

EXPLANATORY MEMORANDUM TO
THE CHILD TRUST FUNDS (AMENDMENT) REGULATIONS 2014

2014 No. 649

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 makes a number of changes to the rules governing the operation of Child Trust Funds (CTFs). It increases the annual subscription limits for these accounts, modifies the rules concerning which institutions can be approved to offer CTFs, and updates certain definitions set out in CTF legislation to take into account other legislative developments.

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) (CTF Regulations).

4.2 Regulation 2 of the CTF Regulations concerns interpretation, and is being amended to update certain definitions used for CTF purposes. Regulation 9 sets out the maximum amount which can be subscribed annually to a CTF, and is subject to annual uprating. Regulation 12 sets out which investments qualify for CTF, and these rules are being amended to take into account changes to the investment trust rules set out in the Corporation Tax Act 2010. Regulation 18A sets out special provisions for the withdrawal of moneys held in a CTF where an account holder is terminally ill, and is being updated in line with relevant social security legislation.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom, although regulation 6 contains different provisions specific to England, Wales or Scotland, and provisions specific to Northern Ireland.

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 The annual CTF subscription limit is being increased to £3,840 from £3,720 for 2014-2015. This increase is consistent with the Government's annual uprating of CTF limits.

- 7.2 The instrument extends the definition of terminal illness (in relation to permitted withdrawals from CTF accounts) to include reference to the relevant parts of the Welfare Reform Act 2012, which apply in England, Wales and Scotland. It also inserts a reference to the equivalent provisions in Northern Ireland. The requirement for HMRC to notify an account provider that a withdrawal from a CTF has been authorised on grounds of terminal illness of the account holder will be removed, but HMRC will continue to provide authorisation for a withdrawal. The changes will streamline the process and ensure that the special arrangements for withdrawals from CTFs held by terminally ill children accommodate the introduction of the relevant social security legislation, and reflect the relevant rules and processes that apply in Northern Ireland.

- 7.3 The instrument updates the definition of 'European Institution' and the rules around which institutions can be approved to offer CTFs, for example to take into account changes to the rights of certain non-UK based financial institutions to offer services in the UK. It also updates various other definitions used in CTF Regulations, including to reflect the revisions to the investment trust rules set out in the Corporation Tax Act 2010. These changes will ensure consistency with definitions in other enactments and provide clarity for CTF providers and account holders.

- 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 negligible, but see paragraph 11.3.
- 10.2 The impact on the public sector is negligible.
- 10.3 A Tax Information and Impact Note has not been prepared for this Instrument, as it contains no substantive change to tax policy.

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 CTF, and monitor the impact of these changes.
- 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 and clarifications which are not expected to have significant implications for any business.

12. Monitoring & review

- 12.1 The changes are intended to update and clarify the CTF rules so that these are clear and take into account other legislative developments. 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.