Saving for the next generation

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TRULY INDEPENDENT
Financial Advice for Everyone

Many parents and grandparents set aside money for the next generation to help with their financial needs. The rising cost of education, housing, and life in general has created concerns about financial stability for future generations.

Increasingly, parents and grandparents want to ensure their children and grandchildren have the financial resources to navigate these challenges successfully. 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.

INVESTING STRATEGICALLY

Starting early and investing strategically will enable you to provide a solid foundation for your child's or grandchild's economic well-being. 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.

When considering the tax implications and how to arrange your affairs best, tax-efficient structures like Junior ISA (JISAs) or bare trusts can be worth exploring.

PASSING ASSETS TO YOUNG PEOPLE

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, in this case 18.

On the other hand, a JISA has a current annual allowance of £9,000 (tax year 2023/24), and anyone can contribute to it. 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.

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, and the return is £100 per annum or more, the Income Tax will be applied to the parent.

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.

It's worth considering alternatives to JISAs and bare trusts, such as setting aside a portion of your savings for your children or grandchildren. More complex trust and inheritance arrangements are also available, and you should always obtain professional advice.

READY TO BUILD YOUR CHILD OR GRANDCHILD'S FINANCIAL FUTURE WITH SMART ADVICE?

Investing early for your children or grandchildren can give them a significant financial headstart. As the costs of private education, university, getting on the property ladder and weddings continue to grow, to find out more about investing for your children or grandchildren, please speak to us.

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