PREMIER
FINANCIAL PLANNING

PREMIER MONEY

GUIDE TO

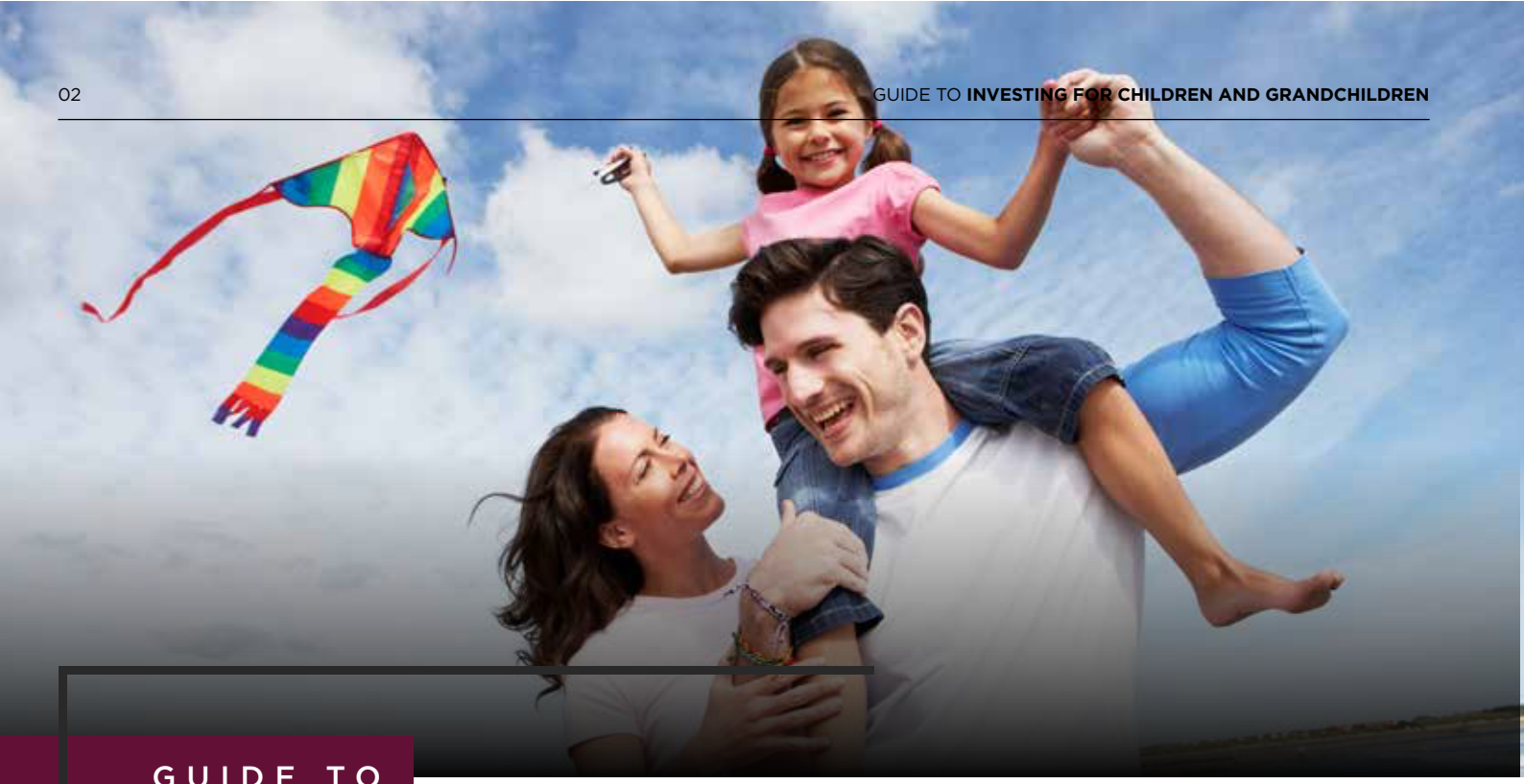
INVESTING FOR CHILDREN AND GRANDCHILDREN

Turning growing pains – into long-term gains

SEPTEMBER 2021

Premier Financial Planning Unit 12 Pickwick Park, Park Lane, Corsham, Wiltshire, SN13 0HN
Tel: 01225 581222 **Email:** info@premfp.com **Web:** www.premfp.com

Premier Financial Planning is a trading style of Mayne Solutions Ltd, which is authorised and regulated by the Financial Conduct Authority. Registered in England, Company No 7202342 - FCA number 628835 Tel 01225 581222



GUIDE TO

INVESTING FOR CHILDREN AND GRANDCHILDREN

Turning growing pains – into long-term gains

With many of us living longer, you may be thinking about how you can support your family at the moments that matter. Sharing your wealth during your lifetime – especially with younger generations facing the pressures of rising house prices and university fees – can really make a difference and bring you great joy too.

Whether you want to teach a child or grandchild smart money-management strategies, help them pay for university or set them up for financial success as adults – it's important to jump-start saving and investing for them early on.

As a parent, guardian or grandparent, you'll want to provide the best future for them. Birthdays and Christmas are excellent times to encourage children to start thinking about the value of money. Children may receive money on these occasions. But could that money be put to better use? Rather than buying yet more gifts for them, why not consider setting up a tax-efficient Junior Individual Savings Account (JISA) for them, or Junior SIPP (Self-Invested Personal Pension)?

With today's kids needing thousands of pounds to get them on to the property ladder, a financial gift that will help is well worth considering. As with all investing, the earlier you start, the better. And even saving a relatively modest sum each month can be very effective over the long term.

If the investment is allowed to grow, it could build up into a sizeable sum. The money could then be given to the child as an adult.

It's also important to remember that any investment comes with risk. All investments can go down as well as up, and you may get back less than you invest.

A pension is a long-term investment not normally accessible until age 55 (57 from April 2028). The value of your investments (and any income from them) can go down as well as up which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits.

The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation which are subject to change in the future. You should seek advice to understand your options at retirement. ■

SETTING YOUR LOVED ONES UP FOR A BRIGHTER FUTURE

With a bit of careful thought and forward planning, there's a lot you can do to make sure the money you give them goes as far as it can towards setting them up for a brighter future.

To find out more or arrange an appointment, please contact us – we look forward to hearing from you.

THE BEST POSSIBLE START IN LIFE

Using all the investment tools and help available

Many families want to give their children or grandchildren a head start for their future finances. As the costs of private education, university, getting on the property ladder and weddings continue their relentless upward march, investing for your children or grandchildren early is crucial.

There's a simple starting point after you've worked out what you can afford to give. What is it that your grandchildren actually need and when do they need it?

The best way to make gifts will be different depending on how old they are, and if you have concerns about handing over large sums at a young and impressionable age.

But making a gift at the earliest possible time means that any potential investment growth can play a big part in meeting a future cost.

The key is using all the investment tools and help available to you. With the benefit of compounding, even smaller contributions started early enough can work miracles.

Whether you'd like a structured or flexible approach to saving or investing for a child's or grandchild's future, we've put together a selection of different options you may wish to consider:

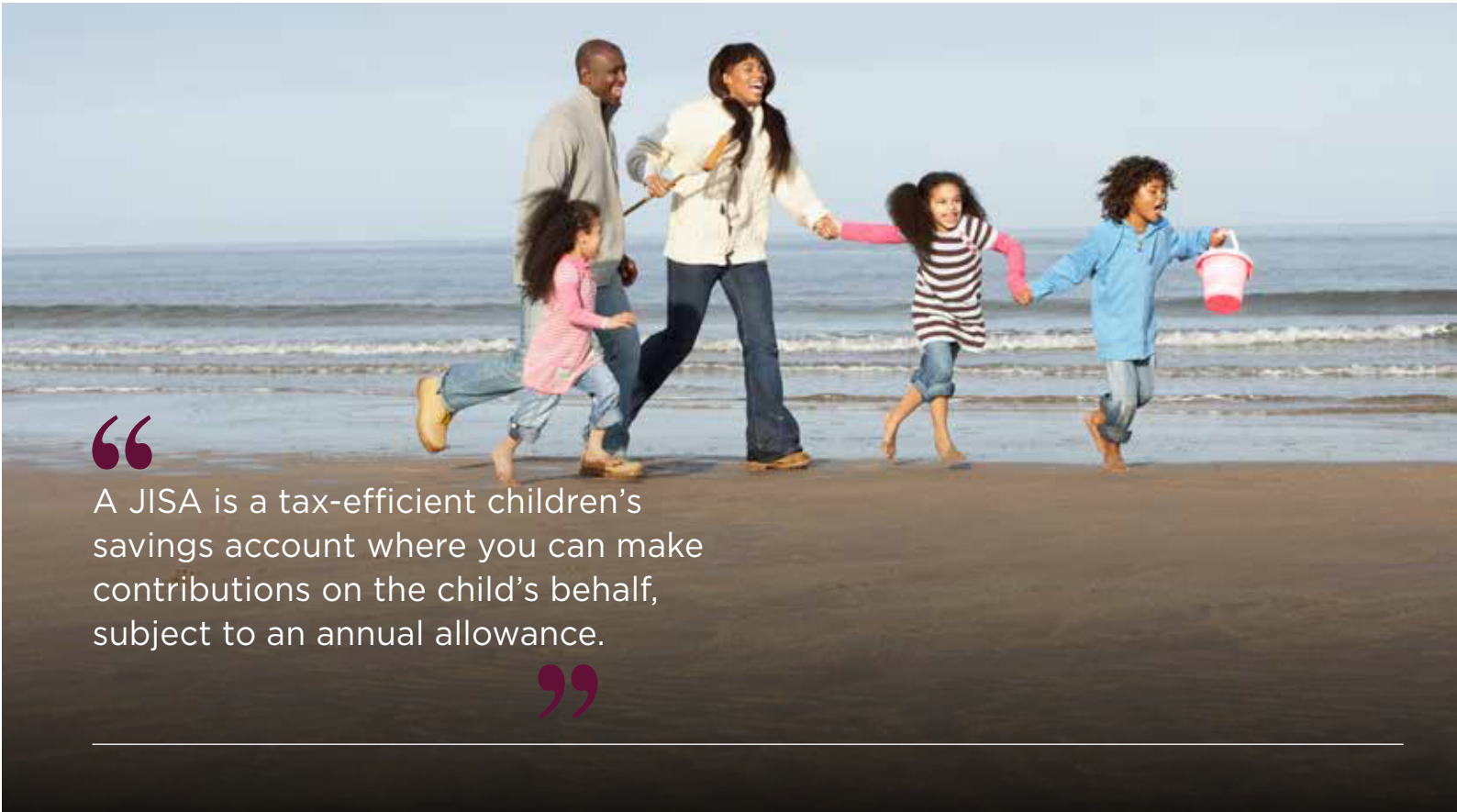
Junior Individual Savings Account (JISA)

A JISA is a tax-efficient children's savings account where you can make contributions on the child's behalf, subject to an annual allowance. Any gains do not incur Capital Gains Tax, and they will not be considered part of the parents' or grandparents' estate for Inheritance Tax purposes.

Nevertheless, the child will automatically get access to the money when they turn 18 and can choose what to do with it. If the account stays in the parents' or grandparents' names, however, the parents or the grandparents would be able to decide how the money is used, but it would be considered part of their estate for Inheritance Tax purposes for seven years after it has been gifted to the adult child or grandchild.

There are two types of JISA – a Cash JISA and a Stocks & Shares JISA:

- **Junior Cash ISAs** – these are essentially the same as a bank or building society savings account. But Junior Cash ISAs come with one big advantage – your child or grandchild doesn't have to pay tax on the interest they earn on their savings, and you don't have to either
- **Junior Stocks & Shares ISAs** – with a Junior Stocks & Shares ISA account, you can put your child's savings into investments like shares and bonds. Any profits earned by trading shares or bonds are tax-efficient.



"A JISA is a tax-efficient children's savings account where you can make contributions on the child's behalf, subject to an annual allowance."

Your child or grandchild can have one or both types of Junior ISA.

Only parents or a guardian with parental responsibility can open a Junior ISA for under-16s.

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.

Children aged 16 and 17 can open their own Junior ISA as well as an adult Cash ISA.

Anyone can pay money into a Junior ISA, but the total amount paid in cannot go over £9,000 in the 2021/22 tax year.

If more than this is put into a Junior ISA, the excess is held in a savings account in trust for the 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. No tax is payable on interest or investment gains.

When the child turns 18, their account is automatically rolled over into an adult ISA. They can also choose to take the money out and spend it how they like.

Lifetime ISA (LISA)

If your children or grandchildren are 18 or older but under 40, a Lifetime ISA (Individual Savings Account) could help them save for their first property or save for later life.

A total of up to £4,000 each year can be put in, until they're 50. The first payment into their Lifetime ISA must be before they're 40. The government will add a 25% bonus to their savings, up to a maximum of £1,000 per year.

The Lifetime ISA limit of £4,000 counts towards their annual ISA limit. This is £20,000 for the 2021/22 tax year. They can hold cash or stocks and shares in their Lifetime ISA, or have a combination of both.

When they turn 50, they will not be able to pay into the Lifetime ISA or earn the 25% bonus. Their account will stay open and their savings will still earn interest or investment returns. To open and continue to pay into a Lifetime ISA they must be a resident in the UK, unless they're a crown servant.

Money can be withdrawn from their ISA if they're buying their first home or aged 60 or over.

They'll pay a withdrawal charge of 25% if they withdraw cash or assets for any other reason (also known as making an unauthorised withdrawal). This recovers the government bonus received on their original savings.

Buying a first home

They can use the savings to help them buy their first home if all the following apply:

- the property costs £450,000 or less
- they buy the property at least 12 months after they make their first payment into the Lifetime ISA
- they use a conveyancer or solicitor to act for them in the purchase - the ISA provider will pay the funds directly to them
- they're buying with a mortgage

Buying with someone else

If the person they're buying with has a Lifetime ISA, they can use their savings and government bonus too.

They'll pay a 25% withdrawal charge to use their Lifetime ISA savings if they own or have a

legal interest in property (for example, they're a beneficiary of a trust that includes property).

If they have a Lifetime ISA and a Help to Buy ISA, they can only use the government bonus from one of them to buy their first home.

They can transfer money from a Help to Buy ISA to a Lifetime ISA. If they transfer money from a Lifetime ISA to a Help to Buy ISA they'll have to pay the 25% withdrawal charge.

Saving for later life

A Lifetime ISA is one of a number of ways to save for later life. They can take their savings out of a Lifetime ISA when they're 60 or over.

They'll pay a 25% charge if they withdraw money or transfer their Lifetime ISA to another type of ISA before age 60.

If they die their Lifetime ISA ends on the date of their death. There's no charge to withdraw the funds or assets from their account.

Junior SIPP (Self-Invested Personal Pension)

A Junior SIPP is a tax-efficient way to start building a nest egg for your child or grandchild. Any parent or grandparent of a child under the age of 18 can help them kick-start their retirement savings.

Children's pensions benefit from the same advantages as adult pensions. That means no tax is payable on income from investments or capital growth in the pension, provided they remain within the annual and lifetime allowances.

As the name suggests, you can choose the investments that go inside the pension.

A parent or guardian will need to set up the pension, but once opened, grandparents can make contributions into it.

You can invest an annual lump sum, or spread contributions across the year by investing a smaller amount each month. If the maximum annual contribution is made (£2,880 per year), the taxman automatically pays 20% tax relief (up to £720), making a total contribution of £3,600.

Gifts to a child's or grandchild's pension are often covered by one of the Inheritance Tax exemptions and so could fall outside your estate for Inheritance Tax purposes.

The money in a SIPP cannot be accessed until age 55 (rising to 57 in 2028).

Investment account

For tax reasons, this approach may be best suited to grandparents. Grandparents can set up a designated account for a grandchild and invest a capital sum in it. The grandchild's initials are put in the designation box when the account is set up, creating a bare trust.

As a result, the taxman will view income and gains from the investment as being attributed to the minor, who will have their own Income Tax and Capital Gains Tax allowance, so there will be no tax implications for grandparents.

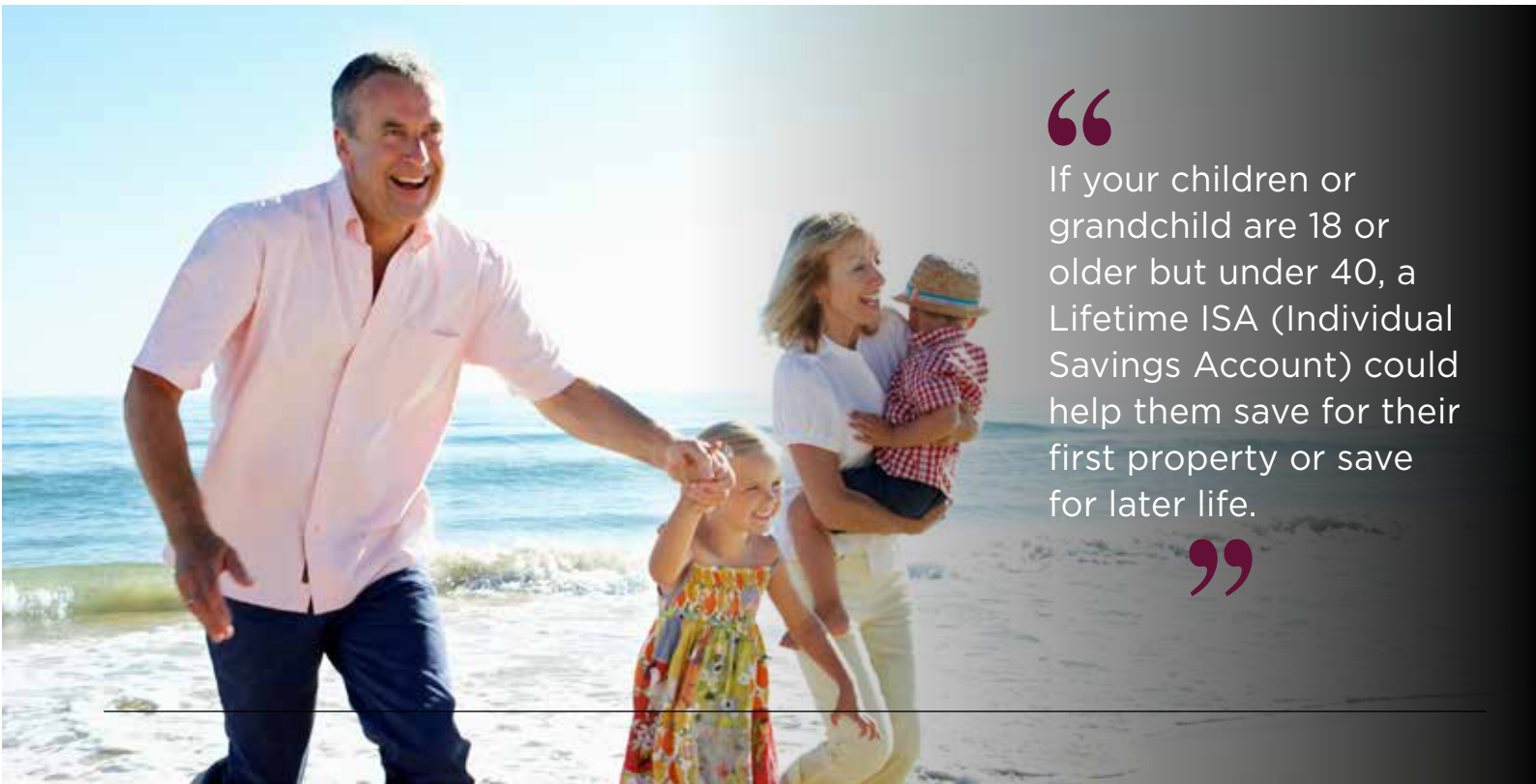
If you are a grandparent any money invested in this way leaves your estate seven years after it has been gifted. At 18, your grandchild is legally entitled to the money, and can use it as they see fit.

Many parents and grandparents want to set up their children or grandchildren to enjoy a secure financial future. ■

EVERYONE WANTS THE BEST FOR THEIR CHILDREN. SO WHY NOT GET REAL INVESTMENT EXPERTISE WORKING ON THEIR BEHALF?

These are just a few potential options to consider but will not be suitable for everyone. What is right for you will depend upon your own individual circumstances. If you're unsure about the best approach for you, please get in touch with us for further information.

To find out more or arrange an appointment, please contact us – we look forward to hearing from you.



> "If your children or grandchild are 18 or older but under 40, a Lifetime ISA (Individual Savings Account) could help them save for their first property or save for later life."

LOOKING TO PROVIDE A HEAD START FOR THEIR FUTURE FINANCES?

Many families want to give their children or grandchildren a head start for their future finances. It may be towards university costs, first step on the housing ladder or even an investment to help with their retirement. There are lots of options available to help give your children a flying start.

To find out how you can start investing for your child's or grandchild's future, please contact us for further information – we look forward to hearing from you.

This guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. All figures relate to the 2021/22 tax year, unless otherwise stated.

Published by Goldmine Media Limited, Rivers Lodge, West Common, Harpenden, Hertfordshire, AL5 2JD. Content copyright protected by Goldmine Media Limited 2021. Unauthorised duplication or distribution is strictly forbidden.

goldmine media