Junior ISA **Guide**

Children love imitating their parents, whether it be pretending to take phone calls or merely scratching their nose. And now, with Junior ISAs (JISAs), the UK's kids have the opportunity to replicate their elders' savings habits too.

Introduced by the Government in November 2011 to fill the void left after Child Trust Funds were scrapped, JISAs offer parents, family and friends a simple and tax-efficient way to save for a child's future. Available to children under the age of 18, the accounts currently welcome contributions of up to £4,368 in the 2019/20 tax year. Contributions are free to be invested between either or both cash and stocks and shares, the two investment options that JISAs offer.

Parents take the management reins of a JISA until the child turns 16. However, it is not until the 18th birthday, when a JISA automatically becomes an adult ISA, that money can be taken from an account. The ability to transfer JISAs from one provider to another is key in ensuring the best returns can be secured on the money invested.

Being a concept widely understood and embraced by savers, tens of billions of pounds are invested into ISAs every tax year. It is a success story the Government obviously hopes the JISA can replicate.

Opening a JISA

All UK resident children under the age of 18 who were not eligible for a Child Trust Fund can open a JISA. This means the accounts are available to children born on or after 3 January 2011 and under 18s born on or before 31 August 2002.

Around six million children initially qualifed for a JISA, with a further 800,000 children then expected to

continued overleaf

Key Facts

- **JISAs are tax-efficient savings accounts available to children under the age of 18 who do not have a Child Trust Fund.**
- **Up to £4,368 can be contributed into a JISA in the 2019/20 tax year.**
- **There are no restrictions on how contributions have to be invested across cash and/or stocks and shares.**
- **Money cannot be taken from a JISA until it rolls over into an adult ISA when the child turns 18.**
- **The cash and stocks and shares elements of a JISA can be held with different providers, with each account able to be transferred between providers.**
- **A loophole means 16-18 year olds are able to hold a cash ISA alongside a JISA and so can currently save up to £24,368 tax-free each tax year.**

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become eligible each year. Anyone with parental responsibility for an eligible child is able to open and manage a JISA, although children over the age of 16 can open an account for themselves.

Management responsibility
A consideration that may prove important to many parents is that JISAs only remain under their control until the child reaches 16. At this age, management responsibility for what could potentially be a sizeable amount of money passes to the child. However, it is not until the account holder turns 18 that JISAs roll over into an adult ISA and withdrawals are allowed. Prior to this, invested money cannot be accessed, except in the case of a terminal illness or the death of the account holder.

JISAs offer the option to invest into cash and/or stocks and shares but most importantly offer the same tax advantages as are available on adult ISAs. Income tax does not have to be paid on interest earned in a cash JISA. Any returns and capital growth enjoyed in a stocks and shares JISA are free from income tax and capital gains tax too.

Making contributions
In terms of contributions, an eligible child can currently receive up to £4,368 into their JISA in the 2019/20 tax year. While the allowance might be different to that of adult ISAs, other features relevant to contributions remain consistent. Any JISA allowance which goes unused in the course of a tax year cannot be carried forward to the following tax year.

Once a parent or guardian opens a JISA on behalf of their child, contributions can be made by anyone, friend or family, up to the annual limit. Lump sum and regular payments are both welcome. Making sure an account allows flexibility to increase or decrease monthly payments is advisable.

Investment decision
As to how the money is invested is the decision of the adult responsible for the account. There are no rules governing how the annual allowance has to be invested across the cash and stocks and shares elements of a JISA. Either type of account is permitted to hold the allowance in its entirety, or it can be split in any proportion between the two. It is also possible to transfer funds from cash to stocks and shares and vice versa.

As only one cash JISA and one stocks and shares JISA can be held at any time, this means a new JISA does not have to be opened for each tax year. It is still possible, however, to hold the cash and stocks and shares elements of a JISA with different providers. Accounts can also be transferred between providers. Cash tends to be king in terms of where parents will entrust their child's nest egg. Cash is a popular option because, unlike stock market investments, it is guaranteed not to fall in value.

Product options
The relative simplicity of the JISA proposition does not mean an account should be opened without due consideration of the options available. While fewer products are available than in the regular ISA market, some discernible differences can still be noted between many of the cash JISAs on offer.

Most parents will understandably want the very best interest rate available, but this might not always be as straightforward as it seems. On the whole, cash JISAs tend to offer a variable rate of interest which tracks the Bank of England base rate. Some accounts adopt a tiered approach whereby better rates of interest are paid if larger sums of money have been invested. Also worthy of note are the improved rates which some providers offer to existing customers.

Some cash JISAs offer rates that include introductory bonuses which apply for a set period only, typically for 12 months. Such accounts do, however, put the onus on savers to take note of when the bonus will expire. As the rate is likely to fall considerably after this date, a review of the product's competitiveness is a must at this time.

Transfer considerations
Although money cannot be withdrawn from a JISA, it is still possible to transfer an account in the quest for a better rate. With this in mind, it is worth noting that some cash JISAs require a period of notice or impose an interest penalty if they are to be transferred. For accepting these constraints, such accounts tend to offer more favourable rates of return.

Since April 2015, it has been possible to transfer from a Child Trust Fund into a JISA. It is an option that has long been campaigned for and, given the higher rates of interest, lower charges and wider choice of investments that are typically available among JISAs, one that Child Trust Fund holders should consider exercising.

Loophole
Also worth pointing out is a loophole which allows 16 to 18 year olds to hold a cash ISA alongside a JISA. While contributions can be made into a Junior ISA up until a child is 18, when a child turns 16, they are also eligible to open a cash ISA. HMRC has confirmed that youngsters in this particular age group can therefore save up to £24,368 tax-free each tax year by making use of the £20,000 limit available on a cash ISA alongside the £4,368 limit on a Junior ISA.

As to the safety of savings, as long as the JISA is provided by a UK regulated bank or building society account, it is protected under the Financial Services Compensation Scheme (FSCS). This means savers are guaranteed to receive the first £85,000 of their investment back should the provider fail.