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AN INTRODUCTION TO

Investing for Children

GETTING TO GRIPS WITH THE BASICS

- Assess your objectives
- Making an investment plan
- Choosing the most suitable investment
- Top tips for maximum tax efficiency
- We’re here to help

We all want our children to have the best possible start in life – but providing such a start is becoming increasingly expensive. A private education, university fees, wedding costs and property deposits all largely require parental assistance for younger generations, with high living costs and commensurately lower salaries making saving difficult. Whatever your goals for your child's future, investing offers the potential for strong returns, especially if you start early. While it is by no means guaranteed, data[1] shows that investments have historically performed better than savings over the longer term.

ASSESS YOUR OBJECTIVES

The first step is to understand what you are investing for. For example, you might want to:

- Pay for your child to be privately educated, which costs on average £5,218 per term for day students and £12,344 per term for boarders[2];
- Assist with university tuition fees (up to £9,250 per year for most courses) plus living costs (£4,914 for an average 39-week rental contract)[3];
- Contribute to or pay for your child's wedding (just over £20,775 on average for a UK wedding)[4];
- Help them onto the property ladder (the average first-time deposit is now £53,414[5].)

It may seem early to think about retirement provision, but given the average State Pension is currently under around £11,500 per year, many parents are also thinking about this aspect of their child's future.

MAKING AN INVESTMENT PLAN

If you are looking to help your child with these types of expenses, there are many investment options to consider. However, any investment plan should revolve around these two major principles:

- The longer the timescale, the more scope there is for your investments to grow;
- Sound professional advice will help you achieve a balanced portfolio aligned to your risk profile, and avoid any potential pitfalls.

Your plan will also include aspects such as:

- Who will hold the investment?
- Choosing the most suitable investment
- The right choice of product.

WHO WILL HOLD THE INVESTMENT?

It is normal practice for a parent to retain ownership of their child's investment in some capacity until they are older. As a general rule, children under 18 (16 in Scotland) cannot invest in their own name because they do not have the legal power to either make a valid contract with a provider or manage it on an ongoing basis.

The simplest, and most flexible, way to get started is to simply invest money in your own name, knowing that this sum is earmarked for your child. This has its own disadvantages, however, including that you may have to pay Income and/or Capital Gains Tax on the investment, and that your estate may be liable for Inheritance Tax (IHT). Another option would be to place the funds into a designated account or a trust on their behalf, which would help to minimise your tax liability. Both of these options will hold the funds for your child either until they reach 18, or another specific milestone (which would, for example, be set out in a trust deed).

CHOOSING THE MOST SUITABLE INVESTMENT

Choosing an investment for your child is little different to selecting the most suitable investment for yourself. Whether for yourself or your child, an investment should always:

- Be aligned with the level of risk you're willing to take;
- Work towards a specific goal or goals.

This will ensure you understand what you need your investment to deliver, and by when, in addition to the level of risk you'll need to take to achieve your desired returns. As with any investment, a professional financial adviser is best placed to advise you on these factors, as well as help you allocate your investment to the most suitable assets and funds.

THE RIGHT CHOICE OF PRODUCT

Once you have selected the most suitable investment for the agreed risk profile,

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objectives and timeframe, the final step is to decide on the most suitable product, or 'wrapper', depending on your individual circumstances and tax situation.

JUNIOR ISAs

Any child under the age of 18, and who lives in the UK, can have a Junior Individual Savings Account (JISA).

Like adult ISAs, there are two types of JISA: cash JISAs and stocks and shares JISAs. The maximum you can pay into either type tax-free is £9,000 for the 2024-25 tax year. Income and gains from a JISA are free of UK tax and not subject to parental tax rules.

Note that children can gain control of a JISA at 16 but usually can't withdraw anything until they're 18.

CHILD TRUST FUNDS

These are no longer available (they were replaced by JISAs), but you can still pay up to £9,000 per year into an existing CTF account, which your child can access on their 18th birthday.

PERSONAL PENSIONS

You may think your own pension is a world away, let alone your child's. However, if you're looking to secure your child's financial future in the long term, you may wish to consider opening a Junior Self-Invested Personal Pension (SIPP). Junior SIPPs are eligible for 20% tax relief; the maximum you can pay in per year is £3,600 (i.e. £2,880 with 20% tax relief).

PREMIUM BONDS

You can purchase between £25 and £50,000 worth of Premium Bonds from National Savings & Investments on behalf of any child under the age of 16. Instead of earning interest, you are entered into prize draws with the chance of winning tax-free sums of between £25 and £1m. If your child wins a prize, it will either be paid into the nominated parent/guardian's bank account on the child's behalf, or it can be reinvested into more Premium Bonds.

TRUSTS

As previously mentioned, you can hold investments in trust on a child's behalf. Unless the trust deed states otherwise, trustees can generally invest in any asset they choose. However, they must abide by the rules set out in the Trustee Act 2000:

- They are required to ensure that any investment made is suitable, as well as sufficiently diversified
- They have a duty to obtain and consider proper advice from somebody who they reasonably believe is qualified and competent to give such advice on such matters
- The investment should not interfere with the trustees' statutory duty of care under the Act.

There are a great many types of trust, the tax treatment of which varies widely.

[1]Barclays, 2024, [2]Independent Schools Council, 2023
[3]Times Higher Education, 2023
[4]Bridebook, 2024
[5]Halifax, 2024

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WE'RE HERE TO HELP
We're only a phone call away, so if you have any questions or would like to discuss any aspect of investing for your children, then please do get in touch

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Top tips for maximum tax efficiency

TAKE FULL ADVANTAGE OF TAX-FREE ALLOWANCES

As we have seen, JISAs and Junior SIPPs will enable you to invest a set amount each year, without either a) incurring tax on interest or gains or b) losing valuable tax reliefs. It is therefore advisable to take maximum advantage of these allowances before moving onto other types of investments that may incur tax.

HOLD THE INVESTMENT IN A BARE TRUST

This is a type of trust that taxes investments as if they belong to your child, and not to you. Be aware that once you name your child as a beneficiary, this cannot be reversed and they will have an absolute right to both the trust's income and capital once they are old enough to take ownership. Like adults, children have a personal tax-free allowance of £12,570 (2024-25 tax year), in addition to the savers 'starter rate' of up to £5,000 and a personal savings allowance of £1,000 (different tax allowances apply in Scotland). Altogether, children can 'earn' up to £18,570 a year tax-free, which will cover their yearly income from investments in most situations. Similarly, children have a Capital Gains Tax allowance of £3,000 per year before they have to pay tax on investment profits.

TAKE ADVANTAGE OF THE 'DOUBLE ISA' LOOPHOLE

As your child gets older, they will become eligible for an ISA, while still retaining their JISA. Children aged 16 and 17 can open a cash ISA (but not a stocks and shares ISA), which comes with a tax-free allowance of £20,000 annually (2024-25 tax year). This gives parents two years to deposit up to £29,000 per year tax-free across the two accounts.

BENEFIT FROM LIFETIME GIFTING

Gifts of money do not incur Inheritance Tax (IHT) if the donor lives for seven years after gifting. Lifetime gifting is a good option for grandparents, for example, who wish to contribute financially to their grandchildren's future while reducing the value of their own estate for IHT purposes.

WE'RE HERE TO HELP

As with any form of financial planning, the earlier you begin planning for your child's future, the better. Whatever your objectives may be, seeking financial advice now will help you identify what you can afford to invest without compromising your own financial security, the level of risk you're willing to accept, and the balance of assets and funds that best aligns with your risk profile and timescales.

We can help you develop a robust investment plan and regularly review it to ensure your portfolio is still working hard for you as the years go by and your circumstances change. Please get in touch to start your investment journey and give your child a brighter future.

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