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Thomas & Co Financial Services

INDEPENDENT FINANCIAL ADVISERS

MoneyMatters

Summer 2015

● Lifestyle Protection ● Creating Wealth ● Tax Rules ●

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Annual paper tax forms to be replaced with digital accounts

Changing over to digital could make it much easier for over 11m taxpayers and 12m companies

The Chancellor George Osborne announced the end of the paper annual tax form and he promises to bring in digital tax accounts for all individuals and small businesses.

These new tax accounts unveiled in the March Budget and will be accessible at any time from a computer, smartphone or iPad. They will be perform just like an online bank account.

The Treasury are selling the idea as a concept that will make it much easier for the 11m taxpayers and 12m companies who currently fill in an annual tax form to pay the right tax at the right time without filing a return. It describes the current system as complex, costly and time-consuming. Many believe the digital process is more to do with transparency for the Government and Treasury.

When people log on to their account, they will be able to see how their tax is calculated as HM Revenue & Customs automatically updates it with information from employers, the Department for Work and Pensions, pension providers and banks. People will be able to pay their taxes when it is most convenient to them by linking to a bank account and arranging payments by instalments or by Direct Debit.

This change should help growing companies who will no longer have to pay a 'one off' big end of financial year tax demand because HMRC has calculated their payments on the previous year's information. Instead, firms will be able to provide details in 'real time', the Government will benefit from prompt payments from this up to date information.

According to the Treasury, the switch will be completed by 2020. In early 2016, 5m small businesses and the some 10m individuals will have access to their own digital tax account. By 2017, the first group of people with simple tax affairs will no longer have to complete an annual return. By 2020, businesses will be able to link their accounting software to their digital tax account so they can feed in information as they choose. People who currently do their tax return on paper can continue to do so if they wish, but over time this is thought to reduce in favour of digital returns.

Questions about the new pension freedoms

How long will my money last? We are all living longer, on average a 65 year old in good health is expected to live for 24 years after retirement and it is thought that 25% of us will live to see our 95th birthday. Retirement savings will have to last for a long time, possibly 30 years or more. Leaving your money invested for longer could make a big difference to your lifestyle along your retirement journey.

How much State Pension will I get? The amount of state pension is not the same for everyone and it depends on your employment history and when you were born. Remember the State Pension is designed to cover only a very basic standard of living without any luxuries.

What about savings I have? Bank saving accounts, premium bonds or ISAs, may be better for you to take money from these first before drawing from your pension plan. If you own your home you might think about downsizing or renting it out to fund your retirement.

What are my future financial needs? Consider all of your living expenses, like household bills and family costs, and how these may change over the coming years. Remember to budget for holidays, transport and house repairs. Also factor in the fact that your financial needs are likely to reduce as you get older and become less active, but keep in mind that in you later years costs of long term care may be required.

How can I minimise my tax bill? Consider your personal tax allowances and plan to take your retirement savings in a way which makes the most use of your personal tax allowance so you don't have to pay tax unnecessarily.

Should I buy an annuity? An annuity is a promise by an insurance company to pay you an income for the rest of your life. You should check the terms of the annuity before you commit as they cannot usually be changed afterwards. It is worth shopping around different insurance companies before you buy as prices can vary.

Will I lose any my welfare benefits? If you are receiving state benefits or Tax Credits then taking your retirement savings could impact on the level of those benefits. This is a complicated area and expected to change in the near future. Make sure you understand how your state benefits, tax credits or long term care needs would be affected before deciding to access your retirement benefits.

What happens when I die? If you die before age 75, any money left in your pension plan will be paid to your survivors free of any tax. If you die after 75, money paid to your survivors may be subject to tax depending on their circumstances. Retirement savings which remain in pension plans are not normally counted for inheritance tax purposes. If you have purchased an annuity, benefits payable after your death will depend on the insurance contract.

Where do I get more help? Always seek professional financial advice, talk to your pension plan provider for details about your options. After that, we would always recommend contacting your authorised, regulated, professional financial adviser, who will help you build a full and concise retirement plan.

- You can choose how they take your money from your pension.
- Take unlimited lump sums as and when they like, you can even take the whole amount if you wish.
- As previously, take up to 25% of their pension pot tax-free, and a taxable income from the rest, which is added to other income for tax purposes

The value of pension and the income they produce can fall as well as rise. You may get back less than you invested.

A guide to the language of pensions

Pensions don't need to be confusing

ANNUITY
An annuity is a guaranteed income bought from an insurance provider. Generally, an annuity lasts for the rest of a person's life but they can also be bought for a set number of years. Income can be fixed, or increase each year in line with inflation

ENHANCED ANNUITY
A higher rate of guaranteed income paid for life to people in poor health or with certain medical conditions.

ANNUAL ALLOWANCE
Is the maximum amount you can put into your pension each year, currently £40,000. Contributions above this will be charged at your normal rate of tax.

BENEFICIARY NOMINATION FORM
A document held by the pension provider with the name(s) of a person, or names of people, who you would like to receive your pension savings in the event of your death.

CONTRIBUTIONS
The monthly sum you pay into a workplace or personal pension.

CLOSED PENSION SCHEME
This is a pension scheme which is closed to new members. If it is also closed to existing members, you cannot make any additional payments into it.

DEFERRAL
This is the delaying date at which you take your state pension. If you reach state pension age before April 6 next year you can increase your income by one per cent for every five weeks you defer. After April 2016 the weeks move from 5 to 9 for the 1% deferral

DEFINED BENEFIT
A pension which is a 'final salary' scheme will pay an income linked to your number of years' service with a company and the final salary you earned at the point of your retirement.

DEFINED CONTRIBUTION
Is the pension pot from which your future income will depend on its investment growth and the growth from your contributions and those of an employer if it is a workplace pension.

DRAWDOWN
Income drawdown allows you to take segments as an income from your pension savings whilst keeping the remainder of the pot invested.

EXIT FEE
Is a penalty charge which is charged to a personal pension pot when a pension fund is transferred to a new scheme from an existing scheme.

FINANCIAL SERVICES COMPENSATION SCHEME
The UK's independent compensation fund. Compensation may be paid out to pension policy holders if an authorised insurer goes bust.

JOINT LIFE ANNUITY
A guaranteed income for life which is paid to a spouse after you die.

LIFETIME ALLOWANCE
The maximum sum that can be paid into pension savings over a lifetime, currently £1.25million, but is moving down to £1million from April 2016.

PERSONAL PENSION
Pension pots separate to the state pension and any workplace pension you may have.

PENSION PROTECTION FUND
The organisation which pays compensation to members of defined benefit pension schemes if an employer defaults and the pension fund doesn't have enough funds to meet its commitments.

PENSION WISE
The new free and impartial Government service to guide people through their retirement options.

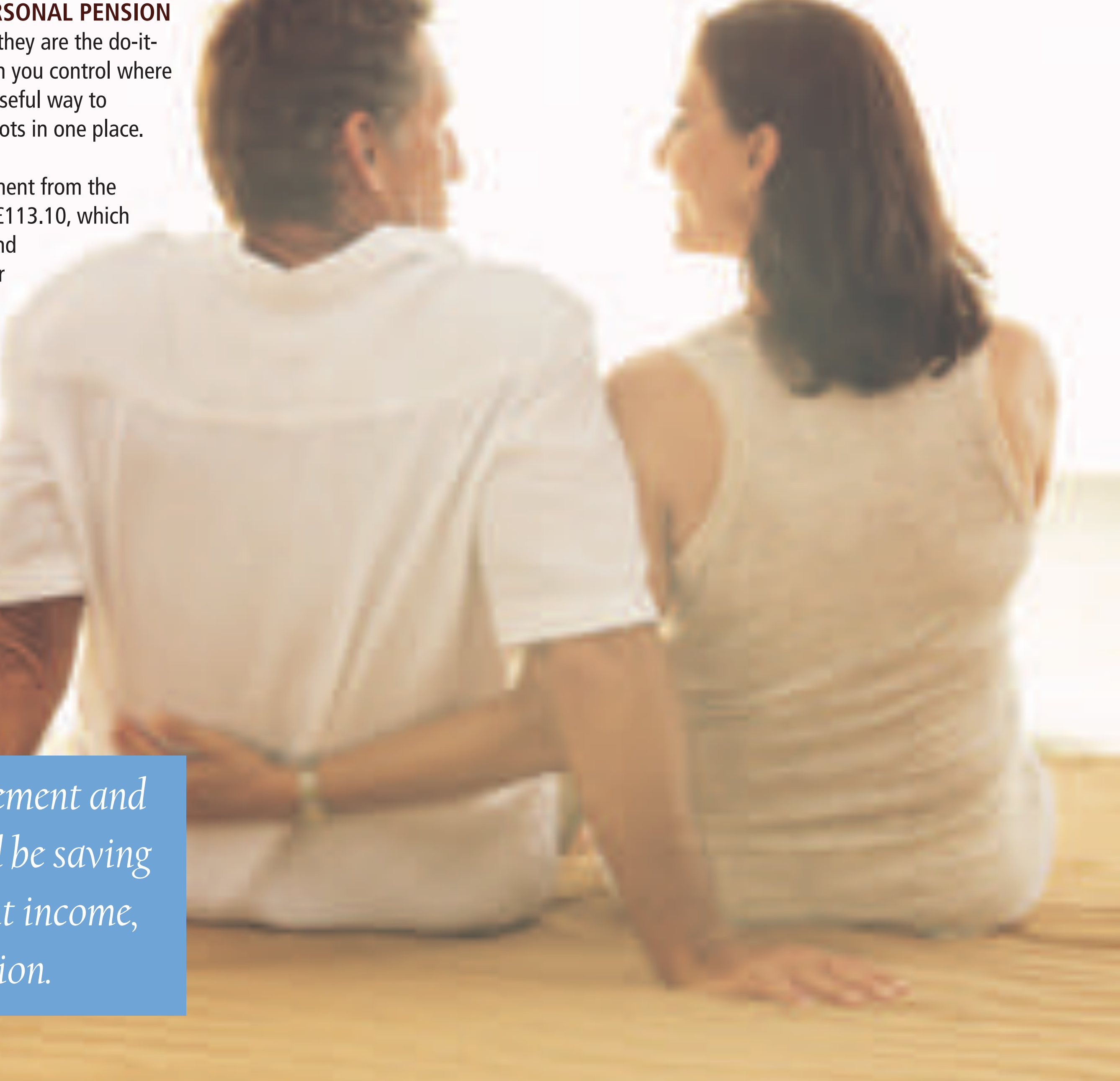
SELF-INVESTED PERSONAL PENSION
Also known as SERPs they are the do-it-yourself pension which you control where to invest. It can be a useful way to consolidate multiple pots in one place.

STATE PENSION
A regular weekly payment from the Government of up to £113.10, which starts at 65 for men and between 62 and 65 for women.

TAX-FREE LUMP SUM
The chunk of pension you can take tax-free when you retire, usually, but not always 25 per cent.

TRUSTEES
People responsible for independently overseeing the management of a pension scheme.

LIBERATOR SCHEMES
Also known as 'early pension release', be aware of such schemes as they encourage you to access pension savings before age 55. Scheme operators take a hefty fee for their 'service' and the victim is left with a 55 per cent tax bill to pay. Please remember that it is illegal to take your pension before age 55, unless through serious ill health, and these liberation scheme are scams, and the individual using these services is unlikely to receive any money.



If you have concerns about your retirement and want to find out how much you should be saving to help achieve your desired retirement income, please contact us for further information.

How to take money from your pension

A secure income for life - via an annuity
Most people will require some form of secure income to meet essential expenditure such as household bills and to provide regular long-term income, regardless of how long they might live. State pensions and occupational pensions can all count. The most common way to do this from a personal pension is to convert the fund to an annuity - a guaranteed income for life. Usually up to 25% can be taken as tax-free cash before buying an annuity.

A variable income taken straight from the fund - via drawdown
Some people will also want flexibility and control, keeping their pension invested to provide a variable income which has the potential to rise over time, but they must also be comfortable with this income not being guaranteed - it could fall or run out entirely. This can be done by drawing directly from the fund, known as drawdown. There are no limits on how much can be withdrawn, and income can be stopped, started or varied at will. Usually up to 25% of the fund moved into drawdown can be taken as tax-free cash.

A new option to draw lump sums - an Uncrystallised Funds Pension Lump Sum (UFPLS)
A new option is now available if investors have not yet taken tax-free cash or income from part of their fund, lump sums can be withdrawn as required. This is known as taking an Uncrystallised Funds Pension Lump Sum (UFPLS).

Like drawdown, this allows you to take lump sums from your pension, which remains invested. However, you don't take the tax-free lump sum up front. Instead, in most cases 25% of each lump sum you take will be tax-free.

Pension pot to buy-to-let

THE FACTS:

- Most buy-to-let lenders require buyers to put down at least a 25 per cent deposit.
- Interest rates on these loans tend to be higher than for standard residential mortgages.
- Most buy-to-let deals are set up on an interest-only basis. This means lower monthly repayments as you are repaying only the interest on the loan, not the capital you borrow. Borrowers will have to repay the outstanding balance at the end of the mortgage term. This is usually done through selling the property, clearing the outstanding debt and pocketing any capital profits. Those wishing to keep the property long term to provide an income in old age should consider a repayment mortgage, where the debt is paid down gradually over years, removing the need to sell.

New 'pension freedom' rules will allow many people to invest in buy-to-let properties as a way of funding their retirement, many in their mid fifties will join the growing ranks of landlords.

The attraction of buy-to-let is simple to see as it offers the potential of long-term capital growth with the opportunity to earn a regular income. Strong tenant demand has seen rents rise over the past five years.

Money invested in a typical buy-to-let is effectively providing a 5.1 per cent annual yield return.

This compares very favourably with the returns seen from savings accounts and other investments. Those aged 55 or over can now unlock their pension savings, effectively enabling them to fund an investment property.

Many people may not have a big enough pension to buy a suitable investment property outright, but can use part of their pension savings to put down a large deposit, then look to finance the balance through a specialist buy-to-let mortgage deal.

Buy-to-let lenders impose few age restrictions. Most buy-to-let lenders will provide a mortgage until a borrower's 75th birthday. But some will want any debt repaid by the time a borrower reaches 70.

Many buy-to-let lenders have different ways of assessing how 'affordable' their loans are, they look at the rental income that a property is likely to generate rather than the applicants earnings.

Lenders usually insist that the rental income is at least 125 per cent of the mortgage interest.

A problem could be that many lenders want borrowers to have non-property earnings of at least £20,000 a year before they will offer a buy-to-let mortgage. This is because they want to know customers have enough cash to cover repayments if tenants default.

What are the potential pitfalls of buy-to-let?

Although the property will generate income when there are tenants, investors need to plan for when there could be a break in tenancy. A never ending stream of maintenance where bills can be high and tenants can be demanding, so property investment is certainly not for the faint-hearted or anyone who is busy.

Additionally, using your pension to invest in a buy-to-let is not tax efficient. You can take a quarter of your pension pot as a tax-free lump sum. But if you take more, you'll have to pay income tax on these withdrawals.

The good news is that when your buy-to-let is up and running, mortgage interest and some other costs can be deducted from your rent, paying only income tax on the balance remaining.

If you sell your property at a profit you may end up paying capital gains tax, which is normally due on profits of more than £11,000.

The value of pension and the income they produce can fall as well as rise. You may get back less than you invested.

Cohabiting couples

There are more than six million cohabiting couples in the UK, twice the number of 20 years ago with half having little or no idea that they have no legal protections if they split up. Many couples living together have few legal rights if they split up, so how can they protect themselves

1. Make sure you both have a Will

Cohabitees do not automatically have any rights to their partner's estate if they die without leaving a will. It's important to draw up a legal document setting out what should happen if you die unexpectedly.

2. Make a cohabitation agreement

A cohabitation agreement spells out exactly what each partner has contributed to the relationship and how they should be divided in the event of the relationship breaking down. This includes the property, its contents, personal belongings and savings. It can also set out how much someone has contributed to the mortgage and bills. It is very important from the outset to list out who owns what and how these will be distributed on separation.

This is particularly important when the property is owned by one partner but where the other has helped pay the mortgage and bills. Unless these contributions are set out in the agreement, the partner who does not own the property could find they have no right to a share of the home if they split up.

As well as helping you plan for a time when you are no longer living together, a cohabitation agreement can also be used to clarify areas of potential conflict, such as joint credit cards and bank accounts.

3. Which contract of ownership?

When buying a home together, cohabiting couples should decide whether to arrange the contact as joint tenants or tenants in common. Under joint tenancy, both partners own the whole property, but if one dies, the property automatically goes to the other partner, but if you are tenants in common you each own a specified share and can leave your share to whoever you want to in your Will.

4. Check your pension planning

Unmarried couples who live together are not entitled to receive the state pension or bereavement allowance for deceased partners, unlike married couples.

There could also be complications with some pension providers not paying out to unmarried partners in the event of death, especially when it in occupational schemes.

The best option is for each partner to complete an expression of wish form to inform their pension provider as to where they want their benefits to go on death that said this declaration is not legally binding.

5. Consider the tax implications

Married couples can transfer ownership of assets between themselves with no tax liability, such as shares or a property; these assets could be transferred in order to use both partners' annual CGT allowance. Proper planning in the way could also reduce the Inheritance Tax bill in future years. Cohabiting partners don't carry this luxury as they are seen as individuals and are taxed as such.

Do I really
need insurance?

If you've got a family who depend on your income then insuring yourself should be a no-brainer. But even if you haven't, it's worth considering a policy that will prevent your long-term plans from being altered by ill health.

Any long-term financial plan you make depends on your ability to earn money consistently. So if you become too ill to work then you may even have to abandon your plans, unless you have insurance in place to replace some of your income.

If you became critically ill, your family could quickly face severe financial difficulties. And if you were to die young then, aside from the emotional fall-out, this would deprive your loved-ones of many years of potential income. Without insurance in place, you would probably only be able to pass on a fraction of the wealth that you intended to leave as a legacy.

So to decide whether you really need insurance, it's important to ask yourself a few key questions, in the order that lets you deal with the highest priorities first.

What would happen if you died?

If your family would struggle to pay the mortgage or meet other essential day-to-day living expenses then you should definitely consider life assurance. This is especially important if you're currently the sole breadwinner for your family, or if the household doesn't have a lot of savings to fall back on. If your partner has their own income then you may feel they could cope without you, but it's important to factor in additional burdens such as childcare costs.

Life cover will provide your family with a guaranteed lump sum or regular income after your death. If your employment contract includes 'death in service' benefit then your family may be eligible for a pay-out worth a multiple of your salary if you die while working, but this probably won't be enough to compensate them for the loss of a lifetime's worth of income.

So think carefully about how much you wish to leave and consider the different policy types that will enable you to get the best possible outcome within your budget.

What would happen if you became critically ill?

A critical illness such as cancer, stroke or a heart attack could put a massive strain on your family's finances very quickly, especially if you don't have an employment contract that will provide you with an income in case of long-term ill health.

If you have a partner and/or children who depend on your income then you may wish to ensure that they benefit from a lump-sum payment, once a critical illness is diagnosed, to help them cope with your care while keeping up with mortgage payments and household expenses.

Critical illness cover is designed to do just this. Policies vary considerably, but in the UK some will cover over 60 of the major medical conditions and some cover many more. They may also include cover for children.

What would happen if you became too ill to work?

If you're a full-time employee then your contract will allow for paid sick-leave. In the UK, you can take up to seven days off without a doctor's note, or four weeks with one. But after four weeks you may be considered 'long-term sick' and any sick pay from your employer could start to be reduced. It is important to understand what the arrangements would be with your company. And if you are self-employed then it is particularly important to think about how you and your family would cope with a period of prolonged illness.

If you've got savings and/or investments then you could use these to cover your expenses for a while. But of course there's no way of knowing in advance how long you'd need to recover to the point where you could start earning again. And in any case: would you really want to dip into savings that you'd otherwise be using to fund life goals such as retirement?

This is where income protection insurance comes in. It's designed to help cover your expenses if an illness or injury leaves you unable to work over the long term. An income protection policy will pay a percentage of your monthly income, with a typical maximum of 75%, potentially all the way to retirement.

THE 2015 BUDGET

No giveaways, no gimmicks: That's what George Osborne has promised from his 2015 Budget, which is his last chance before the election to persuade voters that he's done a good job of balancing Britain's books.

The Chancellor certainly threw a few tax cuts in to act as vote sweeteners but they have to be paid for by others.

Has he stuck to his word? Is he responsible for a bounce in the UK's economy? You decide, here is what he has announced:

Help To Buy ISA

*A new ISA will be available for first-time buyers. For every £200 a first-time buyer saves, the Government will top up with another £50. It means that if you put in £12,000, the Government will put in £3,000 more.

Flexible ISAs

*Money can be taken in and out of ISAs from this Autumn without savers losing their tax-free allowance.

Pension Changes

*The Lifetime Allowance for pension savings has been reduced from £1.25 million to £1million from April 2016

*The Chancellor has confirmed that the Treasury has published a consultation to allow pension freedoms to be extended to 5million existing annuity policy holders in 2016 .

More Tax Free Savings

*A new Personal Savings Allowance has been announced, which will mean that from April next year the first £1,000 of the interest earned on all of your savings will be completely tax-free - regardless of whether or not they are in an ISA.

Tax Changes

*The Chancellor confirmed that the personal allowance (the amount that you can earn before income tax kicks in) has been increased from £10,800 this year to £11,000 next year.

*The threshold at which people start paying 40p tax to rise from £42,385 to £43,300.

Death of the Annual Tax Return

*The Chancellor has axed the annual tax-return, which will affect 12 million people. Instead people will have the information the HMRC needs automatically uploaded into new digital tax accounts.

*Those with the most complex tax affairs will be able to manage their account online.

Cutting the cost of Beer, Cider and Spirits

*The Chancellor announced a tax cut of 1p on a pint and 2% cut on the duty of spirits and cider.

Frozen Fuel Duty

*Once again George Osborne confirmed that fuel duty will remain frozen.

Economy Updates

*The UK economy is forecast to grow by 2.5% this year (up from previous forecast of 2.4%), 2.3% in 2016 (up from 2.2%), 2.3% in 2017 (down from previous forecast of 2.4%), according to the Office for Budgetary Responsibility (OBR).

*Unemployment set to fall by 0.1% from 5.4% to 5.3% this year

*nflation forecast to fall to 0.2%, according to the OBR

*Announced sale of £13billion of Northern Rock and bank bailout mortgage assets.

The Government is to also sell a further £9billion of Lloyds shares this year. The cash will be used to pay down the UK's national debt.

*Debt as a share of GDP is set to fall from this year to 80.4% ending up at 71.6% in 2019-20.

*Borrowing is set to fall to £90.2 billion this year and is forecast to fall to £75.3 billion next year and £39.4 billion in 2017, according to the OBR.

*It's forecast there will be a budget surplus of £7billion in 2019/20.

*A further £30billion in savings must be found this year.

Crackdown on tax avoidance

*Further measures to close schemes and loopholes that allow business and individuals to wriggle out of tax have been announced, the changes are expected to raise £3.1billion.

Review of Business Rates

*In an effort to save high street shops from the threat of internet companies, the Chancellor has announced a review of business rates

Bank levy increased

*Raised bank levy to 0.21%, which is expected to raise an extra £900million a year.

Tax breaks For North Sea Oil Companies

*The Chancellor announced £1.3billion of support to North Sea oil companies, following a global drop in oil prices.

*Petroleum revenue tax cut from 50% to 35%.

Is my pension my new bank account?

With the new pension rule changes as of April 2015, some people believe these new rules mean people will be able to treat their pension "as a bank account".

Is this really true?

As of April 2015 most investors should be able to withdraw as much or as little as they like from their private pensions once they reach 55 (rising to age 57 in 2028).

They could take regular withdrawals or one-off payments. They could even withdraw the whole lot if they wish. The restrictions which currently govern how much most people can take out will be scrapped. 25% is normally tax free and the balance will be subject to income tax.

It's important to remember that a personal pension is designed to pay out income throughout your retirement, which could last decades. Many of us don't want to end up reliant on the State pension in old age. So, in theory at least, pensioners will be able to take as much as they like, whenever they like from their personal pension pots, but will need to take careful steps when doing so.

Investors can already use an option known as income drawdown to take tax-free cash and some taxable withdrawals. Before April most people were restricted on the amounts which could be withdrawn, but as of April those limits have been removed.

Why should pensioners be cautious?

There are the tax implications to consider when making pension fund withdrawals 25% is usually tax free. The remainder is added to other income in that tax year and subject to income tax. This could move your annual income into a higher tax bracket. Someone could easily become a top rate taxpayer, paying 45% very quickly.

The pension provider will need to deduct the tax before the money is paid out. Unless HMRC has already supplied the pension provider with a tax code for that particular individual, the provider needs to use an emergency tax code. So a £100 payment could not only be reduced to £80 after basic rate tax, or £55 after top rate tax is taken into account, but could also have emergency tax deducted which you would need to reclaim from HM Revenue & Customs.

The question still remains as to whether providers will offer the new flexibilities to their customers. Not all pension firms will be ready to move at the time you may require your pension.

There is no legal obligation for pension providers to follow these new flexible rules. When pension rules have changed in the past, some pension providers have taken months if not years to implement the new changes.

Last year the National Association of Pension Funds warned savers could be faced with a delay of possibly 12 months to use their pension pots like bank accounts.

The value of pension and the income they produce can fall as well as rise. You may get back less than you invested.

My £95,000 tax-free savings pot

In a move aimed at helping savers get better returns on their saving rates, from April 2016, a basic-rate taxpayer will be able to put away more than £95,000 a year in cash without paying income tax, compared with just £15,000 now. Higher earners who pay the 40% tax rate will be able to shelter more than £55,000.

The high level of increase comes courtesy of the new personal savings allowance, announced by the chancellor in his final budget before the general election. Osborne said it will mean 95% of taxpayers pay no tax on their savings.

This step change could signal a huge revamp in savings habits, and for cash ISAs, the tax-free savings vehicles that currently hold about £250bn. This is because many non-ISA accounts now pay better interest rates.

With savings being tax-free for the vast majority of individuals, there will no longer be a need to use an ISA to avoid paying income tax. Recently current accounts, previously never seen as good places to keep cash, could become more attractive.

The personal savings allowance will enable a taxpayer on the 20% basic rate to earn £1,000 from cash savings each year without paying income tax. Those on the 40% higher rate will be able to bank £500 tax-free. The top-rate payers are excluded from the allowance.

The Chancellor announced that as of April 2016, banks will no longer automatically deduct 20% tax from income generated by savings held outside an ISA and the higher earners will, in most cases, no longer be required to declare savings income on tax returns, provided it is no higher than £500.

Such a move by the Chancellor was long overdue; the average return on a one-year fixed-rate account is down from 2.27% when the coalition came to power in 2010 to 1.25% last month, according to the Bank of England.

In order to earn £1,000 at a rate of 1.25%, you would need to deposit at least £80,000, then by adding this to the £15,000 ISA allowance, which rose to £15,240 in April 2015, gives a total of just over £95,000 that can be sheltered from tax.

Winners or Losers

The best-paying non-ISA accounts pay higher interest than the top cash ISAs, according to some financial professionals.

With some best rates offering 3.53% over five years, under the new regime, a 40% taxpayer could save £14,155 and stay just below the £500 tax threshold.

If you preferred to save £14,155 in a better paying cash ISA, at a rate of 2.3% over five years, your annual return would be £325.

ISA flexibility

These accounts are now very likely to become more like savings accounts as the Chancellor announced it will be possible to withdraw money from a cash ISA without affecting your tax-free pot.

Under the new rules, expected to start in the autumn, you will be able to repay any withdrawals from your ISA in the same year without any loss of tax-free status.

Many believe this could be the end of cash ISAs, but this new flexibility could be quite the opposite. The flexible ISA will be a real incentive to save, for example, where someone needs to pay for a deposit for a house and know they have a bonus coming before the end of the tax year, they can withdraw the ISA cash knowing they can pay it back into their ISA without losing the tax-free benefit.

The value of pension and the income they produce can fall as well as rise. You may get back less than you invested. The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Which Junior ISAs should parents choose?

Just like standard ISAs, there are two types of Junior ISAs available, Junior Cash ISAs and Junior Stocks & Shares ISAs. With the launch of Junior ISAs more than three years ago, they have proved very popular with parents looking to save tax-efficiently for their children. The latest HMRC figures show over 400,000 Junior ISA accounts were subscribed to in the 2013/14 tax year, with an average subscription of £1,340.

The majority of Junior ISAs opened have been Junior Cash ISAs. With parents believing cash is a good home for short-term savings, most are investing for children long-term. Parents are also becoming aware that Stocks & Shares Junior ISAs offer the potential for higher returns, albeit with risks attached.

No recommendation

With the advent of the rising stock market over the last three years, many parents investing their child's Junior ISAs in stocks and shares have benefited. A parent investing the full £3,600 Junior ISA allowance in November 2011, when Junior ISAs began, into a stock market tracker fund could now have an investment worth more than £5,000, contrasting this with the same amount saved in a Junior Cash ISA paying 3% annually would be worth around £4,000.

The good news for those wishing to start investing in a Junior ISA is the allowance has now risen to £4,000 for this tax year.

Starting with as little as £100

You can begin saving into a Junior Stocks & Shares ISA with as little as £100. Unlike adult ISAs you are not allowed to open a series of Junior ISAs with different providers each year. Instead investors use each year's annual allowance with the current provider or transfer to a new provider first before making use of the allowance.

What's happened to Child Trust Funds?

Child Trust Fund holders are now eligible to open a Junior ISA Child Trust Child Trust Funds were the forerunners to Junior ISAs. Children born between 1 September 2002 and 2 January 2011 received a £250 voucher from the Government to open a Child Trust Fund (CTF).

Since April 2015, parents have been able to transfer their child's Child Trust Funds (CTFs) to a Junior ISA. This change will benefit more than six million children to benefit by offering a wider choice of investment at lower costs and with potentially greater returns.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

For more information on any subject that we have covered in this issue, or on any other subjects, please tick the appropriate box or boxes, include your personal details and return this section to us.

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- ☐ Critical Illness cover
- ☐ Protection
- ☐ Off-shore investments
- ☐ Healthcare
- ☐ Director and employee benefit schemes

Name

Address

Postcode

Tel. (home) Tel. (work)

Mobile Email

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