

## ADVISER GUIDE

---

# Investing for children

### In this guide:

Introduction	2
Gifts	2
Cash accounts	2
Designated accounts	2
Junior ISAs	2
Junior SIPPs	3
Trusts	5
Bare trusts	5
Discretionary trust	6
Flexible power of appointment trusts	7
Final thoughts	7

The information contained in this guide is based on our understanding of current law, practice and taxation which may be subject to change. Tax treatment depends on individual circumstances and rules may change. ISA, JISA, LISA and pension rules apply.

## Introduction

This guide looks at the options available for clients whose goal is to make longer-term investments for children or grandchildren under the age of 18. Generally, children cannot hold shares, investment funds or bonds directly, so we will look at the tax wrappers designed to hold them on their behalf, as well as certain types of trust.

## Gifts

Advisers and their clients need to consider where the funds for the investments are coming from.

In most of the examples in this guide, there will be a gift of some kind.

The type of gift, from whom it is gifted and from what it is gifted (i.e. existing capital, or surplus income) will each have different tax implications.

## Cash accounts

Bank accounts may be set up to hold cash gifts for a child with their parents acting as the signatory responsible for managing the account.

## Designated accounts

Some unit trusts and OEICs offer designated accounts. This allows an investment to be set up in the name of a parent or grandparent but earmarked for a particular purpose or, in this case, a child or grandchild.

However, these accounts are usually just a naming convention (as opposed to a trust) and there is no actual gift made. The funds still belong to the parents or grandparents and as a result they will continue to be liable for any income and capital gains personally.

As and when the assets do pass to the child, a potentially exempt transfer (PET) will occur at that point, so this approach isn't considered particularly efficient from an estate planning point of view.

## Junior ISAs

A stocks and shares Junior ISA (JISA) can be opened and managed on behalf of a child.

The child must be:

- under 18; and
- UK resident; or
- non-UK-resident crown employee (or dependant of a crown employee).

The child must not have a Child Trust Fund (CTF) or, if they do, this account must be transferred immediately (and closed) as part of the JISA application and before any payments into the new JISA are made.

### Important note

A child can only have one cash JISA and one stocks and shares JISA at any one time.

It is, however, possible to transfer freely between providers, and between cash and stocks and shares JISAs.

## Registered contact

An application for a JISA **can only be made by the child's parent or legal guardian**. This person is referred to as the **registered contact**. The registered contact must be aged 16 years or over at the point of making the application. The registered contact is responsible for the management of the JISA, including investment choices.

Unless a grandparent has full parental responsibility, they cannot be a registered contact. This is worth bearing in mind as, without being the registered contact, a grandparent cannot open a JISA nor manage its investment, although they can pay into it (see below).

## Subscriptions to a JISA

The annual JISA subscription limit is £9,000. This allows a significant pot of investments that will be free from income tax and capital gains tax to be accumulated.

Although a JISA must be established and managed by the registered contact, anyone can make a subscription to it for the benefit of the child. The subscriptions will be treated as a gift.

Subscriptions are treated for inheritance tax (IHT) purposes as gifts but, unlike many trust accounts, the parental settlement rules do not apply where the capital was gifted by the child's parents. These rules are explained later in this guide.

In addition, if the annual subscription is paid each year from surplus income that is not required to maintain the donor's regular lifestyle, the gifts may be exempt and immediately outside of their estate for IHT.

Unlike adult ISAs, subscriptions can continue for a child who ceases to meet the UK residency criteria so long as the child was eligible when the JISA was opened. The subscriptions can also come from a non-UK resident too.

## Older teens

If a child was 16 or 17 on 5 April 2024, they can open and subscribe to an adult cash ISA as well as benefitting from the ongoing JISA subscriptions. This means £29,000 could be saved into ISAs each year until the child reaches 18.

## Reaching 18

When the child reaches age 18, the account is converted to an adult ISA and withdrawals may then be made.

The new adult investor can keep the ISA, withdraw all or some of the funds, or even make a partial transfer of up to £4,000 into a lifetime ISA in order to get a government bonus.

### Example

Rufus turned 18 on 2 March 2025.

He subscribed £9,000 to his JISA between 6 April 2024 and 1 March 2025 inclusive. Once he turned 18, his JISA converted to an adult stocks and shares ISA, which can accept subscriptions up to the annual ISA limit of £20,000.

So, before 5 April 2025, total subscriptions could be made up to £29,000 to what is effectively the same account, and then £20,000 each year after that.

## Access

Withdrawals cannot be made from a JISA.

The only two exceptions are if the child is terminally ill – in which case the registered contact must seek agreement directly from HMRC for the withdrawal to be made – or if the child dies.

## Junior SIPPs

- A pension can be opened for a UK-resident child under 18.
- Parents or grandparents can contribute to a child's pension – usually up to £3,600 gross (£2,880 net) can be paid in each tax year.
- However, higher contributions can be made if the child has earned income.
- Contribution limits and tax relief are based upon the child's tax position.
- They may have earned income of their own if they are older teens but they are unlikely to be in a position to save this.
- Parental settlement rules do not apply.

## Access

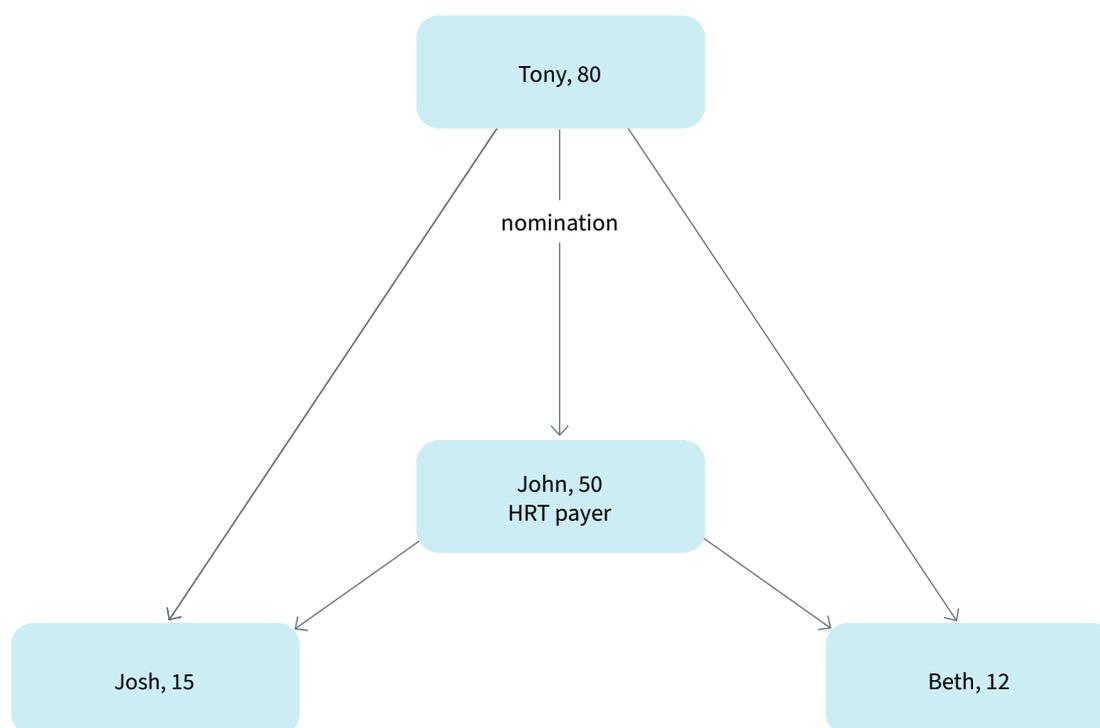
Of course, the downside is that the child cannot access the money until the minimum pension age. This is currently age 55 but will reach 57 in 2028. For children today, it is quite possible it will be age 60 by the time they are looking to access their retirement funds.

The gift to a child's pension will be a PET for IHT if it is not using all of part of the donor's annual gift exemption or it is not made from surplus income.

## Junior SIPP as a beneficiary

The introduction of more flexible death benefits with pension freedoms means it can be beneficial for clients over 75 to pass their unused pension fund to their grandchildren.

The scheme administrator or trustees will still have discretion over who can receive death benefits, but nominating grandchildren could prove a tax-efficient strategy, particularly if the funds then bypass a higher rate taxpayer adult (parent) who may not need to the funds.



### Example

Tony is aged 80. His son John is a higher rate taxpayer with two children of his own, Josh and Beth.

As Tony is over age 75, upon his death, any payment to his beneficiaries will be subject to income tax at their marginal rate. Rather than the funds pass to John (who would find himself paying higher rate tax on any income taken), Tony could nominate Josh and Beth. Any funds then held in their own Junior SIPP could be accessed for their benefit at any time, and they would have their full income tax personal allowance available.

## Trusts

A trust is a way that a gift could be made now for a child or grandchild whilst giving some control over the funds and what they are used for.

### Parental settlements

Parents making gifts need to be aware that, where a child has an entitlement to income from capital gifted by a parent and that income exceeds £100 a year, then the whole amount of income will be taxed as if it belonged to the parents.

The £100 a year limit is per parent, per child.

Examples where this applies include income from a bare trust or interest from cash in a children's deposit account.

If a parent created a discretionary trust for a child under 18, then the rules would only apply if income is actually paid to or for the benefit of the (minor) child.

The rules **do not** apply where grandparents make a gift for a grandchild under 18, nor do they apply for any gifts made to tax-free wrappers such as JISAs or Junior SIPPs.

### Bare trusts

Bare trusts are the simplest form of trust.

The named beneficiary or beneficiaries are fixed and named at outset and cannot be changed. Although future children or grandchildren can't be added once the trust is set up, new settlements could be created for their benefit.

A grandparent, as trustee, could establish and run a bare trust. Contrast this with a JISA account that must be opened and maintained by the registered contact.

A gift made to establish a bare trust will be a PET so, although there is no 'limit' to what can be paid into the trust, there are IHT considerations to be aware of.

The beneficiary has a right (an absolute entitlement) to the trust capital and any income generated from it.

This means the child's own income tax allowances and CGT allowances are used. Income and gains could therefore be tax free if these allowances are not exceeded.

However, the parental settlement rules will apply if a bare trust is created by a parent. If income generated is in excess of £100 a year, then the whole amount of income will be treated as the parent's own for tax purposes.

### Access

Provided the trust property is used for the benefit of the beneficiary, income and capital can be withdrawn from the account at the instruction of the trustees prior to the beneficiary reaching age 18 (16 in Scotland).

The trust can continue once the beneficiary reaches majority.

However, the trustees will need to notify the beneficiary and pass on details of income and gains generated so that the beneficiary can ensure they are declared and that tax is paid as appropriate.

The beneficiary may decide at that point that they wish to access the capital, in which case the trustees must pay it to them.

As the beneficiary is treated as if they have owned the investments in the trust since inception, there will be no disposal for CGT purposes at this time. The beneficiary acquires the original base cost of the investments.

## Discretionary trust

Discretionary trusts can offer the greatest flexibility and potential for control.

The donor makes a gift to the trust and can make their wishes for the funds clear at outset.

The trustees have complete discretion over the payment of capital and income. The trustees can make changes to what the beneficiaries receive from the trust, as and when it becomes appropriate.

This is particularly useful if funds are needed for a particular purpose and they cannot be accessed from other accounts. For example, a JISA would not be suitable to hold money required for school fees as they cannot be accessed until age 18.

As there is no absolute entitlement arising at age 18, the trustees can also wait until they feel that the beneficiaries are old enough to look after the funds themselves or access further capital before releasing funds.

The beneficiaries do not have to be individually named, so a class of beneficiaries can be specified. So, in the case of grandparents, if more grandchildren are born after the trust was created, they are still able to benefit.

### Tax

The additional flexibility and control come at a price.

#### Tax – donor

Gifts into a discretionary trust will be chargeable lifetime transfers (CLTs).

If the value of the gift (plus any other CLTs made in the previous seven years) is over the nil rate band for each individual (currently £325,000), then IHT will be charged on the excess, at the lifetime rate of 20%.

Transferring existing unit trusts or OEICs into a discretionary trust may also trigger a CGT charge, although holdover relief may be available in some cases.

Where the trust was established by a parent and the beneficiaries are minor children, the parental settlement rules can apply when income is paid to a minor child.

#### Tax – trustees

Income generated by investments held in a discretionary trust will be taxable upon the trustees.

The trustees will pay tax at 45% on interest and 39.35% on dividend income where the trust income is over £500, the whole amount of the trust's income is taxed at the trust rates. Trusts with income of less than £500 will have no tax to pay.

Usually, half of the (personal) CGT allowance is available for trusts, although this is shared between other trusts created by the same settlor.

Periodic and exit charges also need to be considered. These will depend on the value of the trust.

#### Tax – beneficiaries

When income is paid to a beneficiary, it is deemed 'trust income' (regardless of the source) and is paid with a 45% tax credit.

##### Example – income of £1,000

Beneficiary receives £550

Tax credit £450

Non-taxpayer can reclaim £450, basic rate taxpayer £250

## Flexible power of appointment trusts

Flexible trusts are similar to discretionary trusts.

They can have a wide class of beneficiaries to whom the trustees can appoint capital and which can include future children or grandchildren. They share the same IHT and CGT treatment as discretionary trusts.

However, a flexible trust will have a named beneficiary or beneficiaries who are entitled to all income generated by the trust as it arises.

The trustees are not able to accumulate income and all income must be paid to the named beneficiary. There are two ways trustees can do this.

1. The trustees can account for and pay tax at basic rate on income received at 8.75% for dividends and 20% for all other income. This option allows the trustees to deduct relevant expenses but means they will have to complete a tax return for the trust. Non-taxpayer beneficiaries can reclaim overpaid tax.
2. The trustees can 'mandate' the income directly to the beneficiary. All the tax is then directly assessable upon the beneficiary as if it were their own. This is a simpler option, but no trustee expenses can be deducted.

As there are named income beneficiaries, a flexible trust created by a parent for their minor child will be caught by the parental settlement rules.

## Final thoughts

Although a child under 18 cannot hold investment funds, shares and bonds directly, there are plenty of options there for clients looking to give their children and grandchildren a leg up onto the investment ladder.

The options do come with different tax treatments and ways of eventually accessing the funds though, so advisers and planners are well placed to help clients navigate the way to the best choice for their desired goals and objectives.