



HM Treasury

Child Trust Fund:

consultation on allowing the
transfer of savings from a Child
Trust Fund to a Junior ISA



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1

Introduction

1.1 At Budget 2013 the Government announced that it would consult on allowing the transfer of savings from Child Trust Fund (CTF) accounts into Junior ISAs.

1.2 The Government is committed to supporting savings and ensuring that families have access to suitable tax-advantaged savings products that allow them to save for their children's futures in a clear and simple way.

Background

1.3 In 2004, the then government established the CTF scheme as a tax-advantaged way of encouraging saving for children, and ensuring that account holders would have access to a financial asset when they became adults. Most children living in the UK who were born between 1 September 2002 and 2 January 2011 hold a CTF, and each CTF contains funds contributed by the Government.

1.4 More than 6 million children currently hold a CTF, usually managed on their behalf by a parent or guardian (in their capacity as 'registered contact' for the account). CTFs are available as cash or stocks and shares accounts. Around three-quarters of accounts are stakeholder accounts – these are stocks and shares accounts containing special 'stakeholder' features and protections set out in legislation, including a statutory cap on account management fees. Further details on the number and type of CTFs held, as well as other data on CTFs, can be found at: www.hmrc.gov.uk/ctf/stats.htm

1.5 CTFs were designed as 'locked-in' accounts and, in most cases, CTF funds cannot be accessed until account maturity, when the account holder reaches the age of 18. Therefore it is usually not possible for funds held in a CTF to be withdrawn, or for these funds to be transferred to any non-CTF account. However transfers of funds between different CTF accounts and CTF providers are permitted.

1.6 CTF was forecast to cost the Government around £500 million in 2012/13. Due to this cost, and to contribute to the reduction of the budget deficit, this Government reduced and stopped some CTF payments from August 2010 and ended new CTF eligibility from 3 January 2011. However, existing CTFs continue to be available for contributions, for example from the friends or family of the account holder.

1.7 Following the end of new CTF eligibility, the Government established the Junior ISA as a successor account. This account is in many respects identical to the CTF, including: the annual subscription limits; the locked in nature of funds; the availability of cash and stocks and shares options and the tax advantages that apply. However, one of the major differences between the two accounts is that, in most cases, Junior ISAs do not receive government payments. In addition, there are no statutory requirements on any provider to offer a stakeholder Junior ISA.

1.8 Junior ISAs were designed to provide a simple, transparent, accessible and competitive savings product to save for children who do not have a CTF and to create the conditions for families to save more for their children than they otherwise might. Under the current eligibility rules for Junior ISA, it is not possible for a child who is eligible to hold a CTF to also hold a Junior ISA.

1.9 In July 2011, ahead of the launch of the Junior ISA, the Government announced that once the new account had established itself, it would consider the future of existing CTFs, including whether CTFs and Junior ISAs should be more closely aligned.¹

Policy objective

1.10 The Government wants to support parents by ensuring that there continues to be a clear, simple and attractive way to save for children. Now that the Junior ISA is an established saving brand for children, it believes that there is a case for considering the position of existing CTFs, consistent with its announcement in July 2011. It is therefore now consulting on whether it should be possible to transfer funds from CTFs into Junior ISAs, and if so, on what basis such transfers should be available.

1.11 The Government acknowledges that in the interest of fairness, children with CTFs should not be prohibited from holding a Junior ISA if this account would better suit their long-term interests than a CTF. However, it recognises that there are a range of factors to be considered before making any changes to the current rules, including any impact on the viability of the CTF market as a whole, and the interest of the wider CTF holding population.

About this consultation

1.12 Since the announcement at Budget 2013, HM Treasury has consulted informally with stakeholders through a series of meetings. These meetings have informed the development of the proposal set out in this consultation document.

1.13 The scope of this consultation is set out below. Chapter 2 looks at whether it should be possible to transfer savings from a CTF into a Junior ISA. Chapter 3 sets out the Government's proposal for how such transfers should take place, if it decides to proceed with changes. Chapter 4 explains how to respond to this consultation. An initial summary of impacts can be found at Annex A.

Consultation scope

1.14 The aim of this consultation is to gather views on whether it should be possible to transfer funds held in a CTF into a Junior ISA. The Government also welcomes views and evidence on its proposals for how transfers should take place.

1.15 The Government believes that for reasons of simplicity and fairness in terms of the distribution of tax advantages, a child should not be entitled to hold both a CTF and a Junior ISA. It therefore does not propose to consider any options which would allow a child to hold both types of account concurrently.

1.16 In addition, the Government does not propose to reconsider its decision to end new CTF eligibility from 2011, given that the resumption of new CTF eligibility (and the associated Government payments to accounts) remains unaffordable. Therefore, this consultation will not consider whether any child who is currently ineligible for a CTF should be entitled to hold such an account, or whether funds held in a child's Junior ISA should be transferable to a CTF.

Responding to the consultation

1.17 Key questions are highlighted in boxes throughout this document. Respondents are asked to focus their responses on these questions.

¹ http://www.hm-treasury.gov.uk/d/junior_isa_regulations_response.pdf

1.18 We would particularly be interested to hear from the following groups:

- representative groups for children or savers
- CTF holders, their parents or guardians and registered contacts for accounts
- CTF and Junior ISA providers
- financial advisors

1.19 Responses to this consultation should be sent to HM Treasury by Tuesday 6 August 2013.

Please email enquiries and consultation responses to:

ChildTrustFundConsultation@hmtreasury.gsi.gov.uk

(specifying in the subject line whether your email is an enquiry or a formal consultation response)

Alternatively, address responses to:

Child Trust Fund Consultation,
Pensions and Savings Team,
1 Horse Guard's Road,
London
SW1A 2HQ

1.20 Chapter 4 has further details on responding to this consultation.

Next steps

1.21 Once this consultation closes on 6 August 2013, the Government will consider all responses and publish a 'summary of responses' document. This will set out how the Government intends to proceed, as well as the proposed next steps.

1.22 It is anticipated that any changes to the current position will require new legislation, and this will determine the timetable for any changes arising from the consultation. Further details will be set out in the summary of responses, where appropriate.

2

Transfers from Child Trust Funds to Junior ISAs

2.1 This chapter sets out some background on CTF and Junior ISA, and seeks views on whether it should be possible for CTF funds to be transferred to Junior ISA.

2.2 Since its launch in November 2011, the Junior ISA has become a popular and established part of the children's savings market. The CTF market also remains vibrant, with around 70 providers holding in excess of £4.8 billion of funds in more than 6 million accounts.

2.3 However, the Government is aware that some parents and guardians of CTF holders would like the opportunity to open a Junior ISA for their child, and to transfer funds held in their child's CTF to that account. The Government believes such transfers should be possible if CTF account holders would be better served in the Junior ISA market.

2.4 However, given the relatively short period in which Junior ISAs have been in existence, and the long-term nature of the saving that it promotes, it is not possible at this time to make detailed comparisons between the performance of CTF and Junior ISA investments over the long term. This is particularly the case for non-cash accounts, which form a significant majority of both markets.

2.5 Around three quarters of CTFs are stakeholder accounts, and holders of these accounts benefit from a number of features set out in legislation. These include 'lifestyling'¹ of accounts after the account holder reaches the age of 13 and management fees that are capped at 1.5 per cent of the fund value. These features do not form part of the statutory requirements for Junior ISA, and there is no requirement upon Junior ISA providers to offer stakeholder terms and conditions. Therefore, should funds held in a stakeholder CTF be transferred to a Junior ISA, these statutory requirements would no longer apply in relation to the funds.

2.6 A further difference between the CTF and Junior ISA concerns the treatment of funds on account maturity. Funds held in a Junior ISA can be automatically rolled into an 'adult ISA' on maturity, outside the normal ISA subscription limits. While this is not currently the case for CTFs, the Government intends to legislate, in good time before the first accounts mature, to provide that funds held in a CTF on maturity can remain tax advantaged after maturity, and may be rolled into an ISA outside the normal subscription limits – as is the case for Junior ISA funds.

2.7 The Government acknowledges that any changes to the current rules on transferability of funds from CTF to Junior ISA must take into account the impact upon all CTF holders, and any potential impact upon the viability of the wider CTF market. In particular, the Government wishes to consider any potential impact upon the availability of suitable CTF accounts for children at all household income levels, including those children whose parents are not in a position to make regular contributions to their child's account, consistent with its objectives to promote savings through attractive, accessible savings products.

¹ Lifestyling means that the provider must adopt an investment strategy for the stakeholder CTF which aims to progressively reduce the volatility, or potential volatility, in the value of investments held in the CTF as the CTF approaches maturity.

Question 1

Do respondents believe that the transfer of funds from a CTF to a Junior ISA should be permitted?

Question 2

Would allowing CTF funds to be transferred to Junior ISA have any significant impact upon the viability of the wider CTF market, including on the availability of suitable CTF products for children whose funds remain with CTF?

3

Proposed method of allowing transfers

3.1 This chapter sets out the Government's proposal for how the transfer of savings from CTFs to Junior ISAs would be permitted, should it decide to proceed with changes to the current rules on transferability.

Proposal: voluntary transfers

3.2 Under this proposal, the registered contacts for a CTF account could choose to open a Junior ISA for a child and transfer funds held in that child's CTF to a new account. However, where the registered contact does not wish to transfer funds to a Junior ISA, these funds would be retained within the CTF.

3.3 It is anticipated that the transfer process would work in a similar way to the current arrangements for transferring CTFs or Junior ISAs between providers. Therefore, the registered contact for the CTF could apply to a Junior ISA provider to open an account, and the transfer of funds and relevant information would be managed between the providers. It is anticipated that it should be possible for any such transfer to take place within the current timescales available for CTF and Junior ISA transfers (15 working days for cash transfers and 30 days for non-cash accounts). A CTF provider will not be permitted to refuse to transfer funds at the request of the registered contact for the account (subject to the provision of the appropriate authorisation and other details), but it will be for a Junior ISA provider to determine whether they wish to accept transfers of CTF funds.

3.4 The funds held in a CTF account could only be transferred in their entirety, following which the CTF account must be closed. It will therefore not be possible for only some of the funds held in a CTF to be transferred, or for a child to hold both a CTF and a Junior ISA. No report of the transfer will be required by HM Revenue and Customs (HMRC), although the receiving Junior ISA provider must report the new Junior ISA account in the normal way, as part of their normal ISA information return to HMRC.

3.5 It is proposed that the normal regulatory rules and Junior ISA account opening requirements will apply where funds are transferred from a CTF. Registered contacts applying for transfer of CTF funds to a Junior ISA, will need to be made aware of the terms and conditions under which the Junior ISA will be offered – including (where appropriate) any account charges and the absence of stakeholder features. It should also be clear to registered contacts that the relevant subscription year for a Junior ISA runs according to tax years, which differs from the position under CTF, where subscription years are linked to the account holder's birthday.

3.6 Under this proposal, there would be no regulatory or other changes to the CTF rules for funds that remain within a CTF. Therefore, where appropriate, stakeholder terms and conditions would continue to apply to CTFs. The current exemptions from the Markets in Finance Directive (MiFID) would continue to apply for CTF but CTF accounts that are transferred to a Junior ISA will become subject to the MIFID requirements. However, as set out above, the Government will legislate to provide that, on maturity, funds held in a CTF can be retained in a tax-free wrapper, and rolled into an ISA outside the normal subscription limits.

3.7 If this approach were adopted, it is anticipated that many registered contacts will choose to retain funds within their CTF, rather than transferring to a Junior ISA. It will therefore be necessary for the CTF market to continue to provide attractive CTF products for a significant number of accountholders, even after some funds have been transferred to Junior ISAs. This will only be possible if sufficient providers remain in the CTF market and the market continues to be viable.

Question 3

Would this approach provide a workable basis to allow the transfer of funds from CTF to Junior ISA?

Question 4

What would be the impact of this proposed approach, including one-off or ongoing costs and benefits for accountholders and providers?

Alternative option considered: merger of CTF into Junior ISA

3.8 Another approach that has been considered by the Government is the idea of merging the Child Trust Fund into the Junior ISA.

3.9 Such an approach could be attractive due to the simplification and other benefits that may arise from there being just one tax-advantaged savings product available for all children. For example, this could assist parents in making clearer comparisons when choosing the right account for their child, and enable account providers currently offering CTF and Junior ISA to merge account systems and processes, and thereby achieve administrative savings.

3.10 However, it is likely that a merger of accounts could lead to additional account development costs and new administrative and regulatory requirements for CTF providers, some of whom do not currently offer Junior ISA. In addition the CTF market remains vibrant market with a range of attractive products on offer, and it is anticipated that many registered contacts for CTF accounts would prefer not to transfer funds to a Junior ISA.

3.11 Because of this, and following initial meetings with stakeholders, the Government's favoured option at present is to allow voluntary transfers from CTFs to Junior ISAs rather than merging all CTFs into Junior ISA.

Question 5

If the Government proceeds with changes to the current rules on transferability, do respondents agree that its proposal to allow the transfer of funds on a voluntary basis is the best course of action?

Question 6

Are there any circumstances under which a merger of CTF into Junior ISA would be preferable?

3.12 The Government has not, however, ruled the option of a merger out. It believes it is necessary to keep this option under review alongside broader developments in the CTF market, including the impact of any changes to the current rules on transferability or any reduction in the current availability of CTF products.

3.13 Therefore, it is proposed that if the Government does proceed with changes in this area, it will legislate to allow voluntary transfers in the first instance, but also to provide scope for

further intervention at a later date, should this prove necessary as a result of developments in the CTF market.

Question 7

Do respondents agree with this approach?

4

How to respond

Summary of views requested

4.1 The Government welcomes views on the following questions, although all views are welcomed within the scope of the consultation:

Question 1: Do respondents believe that the transfer of funds from a CTF to a Junior ISA should be permitted?

Question 2: Would allowing CTF funds to be transferred to Junior ISA have any significant impact upon the viability of the wider CTF market, including on the availability of suitable products for children whose funds remain with CTF?

Question 3: Would the proposed approach outlined above under 'voluntary transfers' provide a workable basis to allow the transfer of funds from CTF to Junior ISA?

Question 4: What would be the impact of the proposed approach, including one-off or ongoing costs and benefits for accountholders and providers?

Question 5: If the Government proceeds with changes to the current rules on transferability, do respondents agree that its proposal to allow the transfer of funds on a voluntary basis is the best course of action?

Question 6: Are there any circumstances under which a merger of CTF into Junior ISA would be preferable?

Question 7: Do respondents agree with the approach to legislate to allow voluntary transfers in the first instance, but also to provide scope for further intervention at a later date, should this prove necessary as a result of developments in the CTF market?

Submitting responses

4.2 Responses to the consultation should be sent to HM Treasury by Tuesday 6 August 2013.

Please email enquiries and consultation responses to:

ChildTrustFundConsultation@hmtreasury.gsi.gov.uk

(specifying in the subject line whether your email is an enquiry or a formal consultation response)

Alternatively, address responses to:

Child Trust Fund Consultation,
Pensions and Savings Team,
1 Horse Guard's Road,
London
SW1A 2HQ

4.3 When responding please say if you are a business, private individual or representative body. In the case of representative bodies please provide information on the number and nature of people or businesses you represent.

4.4 Please be aware that all responses may be shared with HM Revenue and Customs and the Financial Conduct Authority.

Confidentiality

4.5 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

4.6 If you want the information that you provide to be treated as confidential, please be aware that, under FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.

4.7 HM Treasury will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Consultation Principles

4.8 This consultation is being run in accordance with the Government's Consultation Principles, which are available at: <https://www.gov.uk/government/publications/consultation-principles-guidance>

4.9 The Government's Consultation Principles state that "timeframes for consultation should be proportionate and realistic". Due to the expected level of public interest in this consultation and due to the fact that if changes are made to the current rules primary legislation will be required, this consultation will run for twelve weeks, which should be sufficient time for stakeholders to consider and respond.

4.10 If you have any comments or complaints about the consultation process please contact:

Amy Burgess,
Consultation Coordinator,
Budget Team,
HM Revenue & Customs,
100 Parliament Street,
London
SW1A 2BQ

Email: hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk

Please do not send responses to the consultation to this address.

A

Summary of impacts

A.1 This annex provides a summary of the expected impacts of the proposed policy of allowing voluntary transfers. Where appropriate, a full Tax Impact and Information Note (TIIN) will be published alongside draft regulations following the completion of this consultation.

Table A.1: Summary of impacts

Exchequer impact	Expected to be negligible. CTFs and Junior ISA benefit from identical tax advantages, so the transfer of funds from one account to another should not impact significantly upon the Exchequer cost of the tax relief.
Economic impact	No evidence of an impact that would affect Office for Budget Responsibility estimates.
Impact on individuals and households	The proposal would increase choice over which account a child holds. However, the impact depends upon how many registered contacts choose to transfer funds from CTF to Junior ISA, the returns available on each account and any wider impacts of transferability on the CTF market. Further analysis of any impact on individuals and households will be informed by responses to this consultation.
Equalities impact	This proposal concerns accounts held by children, so will impact particularly on that age group. Further analysis will be informed by responses to this consultation.
Impact on business including civil society organisations	It is likely that Junior ISA providers could gain new accounts whilst CTF providers stand to lose accounts if they do not also offer Junior ISAs. However the precise impact on savings account providers will depend upon how many registered contacts choose to transfer funds from CTF to Junior ISA, and any wider impacts of transferability on the CTF market. Further analysis of any impact on businesses and civil society organisations will be informed by responses to this consultation.
Operational impact	No impact expected beyond the initial cost of updating guidance and advising on changes.
Other impacts	Small firm impact: Many CTF providers are smaller financial institutions who may lose business if CTF funds are transferred to Junior ISAs offered by other financial institutions. However the precise impact will depend upon how many registered contacts choose to transfer funds from CTF to Junior ISA, and any wider impacts of transferability on the CTF market. Further analysis will be informed by responses to this consultation.

Source: HM Treasury/HM Revenue and Customs assessment

HM Treasury contacts

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www.gov.uk

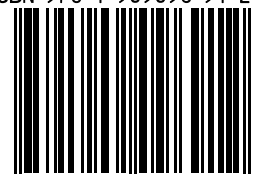
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