GIFTS OF THE FINANCIAL VARIETY

The best gift you can ever make to your grandchild or grandchildren this festive period will have a longer-lasting impact

Your grandchild or grandchildren may want the latest toy or gadget this Christmas, but how about giving them a present that can help their financial future? UK tax laws allow children to receive pension contributions of up to £3,600 a year from the moment they are born.

HM Revenue & Customs will currently give tax relief of £60 per month on a £240 a month contribution. The money is locked away until the recipient reaches age 55, but it means they can't 'fritter away' their inheritance!

MORE SELF-RELIANT

Instead, the money becomes available at a time when they may really need it – to pay off a mortgage or fund their lifestyle in retirement. After all, children born today are unlikely to enjoy the same level of retirement funding that the current baby boomers are enjoying. They'll need to be more self-reliant, as dependence on the State is likely to diminish and company benefits such as final salary pension schemes disappear.

TAX-EFFICIENCY

There's another reason why it may make sense for you to do this, and that's tax-efficiency. If you've taken your tax-free lump sum from your own pension, the remaining fund will either be in 'income drawdown' or you will have purchased an annuity. What you may not realise is that even if you are not actually taking an income from your remaining pension fund, it's still classed as 'in drawdown'. This means it could be subject to a 55 per cent tax charge when you die, so your beneficiaries could receive just 45 per cent of your remaining pension fund [1].

INHERITANCE TAX PURPOSES

Using income from your drawdown fund could help move the money out of this 55 per cent death tax environment. Similarly, if you've taken out an annuity and have surplus income, then putting the money into your grandchild's pension may also help move money out of your estate for inheritance tax purposes.

Once the contribution is made into the grandchild's pension, the future investment growth of those contributions belongs to your grandchild, creating significant longer-term value compared to leaving the money within your estate. ■

THE MOST VALUABLE GIFT EVER

Opening a pension for your grandchild or grandchildren this festive period could significantly improve the amount they eventually inherit. With both tax and estate planning benefits, together with the prospect of giving them financial independence in their retirement years, this really could be the most valuable gift you ever make to them. To discuss this and any other retirement planning concerns you may have, please contact us.

[1] Drawdown money is subject to a 55 per cent death tax if paid as a lump sum to beneficiaries.

While annuities are generally guaranteed to be paid, remaining invested and using drawdown means that the value of your pension, and the income from it, can go down as well as up. Therefore there is a chance that you may not get back as much as you would by using an annuity. Drawdown is a high-risk option which is not suitable for everyone. If the market moves against you, capital and income will fall. High withdrawals will also deplete the fund, leaving you short on income later in retirement. The value of investments and the income from them can go down as well as up. You may not get back as much as you invested.