EXPLANATORY MEMORANDUM TO

THE CHILD TRUST FUND (AMENDMENT) REGULATIONS 2015

2015 No. [XXXX]

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 provide for the voluntary transfer of savings from a CTF to a Junior ISA; simplify the rules relating to the bulk transfer of accounts between CTF providers; and extend choice over who can manage and give instructions in relation to a CTF once an account holder reaches 16 years old. It also defers the requirement on account providers to commence 'lifestyling' of stakeholder CTFs.

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 products for eligible children born on or after 1 September 2002. New eligibility for CTF accounts was ended in 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 5, 8 and 13 include certain conditions for opening and managing an account. CTF Regulations 10, 31 and 32 set out 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 sets out the 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 the savings account held by a child. 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 updated 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 on 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 CTF 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 This instrument also amends the rules relating to the opening and management of CTF accounts. CTF Regulations 5(1) (concerning account opening), 8(1) (concerning general requirements) and 13(3)(b) (concerning account applications) will be updated to enable a person other than a CTF holder (generally a parent) to manage and give instructions in relation an account, once the account holder has turned 16. This will extend choice for young adults in relation to who manages their CTF account.

7.4 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, this does not have to commence until the account holder is 15 years of age (as opposed to 13, as currently). The requirement is being deferred, pending consultation on this CTF account feature.

- Consolidation

7.5 There are no plans to consolidate the CTF Regulations.

8. Consultation outcome

8.1 HM Treasury opened a consultation in May 2013 on the transfer of savings from CTF to Junior ISA. There was broad support for its 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 mainly affect CTF providers and account holders. The impact of the changes on transferability of CTF savings will depend on how many individuals choose to transfer their savings, the transfer processes operated by providers and whether a CTF provider is involved in the bulk transfer of accounts.

10.2 Changes to the arrangements for managing CTFs after an account holder turns 16 could reduce costs for CTF providers where existing management arrangements are retained. 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 will be published on the ** website at **.

11. Regulating small business

11.1 The legislation applies to small businesses that offer CTFs. Some CTF providers are smaller financial institutions and 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.

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.