ANTONINE INVESTMENT MANAGERS

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Guide to

Creating Wealth for Children

Nurturing the future – investments to provide a flying start in life

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Guide to Creating Wealth for Children

Nurturing the future – investments to provide a flying start in life

Whether you're a relative, parent, grandparent or a friend, investing for a child's future is one of the most important things you can do. For any investor, time is a powerful ally – so where you are investing on behalf of children, you start with a great advantage.

Not only do long timescales allow for greater risk-taking and thus higher potential returns, but there is the power of compounding, as profits are re-invested year on year. Ask any parent, and they'll agree on one thing: one minute your children are toddlers, and almost before you know it they're going to university or planning to buy their first property.

Whether you save little and often or have bigger sums of money to invest, keep going over a few years and you can build up a really useful amount. It can go a long way to setting them on the road to becoming independent or helping them with university or housing costs. You might even encourage them to become savers.

Saving for a child today is a wonderful gift for their future. Not only can they start their adult lives with some savings in hand, but getting kids involved early with saving also helps them learn important lessons about money.

Children's savings accounts

They're easy to access, save into and pay some interest. A recent change for all savings accounts – including children's – is that tax isn't deducted before interest is paid on your savings. There's no need to reclaim tax if you're a non-taxpayer, and tax only has to be paid if the interest is more than your tax-free allowances.

But it's worth being aware that there are special rules when parents save for their children. If the interest they get is more than £100 in a tax year, as the parent you're liable for any tax due on it.

You won't pay any tax if the interest is within your Personal Savings Allowance. It's £1,000 for a basic-rate taxpayer and £500 for a higher-rate taxpayer. The good news is that this doesn't apply to money from grandparents, relatives or friends, or Junior ISAs and Child Trust Funds, which are a tax-efficient way of saving. The value of investments like ISAs, JISAs, pensions and trusts can go down as well as up and may end up worth less than was paid in.

Junior ISA

Junior ISAs let you save and invest on behalf of a child under 18. And with no tax on the earnings, the money you put away can grow even faster. You can save up to £4,128 for the tax year 2017/18, and this is for each of your children under 18 into a Junior ISA this tax year. A child's parent or legal guardian must open the Junior ISA account on their behalf.

If more than £4,128 is put into a Junior ISA, the excess is held in a savings account in trust for 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.

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.

There is no tax payable on interest or investment gains, and when your child turns 18, their account is automatically rolled over into an adult ISA (sometimes called a 'NISA'). They can also choose to take the money out and spend it how they like – for example, on driving lessons, further education or job training.

Your child can have a Junior Cash ISA, a Junior Stocks & Shares ISA, or both. If they have both, the most they can save is still subject to a £4,128 limit for the 2017/18 tax year.

Junior Cash ISAs

A Junior Cash ISA is 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.

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.

Investments are riskier than cash but could provide your child a bigger return, and the value of a Junior Stocks & Shares ISA can go down as well as up.

Transferring a Junior ISA

You can switch between the two types of Junior ISA or from one provider to another whenever you like. But make sure you do this carefully so you don't lose the tax-efficient status on the money.

A child can only have one Junior Cash ISA and one Junior Investment ISA at any one time, and as of April 2015, new rules mean you can transfer a Child Trust Fund account into a Junior ISA.

Use your own ISA allowance

You might want to use your own ISA allowance to save for them to keep more control. It's £20,000 this tax year (2017/18) and may be a more appropriate way to save tax-efficiently for their future without giving them too much responsibility too soon.

You and your spouse or registered civil partner can each save up to £20,000 into an ISA. It's up to you how much of that is in stocks and shares or cash, or a combination of both. When it comes to access, you can usually take money out of your ISA when you want to.

Friendly Society tax-exempt plan

These children's savings plans are only available through Friendly Societies. These are mutual benefit organisations, which mean they're owned by their members to work for the advantage of those members.

You can choose to pay into the plan for between ten and 25 years. Money is invested in a share-based investment fund for the term length you choose. The maximum amount you can pay in is £270 a year, or £300 a year if you pay in £25 each month.

On the maturity date, the child must be at least 16, and you must have paid into the plan for a minimum of ten years.

The value of these types of investment can go down as well as up. Friendly Society policy charges also apply. As long as you continue to pay into the plan for a minimum of ten years, your child won't pay Capital Gains and Income Tax on any gains or income.

Start a pension for your child

Investing a little in a pension for them when they're very young can make a big difference later on thanks to the compounding of any investment growth over many years.

You can start a pension for a child under 18. This can be an exceptionally good way to save for your child's future, as it means pension benefits can build up over their own lifetime (rather than just from when they start work).

You can pay a maximum of £2,880 per year into this, which becomes £3,600 through 20% tax relief, which all adds up rather nicely.

There is another advantage to setting up this kind of pension for a child (or, indeed, grandchild). Anyone looking to pass on assets to their family should think about Inheritance Tax. You can of course give lifetime gifts to reduce the value of your estate, but anything over £3,000 in a year will be taxed if you die within seven years of making it.

A gift under £3,000 may not seem very much – but as a pension contribution, it's another matter. If you pay into your grandchild's pension, for example, you could pay the annual maximum of £2,880 and stay comfortably within the tax-free gift limits, while your gift would become £3,600 through tax relief.

If you're a parent or grandparent who wants to give away some money now but control when the children get it, you might want to consider setting up a trust. This is where the money is controlled by trustees who manage the investments. There are different types to suit what you want to do and how much control you want to keep. ■

Choosing investments for your children's future

Everyone wants the best for their children. Parents naturally feel the pressure to plan for their children's future. Will they want to go to university? Get married? Buy a house perhaps? One thing's for sure: at some point in their future, they'll need a financial boost, and they'll be grateful if it comes from someone who has always had their best interests at heart. To discuss the options available for you, please contact us – we look forward to hearing from you.

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Investing for a child's future is one of the most important things you can do

Whether you save little and often or have bigger sums of money to invest, keep going over a few years and you can build up a really useful amount. It can go a long way to setting them on the road to becoming independent or helping them with university or housing costs.

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