

EXPLANATORY MEMORANDUM TO
THE CHILD TRUST FUNDS (AMENDMENT No. 2) REGULATIONS 2014
2014 No. 1453

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 increases the annual subscription limit for Child Trust Funds (CTFs) and extends the range of qualifying investments to encompass core capital deferred shares issued by building societies.
3. **Matters of special interest to the Joint Committee on Statutory Instruments.**
 - 3.1 None.
4. **Legislative Context**
 - 4.1 CTFs are tax advantaged savings products for eligible children born on or after 1 September 2002. New eligibility for CTF accounts was ended in 2011. An individual may save in a CTF without being taxed on any income or gains arising from those savings. The CTF account rules are set out in the Child Trust Funds Regulations 2004 (S.I. 2004/1450) (“the CTF Regulations”).
 - 4.2 Regulation 9 of the CTF Regulations sets out the maximum amount which can be subscribed annually to a CTF. Regulation 12 sets out which investments qualify for a CTF.
5. **Territorial Extent and Application**
 - 5.1 This instrument applies to all of the United Kingdom.
6. **European Convention on Human Rights**
 - 6.1. 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 With effect from 1 July 2014 the annual CTF subscription limit is being increased from £3,840 to £4,000.

7.2 The instrument also provides for core capital deferred shares issued by Building Societies to be qualifying investments which can be held within a CTF account.

7.3 These changes are designed to support saving for children and increase the flexibility available within CTF.

- Consolidation

7.4 There are no plans to consolidate the regulations governing CTFs.

8. Consultation outcome

8.1 These changes concern minor technical or administrative updates, for which formal 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, and voluntary bodies is expected to be negligible.

10.2 The impact on the public sector is expected to be negligible.

10.3 A Tax Information and Impact Note (TIIN) covering this instrument was published on the HMRC website on 19 March, alongside TIINs for other measures announced at Budget 2014. It can be found at <http://www.hmrc.gov.uk/thelibrary/tiins.htm>. It remains an accurate summary of the impacts which apply to this instrument.

11. Regulating small business

11.1 The legislation applies to small businesses that offer CTFs.

11.2 To minimise the impacts of the requirements on small firms employing up to 20 people, the approach taken is to apply the same basic requirements as apply to all businesses offering CTFs, and monitor the impact of these changes. The impact on small businesses is expected to be broadly similar to that for other businesses. No major issues specific to smaller businesses have been identified.

11.3 The basis for the final decision on what action to take to assist small business is that this instrument only requires minor administrative

changes which are not expected to impose significant costs on any business.

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 any queries regarding this instrument on behalf of H.M. Treasury - Tel: 0300 054 6588 or email: simon.turner@hmrc.gsi.gov.uk.