Tax planning for the end of the financial year

We look at ways to make the most of your money in the run up to the end of the tax year, some of which could also give your children or grandchildren a financial headstart.

When it comes to making the most of your tax allowances as we approach the end of the current tax year, a financial gift could be just what you're looking for. A financial present is a great way of preparing your child or grandchild for their financial futures.

Junior ISA

If you're looking to put some cash aside for your children, Junior ISAs (JISAs) are a great way of doing so. These accounts are available to anyone under 18. Like the adult accounts, everything earned in a JISA is tax-free. This means there won't be any tax on the interest and you won't be liable for any tax on capital gains or dividends if you choose to invest.

When you put money in a JISA it's locked away until the child reaches 18, when it then becomes theirs. JISAs can be opened by parents with children aged under 16 or by children themselves when they are aged 16 and 17. In the current 2021/22 tax year you can save or invest up to £9,000 in a JISA. You can save for your child in a Cash JISA, a Stocks and Shares JISA, or a combination of the two.

Cash JISA

A Cash JISA is simply a tax-free savings account and you get a defined amount of interest. On the downside, your money won't grow as quickly as inflation.

Stocks and Shares JISA

With a Stocks and Shares JISA, the return you get will depend on how well the stocks and shares you have invested in perform.

Children's pension

Contributions into a child's pension fund are a great way to build a nest egg for your children or grandchildren. Before your children enter the workforce, putting aside some money for them now could really help them out later on.

Children's pensions are similar to adult pensions in many ways (like investing in shares and attracting tax relief from the government). They are managed on behalf of a child by a parent or legal guardian until the child turns 18.

A child's pension can be set up by a parent or guardian, but anyone can contribute. You can pay up to £2,880 in the 2021/2022 tax year into a pension on behalf of a child and the government automatically tops this up with 20% tax relief on the total amount contributed, taking the figure up to £3,600. When the child reaches 18, the control of their pension passes to them but the funds must remain in it until the holder reaches 55.

Make a cash gift

Making a cash gift can be a great way to help a loved one (and help with your estate planning). Everyone has an annual gifting limit of £3,000 that is exempt from inheritance tax (IHT). This is known as your annual exemption. If you fail to use it one year, you can carry it over to the next tax year (so if you didn't use the gift last year you could give away £6,000).

You can also give smaller gifts worth up to £250 to as many people as you like. Most gifts made seven years before your death are also tax-free. While you can give as much as you like, if the gift is worth more than £3,000 you may have to pay IHT.

Wedding gifts

Another way you can support your children or grandchildren is by offering to pay for their wedding. Gifts for a wedding or a civil partnership are exempt from IHT and are separate from the annual £3,000 gift allowance.

A parent can give up to £5,000 to a child for their wedding tax-free. Grandparents or great grandparents can each give up to £2,500, while other relatives and friends can give up to £1,000. But remember, if the gift is to be effective for IHT purposes, it has to be made before, not after, the wedding – and the wedding has to happen.

Think about capital gains tax

It's worth remembering that any gift you give, even to family members, could be subject to capital gains tax (CGT). CGT is the tax you pay on any profit or gain you make when you dispose of an asset, such as a second home or shares.

So in theory, if you gift an asset and it has risen in value compared to what you have paid for it, you could be liable to CGT. For the 2021/2022 tax year the CGT allowance is £12,300. This is the amount of profit you can make **before** CGT is applied.

Estate and tax planning can be complex, so if you decide to gift a valuable asset, make sure you speak to your financial adviser first who can help you avoid any mistakes.

Did you know?

A Junior ISA or a Junior pension can help get your children or grandchildren off to a great start as even small contributions can grow to make a big difference to the amount of money they have when they're older. This is because of compounding – the snowball effect where you receive returns on your savings and investments over many years.

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