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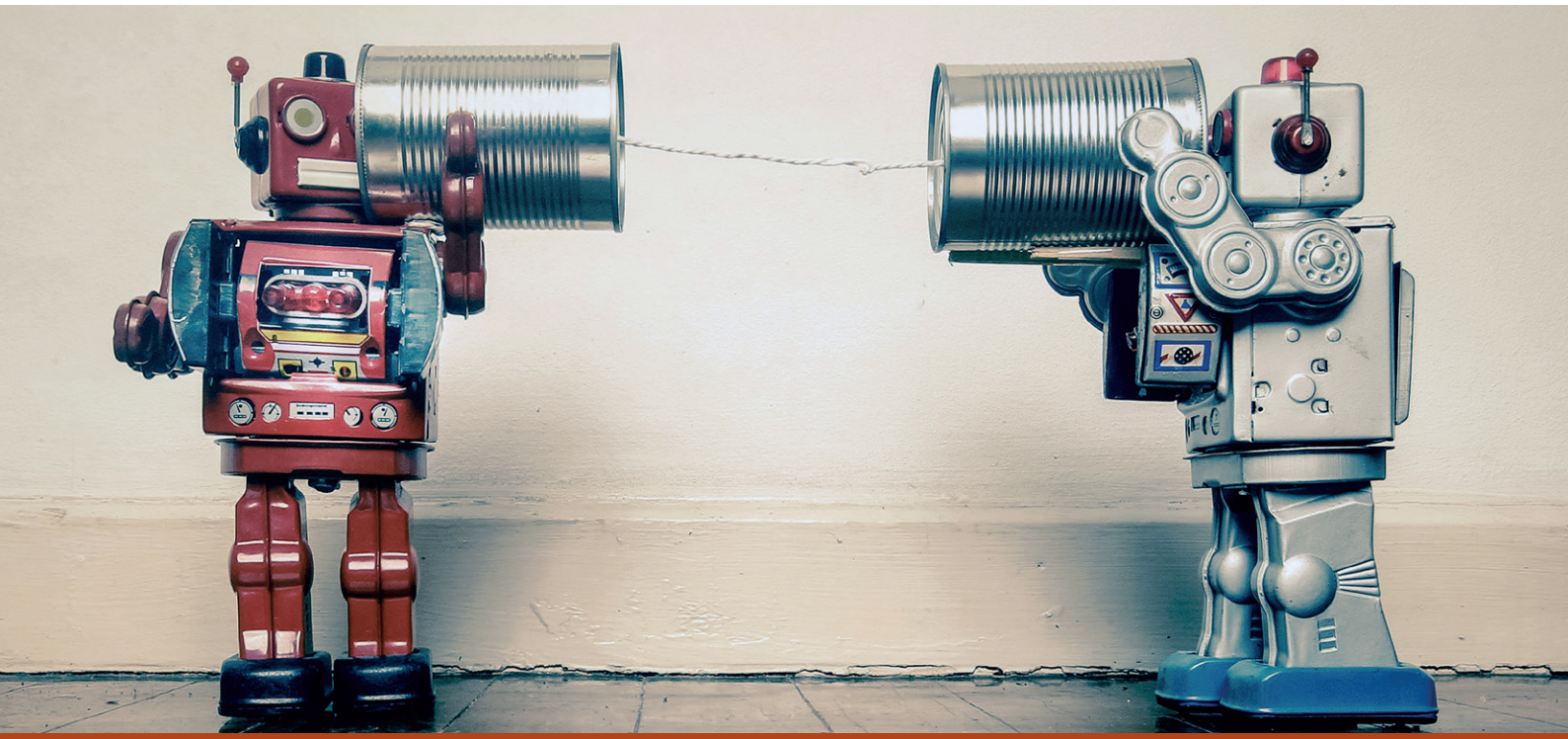

KEY GUIDE

Investing for children

Introduction

INVESTING FOR THE FUTURE

Most parents want to help their children financially, whether it is making sure there is enough money for their education or eventually helping them to buy a property. An early objective as they grow up may well be to help children understand the value and importance of money.

Whatever the reason, tax will be a major factor to consider, as will the risks of giving children too much money too soon. It is therefore important for parents and others to appreciate the basic tax and legal rules, and the investment products that are suitable for children, to help achieve the goals set for them.

Please note that all examples included in this guide are fictitious.

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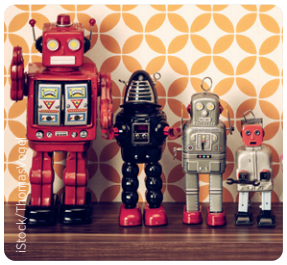
We are all subject to tax from birth, but planning can avoid unnecessary tax bills

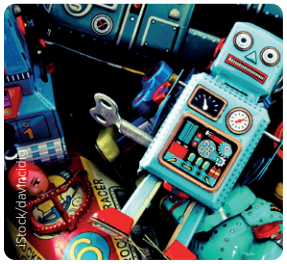


THE TYPES OF TRUST

Finding the balance between flexibility and tax efficiency

TAX-EFFICIENT INVESTMENTS FOR CHILDREN

How to use investment products to save money for children



HOW TRUSTS ARE TAXED

Understanding how the different types of trust are taxed

This publication is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The Financial Conduct Authority does not regulate tax advice, so it is outside the investment protection rules of the Financial Services and Markets Act and the Financial Services Compensation Scheme. This publication represents our understanding of the law, HM Revenue & Customs practice as at 1 July 2026 and the Finance Act 2026.

Setting specific investment goals

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Why, when and for how long you plan to set aside money for children can have a major bearing on choosing the appropriate investments. As with any investment decisions, you need to think about risk carefully before taking any action.

Very broadly, the shorter the timescale, the more you should focus on cash and similar types of investment. If you are looking at five years or more, you should consider investments with a longer-term value, such as shares or property. They involve more risk, but historically provide superior returns over the longer term. The best approach to handling these matters is to consult a competent financial adviser.

Past performance should not be regarded as a guide to future performance. Future returns will depend on many factors which cannot be guaranteed.

HOW CHILDREN ARE TAXED

Children – even babies – are not exempt from tax. If they have enough income or capital gains, they will be subject to a tax bill just like adults. And like adults, they are generally entitled to a certain amount of income without paying tax. This is the personal allowance, which is £12,570. In 2026/27 each child has:

- a 0% starting rate band covering £5,000 of savings income;
- a dividend allowance of £500;
- a personal savings allowance of £1,000 (assuming they do not pay tax at the higher or additional rate); and
- their own annual capital gains tax (CGT) exempt amount of up to £3,000 of net gains on investments.

There is a special rule that applies to children's income until the child reaches age 18 or gets married, if earlier. If the child's income is derived from a gift from a parent, it is taxed as the parent's income unless the total income from that parent's gifts does not exceed £100 a year (£200 if both parents have contributed jointly).

EXAMPLE
Parental gift

If Mary gifts £20,000 into an account for her 14-year-old son Jake, and this generates an income of £800 a year, this will be taxed as if it were Mary's income at her tax rate(s). It could not be set against Jake's personal tax allowance of £12,570, so the amount of tax Mary would have to pay would be dependent upon her tax position.

Fortunately, when a child's income is derived from non-parental sources it is taxed as the child's and can be set against their personal allowance. This might include income from investments financed by gifts from grandparents or others, or perhaps earnings from a weekend job or other work.

EXAMPLE
Non-parental gift

Mary's father, Graham, is a higher rate taxpayer. If he gives £20,000 to his grandson Jake and it generates an income of £800 a year, this will be taxed as if it were Jake's income. It would neither be taxable on Graham nor Mary. The income would be set against Jake's personal tax allowance of £12,570, so would almost certainly be tax-free for him.

Where a child's income comes from investments funded by grandparents or others, you should identify it carefully to ensure that it does not suffer tax unnecessarily. So, it is a good idea to keep investments provided by parents separate from the money the child has received from other people.

Banks, building societies and collective funds, such as unit trusts and open-ended investment companies (OEICs), which pay interest rather than dividends, do not deduct tax from interest payments, sparing non-taxpayers the potential hassle of tax reclaims.

Parents can still invest on their child's behalf without potentially giving themselves a tax liability by using special tax-efficient financial products.

Planning point

It is important for parents and others to know basic tax and legal rules, and also some of the investment products suitable for their children.

TAX-EFFICIENT INVESTMENTS FOR CHILDREN

Several financial products enable parents and others to invest tax efficiently for children. Of course, tax is not the only factor to consider. Aside from investment risk and reward, you need to think about the costs of investing; some investments can be significantly costlier to buy and hold than others.

Junior individual savings account

The Junior ISA (JISA) is like the adult ISA. It is a 'wrapper' that protects the investments and savings held within it from income tax and CGT. The JISA allows up to £9,000 in 2026/27 to be invested on behalf of a child in cash and/or a wide variety of stock market-based investments. These range from individual shares in companies to UK-authorised unit trusts, OEICs and investment trusts. The JISA annual investment limit is fixed at £9,000 until April 2031, and is unaffected by the restriction on cash ISA subscriptions from 2027/28.

Children can currently have one cash JISA and one stocks and shares JISA, but the combined total yearly investment must not exceed the annual maximum. To qualify, children must be under 18, live in the UK and not hold a child trust fund (CTF) account. Children aged 16 or 17 can open their own JISA, or take over management and be the registered contact for their existing JISA, but parents or adults with parental responsibility must open and manage these accounts for younger children.

Money in a JISA belongs to the child and cannot be withdrawn until they are 18 unless there are exceptional circumstances.

Planning point

Adults can open and manage a Junior ISA for children under 18.

Child trust funds (CTFs)

CTFs were the original long-term tax-free savings account for children, but the scheme has long since closed. Very similar to JISAs, they were available for children born between 1 September 2002 and 2 January 2011, meaning that the first CTFs reached maturity over five years ago and the very last will mature at the start of 2029.

CTF accounts retain their tax-free status after maturity, even if no action is taken by their owner. Nearly 30% of CTF funds were set up as default arrangements by HMRC, which is one reason why it has set up an online locator tool at www.gov.uk/child-trust-funds/find-a-child-trust-fund to help CTF owners, their parents or guardians trace funds. By April 2025, 43 months after the first CTFs matured, around 2,285,000 out

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of 3,043,000 18-23 year-olds had claimed and either withdrawn or re-invested their matured CTFs, according to HMRC. The other 758,000 CTFs (with an average value of around £2,000) remained as unclaimed matured accounts. In April 2026 HMRC said that it would be writing to all 21-year-olds whose accounts remain unclaimed to make them aware they have a CTF. Subsequently, in June 2026, the government announced the establishment of a taskforce including leading CTF providers to "reunite young people with unclaimed Child Trust Funds".

If a child has a CTF, they cannot have a JISA (and the reverse is also true). Originally, CTFs were set up to hold funds that the government granted to these children, so every child born between those dates has a CTF to which parents and others can contribute up to £9,000 in total. It is worth checking to see if a child's CTF has been invested in suitable funds; they can usually be switched if necessary.

The tax advantages and rules governing CTFs and JISAs are very similar. The funds are essentially free of UK tax and so are the proceeds on encashment. It is possible for CTFs to be transferred into JISAs, but once the transfer is completed, future contributions can only be made to the JISA.

Collective funds

If your child's JISA allowance has been used up for the tax year and you still want to invest more in stocks and shares on their behalf, you could consider collective funds – i.e. unit trusts, investment trusts or OEICs. If a trust is not used, investments in funds for children are usually held in a designated account, which is administered by the parents and remains the parents' for IHT purposes. Any income from funds paid for by a parent is treated for tax purposes as the parent's income.

Offshore funds

Non-reporting offshore funds allow for income and gains to be held free of UK tax until the investor disposes of them. At that point, both become subject to savings rate income tax in the investor's hands. Among other uses, this facility can allow parents to invest for a child without the income being subject to tax at parental rates. Then, when the child reaches age 18, the investment can be sold and the accumulated income and gains can be set against the child's personal allowance, which would allow them to receive up to £12,570 free of income tax. However, to achieve this a trust framework will normally be required.

If the child has no other income, the £5,000 0% savings rate band and £1,000 personal savings allowance would then apply before the savings basic rate at 20% is chargeable (rising to 22% from 2027/28). This would mean that, based on tax allowances and bands tax for tax years up to and including 2030/31, £18,570 is free of tax with the next £31,700 taxable at 20% (22% from 2027/28).

Life assurance investment bonds

These investments can be used to postpone the potential tax liability until a convenient time for them to be cashed in. Parents or others can invest in these bonds for the child – usually within a trust for the child. The investment bond produces no income for the trust itself and the funds within the bond are subject to tax at the life insurance company's rates. When the child reaches age 18 or over, the trustees can pass over the bond to the child who can encash it at the rates that apply to them that year.

There is little or no UK tax within offshore investment bonds, but the proceeds are potentially subject to starting rate (0%), basic rate (20%), higher rate (40%) and additional rate (45%) tax (rising to 22%, 42% and 47% respectively from 2027/28). Scottish income tax rates and thresholds however do not apply to savings or dividend income. Gains will also count towards the personal savings allowance. UK investment bonds suffer some tax on the income and gains of the underlying funds, but they benefit from a tax credit for any basic rate tax that would be payable on the bond gains.

Investment bonds in trusts are very useful for larger investments for children, but their tax position can be complicated in some circumstances and it is especially wise to seek advice before either making or encashing such investments.

PERSONAL PENSIONS

The generous tax breaks and long investment term make pensions an effective way to invest for children. Currently:

- Anyone can contribute up to £3,600 gross in a tax year into a personal pension for a child.
- Contributions automatically benefit from basic rate tax relief (currently equivalent to an uplift of 25%), so only £2,880 needs to be paid into the scheme, with the government making up the balance.

JISA/CTF 2026/27 summary

Product	Age range	Maximum investment	Notes
Junior ISA	Under age 18	£9,000	A child cannot also have a child trust fund (CTF).
Child Trust Fund	Born after 31 August 2002, but before 3 January 2011 and under age 18	£9,000	A child cannot also have a JISA.

- Returns roll up broadly UK tax-free within the fund, and ultimately up to 25% of the pension fund can be taken as a tax-free lump sum with the rest of the fund drawn as taxable payments.

Contributions made to a child's pension do not count against the contributor's own pension contribution annual allowance and they may also help with the contributor's inheritance tax (IHT) planning. However, the child will not be able to draw the pension until they are within ten years of state pension age (SPA). The DWP is reviewing when the move to an SPA of 68 should occur, with an answer due soon.

Friendly society bonds

Some friendly societies offer tax-free savings schemes for children which can be designed specifically to mature for a significant event, like an 18th or 21st birthday, starting university or graduation. The maximum investment is £25 a month or £270 a year and bonds must last for at least 10 years for the proceeds to be free of income tax and CGT. Although the premiums on these schemes are low, the charges can be high.

Planning point

While it may seem early, setting up a pension for your child could offer tax-efficient investments and provide security for their later life.

SHOULD YOU USE A TRUST?

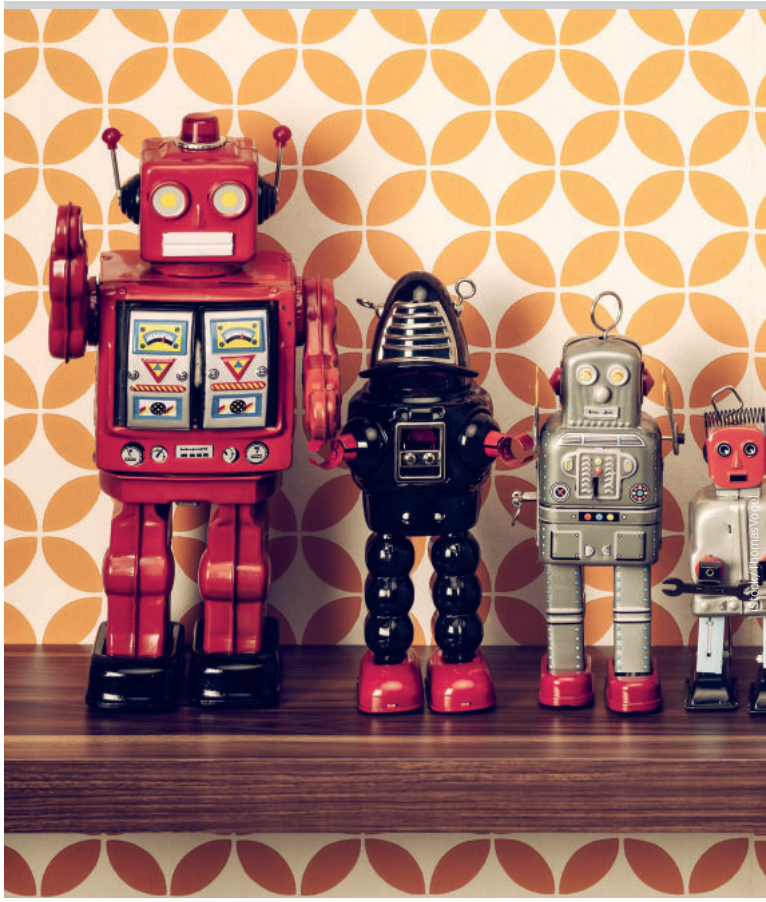
If you are planning to set aside money for the long-term future benefit of a child, you may want to use a trust.

A trust is basically a way for one group of people (the trustees – who could include you) to hold investments or other assets for the benefit of some other people – called beneficiaries. Using a trust can also help IHT planning by allowing you to transfer the assets outside your taxable estate. A trust can also control when the children will have access to the funds.

There are several types of trust with different tax and other legal characteristics. They all have different advantages and drawbacks, but there are two main kinds of trust in this context.

Bare trusts

These are sometimes called simple or absolute trusts, and are the most commonly used trusts for gifts to children. The beneficiary – in this case the child – is absolutely and immediately entitled to the income and capital held in the trust. The assets are held in the name of the trustees, who manage and make decisions about the trust until the beneficiary reaches the age of 18 (16 in Scotland). At this point, beneficiaries can demand that trustees transfer the trust fund to them.



Discretionary trusts

The trustees can decide how much income and/or capital each beneficiary should receive and when. Discretionary trusts are sometimes used to provide for future needs that might not yet have developed, or for beneficiaries who are not capable or responsible enough to deal with money themselves.

Bare trusts are generally more tax-efficient than discretionary trusts, but are rather rigid and inflexible. By contrast, discretionary trusts often involve additional tax costs, but provide greater flexibility. An important advantage of discretionary trusts is that the trustees do not have to pass over assets to children when they reach the relatively young age of 18 (16 in Scotland).

TAX POSITION OF TRUSTS

Trusts can help to ensure that your money is used as you intend for the benefit of children or grandchildren. But they do not necessarily reduce overall tax liabilities, and in some cases a trust might increase the amount of tax to be paid. For example, you could incur IHT on a large lifetime gift into a discretionary trust. As a rule, new (and existing) trusts now need to be registered with the HMRC Trust Registration Service. This includes most bare trusts, except for those solely involving bank accounts.

Income tax and trusts

The beneficiary of a bare trust is liable for tax on income that the trust receives unless the parental settlement rules apply, although the trustees can pay this tax on their behalf. Beneficiaries should notify their tax office of the income and fill in the appropriate self-assessment tax return form.

The tax treatment of the income from investments held in a discretionary trust depends on the type of income and its level. In theory the rules allow a trust to receive income of up to £500 tax-free, although in practice most trusts will pay trust tax rates on all income.

The tax-free threshold varies according to whether the settlor – the person who has set up the trust – has established any other trusts. Where the settlor has set up other trusts, the £500 figure is split equally between them, subject to a minimum amount of £100. If a trust's income exceeds its tax-free threshold, then all income is taxable.

Income paid by a discretionary trust to a beneficiary is treated as having already been taxed at 45% – the current rate for trusts. This rate is not due to change from 2027/28, even though from that tax year discretionary trusts will internally be liable to 47% tax on savings income. If the beneficiaries themselves pay tax at a lower rate than 45%, they should be able to reclaim some of the tax paid by the trust. A beneficiary who does not pay tax, or who pays tax at below the additional rate, may be able to claim some or all of the tax back (up to 45%). If they pay tax at the additional rate, there will be no more tax to pay on the trust income outside Scotland, where there will be an extra 3% tax to pay because the 2026/27 Scottish top rate is 48%.

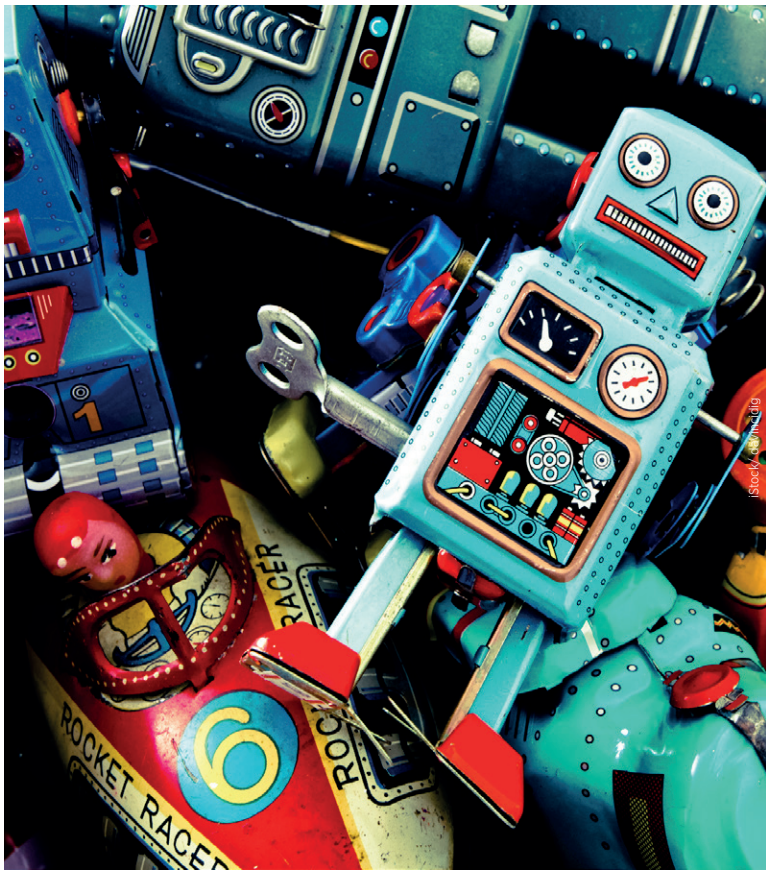
EXAMPLE

Discretionary trust taxation in 2026/27 and 2027/28

The Little Harry Discretionary Trust receives £1,500 of interest and £2,000 of dividends. It is one of four separate trusts that Philip set up for his grandchildren, so the trust's tax free threshold is £125 (£500/4). All the trust's income is therefore taxable in 2026/27 and 2027/28:

Income	Amount	2026/27		2027/28	
	£	Tax Rate %	Tax £	Tax Rate %	Tax £
Interest	1,500	45	675.00	47	705.00
Dividend	2,000	39.35	787.00	39.35	787.00
Total	3,500		**1,462.00**		**1,492.00**

If Philip had made his gift via a bare trust for Harry's benefit, there would probably have been no tax to pay thanks to Harry's personal allowance.



Capital gains tax and trusts

If you set up a trust you may have to pay CGT when you set it up. This could be because you either sell some investments to put cash into the trust – potentially realising a profit – or because you simply transfer some of your own existing assets into it. However, if you use a discretionary trust, currently you could postpone the CGT liability by claiming hold-over relief; the trustees would then pay tax on the held-over gain when in turn they sell or transfer the asset, although on transfer they too have the option of claiming hold-over relief.

Trustees are potentially subject to CGT on investments if they realise profits by selling them or transferring them to the beneficiaries. The position varies, mainly depending on the type of trust involved.

- In the case of a **bare trust**, the investments are taxed as if the beneficiary owns them. If the trustees realise gains on any investments, these are taxed on the beneficiary and set against their annual exempt amount. If the gains are large enough to be taxable, the tax rate(s) will generally be 18% and/or 24%, depending on the beneficiary's own level of income and gains.

- Gains within **discretionary trusts** are not taxed by reference to the beneficiaries. The trustees have an annual exempt amount of up to £1,500 in 2026/27, although the amount will be less if the settlor has set up any other trusts. The minimum is £300 in 2026/27. Any net gains that exceed the available allowance are taxed at a flat rate of 24%.

A CGT liability may also arise when assets are distributed from the trust. In a discretionary trust, the trustees would normally be liable to pay the tax (unless hold-over relief is claimed). This is not the case in a bare trust, when the beneficiary is 'absolutely entitled' to the trust assets, usually because they have reached age 18, or the trust has come to an end. A CGT liability would also arise for the trustees if the trust became non-resident.

Planning point

If you use a discretionary trust currently you could postpone the CGT tax liability by claiming hold-over relief; the person who receives the asset would then pay tax on the held-over gain when in turn they sell or transfer the asset.

Inheritance tax and trusts

There is a possibility of incurring an IHT charge on transfers into a trust. If you make an outright gift to an individual, or place it into a bare trust, there could be an IHT charge of up to 40%, but only if you were to die within seven years of making the transfer.

If you make a transfer into a discretionary trust of more than the amount of your unused nil rate band (until at least April 2031 the full band is £325,000), you will have to pay an IHT charge of up to 20% on the excess. If you die within five years of making the gift, there could be a further tax charge to bring the total up to a maximum of 40%. This is less than the usual seven-year period, because the taper relief will eliminate any additional tax after just five years. There could also be further relatively small IHT charges for the trust every ten years that the trust continues and then when assets leave the trust.

Trusts and trust investments are not an area for do-it-yourself tax and financial planning. The position is complicated, and the law and HMRC practice change frequently.

Planning point

Different types of trust are taxed in different ways, so it is important to take advice and understand the tax implications before making any decisions.

Stocks and Shares ISAs invest in corporate bonds; stocks and shares and other assets that fluctuate in value.

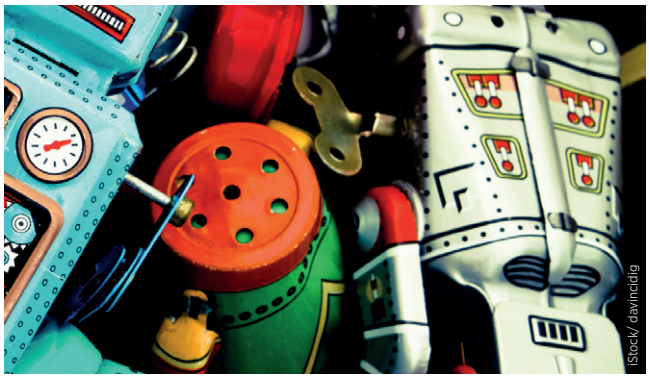
Tax treatment varies according to individual circumstances and is subject to change.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

Past performance is not a guide to future performance.

The value of investments and income from them can go down as well as up, and you may not get back the original amount invested.

The Financial Conduct Authority does not regulate tax and trust advice, will writing, National Savings and Investments, inheritance tax and some forms of estate planning.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HOW WE CAN HELP

Planning for your child's future is one of the most important things you will ever do, and we are here to advise you about the most suitable way to achieve your aims and to help ensure that your investments produce the outcomes you want for your children.

We can help in a range of ways. We are very willing and prepared to work with your other professional advisers. The scope of our work can include:

- Comprehensive financial planning for your family's finances and estate planning.
- Investment planning for yourself, your family and any trusts, from asset allocation to investment selection.
- IHT mitigation.
- Advice on the choice of appropriate trusts.
- School fees and other educational costs planning.

Acumen Financial Partnership Ltd
4a Swordfish Business Park
Higgins Lane
Burscough
Lancashire L40 8JW
tel: 0151 520 4353
fax: 0151 526 3399

Shield House
Nateby Technology Park
Cartmell Lane
Nateby
Preston PR3 0LU

email: info@acumenfinancial.co.uk
Web: www.acumenfinancial.co.uk

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