INVESTMENT QUORUM
UNIQUE, BOUTIQUE WEALTH MANAGEMENT

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Creating wealth for children

Investing isn't just a luxury reserved for adults

Saving for a child today is a wonderful gift for their future. Whether you want to help them buy their first car, contribute to their first home or even set them up for a comfortable retirement, there is little more fulfilling than providing financial security for your children or grandchildren.

It's worrying to think about the expenses they will face as adults. So, the earlier you can start investing money for your children, the more chance it has to grow before they need it as an adult.

But, to ensure that the value of their money isn't eroded by inflation, taxes and fees, you'll need to choose the right investment approach. Here are some of the options you may wish to discuss with us.

JUNIOR ISAS

A Junior Individual Savings Account (JISA) is the children's equivalent of a regular Individual Savings Account (ISA) and works in much the same way, protecting the capital within it, and any capital growth, from Income Tax and Capital Gains Tax. You can choose between a Junior Cash ISA and a Junior Stocks & Shares ISA, or a child can have one of each.

Only a parent or guardian can open a Junior ISA on a child's behalf, but anyone can pay into it, up to a limit of £9,000 in the current tax year (that limit may change in future tax years). The UK tax year starts on 6 April each year and ends on 5 April the following year. Once a child turns 16, they gain control of their ISA, but they cannot make withdrawals until they turn 18.

JUNIOR SIPPS

A Junior Self-Invested Personal Pension (Junior SIPP) is a type of pension you can open on behalf of someone who is under 18. While we often think of a pension as a product for adult workers, opening one for a child has many benefits.

Investments in a Junior SIPP have more years to grow before the pension holder retires, and so can benefit greatly from compounding returns. If appropriate, due to the very long-term nature of the investment, it's possible to take a higher-risk approach than with shorter-term investments, which has the potential to yield greater rewards.

As with an adult pension, all growth is protected from Income Tax and Capital Gains Tax. So, it could take away some of the burden of retirement planning as an adult. For a child with no earnings or earnings below £3,600pa, contributions are currently capped at £2,880 a year, totalling £3,600 after tax relief is applied, in the current 2021/22 tax year.

TRUSTS

Trusts are a legal agreement where you – the 'settlor' – place assets into a trust and nominate a trustee to manage those assets (whether it's money, buildings, land or investments) on behalf of your child or children, known as the 'beneficiaries'.

BARE TRUSTS

A bare trust is an investment vehicle that allows you to invest capital on behalf of a child while retaining full control of the investments until the child turns 18, or 16 in Scotland.

Along with the initial capital, any return generated by a bare trust will belong to the child. It will therefore be taxed as such, usually meaning that there is less tax to pay than if the investments were held by the adult, since a child has their own personal allowances for income and capital gains. Under parental settlement rules for income tax, if the income exceeds £100 each year then the whole amount will be taxed as the parent's.

There is no upper limit on how much can be invested each year in a bare trust.

DISCRETIONARY TRUSTS

The main difference between a bare trust and a discretionary trust is that a bare trust is held on behalf of a specific, named individual or individuals, while a discretionary trust is held on behalf of any number of eligible individuals.

For example, a grandparent may open a discretionary trust that any of their grandchildren or future grandchildren can benefit from. Who benefits from the trust will ultimately be decided by the trustees.

The tax treatment of a discretionary trust can vary depending on your specific financial situation, so you should seek professional financial advice before opening one. ■

WANT TO FIND OUT MORE ABOUT HOW TO GET STARTED?

When it comes to investing in your child's or grandchild's future, putting aside just a small amount of money on a regular basis can really add up. Each option comes with specific advantages and risks. If you'd like to find out more about how to get started, please get in touch with us today – we look forward to hearing from you.