

Helping your children save for the future

This autumn sees the launch of junior individual saving accounts, which allow family members and friends to save on behalf of a child. This article explains what they are and the other options available to help parents save for their children's future.

A new way of saving

On 1 November 2011, junior individual child savings accounts became available. These offer a simple tax-efficient way to save for a child's future, whether it is to cover the cost of university, their first car or a deposit for their first home.

The accounts will be available through banks, building societies and financial services providers and can be opened by an adult with parental responsibility, or by a child him-/herself if he/she is over the age of 16 years. Anyone can contribute to them, whether it is a parent, relative or friend of the family. Payments are considered a gift to the child, who can only access them when he/she turns 18 years.

Similar to adult individual saving accounts, there is a limit to how much can be saved each tax year. Currently, this is £3600 and will rise in line with consumer price index inflation from 6 April 2013. This allowance can be invested into a cash junior individual saving account and a stocks and shares junior individual saving account in any proportion, subject to any minimum amount providers may apply. A child is only allowed one of each at any time throughout his/her childhood, although funds can be transferred between them.

Until the child is 16 years old, the junior individual saving account will be managed by the person who opened the account. After that, the child can opt to take responsibility him-/herself, although the child can not access the money for another 2 years.

Once the child reaches 18 years of age, the junior individual saving account will automatically default to an adult individual

saving account. The young person can then either continue investing or withdraw the money to spend as he/she chooses.

Junior individual saving accounts replace child trust funds, which were created by the previous government and allowed savings accounts to be set up for children born between 1 September 2002 and 2 January 2011. While there are no new child trust funds, the accounts still exist and parents can continue to contribute to them.

The current rules do not allow child trust funds to be merged with junior individual saving accounts, although from 1 November 2011 the child trust fund annual subscription limit has risen to £3600 per year to bring them into line with junior individual saving account levels.

Alternative savings options

While junior individual saving accounts are quick and easy to set up, they may not be suitable for all parents. In particular, they would not be appropriate if saving to pay for school fees as the money can only be accessed by the child at 18 years of age. There are other saving options available and each of them has their own features. Before investing parents need to consider:

- The level of access to the investment they require for themselves and the child
- The level of control they require
- The method in which they wish to invest, e.g. regular payments or lump sum
- How much risk they are willing to take with their money
- Tax position and implications.

Keeping access to the funds

Some parents may want to retain complete control of the investment and access the funds if needed. In this instance, an individual investment product in the parent's own name could be the best option, such as an 'adult' individual saving account, which would have the annual subscription limit of £10 680, of which £5340 can be in a cash individual saving account.

Holding investments in trust

Those parents who want control of the investment, but do not need access to the

funds themselves, might consider investments held within a trust. This allows the trustees, who could be parents, family members or friends, to have control over how investments are made, as well as allowing them to decide how and when the child benefits from the funds.

Holding an investment in trust for a child can be a useful tax planning tool as normally the trust assets will not be included in the parents' estate on their death, therefore avoiding any potential inheritance tax liability on the investments. The child will remain the beneficiary of the funds if the parent dies.

Stakeholder pensions

Stakeholder pension plans and personal pension plans can also provide a useful means of savings for a child or grandchild. The pension is taken out in the name of the child, who will become responsible for it when he/she turns 18, although he/she is not obliged to continue contributing to it.

While the child has no earnings, the maximum contribution that can be made on a child's behalf is £3600 gross. Any contributions made by a parent, grandparent or any third party are treated as if they had been made by the child. Any tax relief due is therefore based on a child's own tax position and not the contributor's.

The main advantage of funding pensions for children is that money invested on their behalf could potentially grow for five decades or more. However, the tax benefits of pensions investment must be weighed up against the fact the fund cannot be accessed before the age of 55 years, except through ill-health, and then must be used to provide an income.

Conclusions

How much you are able to save for your children is an individual decision based on your own financial circumstances and it is best to take professional advice from a financial adviser as early as you can. **BJHM**

Wesleyan Medical Sickness provides specialist financial advice for doctors
Telephone: 0808 100 1884
Website www.wesleyanmedicalsickness.co.uk

The above information does not constitute financial advice. For further information please speak to your financial adviser.