CASE STUDY

INVESTING FOR CHILDREN

NOVEMBER 2024

clarity

BACKGROUND & OBJECTIVES

Mr & Mrs Z, asked us to recommend the most suitable approach for investing a lump sum their two children (aged 12 & 15) in a tax efficient way.

Once the initial investment was set up, it was likely that additional sums would be added in future years.

The Overall aim of the investment was to generate growth in real terms. Mr & Mrs Z had an above average attitude to investment risk and confirmed that the money would remain invested for the long-term.

Prior to our involvement the children did not have investments in their own names.

WHAT WE DID

To start with, we discussed the options available for investments on behalf of a child:

- Junior individual savings accounts (JISAs).
- Pensions.
- National Savings children's bonds and premium bonds.
- Offshore Bonds.
- Friendly Society plans.
- Designated investment accounts.
- Holding the investments in a trust.

We recommended that Mr & Mrs Z keep a formal record of contributions paid into an investment for their children, since each contribution could be classed as a gift for inheritance tax (IHT) purposes. If they could demonstrate that funding their children's investments met the 'out of income' rules, then they would be immediately exempt from IHT.

Junior ISAs (JISA) are very similar to regular ISAs, with a lower contribution limit:

- The Junior ISA must be opened on behalf of the child by a parent or guardian.
- The money is invested and locked away until the child is 18.
- When the child turns 18 it becomes their ISA, and they assume full control.
- Once set up, anyone can contribute to a child's Junior ISA at any time, up to the annual limit.
- For the tax year 2021/22 the Junior ISA allowance is £9,000.
- Any contribution to a Junior ISA is a gift to the child and cannot be returned later if the contributor subsequently changes their mind.

It is also **possible to open a pension on behalf of a child and contribute up to £3,600 gross per year, with the benefit of full basic rate tax relief on the contribution**. However, as money invested in a pension is locked away until age 55 (age 57 w.e.f. April 2028), this option was discounted.

National Savings and Friendly Society plans were also discounted, as both these options prevented access by the parents, which was a key requirement for Mr & Mrs Z.

OUR RECOMMENDATIONS

To optimise the tax position of the children's portfolios, we recommended **using each child's maximum Junior ISA allowance for the tax year**.

We further advised that when it is affordable, they should further top-up children's Junior ISA each tax year, to maximise use of the allowance.

The money would be useful for their children in their early adult lives either for costs associated with higher education, travel or other early-adult life expenses. This money could also be useful to help the children get on the property ladder and while ISAs offer a tax-efficient solution they were limited somewhat by the annual JISA allowance (currently £9,000).

Given the limitations of the Junior ISA, we further recommended that the client's **establish an offshore Bond with Mrs Z as the policyholder and the children as the lives assured.**

The funds in the Bond would be invested into the same multi-asset fund as the JISA.

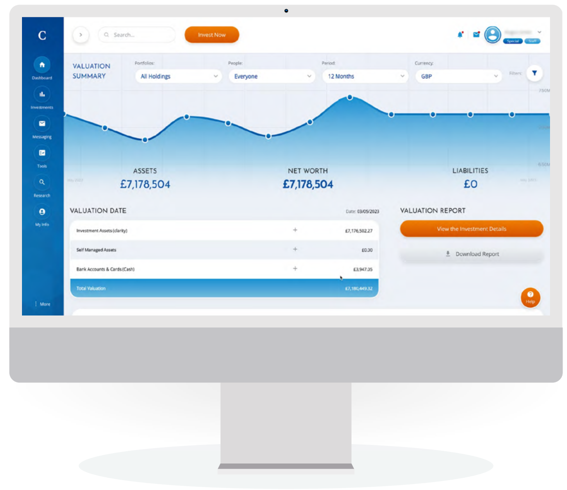
Retaining this account in Mrs Z's name means there would be no transfer (gift) and it offers direct access in case the clients needed additional income or capital and did not want to use their long-term savings. However, crucially, the Bond offers the flexibility to assign segments over to their children in a way that cannot be achieved using other investment products.

The clients could assign the bond (or segments of it) over to their children, this can either be directly (when they are adults) or through an absolute trust (while minors). If the transaction is seen as a gift, the gain is passed on and not realised until the recipient surrenders their bond/segments. The money can then be reinvested or used to pay for the early-adult life expenses listed earlier.

THE RESULTS

Mr & Mrs Z were pleased that they were able to explore all possibilities for investing for their children and felt they made an informed choice.

Mr & Mrs Z were able to start building up savings for their children in a tax efficient manner, using the JISAs, whilst maintaining control using the offshore Bond.



The platform used has direct links to clarityONLINE and our virtualWRAP technology, so Mr & Mrs Z can easily monitor and manage these investments alongside their main portfolios.

 |