LSG FINANCIAL

# Junior ISAs

## What is a Junior ISA?

Junior ISAs, or JISAs as they are sometimes known as, were introduced in November 2011, they replaced Child Trust Funds as tax-efficient long-term savings accounts for children under 18 residing in the UK, provided they haven't invested in a Child Trust Fund. Exceptions apply for children of Crown servants living outside the UK who depend on their care.

A child cannot have both a Junior ISA and a Child Trust Fund account simultaneously, but a Junior ISA can be opened, and funds from a trust fund can be transferred into it.

Junior ISAs come in two types: Cash Junior ISAs and Stocks and Shares Junior ISAs.

A child can have either or both, with a combined annual contribution limit of £9,000 for the tax year 2023/24. If the child is under 16, the account must be opened by a parent or step-parent with parental responsibility, who becomes the 'registered contact' and sole authority to manage the account.

## Who can contribute?

Contributions can be made by anyone within the annual limit, but only the child can access the funds at age 18. If left untouched, the Junior ISA automatically converts into an adult ISA. Withdrawals before the child turns 18 are only permitted if the child is terminally ill, in which case the 'registered contact' can withdraw the funds, or in the unfortunate event of the child's death, where the money is inherited by the estate's beneficiary.

## Growing Wealth For Your Child's Future

Picture this: You decide to start saving for your child's future right after they're born with a Junior ISA. By putting away the maximum £9,000 each year in cash, you could end up with a jaw-dropping £162,000 after 18 years, even before any interest kicks in. But here's the kicker: if you invest that money wisely and it grows at just 6% annually, your child could have almost £300,000 by their 18th birthday. That is a serious chunk of change that could help with buying a home, covering college costs, or getting their first car.

What's impressive is that even if you haven't been able to save much in the past, you can catch up by putting in the full £9,000 whenever you are able to. Whether it's from an inheritance, downsizing your home, or money you've saved during tough times like lockdown, there are ways to make sure your child's financial future keeps growing strong.

## Ownership of Junior ISAs

An important aspect to consider with Junior ISAs is ownership. Although as parents you typically make the investment decisions initially, its crucial to understand that legally, the funds belong to your child. So, when they turn 18, they will gain full control over the account, allowing them the freedom to utilise the funds as they see fit. Ideally, they may choose to leave the funds invested, allowing for long term compounding returns. Additionally, when your child reaches 16, they gain some control over the account, although they cannot withdraw the funds until they reach the age of 18.

## Is Investing in a Junior ISA Secure?

If you were to invest into a Junior Cash ISA with a Bank or Building Society the money is protected by the Financial Services Compensation Scheme (FSCS). The protection limit is £85,000 (or £170,000 for joint account holders), Any excess than it might be a good idea to move this to make sure your money is protected. If you invested into a Stocks & Shares Junior ISA, the investment assets are held in safekeeping by a custodian on behalf of investors. Again, the FSCS will pay compensation of up to £85,000 per person. Because a Stocks & Shares Junior ISA is an investment, there is no guarantee you will get back the same amount you pay in as investments can rise and fall, and with this in mind you wouldn't be able to claim compensation if the value of your investment falls below what you paid for it.

We hope that you found this eGuide useful & informative. If you feel that we can help you with any aspect of this eGuide or any other financial planning questions you may have, click on the button below and we will be happy to assist.

Learn more