EXPLANATORY MEMORANDUM TO

THE CHILD TRUST FUNDS (AMENDMENT No. 3) REGULATIONS 2015

2015 No. 1371

1. This explanatory memorandum has been prepared by HM 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 This instrument extends the range of investments that can be held in a tax advantaged Child Trust Fund (CTF). It removes or relaxes certain restrictions on the eligibility for these accounts of shares and other securities issued by companies and co-operative or community benefit societies (registered societies - formerly known as industrial and provident societies), including housing associations. It also extends choice over who can manage and give instructions in relation to a CTF once an account holder reaches 16.

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 accounts for eligible children born between 1 September 2002 and 2 January 2011. 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 includes definitions used for CTF purposes. CTF Regulations 8, 13 and 21 include rules concerning who can give instructions in relation to an account (including in relation to account transfers) and who can apply for an account. Regulation 12 specifies the investments that qualify to be held in a CTF. Regulation 33A sets out the rules relating to the management of accounts for certain looked after children, and obliges local authorities to provide information to HMRC in relation to certain looked after children.

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 This instrument is designed to increase choice by extending the types of investments that can be held in a CTF. It will amend the definition of ‘company’ in CTF Regulation 2(1) to remove the current exclusion of ‘registered societies’ and their subsidiaries. The effect will be that these societies, including many former industrial and provident societies, will qualify to be treated as companies for CTF purposes. This means that certain shares and other securities these societies and their subsidiaries issue will qualify to be held in a CTF under the eligibility rules set out at CTF Regulation 12 (2)(a) and (b).

7.2 The conditions that determine whether securities issued by a company qualify to be held in a CTF will also be updated. Changes to CTF Regulation 12(5) will mean that, subject to certain conditions, securities issued by a company will become eligible for CTF where the securities themselves, or the shares in the company issuing the securities, are admitted to trading on a recognised stock exchange in the European Economic Area; or where the securities are issued by a 75% subsidiary of a company which is admitted to trading on such an exchange.

7.3 This instrument also amends the rules to provide greater flexibility concerning who can give instructions in relation to a CTF (by acting as the registered contact for the account), once the account holder reaches 16. CTF Regulation 8(1)(d), which provides that only the account holder can be the registered contact for the account once they are 16, will be omitted. This change will provide flexibility for a person other than the CTF holder (for example a parent) to manage and give instructions in relation to an account where the account holder is 16 or older. Regulation 13(10), which relates to changes in the identity of the registered contact for an account, and Regulation 21(3), which relates to the procedure to be followed on transferring a CTF account, will be amended as a consequence.

7.4 Regulation 33A(4) (concerning the management of the accounts of certain looked after children) will also be updated to enable the Official Solicitor or Accountant of Court to give instructions in relation to accounts held by looked after children who have turned 16. The current requirement upon local authorities to identify and provide information to HMRC about certain looked after children (CTF Regulation 33A(1)) will also be updated, so it applies in relation to children who are under 18, rather than under 16.

7.5 The instrument will also make consequential updates to definitions used in the CTF Regulations.

- Consolidation

7.6 There are no plans to consolidate the CTF Regulations.

8. Consultation outcome

8.1 Provisions within this instrument concerning the giving of instructions in relation to CTFs were included in a consultation on draft legislation that covered a range of CTF changes and took place between November 2014 and January 2015. No significant issues were identified. There has been no formal consultation on the additional measures in this instrument, as these are largely simple updates to existing provisions within the CTF Regulations.

9. Guidance

9.1 HMRC's Guidance Notes for CTF providers 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 changes are designed to increase the flexibility and choice available to savers and CTF providers. The cost to account providers of implementing these changes is expected to be negligible.

10.2 The changes are also expected to benefit companies and co-operative and community benefit societies (such as housing associations) who raise funds through the issue of retail bonds and other securities.

10.3 Changes to the arrangements for managing CTFs after an account holder turns 16 could reduce costs for CTF providers. CTF providers may no longer be required to contact and obtain instructions from each of their CTF holders when they reach 16 years old. There may also be savings for providers if this change leads to fewer CTFs being inactively managed after an account holder turns 16.

10.4 The impact on charities and voluntary bodies is expected to be negligible.

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

10.6 A Tax Information and Impact Note covering the changes in relation to management of CTFs once the account holder turns 16 is available at https://www.gov.uk/government/publications/child-trust-funds-and-junior-individual-savings-account-account-transfers-management-of-accounts-and-lifestyling-of-stakeholder-ctfs. A Tax Information and Impact Note covering the extension of investments eligible for CTF will be available on gov.uk.

11. Regulating small business

11.1 The instrument 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.

12. Monitoring & review

12.1 HMRC will continue to review compliance with the rules using the information provided annually by CTF providers as well as through regular contacts with CTF providers and other groups.

13. Contact

Simon Turner at HMRC can answer queries regarding the instrument on behalf of HM Treasury - Tel: 03000 546588 or email: simon.turner@hmrc.gsi.gov.uk.