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INVESTMENT MANAGERS

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Festive investment gifting for children

Besides spending your hard- earned cash on presents your children may love but are likely to forget about in a few months, why not also try investment gifting? Starting a nest egg for them to fall back on will give your children a head start in life, and learning to manage it will teach them valuable life lessons.

Let's explore how this whole Christmas investment gifting can work out well for everyone.

Set the scene

The first essential step to successful financial gifting is to sell the concept to your children before the big day arrives. Christmas morning will be a much happier experience if your kids know what to expect – they'll get some nice presents, but also "boring" documents they don't understand, while their cousins may get to unwrap more fancy toys. Follow these simple steps to set the scene:

- Gift your time and fill in the investment application forms for them (as tedious as it is)
- Wrap the documents in the usual Christmas celebratory way
- Give the gift a catchy name

Naming the gift is an important step in the process, since it fosters gratitude and sells the gift outcome – therefore introducing your child to goal and time-based investing. You might want to call the gift something like:

- Your iPhone 8 fund
- Your university experience fund
- Your backpack around Europe fund
- Your financial freedom fund

Decisions, decisions

Now that you've understood the superb value of investment gifting, you need to decide what's going into that envelope. Classic unit trusts or tax-free investments would be perfect for meeting these goals.

Teach a man to fish

A financial gift should also come with the promise of a gift of education in the New Year, as it's never too early to learn about the benefits of a sound investment philosophy. Schedule a time (during a bike ride or over a lunch, perhaps?) to chat about some of the topics below:

- What's a unit trust? A tasty pie containing various investments from which you choose those that fit your child best: shares, properties, bonds, cash or combinations of all of these – which means you don't have to put all your eggs in one basket.
- How you selected the underlying funds for the gift. And why they're perfectly suited to the achieving the ultimate goal of the gift (that phone or overseas holiday).
- How successful investors balance risk and reward in order to achieve their time-based investment goals.
- Extol the virtues of compound growth…Use some examples to show how investment growth on growth yields fantastic results over time.

The boring stuff

Don't be put off by the paperwork, it really isn't that bad since fund managers have streamlined it as much as possible, given the strict regulations governing the industry. Once you've decided on the investment option and underlying fund(s), you can easily complete an online application form in your child's name. As usual, you'll need FICA documents including:

- Proof of your identity (copy of ID book or passport)
- Proof of your address (recent utility bill)
- Proof of your bank account

You will also need to fill out a form which grants you the authority to transact on your child's behalf. If you need assistance in the selection of the fund, simply use our fund selector tool or speak to your financial adviser.

Remember the tax man

Never forget our friend the tax man, not even when you're eating turkey and pulling Christmas crackers…He really is always watching. The good news is that, as we've discussed previously, you and your spouse are each allowed to make annual tax-free donations totalling R100,000 (to your children, grandchildren or anyone else who's dear to you). However, you should be aware that any income earned on the investments will be taxed in your name until your child is 18 years old, at which point the tax burden will be passed on to him/her. (This doesn't apply if you're the grandparent – in these cases the child is responsible for paying tax.)

It's a good idea to let your child know that you're paying for the tax on the investment growth and even explain the reasoning behind it, which is:

- To prevent excessive donations, which could be a long-term way to transfer wealth during your lifetime to avoid estate duty.
- To prevent you from minimising income tax by transferring assets out of your name so that you can benefit from your child's lower income tax rate.

Keep the ball rolling

Once you've brought the kids around to the idea, it's time to show them how to ensure their delicious investment pies grow bigger and bigger. And when the investments shrink – which they inevitably will as markets move down, as well as up, over time – there’s an opportunity to demonstrate the risk/reward tradeoff. Also, there are lots of opportunities to top-up the fund. Birthdays are an obvious one, but it’s also a really nice idea to reward good school grades or other achievements. What’s more, why not see if the grandparents, aunts, uncles and godparents are keen to contribute too?

Another great way to keep the ball rolling is to match any contribution that your children make (through earnings from part-time jobs, chores around the house or their monthly allowance) with a donation of your own. This way they’re less likely to blow their cash on data bundles or the latest trendy fashion.

A gift that keeps on giving

A parting thought about giving your children investments as a gift this Christmas is that it is also a way to reward you, as parents, over the longer term. Saving the cash sooner, set aside in your child’s name, means that you will have fewer expenses to finance for them in future. A growing nest egg for each child, no matter how small, can also help you rest easier during the rest of the year, with its financial stresses and demands. Finally, investment gifting can also mean better Christmases for everyone going forward.