Contributing to a Child’s Pension

Most individuals are understandably focused on how they may maximise contributions to their own pensions during their working career.

Where grandparents can make financial provision for their grandchildren, this can often be focused on university fees or contributing towards their first house purchase.

But one area that is often neglected, is the advantage of contributing into a pension for a working-age adult, such as a son or daughter.

Key Points to Consider

- The contributions may reduce the size of the donor’s estate for Inheritance Tax (IHT).
- HMRC will add basic rate tax relief through the ‘relief at source’ process.
- The contributions can help with the tapering of the personal allowance for those with higher incomes.
- The contributions can help to reduce or eliminate the high-income child benefit charge.

What is often overlooked when considering such contributions, is that if someone makes a contribution into your pension, this contribution is treated as if you made it.

For the recipient, this brings three potential benefits –

1. For contributions into personal pensions, HMRC will add basic rate tax relief at source.
2. Recipients who are higher rate (or additional rate) taxpayers can claim further tax relief through their annual tax return process.
3. For recipients affected by the higher income child benefit charge, a higher level of pension contributions results in a lower level of income when assessed for the charge and a potentially reduced charge.

If we look at point 3, a similar principal applies to recipients caught in the personal allowance taper.

Considerations for the Donor

Aside from the pleasure of making provision for their children, it can have the following benefits –

- Potentially reduces the size of their estate for IHT, provided it falls within their 'Gift allowance'; is made from normal expenditure; or their survive for seven years after making the gift.

- If the donor has utilised their annual allowance for the tax year, then it enables further pension tax efficiencies to be achieved.

In Summary

These contributions can help both Donors and Recipients to improve tax efficiencies in the short term whilst also forming part of a multi-generational wealth planning strategy.

The proposed removal of the Lifetime Allowance (LTA) and increased Annual Allowance announced in the recent Budget, should provide further scope to utilise such a strategy.