

What you need to know about...

Investments for children

Many clients want to save money for their children or grand children. This might be a regular savings plan or a one-off investment when the child is born, and might be to build up a nest egg for the future, or could be for a specific event such as school fees, university fees or a wedding. This leaflet aims to explain some of the issues which surround investing money for children.

Practical considerations

It is all well and good to put aside some money for a child, but you should also consider some important aspects such as tax and control over the money.

Tax

Each child has their own personal allowances for income tax and capital gains tax. This means that they are unlikely to have to pay tax if the investments are in the child's name. Care should be taken with some investments (such as bank accounts) as interest is normally paid with the tax deducted. You can fill out a simple form called an R85, which will reclaim this tax.

However, if you open a standard savings account for your child only the first £100 of income from that investment each year is deemed to be the child's. The rest will be added to your own income, and will be taxed accordingly. This is to stop people avoiding tax by taking out investments in the names of their children!

Control

You need to decide whether to put the money into the child's name, or keep it in your own. You may get better tax treatment if the asset is owned by the child, but this will probably come with a downside that the child may be able to start spending the money when they like. You may have visions of them zooming off on a motorbike as soon as they turn 16, so you may prefer to invest the money in your

own name and therefore have some control over how it is spent, and when it is gifted. For further tax planning you could also consider the use of trusts in some circumstances.

Child Trust Funds

This is a tax-free saving scheme for eligible children born after September 2002. The Government offers an initial voucher worth £250, and will top this up on the child's 7th birthday. Parents, grandparents and others can also contribute up to £1,200 per year to the plan. The plan is not accessible until the child is 18.

The account is owned by the child, but a parent will assume responsibility for the management of the fund until they reach age 16.

If you set up a child trust fund you may usually choose between a bank account or a shares based scheme.

Children's bonus bonds

These are tax-free investments available from National Savings & Investments. You can save from £25 to £3,600 tax-free on the child and the adult. The bonds are issued in fixed tranches a few times a year, and the income paid is fixed at the outset, plus a bonus at the end of 5 years. At the end of the 5-year term you can choose to take the money,

Continued overleaf...

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or leave it invested for a further 5 years, up to a maximum age of 21.

Friendly Society bonds

These are small tax-free savings plans which allow you to save from £10 to £25 per month tax free. The bonds usually have a minimum term of 10 years, and are often invested in with profits funds, which pay annual bonuses.

Bank or building society accounts

Many people start the savings habit by setting up a bank account for the child. If you do this, you should complete the R85 form to ensure that no tax is collected on interest.

Stakeholder pensions

You are now allowed to invest in a stakeholder pension plan for your child. For every £1 you put into this scheme, tax relief is added at an extra £0.25. This is up to the maximum of £2,880 each year. This is a standard pension scheme, so the child can take over the plan from age 18 and continue to contribute. They cannot take money out until age 55, and most of this will be in the form of an income. This may seem a strange investment for many people, but of course it is never too early to start the savings habit!

Standard investment schemes

You can of course set up investments in normal schemes such as ISAs, and other collective investment schemes. Indeed, many parents prefer to do this to allow for greater flexibility of investment choice and amount; of course the downside is that the tax situation will not be as good as the schemes above.

Preparing for specific events

We can offer help to target specific goals for your children. This may be:

School fees

If you plan to send your children to private school, you may need to invest money for this purpose. Day fees for secondary schools range from £2000 to £7000 per term.

University costs

Tuition fees are now £3,145 per year, and of course you need to add to this the costs of living. The average debt on leaving university is now £17,500, according to the Independent.

Wedding costs

The average cost of a wedding is now around £11,000.

If you have a specific goal in mind for your children, we can help you plan for the future and keep you on track as you get there.

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