

# How to get the most from your child's account

PARENTS need to take advantage of tax breaks by switching savings accounts to ensure their children are not getting a raw deal.

A report last week revealed children are being paid as little as 5p interest a year on each £1,000 of savings. Even if they are in an average-paying account, they will see only £1.10 interest a year, says consumer champion Which?

It found more than half of easy-access accounts aimed at children pay just £1 interest or less on £1,000.

The findings came as the Government delayed revealing proposals for the new Junior Isa, a tax-free account for parents to save and invest for their children until they are 18.

They have also increased fears that rates for child trust funds, which have shut for newborns, will start to plummet once the last cheque from the Government is added in January 2012.

It is vital parents ensure their children are not losing out on existing tax breaks on their accounts. When opening an

By **Sylvia Morris**

account for children, fill in form R85 — available from banks and building societies — so interest is paid before tax is deducted.

Children have their own personal tax allowance — £7,475 — but they can earn only £100 interest from money given by each parent before they have to pay tax.

Once the interest breaches this limit, tax is paid at the parent's highest rate of tax.

With an interest rate of 3pc, each parent can put in £3,250 without going over the limit. At 2pc, it's £5,000. And they must switch to find the best deal.

'It's incredibly important young people get the savings habit, but banks and building societies are doing little to encourage them by offering paltry rates,' says Richard Lloyd of Which?

Among the worst is Cheltenham & Gloucester, part of Lloyds. It pays just 0.05pc — or 5p per £1,000 — to loyal savers. It pays 2pc to children who have opened an account since January 10 this year. But anyone still in the older version earns 0.05pc. Shockingly,

building societies also let down children. West Bromwich BS's Acorn account, closed to new savers, pays 0.05pc.

Other culprits are Dunfermline, part of Nationwide, and Hinckley & Rugby, at 0.1pc.

Young Manchester United and Chelsea fans also get a raw deal, earning a miserly rate of 25p on each £1,000 from Britannia.

But others are more generous, with Northern Rock paying 3pc, or £30 per £1,000, on its Little Rock account.

If you want to put aside money each month, Halifax Children's Regular Saver pays 6pc on savings of between £10 and £100 a month. Putting in £100 a month is worth £1,239 after a year. Make sure you move the money after this or it could end up in an account paying as little as 0.1pc.

On fixed-rate deals, Northern Rock pays 3.3pc for three years, while National Savings & Investment (NS&I) has a five-year, fixed-rate Children's Bonus Bond paying a miserly 2.5pc.

NS&I, which raises money for the Government, says it will not offer a Junior Isa.

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## Top-paying accounts for children

PROVIDER	MIN INVESTMENT	RATE (%)	AGE LIMIT
Northern Rock BS Little Rock	£1	3	up to 16
Stafford Railway BS First Track (1)	£1	2.25	up to 17
Swansea Cygnet (1)	£1	2.25	up to 18
Chorley BS Young Chorlean	£5	2	up to 16
Chelsea BS Ready Steady Save	£1	2	up to 16
C&G Young Investor	£1	2	up to 16
Skipton BS Leap	£10	1.8	up to 26
Norwich & Peterborough BS Young Saver	£1	1.75	up to 18
Yorkshire BS Freedom/One Day	£10	1.75	up to 20

(1) Open to those living within branch network only