

Junior ISAs – What do you need to know?



In July of this year, the Government announced further details about the arrival of the Junior Individual Savings Account (JISA), the replacement for Child Trust Funds which were originally introduced in April 2005.

Junior ISAs will be available from 1st November, 2011 and are open to any child born on or after 3rd January, 2011 or for any child under the age of 18 who was born before September 2002. If, for some reason, a child born between 1st September, 2002 and 13th January, 2011 did not qualify for the Child Trust Fund (perhaps, for example, he or she was born abroad), it will be possible to invest in a Junior ISA on his or her behalf.

Junior ISAs will have an initial annual limit of £3,600. This will rise with inflation at the beginning of each new tax year on April, 6th. The current limit of £1,200 imposed for existing Child Trust Funds will be increased to £3,600 in line with Junior ISAs, perhaps paving the way for a future merger of the two types of investment.

In many ways, Junior ISAs are similar to those available for adults. The ISA may invest in either cash or Stocks & Shares (or both at the same time) and, just as with conventional ISAs, the investment is tax-efficient.

The ISA is held in the child's name and for his or her use only. In other words, parents may not use the money themselves. No withdrawals may be made before the child reaches 18; the money may be managed by the child on reaching 16, and at age 18 the fund is converted to an adult ISA at which point the child may fully access the funds.

Unlike its predecessor, the JISA will not benefit from any Government contribution at inception, and any child with an existing Child Trust Fund will not be able to open a Junior ISA. Only someone with parental responsibility may open a JISA. However, as with Child Trust Funds, it is possible for parents, family and friends to make contributions to the fund.

Just as there are adult Cash ISAs and Stocks & Shares ISAs there will be both Cash and Stocks & Shares JISAs available. Children will only be able to hold one Cash JISA and one Stocks & Shares JISA at any one time. This means they are tied to one provider for the Cash and one for the Stocks & Shares unless they choose a provider that offers both types of JISA. However it will be possible to transfer a Junior ISA between Cash and Stocks & Shares and between providers.

This brings us neatly on to the choice of investment. There are numerous providers of Child Trust Funds and therefore it is likely that there will be a wide range of providers offering JISAs. Research carried out when Child Trust Funds were first introduced indicated that only 9% of parents had chosen equity based

investmentsⁱ, with the vast majority choosing to invest the money in cash accounts with a variety of banks and building societies.

If we assume that parents reading this article are considering JISAs which will be held for at least 5 years (assuming the child was born before January 2011) and up to 18 years, what useful information can we provide?

Over the last 18 years, annual inflation as measured by the Retail Prices Index, has averaged 2.6%ⁱⁱ. Given that the best Child Trust Fund accounts are currently paying around 3%, this would mean a return after inflation of 0.4% per year, at best.

In contrast, investing in a portfolio of UK stocks between 1995 and 2010, would have seen an annualised real return of 5.1% after inflationⁱⁱⁱ.

This is, of course, a very simplistic view, however, given that the fund will be – must, by law be – held for the long term, it is certainly worth seeking financial advice to help make the most of your children’s nest eggs.

Key points

- **Annual investment limit £3,600 (increasing with inflation)**
- **Available (in the main) to children born before 1st September 2002 or after 13th January 2011**
- **Cannot be accessed before age 18**
- **Seek financial advice about the most appropriate investment strategy**

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ⁱ Source: HMRC Research Report 18, September 2006

ⁱⁱ Source: Towers Watson

ⁱⁱⁱ Source: Dimensional Fund Advisers Matrix Book 2011

