HM Revenue & Customs

Child Trust Funds and Junior Individual Savings Account (ISA): account transfers, management of accounts and 'lifestyling' of stakeholder Child Trust Funds

Who is likely to be affected?

Child Trust Fund (CTF) account holders and adults managing these accounts.

Banks, building societies and other financial institutions who offer Junior ISAs and/or CTFs.

General description of the measures

These measures increase the choice available in relation to children's savings. They enable savings held in a CTF to be transferred to a Junior ISA, and allow a CTF account holder who has reached 16 to choose whether to manage and give instructions in relation to their own account, or whether this role should continue to be performed on their behalf by a parent.

The measures also simplify the bulk transfer process for CTFs and Junior ISAs and defer the requirement on account providers to commence 'lifestyling' the stakeholder CTFs they offer, pending further consultation on this account feature.

Policy objective

The measure will increase choice in relation to children's savings and simplify processes around CTF account management and transfer.

The measure will also enable detailed examination of the lifestyling requirement for stakeholder CTFs by deferring mandatory implementation of this feature, pending further consultation.

Background to the measure

In May 2013 the Government launched a consultation on allowing the transfer of savings from a CTF to a Junior ISA.

Following this consultation, in December 2013, the Government announced that it will be possible to transfer savings held in a CTF to a Junior ISA, at the request of the 'registered contact' for a CTF (usually the parent of an account holder). At the same time, it was also confirmed that 16 year old CTF account holders would be given the option of allowing a person with parental responsibility to continue to manage their CTF.

On 22 July 2014, the Government announced that the date by which the lifestyling process for stakeholder CTFs must have commenced would be deferred, from when the account holder turns 13 to when they reach 15. Lifestyling is the process of de-risking investments in a stakeholder CTF in the run-up to account maturity.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2015.

Current law

Junior ISA

The account rules for ISA (including Junior ISA) are set out in the Individual Savings Account Regulations 1998 (SI 1870/1998) (ISA Regulations). The ISA Regulations include provisions in relation to eligibility for Junior ISA, and rules concerning the opening and transfer of accounts. This includes requirements that apply where accounts are transferred in bulk between Junior ISA managers. Under current rules, it is not possible for any person who holds a CTF to hold a Junior ISA.

These Regulations also include requirements in relation to records which must be kept by ISA managers, and information that providers must submit to HMRC.

Child Trust Fund

The account rules for CTF are set out in the Child Trust Funds Regulations 2014 (SI 1450/2004) (CTF Regulations). The CTF Regulations include provisions in relation to applications to open CTFs, access to savings, and transfers of accounts. This includes requirements that apply where CTFs are transferred in bulk between providers. Under current rules, it if not possible to transfer savings held in a CTF to a Junior ISA.

These Regulations also provide that where a CTF account holder reaches 16, only they can open, manage and give instructions in relation to their account (and not, for example, a parent). The Regulations also set out provisions in relation to records which must be kept by CTF providers and the information that they must submit to HMRC.

The Schedule to the CTF Regulations sets out the rules and account features which apply in relation to stakeholder CTFs. Paragraph 2(6) of the Schedule includes a definition of 'lifestyling', and specifies that, where appropriate, this process must have commenced by the time the account holder is 13.

Proposed revisions

Junior ISA

The ISA Regulations will be amended to enable the registered contact for a CTF to open a Junior ISA and transfer savings held in the CTF to this account. Amounts transferred in this way will not count against the Junior ISA subscription limit for the relevant year. The reporting requirements for ISA providers will also be updated to reflect this new right of transfer.

The process that applies where a bulk transfer of Junior ISAs takes place between account managers will also be simplified and rationalised, by removing the requirement on the receiving account manager to obtain new account applications in certain circumstances.

Child Trust Fund

The CTF Regulations will be amended so that a CTF provider must, at the request of the registered contact for an account, transfer savings held in a CTF to a Junior ISA and then close the CTF. Such a transfer shall be free of expenses (other than incidental expenses) and the CTF provider must also issue an account statement in such cases. The rules in relation to transfers, record retention by account providers, and the information that must be submitted to HMRC by providers will be updated to reflect this new right of transfer.

The Regulations will also be updated to enable a person other than the CTF holder (such as a parent) to manage a CTF for a child who has reached the age of 16. Other changes will simplify and rationalise the process where a bulk transfer of accounts takes place between CTF providers. These changes will remove the requirement on the receiving CTF provider to obtain new account applications in certain circumstances.

The definition of lifestyling in relation to stakeholder CTFs will also be updated to provide that where this requirement applies, it does not have to commence until the account holder is 15 years of age.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	negligible	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. CTF and Junior ISAs benefit from identical tax advantages so transferring from one to another should not affect the Exchequer cost of the relief.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	There are over 6 million CTFs (of which approximately 4.7 million are stakeholder accounts) and around 400,000 Junior ISAs. The changes will extend choice over which type of tax advantaged account a child may hold. Detailed evidence is not available on the relative long-term performance of Junior ISAs, and therefore on the potential impact of transferring savings from a CTF to a Junior ISA. However, the change will enable parents of CTF holders who believe their child's interests are better served by a Junior ISA to move their child's CTF savings to a Junior ISA. Changes to the arrangement for managing CTFs after the account holder turns 16 are not expected to significantly impact upon the performance of CTFs, but will increase the choice available to account holders. The deferral of CTF lifestyling may impact upon the investment strategy adopted by some CTF providers in relation to stakeholder accounts, although this is not expected impact significantly on the long-term performance of CTF accounts. The measures are not expected to affect family formation, stability or breakdown.					
Equalities impacts	The measure impacts upon children. It removes the current restriction that prevents CTF holders accessing a Junior ISA, and increases the choice available to CTF holders and their parents. It is not anticipated that the measure will impact adversely on groups with protected characteristics.					
Impact on business including civil society organisations	The Government expects that CTF providers will compete to retain their existing CTF accounts. However, the changes around transferability may lead to a loss of accounts for some providers, as well as some additional costs associated with transferring savings, closing CTFs and issuing account statements. It is not currently possible to estimate the size of this impact as it is not clear how many parents will wish to transfer their child's savings from CTF to Junior ISA. In addition, any such impact upon a CTF provider will depend upon the processes they use to transfer savings to another financial institution. Responses to the Government's consultation on CTF transferability indicated that there is a great deal of variety within the transfer processes used by CTF providers - with some providers operating largely manual processes, and others operating electronic or automated systems.					

	In general, it is not expected that the costs associated with transferring CTF savings to a Junior ISA should significantly differ from the cost of transferring a CTF to another provider - a facility which all CTF providers are currently required to offer. However, the Government does not have detailed data on the number of such transfers that currently take place, or the total administrative and other provider costs associated with CTF transfers. The impact of these changes around transferability will therefore be monitored and kept under review. Changes to the arrangement for managing CTFs after the account holder turns 16 are likely to reduce costs for CTF providers in cases where existing account management arrangements are retained. 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. The simplification of the bulk transfer process will reduce bureaucracy and administrative requirements for CTF providers and Junior ISA managers by removing the requirement to obtain new account applications in certain circumstances. The deferral of CTF lifestyling will remove an immediate requirement on CTF providers to develop system changes to accommodate this account feature, or to modify existing investment strategies.
Operational impact (£m) (HMRC or other)	The overall additional costs/savings for HMRC in implementing this change are anticipated to be negligible - restricted to initial cost of updating guidance and advising on change. However, the changes are expected to generate some additional enquiries from customers looking to trace CTF accounts, with a view to transferring these to Junior ISA.
Other impacts	Small and micro business assessment: many CTF providers are smaller financial institutions who may lose business and incur costs if the CTF savings they hold are transferred to Junior ISAs offered by other financial institutions. However, the impact upon small and micro businesses is not expected to differ significantly from the impact upon other businesses, as set out above. Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Simon Turner on Telephone: 03000 546588 (email: simon.turner@hmrc.gsi.gov.uk).

Declaration

David Gauke, Financial Secretary to the Treasury has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.