FINANCE UPDATES

DECEMBER 2016

CAMPBELL & McCONNACHIE

chartered financial planners

Saving for your child

Your guide to saving for your child's future.

Taking the decision to start a family is a major turning point in life. Raising a child not only involves a great deal of responsibility, but can have huge implications for your financial situation.

In fact, LV estimates that parents will spend an average of £231,843 on a child in the first 21 years of his or her life, up £2,500 from 2015.

Ensuring that you can cover the day-to-day costs is likely to take priority when you first start a family.

However, making sure that you safeguard your child's financial future is equally important.

Long-term planning is key, and being aware of your financial options will put you in a much better position to help your child save for the future.

There are a number of different financial products you can use to your child's advantage. Consider your priorities and your short and long-term goals when deciding on your strategy.

Junior ISAs

Junior ISAs are a tax-free, long-term savings option open to children who live in the UK and are under the age of 18.

They operate in a similar way to other ISAs but have a much lower savings limit. While adults can save up to £15,240, the Junior ISA savings limit for the 2016/17 tax year is £4,080. It was announced in Autumn Statement 2016 that the Junior ISA savings limit for 2017/18 will be £4,128.

Another key difference is the rules of access; your child will only be able to access the savings when they turn 18.

There are 2 types of Junior ISA:

Cash ISAs allow you to save cash in a similar way to a bank account, and the return will be determined by the interest rate on the account. There will be no tax due on the interest.

Stocks and shares ISAs are a potentially riskier approach that allow you to invest in listed funds. How your money performs will depend on the performance of the funds the provider invests in. Capital growth or dividends are tax-free.

Parents or people with parental responsibility can open and manage a Junior ISA on behalf of their child, although anyone can pay into one. Children who are 16 or 17 can open their own Junior ISA as well as an adult cash ISA. Junior ISAs automatically convert into adult ISAs when the child turns 18.

In 2015, it became possible to convert child trust funds (CTFs) into Junior ISAs after the government ended the CTF scheme. You are able to keep paying up to £4,080 a year into a CTF and receive the tax benefits if you had one before the government stopped new applications.

However, you may want to consider looking at converting it into a Junior ISA; market competition has resulted in lower charges and wider investment opportunities, giving you more flexibility and control.

It is not possible to have both a Junior ISA and a CTF.

For more advice and technical guidance on ISAs, contact us today.

Saving for your child

Children's savings accounts

Savings accounts for children work in a similar way to adult savings accounts. You can open one at any time on behalf of your child, or if they are over 7 years-old they can open one themselves. These accounts are available to any child under the age of 18.

Children's savings accounts come in 2 types:

Regular accounts are designed to promote regular savings. These accounts are more likely to receive a higher rate of interest because it's harder to withdraw the money. However, if you miss monthly payments the interest rate may fall.

Instant access accounts allow you or your child to withdraw and pay in cash at any time. As a result, these accounts typically pay a lower interest rate.

The downside to children's savings accounts is that they are less tax-efficient than Junior ISAs. Giving your child money that earns more than £100 a year in interest, dividends, investment income or rent will result in it being taxed as if it were your personal income. This rule only applies to money given by parents.

On the other hand, allowing your child their own savings account from a young age can teach them the basics of financial management and the importance of saving.

Children's bonds

Children's bonds offered by National Savings and Investments (NS&I) are a stable investment for long-term planners.

Bonds are issued for 5-year terms and can be renewed after they expire. You'll receive an annual tax-free fixed-rate interest payment. There is a minimum investment amount of £25 and a maximum of £3,000 per child for each bond issue.

You can invest a further £3,000 when new bonds are issued. If you decide to sell your bonds before the end of the term, you'll face a charge equivalent to 90 days' interest on the amount sold.

The main advantage of opting for children's bonds over cash is the guaranteed interest rate.

You'll know exactly how much interest you'll receive over the 5-year period, enabling more effective long-term financial planning. Whether the lower rate of interest is a factor will depend on where your priorities lie: do you want stability or do you want to make your money grow?

Trusts

Trusts can be set up by parents or grandparents for the benefit of people under the age of 18. Referred to as parental trusts, these can come in many forms: bare, discretionary, and interest in possession.

Trusts are operated by a group of trustees who will be chosen by you. They will act in the interest of the trust's beneficiaries and in accordance with the trust deed, a document that lays out how the trust should be managed.

Bare trusts

Bare trusts are commonly used when the assets and income are intended for a beneficiary under the age of 18.

The trustees will simply keep possession of the assets until the beneficiary has turned 18. When the beneficiary reaches adult age, they get immediate access to the assets and income of the trust.

Accumulation trusts

Trustees of an accumulation trust collect the income earned from trust property. They can then either use it to make maintenance payments to the beneficiaries or add it to the trust's capital.

Interest in possession trusts

In this type of trust, the beneficiaries have no automatic claim on the assets held within the trust.

Also called life interest trusts, interest in possession trusts will pass all income generated by trust assets to the beneficiaries.

Discretionary trusts

Beneficiaries of a discretionary trust do not have an automatic claim to a proportion of the estate.

Instead, trustees have discretion over who receives the capital and income, how the assets are given out and how the trust is managed.

Trustees control how often income payments are made to beneficiaries and can attach conditions of payment.

Most parents and grandparents opt for bare trusts when putting assets into trust for their children/grandchildren. They are simple and the child is guaranteed to receive the trust's assets and income.

However, some may worry about giving their child full control over the assets as soon as they turn 18. This is where the flexibility of discretionary trusts comes in.

Giving trustees more control over when the beneficiaries receive the assets is a good option for parents/grandparents who don't feel comfortable handing over the assets on their 18th birthday.

Different types of trust are subject to different tax treatments.

We can help you create an effective financial plan for you and your family.

Important Information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. ISA eligibility depends upon individual circumstances.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. The value of investments can fall as well as rise and you may not get back the amount you originally invested.

Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.

Campbell & McConnachie is authorised and regulated by the Financial Conduct Authority. FCA No : 187211