

Thesis Reflection

The 1st November sees the launch of Junior ISAs as the new tax-free savings vehicle for children. We thought it would be timely to share with you a round-up of this and other investment solutions parents or grandparents can make for future generations.

In this month's Reflection article **Henry Chamberlayne** and **Caroline Mills** take us through the main features of these possible options and other strategies for investing on behalf of children or grandchildren.

We can also advise that Thesis will offer the new Junior ISA (JISA) product from next month through a stocks and shares JISA that will enable investment into our range of Optima funds. Please contact your local Thesis investment manager if you want to learn more.

Savings For Children

Children have never been more expensive and at times they seem to grow up intent on bankrupting Mum and Dad! Higher education costs have been in the news headlines with a good number of universities looking to charge the maximum £9,000 per year tuition fee and it will not be unreasonable to expect student debt levels to be well in excess of £50,000 in the future. This is why we are increasingly seeing interest in establishing savings for future generations from clients, both parents and grandparents, looking to put monies aside for children either in a lump sum or by way of a regular savings plan.

Child Trust Fund (CTF)

CTFs were withdrawn from the beginning of 2011. Under the system children born between 1 September 2002 and 1 January 2011 were eligible for £250 from the government to enable parents, grandparents or guardians to invest in a CTF. This was able to be topped up by the parents or other family members to a total of £1,200 per annum, with no tax being paid on income or capital profits. No new CTFs could be opened after 1 January this year, but those already in existence will continue to operate under the standard regulations until the child's 18th birthday and will carry on benefitting from tax-free investment growth. Parents and family can also continue to top up the account and in line with the new Junior ISA, the contribution limit will increase to £3,600 per subscription year which for a CTF, runs from birthday to birthday. In addition,

from April 2013, the subscription limit will increase annually in line with the Consumer Prices Index (CPI) although it is understood that there will be no additional government contribution to the CTF at the age of seven which was the case under the original terms of the scheme. Eventually, it is likely that we will see a full merger of CTFs into the Junior ISA regime.

Junior ISAs (JISA) the new tax-free savings account for children

Junior ISAs are the latest savings initiative from the government to promote investing for children, and will replace the Child Trust Fund from their launch in November. The JISA will permit contributions from parents, family members and friends up to the annual limit with all capital profits and interest paid on bonds and cash deposits being exempt from tax.

The main features are:

- All UK resident children under the age of 18 who do not have a CTF will be eligible for Junior ISAs.
- There will be an overarching contribution limit of £3,600 per year which will be indexed by CPI from 6 April 2013.
- Both Cash and Stocks & Shares Junior ISAs will be available. Children will be able to hold one of each (two accounts in total).

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October 2011

This Month

- Savings For Children
- Child Trust Fund (CTF)
- Junior ISAs (JISA)
- A Child's Income and Tax Allowance
- Bare Trusts
- Other investment opportunities for Children

This month's Reflection written by:

Henry Chamberlayne
Investment Manager

Caroline Mills
Investment Manager

Email Henry or Caroline with any feedback:

henry.chamberlayne@thesis-plc.com

caroline.mills@thesis-plc.com

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- The accounts will be owned by the child with the monies locked away, although in virtually all cases the Registered Controller of the Junior ISA will be one of the parents. Children will have the right to manage their account from age 16 and will be able to withdraw money on or after their 18th birthday.
- Any income or capital gains will be tax-free.
- Junior ISAs will by default become adult ISAs on maturity.

If the child already has a Child Trust Fund you cannot invest into a Junior ISA for the same child.

A Child's Income and Tax Allowance

The tax man prevents parents from making direct use of their children's Income Tax allowance by deeming as the parent's own income, any income over £100 per year from money or investments given to their child. However, at age 18, the income is deemed to be the child's and can be offset against the child's own allowances. It is worth noting this £100 limit does not apply to income generated within a Junior ISA. The current annual personal allowance is £7,475.

However, where money comes from a source other than a parent, including money left to a child by a parent who has died, a child is taxed completely separately so income generated in gifts from relatives and grandparents would be tax free up to the full personal tax allowance even if the child is under the age of 18.

A child does however have the full annual Capital Gains Tax exemption regardless of the source of funds.

Bare Trusts

As legal practitioners you will be very familiar with Bare Trusts. Such arrangements, also known as Simple Trusts, are an option for those wanting to save larger amounts outside of CTFs and JISAs for children, and are increasingly being set up by grandparents as a tax mitigation tool. Anything that is put into the Bare Trust is registered in the name of Trustees on behalf of a beneficiary, in this case the child or children. The Trustees handle the investments, but crucially no Inheritance Tax is paid on the transfer into the Trust as long as the donor lives for 7 years beyond the transfer date - a potentially exempt transfer.

Two Trustees would normally be appointed until the child or children can gain access to the Trust funds at age 18. The Trusts are simple to set up and have no limits on how much can be invested, with income and capital profits treated for tax as attributable to the child. This potentially creates a more tax beneficial outcome versus other trusts if income and capital gains fall within the child's personal allowances. For much larger sums, or if the donor wishes to impose specific restrictions, then they will need to take legal advice and set up a more formal trust.

An alternative to a Bare Trust is a "Designated Account". The account is 'designated' to the child (usually with the child's initials), as children under 18 cannot own shares, but is not legally theirs even at age 18. The owner of the shares or fund retains control and all liability for tax purposes until they decide to transfer the shares or fund to the child.

Other investment opportunities for children

There are a number of opportunities for investing on behalf of children and the introduction of the Junior ISA is a welcome addition. However, it is important to understand fully not just the investments themselves but also the tax implications, how the investments are to be held while the children are minors, and how monies can be accessed when required.

We have focussed on just two of the products designed specifically for children along with tax saving strategies using solutions like Bare Trusts for wrapping around managed collective investments such as unit trusts, investment trusts or OEICs. It is also worth bearing in mind other products such as;

- Savings and Investment Child Bonus Bonds (incl. NS&I)
- Friendly Society Bonds
- Bank and Building Society Deposit Accounts
- Stakeholder Pensions

If you require any further advice or have clients considering how best to make provision for the future generation, please refer to your local Thesis Investment Manager who will be delighted to assist.

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