EXPLANATORY MEMORANDUM TO

THE CHILD TRUST FUNDS (AMENDMENT) REGULATIONS 2017

2017 No. 185

1. Introduction

1.1 This explanatory memorandum has been prepared by Her Majesty's 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 makes changes to the account rules for tax-advantaged Child Trust Funds (CTFs). It increases the amount that can be subscribed to a CTF in a year; removes the obligation on account providers to apply a 'lifestyling' investment strategy in relation to stakeholder CTFs; reduces the information burdens on CTF providers where an account is transferred; and makes other minor changes, including the updating of various legislative references.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

Other matters of interest to the House of Commons

3.2 As this instrument is subject to the negative resolution procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

4. Legislative Context

4.1 CTFs are tax-advantaged savings accounts for children born between 1 September 2002 and 2 January 2011. The CTF account rules, including the annual subscription limit for these accounts and rules that apply on the transfer of an account, are set out in the Child Trust Funds Regulations 2004 (S.I. 2004/1450) (the "CTF Regulations"), which are made under powers set out in the Child Trust Funds Act 2004.

4.2 Where appropriate, the CTF Regulations include references to other legislation. For example, 'investment trust' is defined with reference to the Corporation Tax Act 2010, and special rules that apply to looked after children or which determine when a withdrawal can be made from an account on the terminal illness of a child make reference to child protection and welfare reform legislation. Similarly, the rules concerning who is eligible to be approved by HMRC to offer accounts is set out with reference to the regulatory permissions held by a financial institution.

4.3 The Schedule to the CTF Regulations sets out special rules that apply to stakeholder CTFs, including a requirement that a 'lifestyling' investment strategy in relation to the account must usually have commenced by the time that the account holder reaches their 15th birthday and continues until the account holder reaches 18 years of age, when their account matures. Lifestyling is intended to minimise the variation in capital value of the account caused by market conditions.

5. Extent and Territorial Application

5.1 The extent of this instrument is the United Kingdom.

5.2 The territorial application of this instrument is 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 The annual limit that applies to subscriptions to CTFs in CTF Regulation 9 is increased from £4,080 to £4,128.

7.2 The instrument also amends the Schedule to the CTF Regulations to remove the requirement upon account providers to follow a lifestyling investment strategy in relation to stakeholder CTFs. This follows a government consultation on this account feature, and the government's decision that removal of this feature could reduce account provider costs without affecting the ability of children and families to access suitable tax-advantaged savings products that meet their needs, given the range of choice in the market for children's savings.

7.3 CTF Regulation 21 is updated to remove the need to provide a declaration where a CTF is transferred.

7.4 This instrument also updates the rules at CTF Regulation 14 concerning the regulatory permissions required by a CTF provider following changes to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (S.I. 2001/544).

7.5 The definition of investment trust is updated to clarify the reference to the Corporation Tax Act 2010. Elsewhere, special rules that apply in relation to looked after children and terminally ill children are updated to reflect changes to the relevant child protection or welfare legislation, and a consequential change is made to definitions used in the CTF Regulations.

Consolidation

7.6 There are no plans to consolidate the CTF Regulations.

8. Consultation outcome

8.1 The government consulted on the lifestyling of stakeholder CTFs between September and December 2015[1]. Nine written responses were received from CTF providers, administrators, other financial institutions and their representatives. Only one of the respondents supported retention of the lifestyling requirement. The majority favoured removal, on the grounds that wider changes in the market for children's savings meant that a statutory lifestyling requirement is not necessary to ensure that children and families can access suitable tax-advantaged savings products that meet their needs.

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[1] https://www.gov.uk/government/consultations/lifestyling-of-child-trust-funds

There has been no formal consultation on the other changes in this instrument, as they are simple updates to existing provisions within the CTF Regulations.

9. Guidance

9.1 HMRC's Guidance for CTF providers will be updated. This is available at https://www.gov.uk/government/publications/child-trust-fund-guidance-notes-for-providers

10. Impact

10.1 The removal of lifestyling requirements and the reduction of the information requirements on the transfer of a CTF are expected to reduce future costs for CTF account providers. There will, however, be negligible one-off costs for account providers in changing the subscription limits for accounts. The impact on individual account holders will depend upon their individual circumstances and the investments they choose to hold in their account. However, the changes in this instrument are not expected to affect the ability of children and families to access suitable tax-advantaged savings products that meet their needs, given the range of choice in the market for children's savings.

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

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

10.4 A Tax Information and Impact Note covering this Instrument will be published on the HM Government website at: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins.

11. Regulating small business

11.1 The legislation applies to small businesses that offer CTFs.

11.2 No action is proposed to minimise regulatory burdens on small businesses.

11.3 The basis for the final decision on what action to take to assist small business is that the removal of lifestyling requirements and the reduction of the information requirements on the transfer of a CTF are expected to reduce future costs for CTF account providers, including small businesses.

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

13.1 Helen Williams at HMRC telephone: 03000 512 336 or email: savings.audit@hmrc.gsi.gov.uk can answer any queries regarding the instrument.