**Tax efficient savings for your children or grandchildren**

With thousands of students due to begin University in the next few months, parents will be thinking about how best to support them – particularly given how expensive student debt now is. Students graduating this year may face debts of more than £50,000.

Whilst student loans don't have to be repaid until earnings reach £21,000 it is becoming increasingly clear that large numbers of students will have their student loans written off automatically after 30 years. Some financial commentators say that paying for children's tuition fees or covering their loans while they are studying may therefore be financially inefficient. However, student debt and loan repayments will make affording rent in the housing market or saving for a deposit to buy a house much more difficult in the future. With UK average earnings at £28,000 loan repayments are likely to commence quite quickly for many graduates.

There are several ways where parents or grandparents may be able to help their children or grandchildren create savings from an early age to fund both their education and higher education.

1. Each grandparent can provide regular gifts (up to £3,000 in total gifts per annum to their grandchildren) which can create a significant fund by the time the grandchildren reach 18 years of age.
2. Grandparents with an income which currently exceeds their living costs can make additional gifts of this excess income to their grandchildren tax free each year.
3. Children qualify for a personal allowance of £11,500 per annum from birth and a Capital Gains exemption of £11,300 on any Capital Gains they incur therefore much of the interest earned or capital growth will be tax free.
4. Where parents can afford to meet University tuition fees and living costs, particularly when their student children will be likely to earn more than £21,000 in the future, this will significantly reduce the financial burden when student loan repayments start to be paid. The current rate of interest on student loans is RPI + 3% making the interest currently 6.1%. Parents are likely to be receiving less than 1% on savings at the minute so funding this expense is a sound financial proposition.
5. A further benefit would be the contribution of a £3,600 pension scheme for each child from an early age as the net contribution would be £2,880 with a £720 top-up from HMRC in tax relief available. On the basis of a 5% return over a 35-year period, this would create a

starter pension pot of more than £60,000. (Source: Money Week, 18th August 2017.) HMRC have confirmed that there are currently more than 60,000 under 18-year olds with their own pension fund.

6. The creation of Junior ISA or ISA contributions for children from an early age is also extremely beneficial and will certainly take some of the pressure off them when they are struggling to pay rent or save for a deposit to buy a house. When a high earning student has purchased a house and starts a family, this is where the benefit of not having to then repay the student loan will kick in significantly.

It is important to take professional advice before undertaking any of these savings ideas. Our team of qualified Independent Financial Advisers at Lamont Pridmore Asset and Wealth Management Ltd will help guide you through this financial maze so please **contact us** on **01539 732377 or email info@lamontpridmore.co.uk.**