

Supporting your Grandchildren financially

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Gifting money to your grandchildren is more than a mere act of kindness or generosity. It offers them a potential financial head start and paves the way for a more secure future as independent adults. Beyond supporting their personal growth and stability, it can also act as an effective strategy to reduce your estate's potential Inheritance Tax (IHT) liability, enabling more of your wealth to benefit your family rather than being lost to taxation.

Today's younger generation faces an increasingly difficult financial landscape. Rising living costs, skyrocketing property prices and mounting student debt have made it harder than ever to achieve financial security or attain key life milestones like buying a home or starting a family. At the same time, economic instability and an uncertain job market only add to the pressure. For many, the path to financial independence feels like an uphill battle.

By gifting money directly to your grandchildren, you offer them the chance to alleviate these challenges and make meaningful strides toward their goals. Rather than waiting years for wealth to filter down through their parents, you can see your contributions make a tangible difference now – whether it's helping with a deposit for their first home, covering education costs or giving them the freedom to establish savings for the future. It's a powerful way to create a positive, lasting impact on their lives while providing peace of mind for yourself.

REDUCE THE SIZE OF YOUR ESTATE AND ITS LIABILITY FOR IHT

Leaving money to grandchildren through your Will is a consideration for many, but it is not always the most tax-efficient option. Funds transferred in this way become part of your estate, potentially increasing your IHT liability. Furthermore, it may come into their lives too late to have the desired impact, such as assisting them through university or enabling them to buy their first home.

Instead, there are several alternatives you might consider to provide financial support while you are still present. Not only could these options help reduce the size of your estate and its liability for IHT, but they can also bring immense personal satisfaction as you witness the positive impact of your gift.

CHOOSING THE RIGHT WAY TO GIFT MONEY

Several factors should be considered when determining how best to gift money to your grandchildren. Their age is a key aspect, as is whether you wish to support specific milestones like education expenses or property ownership. Your personal financial situation and long-term goals should also help shape this decision, as should careful consideration of IHT implications.

The tax treatment of various gifting options differs considerably. It is essential to seek professional financial

advice to understand the implications and ensure that your plans correspond with both your intentions and the law.

JUNIOR ISAS FOR BUILDING A SECURE FUTURE

If your grandchild is still young, a Junior Individual Savings Account (JISA) could serve as an excellent tool for investing in their future. While only parents or legal guardians can officially open a Junior ISA, anyone is allowed to contribute up to the annual limit of £9,000 (tax year 2024/25). These funds can grow tax-free and provide a valuable financial resource once your grandchild reaches the age of 18.

Junior ISAs are particularly appealing because they offer a structured way to save. From covering university expenses to funding a gap year, the funds will support their financial needs when they enter adulthood. Just remember, once they reach 18, the money becomes theirs to use as they choose.

It's important to note that a child with an open CTF (Child Trust Fund) isn't eligible to hold a JISA unless they first transfer the CTF funds to a JISA and close the CTF.

UNDERSTANDING BARE TRUSTS

Another option to consider is a bare trust. With no investment limits, this allows you to set aside a sum for your grandchild's benefit. Bare trusts can be accessed for specific purposes, such as paying private school fees, before the child turns 18. However, once they reach adulthood, the remaining funds become theirs to manage.

Gifts made into a bare trust by grandparents have a particular tax advantage. The trust's contents are taxed as though they belong to the child, potentially resulting in little or no tax on income or gains. Nonetheless, it's worth seeking professional advice to ensure any arrangement works as intended.

REGULAR GIFTING AND TAX-EFFICIENCY

Recurring contributions to a Junior ISA or bare trust might qualify as 'normal expenditure out of income', making them exempt from IHT. To meet the criteria, these payments must be consistent, made from your income (not capital) and not impact your standard of living.

This mechanism offers an efficient way to help your grandchildren financially while simultaneously managing your estate's IHT exposure. Whether the funds are directed toward school fees, savings or investments, they can provide meaningful support at critical stages of their lives.

SUPPORTING OLDER GRANDCHILDREN WITH IMMEDIATE NEEDS

For older grandchildren with immediate financial needs, outright gifting may be a more suitable option. The law currently permits you to give up to £3,000 annually in gifts without them being deemed part of your estate for IHT

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purposes. If your grandchild is getting married or entering a civil partnership, this amount increases to £2,500.

Planning larger gifts, such as a house deposit, offers further options. These are classified as 'potentially exempt transfers', and as long as you live at least seven years after making the gift, it will not count towards your estate for IHT purposes.

MAKING USE OF SURPLUS INCOME

If you have surplus income, you can use it to fund recurring gifts for your grandchildren. These payments can serve purposes like private school fees, giving you an IHT exemption while creating family benefits in real time. Alternatively, you might use surplus income to fund a whole-of-life insurance policy. If structured correctly, this policy can cover your estate's IHT liability, maximising what you pass on to family members.

Navigating the financial and tax implications of gifting money to your grandchildren can be daunting. Careful planning is essential to selecting the right options, comprehending tax advantages and structuring gifts in the most advantageous manner.

NEED HELP TO PLAN YOUR FAMILY'S FINANCIAL LEGACY?

Supporting your grandchildren financially is an investment in their future and a meaningful way to pass on your wealth. If you would like further information or personalised advice, we are here to assist you in making the right decisions. Contact us today to discuss how to safeguard your family's financial wellbeing.

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