

Do your numbers add up?

Tax-efficient ways to fund the next generation

It's natural we may want to give younger members of our family a financial start in life, especially when we hear about some students graduating with eye-watering levels of debt. If you are able to help your children or grandchildren without risking running out of money yourself, it's important that you do so effectively.

The most obvious way is by funding university tuition fees and maintenance costs. By funding a student's three-year course upfront, parents or grandparents can prevent the student from taking on a 30-year debt and the interest costs associated with that. Two tax-efficient ways to do this are:

INDIVIDUAL SAVINGS ACCOUNT (ISA)

When the child or grandchild is still very young, if the investment is allowed to grow, it could build up into a sizeable sum. The money can then be given to the grandchild as an adult. The capital could be enough to cover tuition fees, and possibly board and lodging as well. If the ISA is a Junior ISA, set up in the child's name, any gains will not incur Capital Gains Tax, and they will not be considered part of the parents' or grandparents' estate for Inheritance Tax purposes.

Nevertheless, the child will automatically gain access to the money when they turn 18 and can choose what to do with it. If the ISA stays in the parents' or grandparents' names, however, the parents or the grandparents would be able to decide how the money from the ISA is used, but it would be considered part of their estate for Inheritance Tax purposes for seven years after it has been gifted to the adult child or grandchild.

INVESTMENT ACCOUNT

For tax reasons, this approach may be best suited to grandparents. Grandparents can set up a designated account for a grandchild and invest a capital sum in it. The grandchild's initials are put in the designation box when the account is set up, creating a bare trust. A bare trust, also

sometimes known as a 'simple trust,' is one where the beneficiary (the person who benefits from the trust) has an immediate and absolute right to both the trust capital and the income received by the trust from that capital.

HM Revenue & Customs will view income and gains from the investment as being attributed to the minor, who will have their own Income Tax and Capital Gains Tax allowance, so there will be no tax implications for the grandparents. Any money invested in this way leaves the grandparents' estate seven years after it has been gifted. At 18, the grandchild is legally entitled to the money, however, and can use it however they see fit – which may not necessarily be for education.

Many parents and grandparents want to set up their children or grandchildren to enjoy a secure financial future, yet paying down student debt is not necessarily the best option if they have a spare capital sum to invest. They could also consider helping their children or grandchildren to save towards a house deposit or start a pension for them so that they have security in later life. ■

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