AWFM Fact File

"Investing for children"

Updated Jan 2022

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Junior ISA

Junior ISAs came into existence on 1st November 2011. They are long-term tax-free savings accounts for children.

Children may have a Junior ISA if they:

- Are under 18
- Live in the UK
- Do not already have a Child Trust Fund account

Tax and contribution limits

Each child can have one cash and one 'stocks and shares' Junior ISA at any one time.

Anybody can put money into a Junior ISA for the benefit of the child. This is important because there are tax rules stating that money gifted by parents to children is normally taxed as if the parent still owns it if the value of the interest exceeds £100 per annum. There will be no tax to pay on any interest or gains.

The total limit for payments into Junior ISAs in the tax year 2021/22 is £9,000 in each tax year per child. This has increased substantially over the last few years.

Access to funds

The money in a Junior ISA belongs to the child, and whilst they (or the parent) can't take the money out until they are 18, it then becomes theirs and they can then decide what they want to do with it. If the child chooses not to take the money out, the Junior ISA will automatically become an (Adult) ISA.

Child Trust Fund (CTF)

A child will have been entitled to an account if all the following apply:

- they were born between 1 September 2002 and 2 January 2011
- child Benefit was paid for the child for at least one day before 4 January 2011
- the child lives in the UK
- the child is not subject to any immigration restriction

Tax and contribution limits

For each child that was entitled to a CTF account, HM Revenue & Customs (HMRC) would usually send a voucher and this was used to open the account in that child's name. The voucher could be worth £50 or £250 depending on when the child was born and when they became entitled to an account. Extra money may be paid directly into the account, for example, if the parent was on a low income but this is now unlikely as the CTF contributions regime has largely been suspended.

From 1 November 2011, parents, family and friends can add money to the account up to a limit of £3,600 a year. There is no tax to pay on the CTF income or any gains (profits) it makes. Furthermore, the money the child gets does not affect any benefits or tax credits receive by their parents.

Access to funds

The money in the CTF account belongs to the child but can't be taken out until they are 18. At 18, they have full access to the funds.

Saving or Investing?

With both the CTF and the Junior ISA there is a choice to be made between investing the funds or saving them. The issue relates to risk and reward. Probably the higher risk approach taken over a longer time-frame, will produce the best return from an Investment fund but for security of the capital if a low risk approach is desired, the Savings option would be more appropriate.

With investment funds, the charges taken both up-front and on an ongoing basis should be assessed to be able to compare the options. Cash-based funds really all boil down to the interest rate which can be earned on the funds.

Access to Funds

The 18 year old has full access to the money from their 18th birthday. Is it healthy for children to get so much money when they are still relatively young? Would you as the parent or grandparent want to, or feel that you ought to be able to exercise some control over how the money is used and spent? This needs very careful consideration.

Other possible options (and implications)

If you like the idea of saving money tax-free and don't use up all of your **own ISA allowance** each year, you could use your own ISA to put money into, on behalf of your children, and then choose to gift them the funds at the point that either need the money, or you can be as sure as you can be that they will not squander the funds.

A similar although less tax efficient option is to set up an ordinary **deposit account or investment fund** which again you control and decide when the funds are to be given away. This may increase your own tax liabilities, especially if you are a higher rate or additional rate tax payer and therefore may not be particularly tax efficient but you still retain control of the funds.

With both of these options, although you may "designate" the funds to be used for the child, the money is not actually given to the child until you decide. This means that the funds are retained in your name. There are implications for these options if you die and your Estate value is in excess of the Nil Rate Band – in this circumstance, the value of the funds accrued for your children will be subject to Inheritance Tax unless you specifically ask them to be paid free of Inheritance Tax (noted in your Will).

Although Trusts can be used to direct money to chosen beneficiaries, again they come with restrictions and extra costs and in our opinion should be a vehicle of last resort, in most cases.

A further option going to the other extreme is to invest in a **Stakeholder or Personal Pension** for your child. With the erosion of State Pensions and Public & Private Sector pensions, the benefit of investing into a pension on behalf of a child should not be overlooked. You can invest between £20 and £2,880 per annum net into a Pension account in the child's name. The huge benefit is in the tax relief on the contribution. If you pay in £2,880, the fund reclaims the basic rate tax relief from HMRC and therefore invests £3,600 – an extra 20%. You are not entitled to any further higher rate tax relief as the donor.

But with this option, the money is not available to the child at 18 or 25 or even 35. They have to wait until they are aged 55 (under current legislation) to be able to access any of the money at all. Perhaps this is the opposite extreme!

Summary

There are no easy answers. Any decision taken needs to be well thought out and as part of a sound long-term financial plan.

If you have any questions or need an independent review of your financial planning or pension arrangements, please contact us to discuss your situation further. AW Financial Management LLP is an Independent Financial Adviser regulated by the Financial Conduct Authority.
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