HM Revenue & Customs

Maturing Child Trust Funds - Tax information and impact note

Who is likely to be affected

- Young adults with maturing Child Trust Fund (CTF) accounts.
- Banks, building societies and other financial institutions who provide or manage CTFs or Individual Savings Accounts (ISA).

General description of the measure

Technical consultation on:

- draft CTF regulations which will ensure that investments in CTF accounts can retain their tax advantaged status post maturity;
- draft ISA regulations which will allow savings transferred from a matured CTF to be discounted for the annual ISA subscription limit.

Policy objective

To ensure savings in maturing CTFs can retain their tax protection post maturity.

Background to the measure

An announcement was made at Budget 2018 that consultation would take place in Spring 2019 on draft regulations which ensure investments in maturing Child Trust Fund accounts can retain their tax advantaged status post maturity. A programme of informal discussions with CTF providers has informed the draft regulations. CTF accounts will start to mature in September 2020 when the first children reach 18. Without regulatory change the investments would lose their tax advantaged status.

Detailed proposal

Operative date

The first accounts mature in September 2020. The regulations will be made and laid in advance of the first account maturing.

Current law

The CTF rules are set out in the Child Trust Funds Regulations 2004 (SI 1450/2004) (CTF Regulations) which are made under the Child Trust Fund Act 2004 (CTF Act). Section 7A of the CTF Act was introduced by the Deregulation Act 2014 and provides that regulations may make provisions which ensure investments in CTF accounts can retain their tax advantaged status post maturity. Currently the CTF status of savings (and therefore the tax advantages) cease at maturity.

The ISA rules are set out in the Individual Savings Account Regulations 1998 (SI 1998/1870) (ISA Regulations), which are made under powers in the Income Tax (Trading and Other Income) Act 2005 and the Taxation of Chargeable Gains Act 1992. The Regulations specify the maximum amount which can be subscribed to ISA annually and provide exemptions to that amount, including where funds in a CTF are transferred to a Junior ISA.

Proposed revisions

The CTF Regulations will be amended by statutory instrument to provide that where a CTF provider has received no instructions on the future of the investments from the account holder those investment are placed, at maturity, in a ‘matured account’ pending instructions. The ‘matured account’ can be a continuing CTF account or a cash ISA or stocks and shares ISA, offered by the original CTF provider. Funds in either ‘matured account’ will retain their tax advantaged status, and the terms and conditions which applied before maturity. No subscriptions can be made to the account, which must be retained by the original provider.

The ISA Regulations will be amended to provide that funds transferred from a CTF or mature CTF account will be disregarded for the purposes of the overall ISA subscription limit. Funds transferred to a Lifetime ISA will be subject to the Lifetime ISA payment limit. This is consistent with the approach taken for maturing Junior ISAs.

Summary of impacts

Exchequer impact (£m)

2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022	2022 to 2023	2023 to 2024
negligible	negligible	negligible	negligible	negligible	negligible

The measure is expected to have a negligible impact on the Exchequer.

Economic impact

The measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

The draft regulations will allow young adults with maturing CTFs to retain their tax advantages. Approximately 800,000 CTFs will mature each year effective 1 September 2020. Not all account holders are engaged with their account and will not provide instructions on the account’s future. The regulation changes ensure the investments remain tax advantaged pending engagement by the account holder. It also allows the account holder to transfer the mature investments to an ISA of their choice outside the annual subscription limit.

The measure is expected to have a positive impact on the families with young adults, by ensuring investments remain tax advantaged.

Equalities impacts

Around 6 million children from all income groups and sexes hold a CTF. Although it is not anticipated that the measure will affect any groups with protected characteristics it is likely that the changes will particularly benefit young adults who may be less experienced financially and unaware of the maturing account. The changes will ensure the account remains tax advantaged pending action by the account holder.

Impact on business including civil society organisations

Approximately 70 approved CTF providers will be affected by the changes. The effect on individual firms will be dependent on the number of accounts which remain with them post maturity. Although providers would have retained responsibility for managing the accounts post maturity without the proposed changes, they will be required to continue applying the CTF rules, and meet modified CTF reporting requirements in relation to the account. One-off costs will include adjusting their systems to take account of the 'matured account' and minor reporting changes. On-going costs include providing an annual return to HMRC of all matured CTF accounts they manage, but the information required will be minimal.

There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

The overall additional costs for HMRC in implementing these changes are anticipated to be negligible.

Other impacts

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 and provider groups and monitoring of the information received annually from CTF providers.

Further advice

If you have any questions about this change, please contact Helen Williams on telephone: 03000 512336 or email: savings.audit@hmrc.gsi.gov.uk

Declaration

John Glen MP, Economic 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.