HM Revenue & Customs

Maturing Child Trust Funds

Summary of Responses

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Contents

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1. Introduction

1.1. A Child Trust Fund (CTF) is a tax advantaged savings account which provides children born between 1 September 2002 and 2 January 2011 with an asset when they reach adulthood. All accounts received at least one government contribution and, to ensure all children benefitted, accounts were opened by HMRC in the absence of account opening by the child's parent.

1.2. The funds in a CTF, including any growth, are inaccessible until the account matures when the child reaches 18 years of age. The first accounts begin maturing in September 2020 when the oldest account holders reach their 18th birthday. Without legislative change, maturing accounts would lose their tax advantaged status and become liable for tax on any gain or growth post maturity. In addition, any transfer of investments from a mature CTF to an ISA would be subject to the annual ISA subscription limit.

1.3. An announcement was made at Budget 2018 that consultation would take place in Spring 2019 on draft regulations which would ensure that the funds in maturing CTF accounts could retain their tax advantaged status post maturity.

1.4. A programme of informal discussions with CTF and ISA providers during the Spring informed the drafting of regulations and a public technical consultation designed to gather views on the detail of those regulations took place between 6 June and 11 August 2019 www.gov.uk/government/consultations/draft-regulations-maturing-child-trust-funds. The purpose of the consultation was to obtain views on:

- The ability of the legislation to ensure that investments in maturing CTFs can retain their tax advantaged status post maturity.
- Any potentially adverse consequences of the legislation on providers.
- Any potentially adverse consequences of the legislation on holders of maturing CTFs (young adults).

1.5. Eight written responses were received from CTF and ISA providers, administrators, other financial institutions, and industry representatives. A list of those who responded can be found at Annex A. The government is grateful to those who contributed their views.

1.6. Chapter 2 of this document summarises responses received to questions set out in the consultation document. Chapter 3 outlines the government's response. An overview of how the regulations will operate in practice can be found at Annex A.

1.7. Some respondents raised issues that are outside the scope of this consultation, such as the provider's relationship with, and information provided to, the account holder, the status of provider terms and conditions, the status of instructions provided by the account holder before their 18th birthday, and the application of the Dormant Assets scheme. Some respondents also raised issues that are non-legislative such as the need for financial education and increased communications, and the provision of accessible ways in which to trace misplaced accounts. While these issues are not dealt with in this summary, the government will explore the points made by respondents as appropriate with the relevant bodies and agencies.

Next steps

1.8. Having considered the responses to this consultation and other relevant factors, the government believes that, subject to the minor amendments referred to in this document, the Regulations will ensure that investments in maturing CTFs can retain their tax advantaged status post maturity. Legislation to amend the Child Trust Funds Regulations and the Individual Savings Account Regulations has been laid (www.legislation.gov.uk/id/uksi/2020/29 and www.legislation.gov.uk/id/uksi/2020/30) and the CTF Provider Guidance and ISA Manager Guidance will be updated and made available on gov.uk.

2. Summary of responses

2.1. This Chapter summarises the main points raised by respondents in response to the consultation.

Issue 1 - The ability of the legislation to ensure that investments in maturing CTFs can retain their tax advantaged status post maturity.

2.2. Respondents were of the view that the proposed legislation will enable the market for maturing CTFs to function effectively. They were content that the regulations, as drafted, would retain the investments' tax advantaged status post account maturity and provide for the transfer of investments to an ISA.

2.3. The majority of responses centred on the availability of guidance on the practical operation of maturing accounts. These included guidance on the provision of instructions by the account holder – that any instructions must cover the total value of the matured product, albeit that the investments may be split across products. They also commented on the need for a clear statement that, at maturity, the role of the registered contact ceases and only the account holder can provide instructions on the future of investments in the account. Comments also included requests for clarification of the status of Stakeholder requirements at maturity; the status of accounts being transferred; and whether account holders can retain their matured CTF account while also transferring some funds elsewhere.

Issue 2 - Any potentially adverse consequences of the legislation on providers.

2.4. Most respondents were of the view that the proposed legislation held no adverse consequences for account providers.

2.5. Two respondents questioned whether matured CTFs would be treated as non-Basic Life Assurance and General Annuity Business products (BLAGAB) for the purposes of corporation tax. Currently CTFs and ISAs are defined in legislation (Finance Act 2012) such that they are specifically included within the non-BLAGAB definition. The treatment of matured CTFs as BLAGAB products would impose additional tax burdens on insurer providers, with particular economic disadvantages for Friendly Societies and other mutual insurers.

2.6. A number of respondents commented on the need for the ISA and CTF guidance to be updated and finalised in advance of the regulations becoming effective, to enable stakeholders to develop any changes to their systems in advance of account maturity. One respondent commented that the requirement to provide an annual statement post maturity where the account holder had not provided instructions could lead to significant costs for providers.

2.7. Some respondents commented on the effect of low value accounts and the diminishing number of accounts over time will have on a provider's resources.

Issue 3 – Any potentially adverse consequences of the legislation on holders of maturing CTFs (young adults).

2.8. Respondents were of the view that the legislation held no adverse consequences for account holders. Any responses concentrated on the need for raised awareness through financial education, guidance and publicity to ensure account holders engaged with their account provider. One respondent questioned how providers could verify the account holder's identity, and how payments could be made to account holders without bank accounts. The same respondent suggested solutions which would require the registered contact to retain responsibility post the account holder's 18th birthday or undertake to provide information regarding the account holder.

2.9. Three respondents questioned the approach to be taken where the account holder was not UK resident at account maturity. In particular whether this prevented the account from remaining protected for tax purposes.

3. Government Response

3.1. This Chapter sets out the government's response to the points raised in this consultation.

3.2. Having carefully considered the responses to this consultation and other relevant factors, the government believes that, subject to the changes set out in this document, the draft Regulations will deliver a scheme to ensure investments in maturing Child Trust Funds can retain their tax advantages post maturity. An overview of how the regulations will operate in practice can be found at Annex A.

Issue 1 - The ability of the legislation to ensure that investments in maturing CTFs can retain their tax advantaged status post maturity.

Issue 2 - Any potentially adverse consequences of the legislation on providers.

Issue 3 – Any potentially adverse consequences of the legislation on holders of maturing CTFs (young adults).

3.3. Prior to the technical consultation, a succession of comprehensive meetings took place with CTF providers, ISA managers and industry representatives on how the existing tax advantages could be maintained post maturity. These discussions informed the draft regulations on which the technical consultation took place and, as a result, few amendments were needed to the draft Regulations. Such amendments as have been made have generally addressed drafting inconsistencies or omissions, or seek to make the Regulations more intelligible.

3.4. One potential issue did emerge which required a regulation change. Some respondents questioned the approach to be taken where the account holder was not UK resident. The Government recognises that there may be situations where the young account holder's family (and therefore the account holder) is non UK resident at the point the account matures. Without changes to the legislation, the account holder could not provide instructions on the future of the investments, other than to remove them from the matured account, thereby losing the account's tax advantages.

3.5. The ISA regulations will be amended to enable an account holder who is not UK resident to open an ISA to receive investments from a matured CTF. However, it will not be possible to subscribe or make payments to that account until the account holder become UK resident and has completed the necessary ISA declarations as to residency. The changes are consistent with the approach taken for CTF to Junior ISA transfers and enable an account holder who is resident abroad to maintain a tax advantage account pending a permanent return to the UK.

3.6 Two providers questioned the application of the Finance Act 2012 to matured CTFs. The guidance will confirm that matured CTF accounts will be treated as non-Basic Life Assurance and General Annuity Business products (BLAGAB) for the purposes of corporation tax. The draft Regulations provide that the definition of a CTF account includes the 'matured' CTF account. As a consequence, such 'matured accounts are non BLAGAB for the purposes of the Finance Act 2012.

3.7. The remaining responses centred on the need for guidance on the practical operation of maturing accounts. The CTF provider guidance and ISA manager guidance will be updated to clarify the points raised in consultation in advance of the regulations becoming effective. This will enable stakeholders to develop any changes to their systems in advance of account maturity.

3.8. Guidance will confirm that the matured CTF account will be a continuation of the existing account i.e. a 'stock and shares' based CTF will continue to be a stocks and shares based account post maturity, irrespective of the fact that significant cash may be held within the account. While any Stakeholder requirements will fall away at maturity, the underlying investments will carry forward into a stocks and shares based mature CTF account. The guidance will also cover the provision of instructions by the account holder, the transfer of accounts, and will confirm that the role of the registered contact ceases at maturity.

3.9. The government has noted respondent concerns about cases where providers have been unable to contact account holders or their parents or have not received a response to their correspondence. While outside the scope of the consultation it should be noted that HM Revenue and Customs currently offers a service that helps parents to trace their child's CTF, which can also be used by the account holder. This can be accessed at www.gov.uk/government/organisations/hm-revenue-customs/contact/child-trust-fund. The letter received by 16 year olds informing them of their National Insurance number has been amended to highlight this service and the government is also exploring what further steps can be taken to simplify account tracing. Discussions are also taking place with account providers and customer representatives on appropriate measures to reconnect accounts and account holders.

3.10. As commented earlier, many of the comments received related to the continuing relationship between the account provider and the account holder or are points of contract law. While they are outside the scope of the consultation, the government will explore these issues, as appropriate, with the relevant bodies and agencies.

Annex A: Overview of Scheme

General Overview

1. Where no instructions have been received at maturity from the account holder (i.e. the relevant young person), the Child Trust Fund (CTF) investments and funds will be retained by the provider as a ‘protected account’. The protected account can either be a ‘matured CTF account’ or, alternatively, the CTF provider can place the funds in a cash ISA or stocks and shares ISA (where they offer such accounts). The investments in either form of protected account will retain their tax advantaged status at all times.

2. The role of the registered contact (e.g. the parent) will cease at CTF maturity. Providers will only accept instructions from the account holder, subject to any existing power of attorney or equivalent.

3. The provider will only accept instructions which will result in the funds being transferred or otherwise withdrawn from the protected account. The account holder will not be able to subscribe to the protected account, instruct on the investment profile or transfer the protected account to another provider.

4. The terms and conditions which applied before account maturity will continue in the protected account’, subject to any changes deemed necessary by the provider and consistent with Regulatory rules. The protected account will be retained by the original provider (other than where the original provider ceases to act).

5. Where instructions are received to transfer investments to an ISA, the value of the investments transferred will not count towards the annual ISA subscription limit but will count towards the annual Lifetime ISA payment limit. This is consistent with the approach taken for maturing Junior ISAs. It will also be possible for a non UK resident account holder to open an ISA to receive investments from a mature CTF.

Detail of Scheme

All maturing accounts

6. The following principles will apply to all maturing CTFs:

- The role of the ‘registered contact’ will end with the maturity of the CTF. Only the investor can instruct on the future of the account and its investments (subject to any Power of Attorney or equivalent).

- The regulations will provide for in-specie transfers (where relevant) where there is a transfer from an investment based CTF to a stocks and shares ISA or to an investment based matured CTF account. There will be no requirement to sell and re-purchase any equity on transfer to an ISA (unless specifically instructed to) or to the protected account.

- The tax advantages remain where an account is being transferred.

- Matured CTF accounts will satisfy the definition of ‘child trust fund business’ for the purposes of Section 57 of the Finance Act 2012. ISAs and CTFs are already are defined in legislation such that they are specifically included within the non-“basic life assurance and general annuity business” (BLAGAB) definition. The changes in the amending CTF regulations will ensure that matured CTFs are also non-BLAGAB.

Accounts where an instruction has been received by the account provider

7. The account holder will be free to use the matured funds as they wish and will be able to employ any combination of the following options:

- opening a new ISA(s) and transferring the funds held in the mature account to them;

- transferring the funds in the mature account to the account holder’s existing ISA(s);

- withdrawing the funds;

- transferring the funds to another form of savings/investment account or to a 3rd party.

8. The matured funds can be transferred to an existing or new ISA manager. There will be no requirement to retain them with the originating CTF provider. Any funds transferred by the investor to an ISA will be subject to the relevant ISA rules regarding eligibility, account opening and operation of the account.

9. A single set of instructions must be given and once the funds are removed the account will be closed. It will not be possible for the account holder to instruct that some or all funds are retained in a matured CTF account and some removed/ transferred.

Transfer to an existing ISA

10. A saver with an existing active ISA(s) will be able to effect a transfer to that account. The transferred funds will be disregarded for the purposes of the ISA annual subscription limit and can be no greater than the funds in the CTF at the point of maturity plus any outstanding growth or interest. Although the transferred funds will not count towards the annual subscription limit, they will count towards the Lifetime ISA current year payment limit. Any payment from an ex-CTF to a Lifetime ISA (up to the £4,000 current year payment limit) will attract a bonus. This is consistent with the rules for a mature Junior ISA to Lifetime ISA transfer.

Opening a ‘new’ ISA

11. Where a transfer is to a ‘new’ ISA, the account holder must complete the usual application and declarations required for opening an ISA before a transfer can take

place. Any funds transferred will be disregarded for the purposes of the ISA annual subscription limit but not the Lifetime ISA limit (see 10 above).

12. The ISA regulations define ‘account investor’ with reference to a qualifying individual who subscribes to an account. The individual must be 16 or over to **invest** in a cash ISA and 18 or over for all other ISAs. In order to apply to **open** an account the applicant must (inter alia) be over 16. It is therefore clear that a person under 18 cannot *invest* in a non-cash ISA, but it does not follow that the *application* for a non-cash account cannot be made until the investor is 18.

13. ISA managers are free to accept an application for a non cash ISA before the prospective account holder is 18, on the proviso that no investments will be made until they are 18 and subject to any limitations under common law of contractual provisions entered into by minors.

Account holder resident abroad at account maturity.

14. While the ISA regulations require a prospective account holder to be UK resident, exceptions are made in defined circumstances - including where a CTF is transferred to a Junior ISA. A similar exception will be made for maturing CTF funds.

15. The account holder will be able to open an ISA to receive funds from a mature CTF despite the fact that they were not a UK resident at the point of account opening. Once opened (and funds transferred) the existing ISA regulations will apply. Although the account holder will have the benefits of the account, no subscriptions or qualifying additions can be made until the account holder becomes UK resident.

Accounts where no instruction has been received by the account provider

16. In the absence of any instructions the CTF provider will place and hold the matured CTF monies in a protected tax advantaged account pending receipt, or completion, of instructions. This ensures the investments are retained in a tax advantaged environment. The protected account can either be a continuing CTF account, or an ISA. In either scenario the protected account must be retained by the original provider. The account provider cannot close the account without instructions from the account holder.

17. Where the original provider intends to leave the market, they will be able to transfer accounts to another provider. Any such transfer must be on a like-for-like basis. It will not be possible for a matured CTF account to be transferred to an ISA provider (so that it becomes an ISA), or for a protected cash ISA to be transferred and become a protected stocks and shares ISA.

18. The following will apply to either type of protected account:

- The tax advantages will be retained and all existing instructions on investments and their status will continue in the protected account (subject to the usual parameters for discretion). A cash based account will continue as a cash based account.

- While the stakeholder requirements will fall away at maturity this will not affect the underlying investments or instructions. An investment based account will remain as such.

- Any equities held in the CTF at maturity will continue to be held in the protected account. There should be no requirement to sell and re-purchase any equity on transfer to either form of protected account.

- No activity shall take place on the protected account other than the receipt of growth or interest, and no instructions should be accepted by the CTF provider/ ISA manager (other than transfer/withdrawal instructions).

- It will not be possible for the saver to transfer the protected account to another CTF provider, make subscriptions to the protected account or instruct the CTF provider on investment matters.

- A provider may only transfer an account to another provider on the instruction of the account holder or where the provider leaves the market - when the established bulk transfer processes will apply.

- Once all of the funds have been removed/transferred the matured CTF account must be closed.

- Cancellation rights will only apply to an ISA opened by the account holder. Once the funds have been removed, they cannot be returned to the matured CTF account.

- A statement will be sent to the account holder annually where no instructions have been received.

Dormancy

19. The dormant assets scheme was established by the Dormant Bank and Building Society Accounts Act 2008 (the Act). It enables participant firms to voluntarily channel funds from dormant accounts (cash accounts with at least 15 years of customer inactivity) towards good causes through an authorised reclaim fund. The Act does not apply to stocks and shares ISAs.

20. Section 10(2)(b)(i) of the Act provides that an account is not treated as dormant if, under the terms of the account, ‘*withdrawals were prevented’*. Cash based CTFs and Junior ISAs are not therefore subject to the dormancy rules as no withdrawals can be made until maturity.

21. Once a cash based CTF matures, the funds will become accessible and the provisions of the Act will begin to apply. However, given that the Act classifies an account as ‘dormant’ when it has not had any saver-initiated activity for 15 years or more following the point at which fund become accessible, funds in a protected cash account will not be classified as dormant until 15 years after maturity.

Annex B: List of respondents

The following organisations submitted responses:

A J Bell

Association of British Insurers

Association of Finance Mutuals

Capita

Foresters Financial

Hargreaves Lansdown

Methodist Chapel Aid

TISA (The Investing and Saving Alliance)