Investing for children and grandchildren

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Many parents want to plan for their children's future and the large expenses that are likely to arise as they get older. There does seem to be more financial pressure on youngsters to establish themselves, typically University costs, getting married or buying a first home.

Taking this into account, at some point in their future, children will likely need a financial boost. Investing for them when they are very young can make a big difference later on thanks to the compounding of any investment/interest growth over many years. Given the long timescales involved this also allows for greater risk-taking and higher potential returns.

Children's savings accounts

Like most savings accounts, these are easy to pay into, typically provide access to funds, and also pay some interest. Money given to a child by each parent or step-parent which generates more than £100/year in interest will be taxed at the parent's tax rate, with the parent being liable for any tax due. The good news is that this doesn't apply to money from grandparents or other relatives.

Junior ISA

Junior ISAs let you save and invest on behalf of a child under 18. Whether you invest in a Cash ISA or Stocks & Shares ISA there will be no income tax or Capital Gains tax liability on either the child, or you as the parent. You can save up to £4,260 for the tax year 2018/19 for each of your children. Cash ISA's are essentially the same as savings accounts but with no tax liability.

Investment ISA's are riskier than cash (the value can go down as well as up) but offer higher potential returns.

While a parent or guardian must open the account, the money belongs to the child. They can however only withdraw the money after turning 18.

Lifetime ISA (LISA)

Anyone aged 18 to 39 can open a LISA with the potential of a government bonus. It's designed for two specific purposes. One is for first-time buyers to use towards a deposit for a residential property; the second is for retirement from age 60.

It can be cash savings – so you get interest – or stocks and shares investing – so you potentially get growth.

For parents wanting to help their child buy a home, giving them cash to put in a LISA is a great way to give them a hand. They can save up to £4,000 a year in a LISA as a lump sum or by putting in cash when they can. The bonus with a LISA is that the Government will then add 25% on top. So if they save £1,000, they'll have £1,250 and if they save the full £4,000, they'll have £5,000. And that's before interest or growth.

Another £4,000 can be paid every year until they hit age 50 (if your child hasn't bought a house before then). The maximum bonus is £33,000 if they open it at 18, and make contributions until they reach 50.

They can take some or all of their cash out of a LISA before age 60 even if they're not buying a property. However, it'll usually cost them– so it's best to try to only use the LISA if you're sure the cash is for one of the two defined purposes – first-home purchase or retirement. Withdrawals for other reasons have a 25% penalty. It does usefully create a barrier to them blowing your gift!

Our Finance & Legal

Pensions

Savings towards your child's future retirement might not be the first thing you think of when considering the options for saving for your child. It also means they'll only be able to access this pension money when they are a more sensible 55 years old (rising to 57 in 2028). This potentially 40 or 50 year period gives scope for high growth, especially when you factor in the benefits of compounding over time.

Any parent can set up a pension for a child, you could save up to £2,880 tax efficiently each tax year with the advantage of the Government automatically topping up any contribution by 20% basic rate relief. This means the actual amount invested becomes £3,600. Be aware that unlike your own pension contributions which may qualify for higher rate relief if you are a 40% tax payer, there would only be 20% relief for a child's pension.

Once they reach 18, the pension will automatically transfer to your child's control and ideally they can then start to contribute to it themselves.

There are also potential inheritance tax advantages to setting up this kind of pension, as with other gifts, for a child or grandchild. Under current rules, you are able to gift up to £3,000 a year (known as the annual gift allowance) in order to reduce the value of your estate. Anything over £3,000 though might be taxed if you die within 7 years of making the gift, assuming your estate is subject to Inheritance Tax. Bear this in mind when considering any gifts you make.

So 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.

Trusts

Another option is to consider setting up a trust. This allows you to give away money now, but still retain an element of control over how this is invested, and when the children have access to the funds if you are a named trustee. Trustees control the money of the trust until such a time that the funds are paid out to the beneficiaries.

There are a number of different trusts available to fit different situations and can based on the amount of control you need over the money.

Please be aware that before making any financial decision based on this article you should take advice to ensure any action you take is appropriate for your circumstances.

If you are unsure about your own position you can book a free 30 minute meeting. Just telephone Jo on 01562 745730 to book an appointment.

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