



Your guide to
key financial
issues of
today

This month: **November
2011**

Helping you maximise the effectiveness
of your financial planning

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Junior ISAs: a replacement for CTFs

Thanks to financial constraints imposed on the country by the credit crunch and recession, Child Trust Funds (CTFs) are no longer available for children born after 2nd January 2011.



How can we make some money?

CTFs had been a good way of putting money aside for a child's future but, for the vast majority of families, the government contribution of up to £250 at birth, plus a similar amount at age seven was not significant. It did, however, create a baseline savings plan to which families and friends could add up to £1,200 a year per child, with the money becoming available at age 18. CTFs were tax-free for both the child and parents.

Their withdrawal left a gaping hole in the tax-efficient investment options available to children, leaving just some NS&I products and Children's Bonds with Friendly Societies, both of which are relatively restrictive.

Unfortunately, the under-16s cannot hold Individual Savings Accounts (ISAs), while 16- to 18-year-olds can only have a cash ISA for up to half the overall annual allowance for an adult (currently £10,680). While a higher amount than CTFs, being invested solely in cash means that the *real* value of the money will fall, since interest rates seldom beat inflation.

Junior ISAs to the rescue

To make up for this shortfall in investment opportunities, the government is introducing Junior ISAs, from this November, available to children who do not have a CTF. The money can be invested in stocks and shares, as well as cash and each eligible child will be able to have one Junior ISA at a time and contributions of up to £3,600 a year can be put in. The maximum per child invested in a Junior ISA is expected to rise with inflation each year.

Only a parent, or someone with parental responsibility, will actually be able to open a Junior ISA for the child, but contributions can be paid by parents, other family members and friends. Funds will, of course, belong entirely to the child, who can access the money at age 18. Growth within the account will be tax-free (other than the withholding tax on dividends from UK companies).

Making it work in practice



One of our clients asked how she could put £6,000 a year aside for her six-year-old granddaughter, so that she could have some money available when starting university.

The girl had not been entitled to a CTF, as she was born and living outside the UK when younger. We suggested that even without taking inflation into account, she could put £43,200 into a Junior ISA over 12 years.

If she then put £2,400 a year into a pension plan for her, the government would top this up to £3,000 a year with tax relief, so even though that money would not be available until she is 55 (on current rules) it will give her a great start towards retirement planning; well in advance!

If you would like us to help you solve financial problems, or to assist with financial planning, contact us on 01494 442 700 or e-mail: info@bpinvestment.com