

Passing wealth down through the generations

Millions of retirees help out in cost-of-living crisis

The rise in the cost of living is affecting millions of people. A third of young adults (18-34) and families with young children are struggling financially. Many are turning to family and friends for help with day-to-day expenses such as utility bills, housing costs and childcare, according to new research^[1].

One striking aspect is the extent to which grandparents are stepping in with thousands of pounds of support and helping grandchildren with housing deposits in addition to everyday expenses.

OPTIONS AVAILABLE

It's understandable why grandparents want to help their family and pass wealth down through the generations. When doing this, there are a number of options available, each with different advantages and disadvantages.

Gifted money early can reduce Inheritance Tax liabilities and a grandparent can gift up to £3,000 a year without being added to the value of their estate. Currently, a couple could therefore gift £6,000 a year. If some or all of it was invested in a pension it would receive tax relief.

GIFTING MONEY

Grandparents interested in helping a grandchild save for a house could also consider saving into a Lifetime ISA (LISA). Only the child/grandchild, as the account holder, can open and manage their LISA but

it's possible to gift money to an account holder to pay into their LISA.

Those helping grandchildren, the research highlighted, gave £15,000 on average, while 10% gave over £50,000. The main reasons grandparents helped out grandchildren financially were to help with day-to-day costs (43%) and help with bills (37%). One in four (24%) grandparents gave money to help their grandchildren buy a house.

SAVING FOR A CHILD OR GRANDCHILD

Parents and grandparents have several options when saving for a child or grandchild. Choosing the right one can make a big difference.

CONTRIBUTING TO A PENSION

Although most people won't set up a pension until they reach working age, a Junior Self-Invested Personal Pension (SIPP) can be started as soon as someone is born. In addition, any contributions made by a parent or grandparent,

which can be made directly to the plan as 'third-party contributions', will be treated for tax relief purposes as if they were made by the beneficiary themselves.

This means that contributions paid to a 'relief at source' scheme will currently receive tax relief of 20% (£20 for every £80 net contribution) as long as the gross contributions do not exceed the beneficiary's relevant UK earnings for the tax year or £3,600 if more.

In addition, where a beneficiary has paid income tax at a higher rate, they will be able to claim the difference directly from HM Revenue & Customs through self-assessment, so a further 20% for a higher rate (40%) tax payer on some or all of the contributions.

Although a child under the age of 18 is unlikely to have relevant UK earnings, total contributions up to the 'basic amount' of £2,880 net (£3,600 gross) can be made each year and will still benefit from tax relief.

Pension contributions can be one of the more tax-efficient ways to gift money to a child or



grandchild, but the money is likely to be inaccessible until they reach age 57 (normal minimum pension age is rising from 55 to 57 in April 2028).

LIFETIME ISAS (LISAS)

If the child or grandchild is aged between 18 to 40, helping them save into a lifetime ISA (LISA) can be beneficial, especially if they are trying to raise a deposit for a first home. This is because the government will add a 25% bonus to subscriptions of up to £4,000 a year (i.e. £20 for every £80 subscribed).

However, if withdrawals are made for any purpose other than purchasing a first home, a tax penalty of 25% (i.e. £25 on a withdrawal of £100) will apply unless the individual is terminally ill or aged 60 or above. Since the tax penalty exceeds the initial bonus, it is normally not the most tax-efficient investment if the penalty is likely to be incurred.

Only the child or grandchild, as the account holder, can open and manage their LISA but it's possible to gift money to an account holder to pay into their LISA.

TRUSTS

For those who want more control over how money is spent, setting up a trust can help ensure any investment is used appropriately. There are a wide variety of trusts

that can be used to meet individual requirements. ■

WANT TO DISCUSS HOW TO INVEST FOR YOUR CHILDREN OR GRANDCHILDREN?

All parents and grandparents want to give their children or grandchildren the best possible start in life. When it comes to investing for a child's future, putting aside just a small amount of money on a regular basis can really add up. So, are you ready to start saving? To find out more, please get in touch.

Source data:

[1] Research from LV= highlights how millions of people have helped friends and family financially in the past six months. The LV= Wealth and Wellbeing Monitor – a quarterly survey of 4,000 UK adults – reveals that many people struggling with everyday living costs are turning to family and friends for support 23/08/22.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN YOU INVESTED.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAXATION AND TRUST ADVICE. TRUSTS ARE A HIGHLY COMPLEX AREA OF FINANCIAL PLANNING.

