the rules that the trustee has to abide by until the time comes to pass on the asset to your beneficiary.

For example, you may not be comfortable with your child assuming responsibility for an asset until they turn 25. The trustee will look after any assets put into trust until that time.

Types of trusts vary in terms of cost and complexity, while different trusts are treated differently when it comes to tax.

Speak to us about placing assets into trust as an estate planning strategy to save for your offspring, and selecting the most relevant trust to suit your needs.

Talk to us about financial plans for children.

IMPORTANT INFORMATION