

# A E Thomson Ltd

Independent Financial Advisers



GUIDE TO

## SAVING AND INVESTING FOR THE NEXT GENERATION

*Taking proactive steps in securing your child or  
grandchild's financial future*

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GUIDE TO

# SAVING AND INVESTING FOR THE NEXT GENERATION

Taking proactive steps in securing your child or grandchild's financial future

Welcome to our *'Guide to Saving and Investing for the Next Generation'*.

Today's young generation is anticipated to face a future with considerably higher expenses than their parents and grandparents. The rising education, housing, and general living costs have created a financially challenging landscape. As such, many parents and grandparents are taking proactive measures to provide a financial safety net for their children and grandchildren.

Additionally, a greater awareness of the importance of financial planning and wealth accumulation has prompted many individuals to take proactive steps in securing their

children's financial futures. But saving and investing for the younger generation is a multifaceted endeavour that requires thoughtful planning and strategic decision-making.

Investing in your child or grandchild's future is a thoughtful and responsible step towards securing their financial stability. In the UK, initiating an investment early for a child makes sense and can be highly beneficial in the long run.

## Why start investing early?

Investing early for your child or grandchild has a multitude of benefits. It maximises the power of compound interest. Simply put, the sooner you start investing, the sooner you

start earning interest on the interest you've already earned. This compounding effect can significantly boost a child's savings over time.

Early investment also has the potential to provide a higher return on investment. The rationale behind this economic case is that the longer the investment period, the higher the potential returns, making early childhood an opportune time to begin investing.

Additionally, starting a pension for a child, despite being many decades away from their retirement, makes financial sense. It is a long-term investment that could provide a significant nest egg when your the child

reaches retirement age. Only a parent or guardian can open up a pension for a child, but then anyone can make contributions.

### Investing strategically

By starting early and investing strategically, it will enable you to provide a solid foundation for your child's or grandchild's economic wellbeing. The desire to give the next generation a head start in life and empower them to overcome any financial hurdles is a driving force behind why many parents and grandparents focus on setting aside money for children and grandchildren.

### Choosing the right investment account

When considering the tax implications and how to arrange your affairs best, if appropriate, tax-efficient structures like Junior ISAs (JISAs), Bare Trusts, and Pensions should be explored.

### Junior Stocks & Shares ISA

A Junior Stocks & Shares ISA (JISA) allow parents to invest in various investments on behalf of their children. While grandparents can contribute to a JISA, only parents or legal guardians can open one on behalf of the child. If a child is 16 or 17 and does not already have a JISA, they can open a Cash Junior ISA.

The money in a JISA is locked away until the child turns 18, at which point it becomes their ISA. The advantage of this account is that it is tax-efficient, meaning any gains made do not incur Capital Gains Tax. A JISA has a current annual allowance of £9,000 (tax year 2023/24), and anyone can contribute.

### Bare Trusts

A Bare Trust is a simple trust in which the beneficiary (the child) has the absolute right to the capital and assets within the trust. A Bare Trust is commonly used to pass assets to young people. In a Bare Trust, the assets are held in the name of the trustee (typically a parent or grandparent) until the beneficiary reaches a specific age, often 18.

These trusts can hold various investments, such as stocks and shares or property, and can be a flexible way to manage and control assets on behalf of a child. There is no limit to the amount that can be settled in a Bare Trust, while there are restrictions on JISAs, and a change of beneficiary is not allowed.

### Pensions for Children

Starting a pension for a child might sound odd, but it could make financial sense. The

pension will grow tax-efficiently, and it can be a great way to give your child a head start on their retirement savings. Plus, other family members, like grandparents, can contribute too, making it a collective family effort.

For every £80 contributed, a further £20 will be added in tax relief. This is a long-term investment giving children a head start. Investing up to £2,880 per child each tax year (tax year 2023/24), HM Revenue & Customs will top this up with a further £720 to give an investment of £3,600.

### Making the most of Personal Allowances

Both you and your child have Personal Allowances that can be utilised to minimise tax liabilities. Your child has a tax-free Personal Allowance for income, which in the 2023/24 tax year is £12,570. They also have a separate Dividend Allowance, currently set at £1,000 per year.

### Exempt from Income or Capital Gains Tax

Assets held in a JISA are exempt from Income or Capital Gains Tax, providing a significant tax advantage. However, taxes still apply to assets held in Bare Trusts. If the funds in a Bare Trust come from the parents, they are taxed as though they belong to the parents.

If a grandparent contributes, the assets are taxed as belonging to the grandchild, usually resulting in a lower tax burden. Contributions to bare trusts and JISAs are potentially exempt transfers for Inheritance Tax purposes if the donor survives for seven years from the date of the gift.

### Paying for school fees

Regarding access to the funds, money can be withdrawn from a Bare Trust while the beneficiary is still a minor, as long as it is used for their benefit, such as for school fees. Conversely, funds cannot be withdrawn from a JISA until the beneficiary reaches the age of 18, but they can assume control of the account from the age of 16.

One common concern with JISAs and Bare Trusts is what happens when the child turns 18 and gains asset access. At this point, they have control over the funds, and there may be little that can be done if the money is misused.

### Setting aside a portion of savings

Trustees of Bare Trusts have a duty to inform the beneficiary about the trust's existence

when they turn 18, and income from the trust should be reported on the beneficiary's tax return, making it difficult to ignore the trust's existence.

More complex trust and inheritance arrangements are also available, and you should always obtain professional financial advice. ■

### DECIDED ITS TIME TO START BUILDING WEALTH FOR YOUR CHILD OR GRANDCHILD'S FINANCIAL FUTURE WITH SMART ADVICE?

Investing early for your children or grandchildren can give them a significant financial head start. As the costs of private education, university, getting on the property ladder, and weddings continue to grow, please speak to us to learn more about the options available to save and invest for your children's or grandchildren's future.

THIS GUIDE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

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, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX TREATMENT IS DEPENDENT ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN FUTURE.

# TIME TO GIVE YOUR CHILD OR GRANDCHILD A HEAD START BY INVESTING IN THEIR FUTURE?

When saving and investing for children or grandchildren, time and tax can significantly affect returns over the longer term. We can help you decide on the right investments for the children or grandchildren in your life.

**To find out more about how we can help,  
please get in touch with us.**

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