An introduction to Junior ISAs

BEANSTALK

We've been helping parents save for their children for over 10 years. Our experience is that almost every new parent – and grandparent – that we talk to really wants to put money aside for their children to give them the best possible "launch" into adult life. It is completely natural: parents worry that today's kids face a tougher time than they did – university fees, housing costs, cost of living – and want to help out as much as they can.

A Junior ISA can potentially help in achieving that aim but a lot of people are not sure quite what they are. We have written this guide to help demystify things. In it, we explain what exactly a Junior ISA is, how it works, what the different types are and how you can use them to build a lump sum for your child or children.

About Beanstalk

Beanstalk is a family saving app that has been created by the team at KidStart, the unique free shopping club for parents that gives you money for your kids whenever you shop. Over the last 10 years, KidStart has helped thousands of families save millions of pounds for their children on their shopping at over 2,000 retailers.
Beanstalk offers Junior ISAs for all your children along with some simple and unique ways to top them up.

Find out more at:
www.beanstalkapp.co.uk

Please do read the following as it contains important information to be aware of.

This introduction is designed to help you understand the basics of what Junior ISAs are and how they work but is not personal advice on what you should do in your specific circumstances. If you are at all unsure or have any questions, then you should contact a suitably qualified financial adviser.

Unlike money held in a bank account, stock market and other investments can go up and down in value so your child could end up with less than was contributed. Such investments should therefore be viewed as for the longer term.

Past performance of any investment is not a good guide as to its likely future performance, and finally you should be aware that the tax treatment of Junior ISAs depends on your / your child's circumstances and it could change in future.

Information in this guide is correct as of August 2020 but could change.
This guide is issued by KidStart Limited trading as Beanstalk. KidStart is authorised and regulated by the Financial Conduct Authority.

Let's start with the basics: what actually are Junior ISAs?

Junior Individual Savings Accounts (often shortened to Junior ISAs or just JISAs) are savings and/or investment accounts specifically for saving for children.

To help parents, and others, put money aside for when their children become adults, JISAs were created by the government in 2011. They were given a number of tax and other advantages but to quality, JISA providers, such as Beanstalk, must be approved by HMRC (the UK tax authority) and ensure their product follows the rules.

There are two types of Junior ISA: "cash" and "stocks & shares". A child is allowed one of each type and each account can only be in the name of one child.

If you have two children, you must open a separate account for each.

Transfers between providers are allowed. Not all providers accept transfers, but all must allow transfers out.

So if you want to open a cash JISA for your child but they already have one with a different bank, you can do so by transferring your child's old account across along with any money in it.

Only the child's parent or legal guardian can open a Junior ISA. The account is in the child's name and any money or investments in the JISA belong to the child. The parent / guardian acts as the "registered contact" and manages the account on behalf of the child.

If you are a grandparent and wish to contribute, you need to ask the parent to set up the account first.

Except in a very few circumstances, **no withdrawals are permitted from the Junior ISA until the child turns 18.**

There is a government set limit on how much can be paid into a child's Junior ISA(s) each tax year. **For 2020/21, the limit is £9,000.** This limit is per child, so if they have a cash and a stocks & shares JISA, then the total paid in from all sources must be no more than £9,000 per year (although you could put it into just one or both in whatever proportion you want.)

So why might I want to open a Junior ISA for my child?

It is every parent's natural instinct to want to support their child and opening a Junior ISA can be a great way of doing so. With the increasing costs of living, housing expense and university fees, even the smallest amount could give them a helping hand as they reach adulthood.

Putting a **little money aside over a long time** can help build a nice lump sum if the value rises over time. Although there are no guarantees, see what different amounts could produce over 18 years with different growth rates:

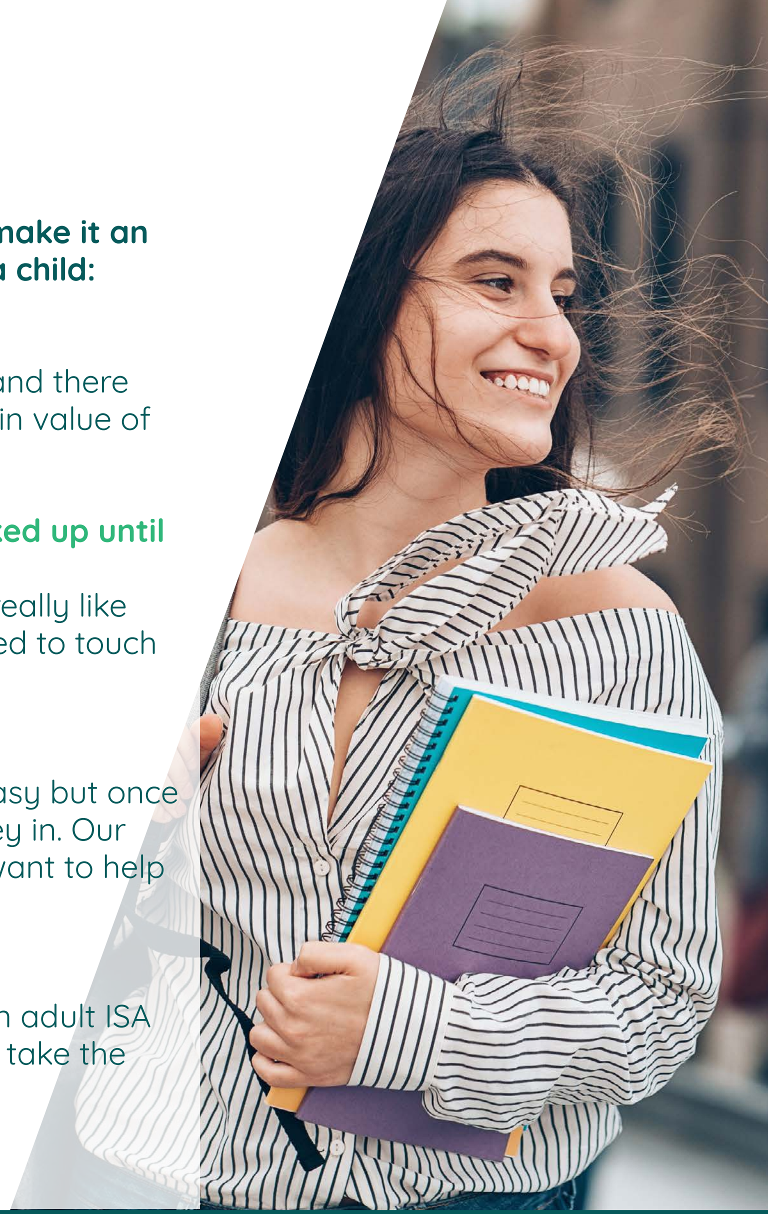
The Junior ISA has a number of features that make it an attractive option for putting money aside for a child:

It is tax-free.
Any interest or investment income is tax-free and there is no capital gains tax to be paid on increases in value of any investment.

The money belongs to the child and it is locked up until the child is 18.
Many parents, and grandparents, tell us they really like this because it means that they are not tempted to touch it!

Anyone can pay money in.
Unlike Beanstalk not all providers make this easy but once opened, friends and family can also pay money in. Our experience is that grandparents in particular want to help out and JISAs simplify this.

It turns into an ISA at 18.
At 18, the Junior ISA automatically turns into an adult ISA in their name, which means they don't need to take the money out straight away.



"My grandfather put a small amount into an account when I was born. It was great as the £1,000 I received at 18 allowed me to buy the laptop I really wanted as I headed off to college"

What are the rules around Junior ISAs?

Who can have a Junior ISA?

You can open a Junior ISA for your child if they:

- **are under 18; and**
- **live in the UK.**

You must be the child's parent or legal guardian to open a Junior ISA on their behalf. You will be the "registered contact" for the account and manage the account until the child takes it over.

A child is only allowed to have one of each type of Junior ISA. If you already have a Junior ISA of the same type, you will need to transfer it across to the new provider.

Who can pay money in?

Once the account Is opened, **any one is allowed to pay money in but the total contributions per child must not exceed the annual limit set by the government for each tax year.** Grandparents are often a major contributor to JISAs but other friends and family can do so as well.

Some providers have different rules around accepting payments from people other than the parent. Beanstalk is specifically designed to simplify the process for grandparents and others making gifts.

Once contributed to the JISA, the money belongs to the child and cannot be withdrawn by either the parent or any other contributor. Apart from exceptional circumstances, such as the sad death or terminal illness of a child, **withdrawals are not permitted until the child is 18.**

“I love the idea that instead of throwaway birthday and Xmas gifts, I can help build towards their future”

What happens when child turns 18

When a child becomes 18, the Junior ISA automatically turns into an adult ISA of the same type. **Withdrawals from adult ISAs are allowed** so the child can take out money at that point but they can also leave it in to benefit from further tax-free income or growth.

Some Junior ISA providers allow the option for children to take over the management of the account from the age of 16 but Beanstalk currently does not permit this.

If you do not know where your child’s CTF is held, we explain how to find out in the following blog article:

https://beanstalkapp.co.uk/articles/locate-a-missing-ctf

Child Trust Funds and Junior ISAs

The Child Trust Fund (CTF) was a scheme that was in existence before the JISA was created. It involved the government giving every child born in the UK a £250 voucher (in some cases more) when they were born which was then used to open a CTF. As a result, **most children born in the UK between 1st September 2002 and 2nd January 2011 will have been set up a Child Trust Fund.**

Children are not allowed to have a Child Trust Fund and a Junior ISA. However, you can transfer the CTF into a JISA and many providers (including Beanstalk) allow this.

Generally CTFs have become less attractive as providers are not competing for new accounts (e.g. Cash CTFs interest rates tend to be lower than cash Junior ISAs) and fees on Stakeholder CTFs are often higher. **A JISA automatically becomes an ISA when the child turns 18 years old but the CTF does not.**

The two types of Junior ISA

Cash Junior ISAs

Cash Junior ISAs are usually offered by banks and building societies and are similar to regular bank savings accounts in that they pay interest on any cash in the account. Typically cash Junior ISAs offer **fixed interest rates** (which the provider then varies from time to time).

> *For example, if the account offers 1% annual interest, then after one year £100 in a JISA would be worth £101.*

Cash Junior ISAs generally offer **higher interest rates than regular savings accounts.** You should be aware of introductory offers where the interest rate is set high to attract new customers but then drops over time.

Cash Junior ISAs are **low risk in that the deposit in the account will not go down in value.**

> *Some people chose to open cash JISAs because they do not want any chance of losing money. They can also be a good choice where there is only a short time before the child will need to use the money (for example if you are opening an account when the child is nearer 18)*

Although cash JISAs give certainty (you know that the savings will grow by the interest rate), one thing to think about is the **effect of the inflation rate on the value of your child's savings.** If inflation (the general increase in cost each year of goods and services) is higher than the interest rate, then despite the fact your child's savings have grown, they will be able to buy less with the money than they could at the start. You should also **check whether the account is protected under the Financial Service Compensation Scheme,** which protects deposits up to £85,000 in case the Bank has financial difficulties and is unable to pay back.

Stocks & Shares Junior ISAs

Stocks & shares Junior ISAs are investment accounts in that the **money is used to buy shares or other investments.** The return is dependent on the increase in value of the investment and any income that it generates.

Different providers allow different sorts of investments to be purchased (eg: shares in individual companies or units in investment funds). These can vary in risk but with almost all there is a chance that you could end up with less than you put in.

Evidence suggests that, over the long term, stocks and shares tend to outperform cash as the **returns can compensate for the ups and downs.**

For example, the Barclays Equity Gilt Study in 2019 showed that over 50 years, UK shares would have returned 4.7%, whereas cash would have returned 1.1%. In some years cash would have significantly outperformed equities but over the longer term it was the other way around.

The study also showed that since 1899, money invested in UK shares and held for 10 years would have outperformed cash savings in 100 out of the 110 years.

Given that putting money aside for a child is typically longer term in nature, you may be prepared to accept the risk that the value may fall at times in the belief that over the longer term returns will compensate for the increased risk.

The other difference with stocks & shares JISAs is how they are paid for.

With cash JISAs, banks normally set their interest rates considering the “base rate”, which is set by the Bank of England. They make money by **paying savers less interest on their cash than they charge to people who borrow** from the bank.

With stocks & shares JISAs, the provider will typically charge fees (usually deducted from the cash in the account) for managing the account, providing the service and there may also be fees attached to any investments that are made. These fees vary enormously by provider so make sure you understand what the fees are before committing.

Transferring an existing JISA or CTF

A child can have both a cash JISA and a stocks & shares JISA but cannot have more than one of each. If you want to open a Junior ISA of the same type with a new provider then you will need to transfer across your existing account. Not all providers accept transfers in, but all must allow transfers out.

Similarly if your child has a CTF, then they will need to transfer it to open either type of Junior ISA.

Should I transfer?
The decision on whether to transfer is obviously up to you. If you think you are paying too much in fees or are disappointed with the returns on your child's account, then transferring could be a sensible thing to do.

What do I need to do to arrange the transfer?
Generally the transfer process is pretty simple. Your new provider will ask you to complete a form with information on your child's existing account, which needs to be signed by the registered contact for that account.

The new provider will send this form to your existing provider who will then close the account and will transfer any value across directly to the new provider.
Providers vary in how they manage transfers but most, like Beanstalk, make transfers in cash so any existing shares or investments will be sold before the transfer.

The Beanstalk Junior ISA

Beanstalk is a fintech app aimed at helping parents and families build their long-term child savings. It has been developed by KidStart, the one of a kind free shopping club for parents that gives them money for their kids whenever they shop at over 2,000 retailers. Over the last 10 years, KidStart has helped thousands of families save millions of pounds for their children. From our background, we could see that parents struggled to work out what to do. They found it hard to put money aside, found the choices confusing making it difficult to decide what is right; and the products are often poor value, expensive or require commitment.

Beanstalk is designed to solve these problems by making it really easy for families to save, whether their target is £100 or £100,000. It's now simple for them to work together and build a pot of money to give their kids the best possible launch into adult life.

Beanstalk's features include:

One app for all the family:
a parent can set up, view and manage accounts for all their children, and themselves, all through one log-in.

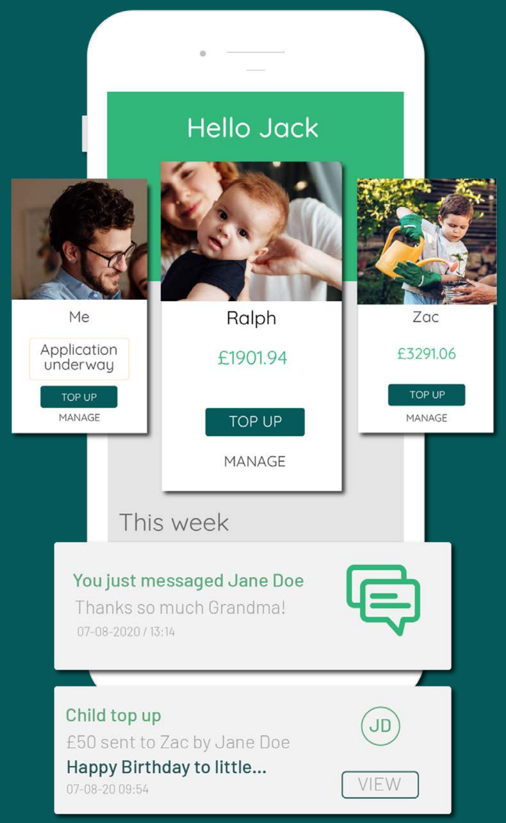
Stocks & shares JISA:
Beanstalk offers a low cost stocks & shares JISA with a simple choice between a cash fund or a shares fund.

No minimums:
parents can open an account without making a contribution, and then top up when and if they want to.

Simple account opening:
registering, adding children and opening accounts takes a few seconds.

Family saving:
the parent can invite grandparents/
others to link to their children.

Multiple top up tools:
we provide multiple ways to contribute, including round up your purchases, a simple one-off / regular top-up process and free money back on your shopping.



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