Case Study

Plan Money

Title: Investing for children

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I¹d like to build up some savings for my three¬year old daughter for when she is 21. I have an initial £1,000 lump sum followed by monthly contributions of £350 and the possibility of further lump sums. What are the best options for tax¬free investing? I was thinking of possibly a FTSE tracker fund, I would like the investment to be in her name if this is possible.

Saving early for your daughter is a wise move because your money will have more time to work for you. Your best option for investing tax¬free is to utilise your annual stocks and shares ISA allowance, which is £10,680 for the new tax year. However, this conflicts with your preference for the investment to be in your daughter¹s name. If you are not in a hurry you may want to wait until autumn when the new Junior ISAs are expected to be launched. More details should emerge shortly.

One of the main disadvantages of investing in the name of a child is that you will ultimately lose control and influence over the investment. Experience has taught us that it is not inconceivable for 21¬year¬olds who have the absolute control over a sum of money to spend it in a way, which their parents had not intended. It is also not uncommon for access or part access of capital to be required prior to the originally perceived maturity date, perhaps to assist with driving lessons or school fees. For these reasons I recommend you keep the investment in your name for now to maintain complete control and tax efficiency.

If you are not happy to invest in your own name, particularly if utilising your ISA allowances conflicts with your own planning, then you could consider using a Bare Trust. This has tax advantages because although the assets are held in the name of the trustee, they are taxed as owned by the beneficiary. With this option it is essential that you have a clear audit trail and complete the appropriate documentation. A Bare trust is inflexible though because the terms and beneficiary cannot be altered and you need to be mindful of the fact that the assets within the trust will become your daughter's absolutely at age 18.

A tracker fund is a good idea to keep the investment costs low.

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Diversification is important and because you have a long¬term outlook you can afford to be relatively adventurous in the early years and so I suggest you consider a global tracker such as Vanguard FTSE Developed World ex-UK Equity Index Fund. However, if you believe that a fund management team should be able to outperform markets over the long term via active management then you could consider M&G Global Basics fund which although will have higher charges than a tracker fund, does have an excellent long-term record.

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