Supporting your children

If you are a parent, there are various ways in which you can provide financial assistance for your children, but it is always as well to be aware of the tax consequences of the method of help.

Income tax

The income of children is theirs in their own right, no matter how young they are. And they qualify for the standard personal allowance and the various tax bands and rates. Parents can make gifts to their children and so long as the income generated from such gifted capital in a year is less than £100 for each child from each parent, then the income is taxed as the child's and there are no further tax consequences. However if the income exceeds this limit, the whole amount and not just the excess over £100 will be taxed on the donor parent, where the child is under 18 and unmarried. There are certain investments where this "£100 rule" does not apply, and these are mentioned below. One can, of course, invest for capital growth, rather than immediate income – in some accumulation unit trusts, for example.

Inheritance tax (IHT)

In each tax year, each parent may give up to £250 to any number of people, plus further larger gifts up to £3,000 in total. Regular gifts made out of income are not subject to IHT, and there are special allowances for gifts given in consideration of marriage. Most other gifts rank as potentially exempt, becoming fully exempt if the donor survives for seven years.

Most trusts now come within the new mainstream IHT regime. This counts transfers into trusts as chargeable transfers attracting IHT at the lifetime rate of 20% and subject to a charge every subsequent ten years and on exit from the trust. However the IHT nil rate band can be used to remove a charge arising on the initial transfer. The nil rate band is currently £325,000 (frozen until 2028).

Junior ISAs

Junior ISAs, for those aged under 18 who do not have a Child Trust Fund account (see below), allow investment of up to £9,000 per tax year in cash or stocks and shares. Withdrawals are not permitted until the child reaches the age of 18, at which point the Junior ISA will become a normal adult ISA. 16-17 year olds can also invest up to £20,000 in an 'adult' cash ISA, even if they already have a Junior ISA.

The Child Trust Funds (CTF)

These were set up by the government for children born between 31 August 2002 and 31 December 2010. Children born after December 2010 are not eligible for a CTF account. Family and friends can contribute up to a maximum of £9,000 in any one year into an existing CTF account.

Premium Bonds

Premium Bonds can be bought for a child under 16 by anyone.

Pensions

Although the benefits may not be available until a child is in late middle age, parents may pay up to £3,600 gross (£2,880 net) a year into a personal pension on behalf of a child under 18. The contributions are paid net of basic rate tax, which is retained whether or not the child is a taxpayer.

Students

Many parents provide funds to help their children through higher education as an alternative, or top-up, to student loans.

There is considerable scope when it comes to student accommodation. By buying a house in the student area, your children can be assured of somewhere decent to live and should be able to cover most of the costs by renting rooms to other students. If the property is bought by the student, not the parent (and these days many lenders are happy to offer a mortgage to a student if the parents act as guarantors), the eventual sale may be free from capital gains tax under the principal private residence exemption.

Don’t forget the grandparents

The strict rules which apply to gifts from parents do not apply in the same way to gifts from grandparents, who are very often more than happy to support their grandchildren.

The notes above in connection with tax liabilities cover some of the “headline” information, but are not comprehensive. Please contact us for further information and help.