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Out and About in the Financial World

Welcome to our newsletter sharing items that we feel may be of interest to you, our clients, as well as your family and friends.
If you read anything of interest and we can be of further help please don't hesitate to give us a call.

Junior pensions: what is a Junior SIPP and how does it work?

You can start a pension for any child aged under 18. This can be an exceptionally good way to save for your child's future, as it means pension benefits can build up over their own lifetime (rather than just from when they start work).

You can pay a maximum of £2,880 per year into this, which becomes £3,600 through the 20% tax allowance.

Here's an example.
Open a Junior SIPP for a baby soon after it is born and contribute the annual maximum of £2,880, which becomes £3,600 a year, and stops paying into it as soon as the baby turns 18.
Assuming no further payments are made by anyone, and a steady 4 per cent growth, then by the time 65 is reached the pension pot will be over £620,000.

How does it compare to waiting to start a pension at age 25?
Assume the same amount is paid in each year (for comparison's sake, we won't factor in employer contributions).
Pay in £240 a month, which tax relief tops up to £300 (making £3,600 a year) until age 65. This is a contribution for 40 years and a total of £115,200. The final pension sum works out at just under £356,000.
This is £264,000 less than what would have built up in a Junior SIPP – yet it has cost more than twice as much.
The total growth on the contributions this time is just 300 per cent. It's still a lot – but only a quarter of what the Junior SIPP delivered.

The inheritance tax benefit.
There is another advantage to setting up this kind of pension for a child (or indeed grandchild). Anyone looking to pass on assets to their family should think about.
You can of course to reduce the value of your estate, but anything over £3,000 in a year will be taxed if you die within seven years of making it.
A gift under £3,000 may not seem very much – but as a pension contribution it's another matter.
If you pay into your grandchild's SIPP, for example, you could pay the annual maximum of £2,880 and stay comfortably within the tax-free gift limits, while your gift would become £3,600 through tax relief.
This creates a wonderful nest egg for the child's future, while at the same time reducing the size of your taxable estate (so you can pass on more to your own children).

Nick Green financial journalist writing for Unbiased.co.uk, Last updated December 11, 2023

To find out how to set up a Junior SIPP speak to us

Six ways to reduce inheritance tax bills

The taxman raked in a massive £749 million from inheritance tax in July 2024, bringing its total 2024/25 to-date haul to £2.8 billion. This marks an increase of £230 million, or 9%, compared to the same period in the previous year.

When Gordon Brown was Chancellor of the Exchequer, he described inheritance tax as a "voluntary tax" because of the various ways you can avoid it, while Roy Jenkins, another former Chancellor, called it "a voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue."

Here, we explore some of the ways you might be able to legally cut the amount your loved ones will need to hand over to HMRC when you die.

1. Write a will

Making a will is one way to ensure you don't leave your loved ones with a bigger inheritance tax bill than you need to. Having one in place means that your assets will be distributed to who you want them to go to, and in a way that may help minimise any potential inheritance tax liability.

2. Leave a gift to charity

If you make a gift to charity in your will, there won't be any inheritance tax to pay on it, so you'll not only be able to help causes close to your heart, but it can also help keep your tax bills down.

3. Take out a life insurance policy written in trust

If you know your estate is worth more than the inheritance tax threshold, you may want to take out a whole of life insurance policy to provide your loved ones with a lump sum to pay your inheritance tax bill when you die. Although this won't reduce the amount you have to pay, it can mean that they don't end up with a massive bill to pay from your estate.

4. Make gifts during your lifetime

You can give away £3,000 worth of gifts each tax year without them being added to the value of your estate. If you don't use this annual exemption one year, you can carry it forward to the next tax year.

5. Avoid dipping into your pension before you have to

Any money that is left in your pension when you die is normally free of inheritance tax so if you can afford to, it may be a good idea to make it the last thing you spend. As a general rule, other savings and investments are subject to inheritance tax but pensions aren't.

6. Get hitched!

Tying the knot for tax reasons might not sound very romantic, but depending on your circumstances it could substantially reduce your inheritance tax bills. If you live with your partner, but aren't married or in a civil partnership, the inheritance tax rules are much less generous:

You each have your personal nil-rate band or inheritance tax allowance (£325,000 in the current 2024/25 tax year). You can give money or assets that you own to your partner, but they won't be automatically exempt from inheritance tax.

If you get married or enter into a civil partnership, then not only can you give away anything to your husband, wife, or civil partner without worrying about inheritance tax, but your inheritance tax allowance can be transferred to them after your death.

This effectively gives married couples and those in a civil partnership much more flexibility about who they leave money and property to.

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Information in this newsletter is current but could change in the October Budget