CARPENTER BOX
FINANCIAL ADVISERS

Tax efficient saving for children

Junior Individual Savings Account (JISA)

What is it?

- Tax -efficient savings account for children under 18.
- A child can only hold up to two JISAs (no more than one of each type at any one time - although if aged 16 or 17 on 5 April 2024 they can hold one of each type of JISA plus an 'adult' cash ISA).

Stocks and shares ISA

These are in the form of either individual shares or bonds, or pooled investments such as open-ended investment companies, unit trusts, investment trusts or life assurance investments.

Cash ISA

These are usually in the form of a bank or building society savings account.

Eligibility

- All UK resident children under the age of 18 who do not have a Child Trust Fund (CTF). If opening a JISA the CTF must be closed.
- Anyone with parental responsibility for an eligible child can open a JISA for that child.
- Eligible children will be able to open JISAs for themselves from age 16.

Contribution limits

- £9,000 in each tax year - this can be split between cash and stocks and shares in any proportion.
- Previous years' JISA subscriptions can be transferred in whole or in part, subject to the child not having two accounts of the same type at the end of the transfer process.
- Current years' JISA subscriptions must be transferred in full.
- Savings in Child Trust Funds can also be transferred to Junior ISAs and future subscriptions made to the JISA instead of the CTF. The CTF must be closed.
- Any person or organisation can contribute to a child's JISA.

Taxation

- Any income or capital gains are tax-free.
- The parental settlement rules do not apply to parental contributions to JISAs, so there is no tax liability on the parent as would be the case for other investments.
- Contributions to a JISA would be a gift under current inheritance tax rules. You should consult a tax adviser.

Withdrawals

Accounts are owned by the child and withdrawals are not normally allowed until the child turns 18 - the only exceptions to this are that funds may be withdrawn if the child is diagnosed with a terminal illness (life expectancy of no more than 6 months) or dies.

Unless the funds are withdrawn or moved to another type of product, the JISA effectively becomes an adult ISA at age 18 but will not affect the normal entitlement to ISAs.

A person with parental responsibility manages the child's JISA until age 16. This person is known as the 'registered contact'. Children will have the right to manage their accounts from age 16.

Pension Savings for Children

What is it?

Any child can have a personal pension plan or Self-Invested Personal Penson (SIPP) as a way of saving for their retirement.

Who can apply and contribute?

- A parent or legal guardian must apply for the plan
- Anyone can contribute on the child's behalf, usually a parent or grandparent
- It is possible for any third party to contribute to another third party's pension. Therefore, it is also possible to make pension contributions for children or grandchildren over the age of 18. The maximum level of contributions allowed will depend on the level of relevant earnings (if any) and any contributions being made on their behalf, to an employer's scheme for example

Contributions

- £3,600 in any tax year gross (£2,880 net in 2024/2025) assuming no source of relevant earnings.
- The maximum Annual Allowance is £60,000 (2024/2025) but may be reduced for high earners.
- Total pension contributions not made by an employer are capped by gross earnings from employment/self-employment in the tax year.
- Contributions can be made monthly, annually, or on an ad hoc basis.

Taxation

- The contribution is made net of basic-rate tax and a tax credit equivalent to the basic-rate tax is added directly to the pension plan.
- The investments within the plan are exempt from UK Income and Capital Gains Tax.
- At retirement the planholder can take up to 25% of the fund up to the Tax Free Amount (currently £268,275 for the 2024/2025 tax year), under current pension rules.
- Any additional funds must be withdrawn as income which would be subject to income tax in the usual way.
- Under current pension rules the planholder cannot access the funds until they reach age 55 (rising to 57 from 2028).
- On death the fund value will be paid to the nominated beneficiary. This will usually be free of tax on death before age 75.
- A contribution into a pension for a third party will not count towards the payer's Annual Allowance, or affect their personal tax position in any way.
- The net contributions to a third parties pension plan would be a gift for inheritance tax purposes. This may be exempt from inheritance tax if covered by one or more of the various gift allowances available such as the annual £3,000 exemption or 'normal expenditure out of income' rules.
- You should consult a tax adviser on the inheritance tax implications of making a gift to a third party.

Risk considerations

- Governments can and do change the rules applicable to tax efficient vehicles, like JISAs and pensions.
- JISA and pensions are not risk free products and the value may be at risk due to the investments held within the wrapper.
- Depending on market conditions the planholder may not realise the capital invested. There is no guarantee that you will get more from an investment than you have paid in.
- Income generated from investments is variable and is not guaranteed.
- The child cannot access the funds in a pension until their pension age, currently age 57.
- Any capital you place in a JISA is available to the child upon attaining the age of 18.
- The child can take control of a JISA at age 16 but cannot draw the money until they turn 18.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Past performance is no guarantee of future returns.

The price of units and the income from them can fall as well as rise.

Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds recommended will still be designed to meet your stated tolerance.

Find out more

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