



# Keeping their future dreams alive

A brief guide to Junior ISAs

**FundsNetwork**<sup>™</sup>

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# Investing for their future

**If you open an account for your child, anyone can contribute to it. Throughout the lifetime of the investment, the account is a tax-efficient way to save and invest for your child's future.**

Parents know all too well how much a small person can cost. Alongside the nappies, pocket money, school trips and music lessons there are longer-term costs that can seem quite intimidating. However, these expenses can actually be quite manageable with careful forward planning.

With students now leaving university with over £40,000 worth of debts\*, it's clear that you may want to start saving for your child as early as possible.

Easing the cost needn't be expensive if you plan well in advance and invest early for your children. The government's Junior Individual Savings Account (JISA) provides a big incentive to begin investing early for children to get them off to the right financial start.

\* Source: House of Commons Library, June 2017



# Junior ISAs – the key things you need to know

**Junior ISAs share the same tax benefits as a normal adult ISA, but they're exclusively available to people under the age of 18. They're a great way to invest for a child, for the medium to long term, as they protect their money from income tax and capital gains tax.**

- In total, you can put aside up to £4,260 for the current tax year on behalf of a child
- Only someone with parental responsibility for the child must open the Junior ISA, but other family members and friends can then make contributions
- ISA investments are a tax-efficient way to save and invest for a child's future – making it one of the taxman's most valuable concessions to investors
- All UK resident children under the age of 18, who do not have a Child Trust Fund, will be eligible for a Junior ISA. If your child was born between 1 September 2002 and 2 January 2011 the government would have automatically opened a Child Trust Fund on your child's behalf. If your child holds a Child Trust Fund they can transfer the investment into a Junior ISA. Please note that FundsNetwork™ does not currently allow for Child Trust Fund transfers into a Junior ISA
- Similar to a Child Trust Fund, money invested in a Junior ISA can be accessed on or after the child's 18<sup>th</sup> birthday
- The child will be the beneficial owner, but will have no access to the money until they are 18 years old. Any contribution to a Junior ISA is a gift to the child and it cannot be returned to the contributor at a later date if the contributor subsequently changes their mind



- Junior ISA accounts will automatically become adult ISAs once they reach 18 years old

**The value of tax savings (and eligibility to invest in a Junior ISA) will depend on individual circumstances and all tax rules may change in the future. The value of investments can go down as well as up so your child may not get back the amount you invest.**

# Investing in a Junior ISA

## How is a Junior ISA different to a Child Trust Fund?

A Junior ISA will not receive a contribution from the government, but it does tend to give you more investment options to choose from. Please note, children who hold a Child Trust Fund can transfer the investment into a Junior ISA. FundsNetwork does not currently allow Child Trust Fund transfers into a Junior ISA. However, anyone else resident in the UK and under the age of 18 can have one opened for them – including children who were too old to have a Child Trust Fund.

## How is a Junior ISA different to a normal ISA?

A Junior ISA offers the same tax benefits as an adult ISA, but it has a lower annual allowance. There are two types of Junior ISA, Stocks and Shares or Cash. A child can only have one Junior ISA of each type. In comparison, you can open an ISA with a different company each year if you wish. FundsNetwork only offers a Junior Stocks and Shares ISA.

This may be a good reason to select a company that offers you a wide range of investment options to choose from, giving you maximum flexibility.

Similar to a Child Trust Fund, money invested in a Junior ISA can only be accessed on or after the child's 18<sup>th</sup> birthday.

## What are the advantages of investing in investment funds?

One of the easiest ways to hold stocks and shares in a Junior ISA is through a unit trust or an open-ended investment company (OEIC). These are sometimes called mutual funds or investment funds.

Some funds provide an annual return in the form of dividends or interest (which is paid in addition to any increase in the value of the stocks and shares they hold). For a Junior ISA it will be automatically re-invested.

Investing in this way can offer a level of long-term growth potential that other types of investment cannot match. More information about this is available later in this guide.



# Junior ISAs and tax

**A Junior ISA is not an investment itself but simply a tax wrapper that protects the investments from personal liability for tax.**

Any returns made within a Junior ISA investment are free from personal liability to UK capital gains tax and income tax, for both the child and other people who contribute.

Unlike some investments, that have to be taken out on behalf of a child under 18 by an adult in their own name, Junior ISAs can be taken out in the name of the child. This gives certainty over ownership and the tax situation, without the need for formal legal paperwork such as a trust, or the need to designate investment accounts.

Investment returns within a Junior ISA do not count towards the child's own personal income tax allowance or annual capital gains tax allowance, so these allowances can still be used for other income and gains.

The special income tax rule for gifts from parents to unmarried children under the age

of 18 does not apply to income arising from investments in a Junior ISA. If children are lucky enough to receive substantial gifts during the year, it may be more tax-efficient for the parent's gifts to use the Junior ISA allowance and gifts from other relatives or friends, if the overall total exceeds the Junior ISA allowance, to be invested outside a Junior ISA.

Using the Junior ISA allowance does not affect the child's own eligibility to open an adult cash ISA when they reach 16 years old.

**A tax-efficient savings account designed for adults to save and invest on behalf of their children.**



# How much can I invest?

**When you invest in a Junior ISA, you can choose to invest either a lump sum or on a regular basis.**

## **Make lump sum investments**

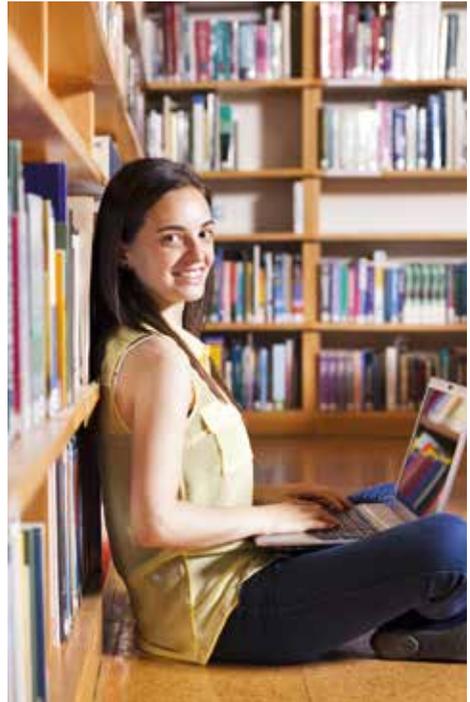
If you want to invest a one-off lump sum, the minimum you can invest is £500. There is also a maximum amount you can invest in a Junior ISA each tax year which is £4,260 for 2018/19.

## **Set up a regular savings plan**

Regular investing is a great way to build up an investment. You can set up a regular savings plan with us from as little as £50 a month. This will be conveniently deducted from your bank account by direct debit.

## **Investing with confidence**

As your adviser may have discussed with you, FundsNetwork is an investment platform owned and operated by Fidelity International. We're one of the UK's leading ISA providers, looking after over £79.6 billion<sup>1</sup> and offering over 3,200 investment options from more than 140 fund providers.<sup>2</sup> You have the reassurance of knowing that your investments are being administered by an independently owned and financially strong organisation.



<sup>1</sup> Source: Fidelity International as at 31 December 2017.

<sup>2</sup> Not all funds are ISA eligible. Please refer to your financial adviser for further details.

# What are the key asset types when investing?

If you're just getting started with investing or if you're looking to improve your understanding, this section contains information that you may find helpful.

**Cash** is one of the safest of investment classes. The problem with cash for long-term savings however, is that this security comes at a price. Interest rates are currently close to zero and the spending power of your money will wither away with even a relatively low rate of inflation.

**Bonds** are issued by institutions to raise money. Bonds issued by the UK government are known as gilts, while those issued by companies are called corporate bonds. In return for the purchase of the bond, the investor will receive a fixed rate of interest. When the bond matures it will also pay back the original investment.

Once issued, bonds are traded in the open market so subsequent holders may buy and sell them for more or less than their face value. This means the yield a secondary holder receives is determined by the price they paid, not the face value. High demand for a bond will cause its price to rise and its yield to fall. Conversely, the worry that companies, or even countries, may default on interest and capital payments will lower the price of their bonds and push their

yields higher. The price of bonds is influenced by movements in interest rates, changes in the credit rating of bond issuers, and other factors such as inflation and market dynamics. In general, as interest rates rise the price of a bond will fall (and vice versa). Bonds with a longer time to maturity are generally affected to a greater degree. The risk of default is based on the issuer's ability to make interest payments and to repay the loan on maturity. Default risk may therefore vary between different government issuers as well as between different corporate issuers.

**Shares or equities** offer greater potential over the long term because they reward investors for taking a greater capital risk than holders of bonds. As a result of this greater risk they are also the most volatile asset we have seen over the past decade.

**Alternative assets** covers a wide range of investment options, such as commercial property or commodities. These also offer high growth potential and higher risk than cash or bonds.

# Taking a long-term view

**Saving for children or grandchildren has one significant advantage over many other types of investment – you know when they are likely to need the money. It could be their 18<sup>th</sup> birthday, their 21<sup>st</sup> or some other date you have in mind, but it means you can plan very specifically for the time frame.**

## **Powerful growth for the long haul**

If you know you will be investing for five years or more, our investment experience suggests holding some or all of your investments in share-based funds, subject to your risk appetite, as these offer a level of long-term growth potential that other types of investment cannot match. Please remember, money invested in a Junior ISA can only be accessed on or after a child's 18<sup>th</sup> birthday.

Recent years have reminded us all that shares are a volatile investment. They can rise and fall unpredictably over short periods, and it can be hard to look past headlines that shout about market volatility. However, history shows that shares do tend to rise in value over the long term.

What's more, if you invest in shares through a mutual fund, you can reduce the level of risk involved in stock market investing. This is because you will be holding a selection of shares chosen by an expert fund manager, so each company that the fund invests in is only a small part of the total investment.



You can potentially reduce risk even further by holding a mix of funds that invest in different sectors or geographical regions as this gives you access to a wider range of opportunities. You need to be realistic about how tolerant you are to risk and how you would feel if the value of the investment goes down should markets fall. If you are unsure please speak to an authorised financial adviser, as we do not offer advice. This past performance is not a reliable indicator of future returns.

# How do I apply for a Junior ISA?

We always recommend that you consult with your adviser before making any investment decisions. Your adviser will work with you to fully understand your circumstances and investment needs and will then offer broad-based financial advice.



**If you have any questions or  
simply want more information,  
please speak to your adviser.**

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