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# IFA Fact Files
# "Child Trust Funds"

The current Government has embarked on a number of initiatives to encourage individuals to save more for their future. With the cost of further education rising one particular focus is saving for children.

Child Trust Funds are intended to encourage parents to save for their children's future by giving them £250 to get started.

**Who can have a CTF account?**
Any child born after 31st August 2002 is entitled to £250 with which to open a CTF account.
The account belongs to the child but is managed by a parent or guardian until the child is 16.
The fund cannot be accessed until the child reaches 18 at which time it is theirs to spend as they wish.

**How do you open a CTF account?**
The Child Benefit claimant will be sent a voucher for £250 with which to open the account.
The first accounts will be available from next April with vouchers being issued to parents or guardians from January 2005.
If your household income is below the Child Tax Credit income limit (currently £13,480 per annum) you will receive a voucher for £500.
Children born between September 2002 and the date of the voucher being issued will receive an extra amount to make up for the shorter investment term.
If a CTF account is not opened within a year of the voucher being issued the Inland Revenue will open one for the child.

**Can you add to the CTF as well?**
Parents, relatives and friends can contribute to the fund up to a total of £1,200 per tax year.
An additional payment will be made by the Government when the child reaches age 7 - this amount is yet to be determined.

**How is the money invested?**
There will be three types of CFT account available; Savings, Share-based and Stakeholder.
The Savings account will be very similar to a Cash ISA paying a known rate of interest.
A Share-based account will offer a wide range of investments managed by a professional fund managers like a Stocks & Shares ISA - the investment return will depend on the investment chosen.
A Stakeholder CTF account must have a charge cap of 1.5% per annum, must have some exposure to shares and must reduce the level of risk in the portfolio from age 13 at the latest.
All savings in a CTF account will be free of Income or Capital Gains Tax when the child reaches age 18.

**Why are the Government doing this?**
There is a recognised need to reduce the burden on the State of paying for pensions, healthcare and education. In short, our taxes and National Insurance contributions don't stretch far enough!

The Government also has a stated aim of increasing the number of students going to university to 1 in 2 by 2010 so half of all parents could be faced with making financial contributions to further education.

This also means that young people are starting work later which delays the period before they are contributing to the economy in terms of taxes and NI. Not to mention the size of debts that many have accrued upon leaving university.

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### A paradigm shift

Not long ago parents could plan their finances around children leaving home at 18. The term 'financially independent' is now very rarely used in talking about one's offspring. Many parents are re-mortgaging or delaying their retirement in order to help fund their children's aspirations. In addition to education, there are houses, cars and weddings all competing for available funds.

Undoubtedly there will be some who say that their children will have to work in part-time jobs in order to pay their own way in life. Ignoring the social aspects of this argument, careful financial planning can ensure that future generations benefit from family assets without them passing through the hands of the taxman first.

The additional contributions of £1,200 per annum can be made by anyone and it may be that grandparents could make use of this allowance as an early inheritance. Assuming growth at 5% pa and 1.5% pa charges, £250 could grow to £458 over 18 years - if an additional £1,200 was invested every year the total could be over £30,000.

### What else can I do?

Most banks and building societies will allow children to open their own accounts (see the Taxation section below). One of the main concerns of parents will be that their children can spend the money exactly as they wish when they reach 18 years of age.

If control of the funds is your main concern the simplest answer is to make use of your own tax-free savings allowances. A solicitor could assist you in arranging a simple trust but again these usually expire at age 18.

Any family member can also contribute to a Stakeholder pension in the child's name but the money will be tied up until the child is 55.

### Learning

The child themselves will receive annual statements so a degree of financial education is also required. Indeed all the Government's communications regarding CTF accounts have made reference to equipping future generations to manage their money effectively.

### Taxation

Technically children pay tax at the same rate as adults but in reality they rarely have income greater than the personal allowance of £4,745 (2004/05 tax year). Therefore you can apply for their bank or building society account to pay interest without tax deducted. However if an investment gifted from a parent generates more than £100 income per year it is taxed at the parent's tax rate.

### Life insurance

As well as providing for your child's future it is important to think about the short term effects if you die or are unable to work due to illness while they are financial dependant on you. There are a number of options for insuring yourself to provide for your family in the event that the worst happens.

### Budgeting

On top of all the issues described above, bringing up children is often the time of life when there are most demands on the family budget. It is therefore vital that you draw up a budget that includes long and short-term savings and stick to it!

*If you have any questions or need an independent review of your investment arrangements, please contact James Cole to discuss your situation further. Martin Andrews & Associates Ltd is an Independent Financial Adviser authorised and regulated by the Financial Services Authority.*

*Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.*