Keeping their future dreams alive

A brief guide to Junior ISAs

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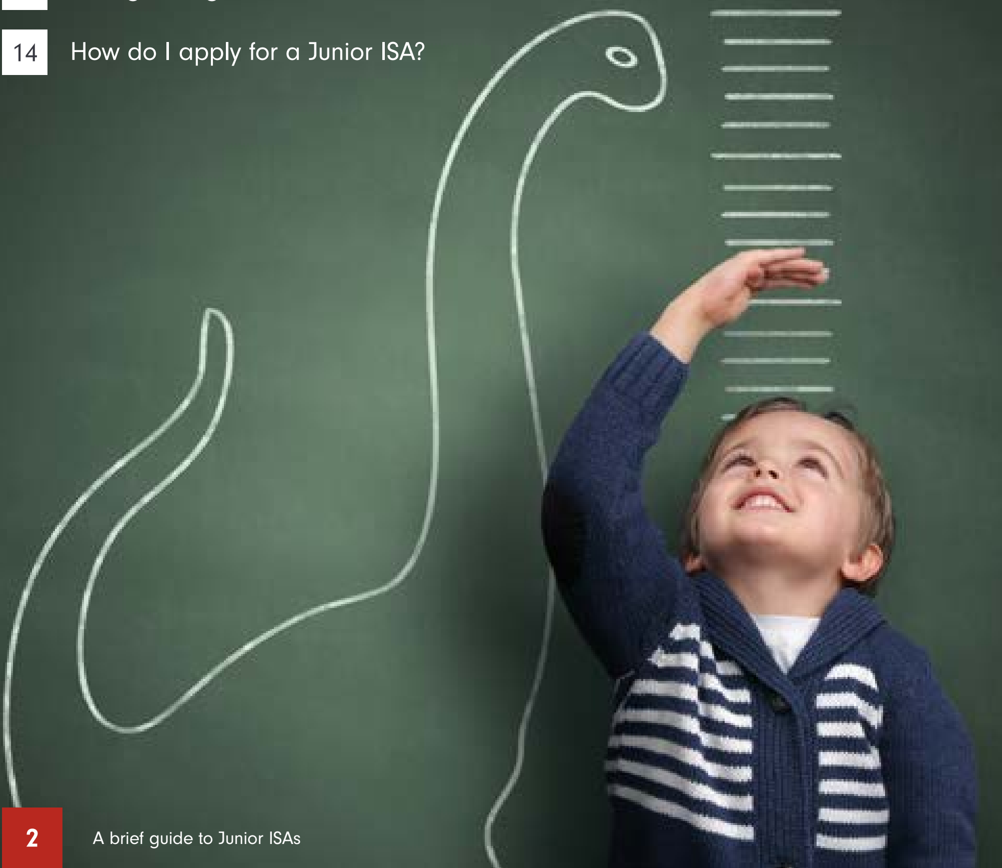


Investing for their future

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.

A Junior ISA is a tax-efficient savings account designed for adults to save and invest on behalf of their children.

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.

With students now leaving university with over £44,000 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.

Important information

Please keep in mind that the value of investments can go down as well as up so you may get back less than you invest. Eligibility to invest in a Junior ISA and tax treatment depends on individual circumstances and all tax rules may change in the future. Withdrawals from a Junior ISA will not be possible until the child reaches age 18.

Please note that the information in this guide is correct as at April 2024. For the latest information, please visit our website.

* Source: House of Commons Library, Student Loan Statistics – December 2023.

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 £9,000 for the current tax year on behalf of a child.
- Only someone with parental responsibility for the child can 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 we do not currently allow for Child Trust Fund transfers into a Junior ISA.
- Money invested in a Junior ISA matures into an adult ISA on the child's 18th birthday, at which point they can withdraw or add funds under the adult ISA rules.

- 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.

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. On a child's 18th birthday a Junior ISA matures into an adult ISA, whereas a Child Trust Fund is closed and the money paid to the child. Please note, children who hold a Child Trust Fund can transfer the investment into a Junior ISA. We do 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 at anytime. We only offer a Junior Stocks and Shares ISA. In comparison, you can open an ISA with a different company each year if you wish. 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 18th birthday, although a Junior ISA remains tax wrapped until the child wishes to access the money.

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.

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 £1,000. There is also a maximum amount you can invest in a Junior ISA each tax year which is £9,000 for the current tax year.

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, Fidelity is one of the UK's leading ISA providers. We are entrusted with the administration of over £49 billion of assets on behalf of over one million investors and offer over 7,000 investment options, including a number of different types of Funds, Shares, Exchange-Traded Funds and Investment Trusts.*

You have the reassurance of knowing that your investments are being administered by an independently owned and financially strong organisation.

*Source: Fidelity International as at December 2023. Not all funds are ISA eligible.

What can I invest in?

There are lots of options out there. Where you choose to put your money will depend on your needs, goals and attitude to risk.

Asset classes

You can invest with us in a number of different types of funds and exchange traded investments including Investment Trusts. There are five main 'asset classes (or, to put it a different way, categories of investments). We've described them in order of risk from cash, at the low end, to shares at the higher end.

Cash

What is it? Bank and building society accounts that pay interest, plus cash funds offered by investment companies.

Why do people use it? Cash savings are typically very low risk, so you are very unlikely to lose money. You should also know how much interest they will pay (though this can still change with little notice).

What are the drawbacks? Interest rates are still very low. Even 'high-interest' accounts are unlikely to offer enough for an income investor. More generally, cash accounts don't offer much potential for income or growth.

Bonds

What are they? A bond is just a type of loan. The key thing to remember is that you are the person loaning the money to a government or company.

Why do people invest in them? When you buy a bond, you should receive regular interest payments over a pre-defined period and your initial investment back at the end of the period. Many bonds are relatively secure and pay a stable income – others can be more volatile, but offer more income potential.

What are the drawbacks? There are no guarantees with bonds (though it is very unlikely that bonds issued by countries such as the UK or the US would default). Even the biggest companies can get into financial difficulties. Most bonds don't offer much protection against inflation, as the income they pay is fixed, while prices may rise.

Commodities

What are they? Raw materials and agricultural products from coal to coffee – and, of course, gold.

Why do people invest in them? Most commodities have an intrinsic value, so they are unlikely to collapse in price. They also tend to perform very differently to other investments, so holding them alongside other funds can make your returns less volatile.

What are the drawbacks? They can be difficult to invest in directly (apart from gold) and their prices can still change significantly – down as well as up. That said, they are considered lower risk than shares.

Property funds

What are they? Funds that mainly invest in commercial buildings, such as shops, offices and factories.

Why do people invest in them? They offer a relatively stable and attractive income that comes from rent payments on the properties they own. There is also the potential for some capital growth if the properties rise in value.

What are the drawbacks? The income is not fixed, tenants may miss payments and unoccupied properties don't receive any rent. There are also costs involved in maintaining properties. Property prices can fall as well as rise and they can be difficult to sell at times.

Shares

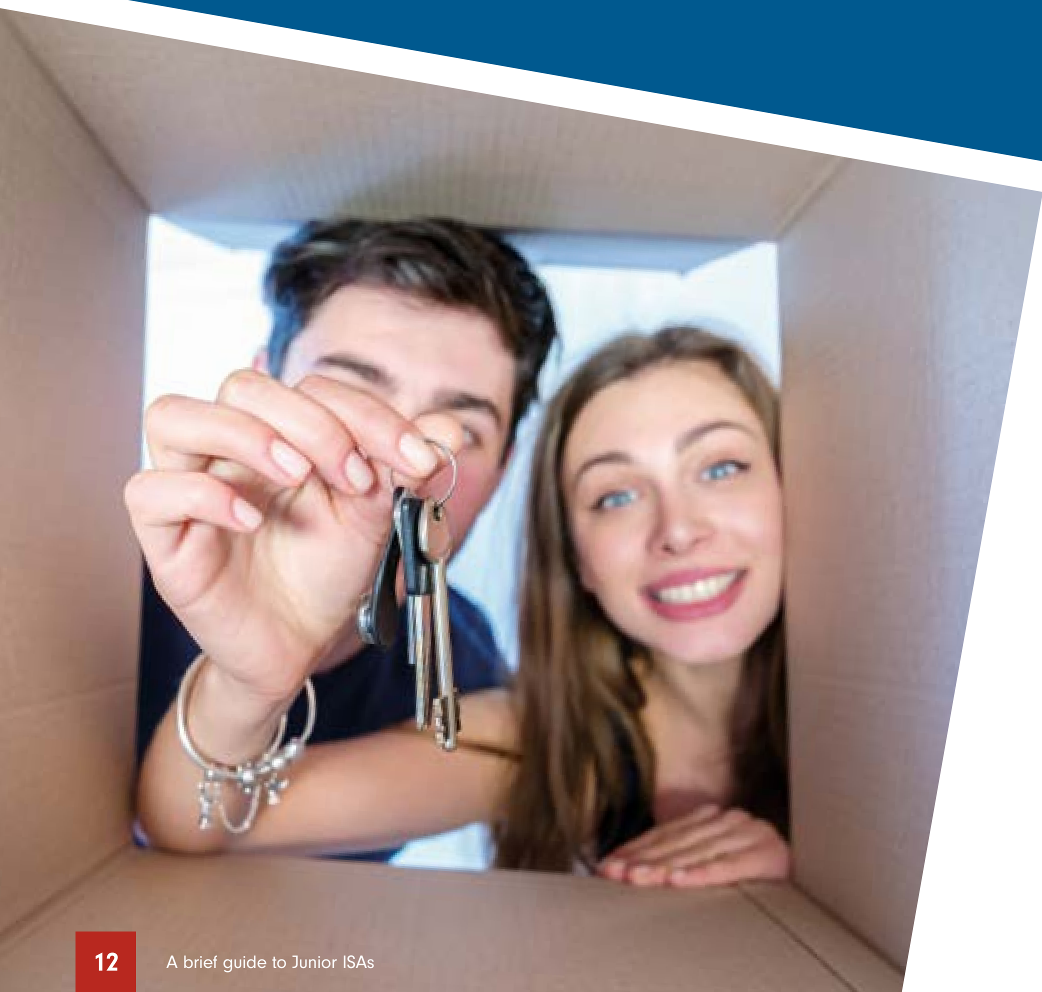
What are they? A stake in a company. Effectively, when you buy a share, you become a part-owner of a business.

Why do people invest in them? You benefit if the company does well, as its share price is likely to rise and it may give you some of its profits in the form of dividends. Over the long term, shares have tended to perform better than other investments – though there is no guarantee that this will continue to happen in future.

What are the drawbacks? Share prices can fall in value as well as rise – and change rapidly in a short time. Some companies go broke. In this situation, shareholders may not get anything back.

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 18th birthday, their 21st 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 18th 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 your 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.

- You can begin saving today with as little as £50 with regular savings.
- Friends and family can gift money too.
- You can choose from over 7,000 investment options.
- You must be the child's parent or guardian to open the Junior ISA, but once it is opened, anyone can pay in. All you need to do is start a regular savings plan from £50, or invest a lump sum from as little as £1,000.

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