EXPLANATORY MEMORANDUM TO

THE CHILD TRUST FUND (AMENDMENT No. 2) REGULATIONS 2013

2013 No. 1744

1. This explanatory memorandum has been prepared by H.M. Revenue and Customs (HMRC) on behalf of HM Treasury and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 The instrument extends the list of qualifying investments for Child Trust Funds (CTFs) to include company shares admitted to trading on a recognised stock exchange in the European Economic Area.

2.2 It removes administrative requirements upon CTF providers and investors where certain bulk transfers of CTFs take place between providers.

2.3 It also amends the definitions of European Economic Area (EEA) Agreement and EEA State used in CTF legislation.

3. Matters of special interest to the Joint Committee on Statutory Instruments.

3.1 None.

4. Legislative Context

4.1 Child Trust Funds (CTF) are tax advantaged investment products, introduced in 2005 for eligible children born on or after 1 September 2002. They allow for savings in a cash or stocks and shares account, without tax being due on any income or gains arising from, or received in relation to, those savings. New eligibility for CTF accounts was ended in 2011.

4.2 The instrument amends the Child Trust Fund Regulations 2004 (S.I. 2004/1450) (CTF Regulations).

4.3 CTF regulation 2 concerns interpretation, and provides a definition of “EEA Agreement” and EEA State” for the purposes of the CTF Regulations. CTF regulation 12 and the Schedule to the Regulations include rules concerning which investments are qualifying investments for CTFs. CTF regulation 21 set out rules and requirements that apply where a CTF is transferred between providers.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- ***What is being done and why***

7.1 The instrument will extend the list of investments that can be purchased, made, or held in a CTF to include company shares admitted to trading on a recognised stock exchange in the EEA. This is designed to provide a capital injection for small and medium enterprise equity markets, encourage more investment in growing businesses and extend choice for CTF account holder and providers.

7.2 The instrument will also update the definition of EEA Agreement and EEA State in CTF Regulations in the light of changes to the membership of the EEA and in order to ensure consistency with definitions in other enactments.

7.3 The instrument provides an easement in the administrative requirements applicable to certain transfers, in bulk, of CTF accounts between providers. This change will remove the requirement on an investor to provide a fresh application to the transferee provider upon transfer, and will therefore remove administrative burdens for both CTF investors and providers.

- Consolidation

7.4 There are no plans to consolidate the CTF regulations.

8. Consultation outcome

8.1 Consultation on extending the definition of qualifying investments closed on 8 May 2013. The Government's summary of responses to this consultation was published on 1 July and can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209879/isa_qualifying_investments_summary_of_consultation_responses.pdf. No adverse comments or difficulties have been identified. The remaining changes in the instrument concern minor updates, for which detailed consultation was not necessary.

9. Guidance

9.1 HMRC's Guidance Notes for CTF managers will be updated to reflect the changes to the CTF rules. The Guidance Notes are available at http://www.hmrc.gov.uk/ctf/ctfguidancenotes.pdf

10. Impact

10.1 The impact on business, charities or voluntary bodies is negligible.

10.2 The impact on the public sector is negligible.

10.3 An Impact Assessment has not been produced for this instrument as it has a negligible impact on business, charities or voluntary bodies.

11. Regulating small business

11.1 The legislation applies to small businesses that offer CTFs. In addition, extending the range of investments which can be held in a CTF could increase investment in smaller firms. Removing administrative requirements in relation to certain CTF transfers could reduce CTF provider costs.

11.2 To minimise the impact of the requirements on firms employing up to 20 people, H.M. Revenue & Customs discusses and reviews operational processes with account providers and their representatives, and considers proposals for change.

11.3 The basis for the final decision on what action to take to assist small businesses is whether any action would be consistent with requirements set out in the CTF Regulations 2004. The CTF requirements are considered to be the minimum necessary for the effective operation and assurance of CTFs.

12. Monitoring & review

12.1 HMRC will continue to review compliance with the CTF rules using the information provided annually by CTF providers.

13. Contact

Simon Turner at H.M. Revenue and Customs can answer queries regarding the instrument on behalf of HM Treasury - Tel: 0300 054 6588 or email: simon.turner@hmrc.gsi.gov.uk.