EXPLANATORY MEMORANDUM TO

THE CHILD TRUST FUNDS (AMENDMENT NO. 2) REGULATIONS 2015

2015 No. 876

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.

   This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 This instrument amends the rules governing the operation of Child Trust Funds (CTFs) to allow the transfer of savings from a CTF to a Junior ISA; simplify the rules relating to the bulk transfer of accounts between providers; and defer the requirement on CTF providers to commence 'lifestyling' of stakeholder accounts.

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

3.1 The instrument will come into force less than 21 days of being laid before Parliament. This instrument could not be laid until after 26th March 2015, when the Deregulation Act 2015 (c. 20) received Royal Assent. However, since the Government consulted on the issue in 2013, CTF and Junior ISA providers, as well as parents of account holders, have been preparing for implementation of these changes on 6 April 2015. Any change to this planned implementation date is likely to generate confusion among parents and additional costs for account providers.

4. Legislative Context

4.1 CTFs are tax advantaged savings products for eligible children born on or after 1 September 2002. 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 various definitions used for CTF purposes. CTF Regulation 8 sets out general requirements for accounts. CTF Regulations 10, 31 and 32 contain requirements for CTF providers relating to account statements, record keeping and returns of information to HMRC. CTF Regulation 21 sets out rules in relation to the transfer of accounts.

4.3 The Schedule to the CTF Regulations specifies rules and account features which apply to stakeholder accounts. Paragraph 2(6) of the Schedule defines 'lifestyling' in relation to these accounts (this broadly refers to the process of adopting an investment strategy minimising potential variation in the capital value of the account caused by market conditions).

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 in relation to tax advantaged savings for children. New CTF Regulation 20A will provide that an account provider must, at the request of the registered contact for the account, transfer savings held in a CTF to a Junior ISA, and then close that CTF. CTF Regulation 8(2) will be amended to provide that such a transfer shall be free of expenses (other than incidentals) and CTF Regulation 10(1) will be amended to require the issue of an account statement upon such a transfer. CTF Regulations 21 (concerning transfers), 31 (concerning records to be kept by CTF providers) and 32 (concerning returns of information by CTF providers) will be updated to reflect this new right of transfer.

7.2 CTF Regulation 21 will also be amended to simplify and rationalise the process where a bulk transfer of accounts takes place between providers. This amendment will remove the requirement on a provider receiving a bulk transfer of accounts to obtain new account applications in certain circumstances.

7.3 The definition of lifestyling in relation to stakeholder CTFs, at paragraph 2(6) of the Schedule to the CTF Regulations, will be updated to provide that where a lifestyling requirement applies to an account, this does not have to commence until the account holder is 15 years of age (rather than 13, as currently). The requirement is being deferred, pending further consultation on this CTF account feature.

- Consolidation

7.4 There are no plans to consolidate the CTF Regulations.

8. Consultation outcome

8.1 HM Treasury consulted on the transfer of savings from CTF to Junior ISA (14th May to 6th August). There was broad support for the Treasury's proposals, and the Government announced in December 2013 that ISA and CTF rules would be amended to allow savings to be transferred.

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 will affect CTF account holders and providers. CTF account holders will benefit from additional choice over which tax advantaged savings account they hold. Some CTF providers may lose business if CTF savings are transferred to a Junior ISA offered by another financial institution. CTF providers may also incur costs transferring CTF savings. The impact of the changes on CTF providers will depend on how many individuals choose to transfer their savings from the provider, the transfer processes operated by the provider and whether a CTF provider is involved in the bulk transfer of accounts.

10.2 The deferral of CTF lifestyling will remove an immediate requirement on CTF providers to develop system changes, or to modify existing investment strategies.

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

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

10.5 A Tax Information and Impact Note covering this instrument has been published 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.

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.

12. Monitoring & review

12.1 HMRC will continue to review compliance with the CTF 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.