

**EXPLANATORY MEMORANDUM TO**  
**THE CHILD TRUST FUNDS (AMENDMENT No. 3) REGULATIONS 2011**

**2011 No. 2447**

1. This explanatory memorandum has been prepared by H.M. Revenue and Customs (HMRC) 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 These Regulations amend the Child Trust Funds Regulations 2004 (S.I. 2004/1450) (the CTF Regulations). They

- bring forward the expiry date of Child Trust Fund (CTF) vouchers from 12 months to 60 days for vouchers issued on or after 1 January 2012,
- increase the annual subscription limit from £1,200 to £3,600 with effect from 1 November 2011, and
- define what is meant by the term “unique identifier” in relation to the requirement for local authorities to make returns of information about looked after children.

## **3. Matters of special interest to the Joint Committee on Statutory Instruments**

3.1 In its 22<sup>nd</sup> Report of the Session 2010 – 11 the Committee drew the special attention of both Houses to the Child Trust Funds (Amendment) Regulations 2011 (S.I. 2011/781). The Committee asked HMRC to explain the meaning of the term “unique identifier” in the amended regulation 33A of the CTF Regulations.

3.2 HMRC provided an explanation in a memorandum to the Committee (which can be found attached to the Committee’s 22<sup>nd</sup> Report). HMRC offered to include in a later amending instrument a provision clarifying the meaning of “unique identifier”. Regulation 6 of these Regulations provides that clarification.

## **4. Legislative Context**

4.1 This instrument is being made to

- bring forward the expiry period of CTF vouchers issued on or after 1 January 2012 as part of the orderly wind down of the CTF following the closure of the scheme to children born on or after 3 January 2011,
- increase the annual subscription limit for CTF accounts from 1 November 2011 in line with that for the Junior Individual Savings Account (Junior ISA), and
- clarify what is meant by the unique identifier of the local authority making the return, as inserted into the CTF Regulations by the Child Trust Funds (Amendment) Regulations 2011 in response to the 22<sup>nd</sup> Report of the Joint Committee on Statutory Instruments.

## **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 the negative resolution procedure and does not amend primary legislation, no statement is required.

## **7. Policy Background**

- *What is being done and why*

7.1 As part of its strategy to tackle the UK's budget deficit the Government announced it would reduce, and then stop, all government payments to CTF accounts. Although no child born after 2 January 2011 will be eligible for a CTF account, small numbers of eligible children will continue to have vouchers issued for them in ever decreasing numbers. When a voucher is issued parents currently have 12 months to use it to open an account. If the voucher is not used then HMRC opens an account on behalf of the child.

7.2 This instrument brings forward when HMRC will open an account for all vouchers issued on or after 1 January 2012. It achieves this by reducing the period in which an account may be opened from 12 months to 60 days from the date of issue of the voucher, after which HMRC will open an account for the child if the parents have not already done so.

7.3 Currently, with vouchers expiring after 12 months, the CTF system needs to remain switched on for at least a year after any voucher is issued so that it can automatically open an account for the child if the parents do not. By bringing forward when the system opens an account for the child, HMRC will be able to switch off the CTF IT system much earlier; making best use of the IT and enabling substantial operational savings to be made more quickly. A manual system will be put in place to administer the few hundred cases expected to arise after the IT system has been decommissioned.

7.4 HMRC estimate that bringing forward the date when accounts are opened automatically for children will affect less than 1,000 children. When HMRC opens an account for a child, it sends the parents a letter telling them where the account is and reminding them that they are free to move it to a CTF provider of their choice if they wish to do so. So no child will lose out, instead children affected will get their accounts earlier than they might have otherwise.

7.5 Following the ending of CTF eligibility, the Government announced the introduction of the Junior ISA scheme that will have many features of the CTF, but with no government contributions. The annual subscription limit for the Junior ISA, which will be launched on 1 November 2011, will be £3,600. Children with CTF will not be able to have a Junior ISA. So that children with CTF are not disadvantaged the annual subscription limit for that scheme is being aligned with that of the Junior ISA at £3,600 from 1 November 2011.

7.6 The CTF Regulations were amended by The Child Trust Funds (Amendment) Regulations 2011 to reduce the reporting requirement on local authorities following the closure of the CTF scheme to children born after 2 January 2011. These regulations clarify that the “unique identifier” to be included on local authority returns is that issued to them by HMRC for that purpose. Local authorities already use this identifier on their CTF returns to HMRC, so these regulations will not make any change to the way they already operate in this regard.

## **8. Consultation Outcome**

8.1 The change to the subscription limit has been informally consulted on with representatives of the CTF industry and others as part of the development of the Junior ISA. The way this increase to the CTF subscription limits is to be implemented has been arrived at as a result of those discussions.

8.2 Bringing forward when accounts are to be opened for children automatically has not been consulted on as there will be no effect on the industry, and the only effect on the few hundred children concerned will be for many of them to receive their accounts earlier than they otherwise would.

8.3 The drafting changes clarifying the definition of the local authority identifier will have no material effect on the industry, parents or local authorities. The change merely put beyond doubt the Government’s original intended outcome. Therefore this change has not been consulted on.

## **9. Guidance**

9.1 The changes implemented by this instrument will be incorporated into HMRC CTF guidance for providers which is available at [www.hmrc.gov.uk/ctf/ctfguidancenotes.pdf](http://www.hmrc.gov.uk/ctf/ctfguidancenotes.pdf), and the guidance available for parents at [www.direct.gov.uk/childtrustfund](http://www.direct.gov.uk/childtrustfund).

## **10. Impact**

10.1 CTF providers will need to change their system parameters and marketing material to reflect the increased subscription limits. Friends and family of children with CTF will be able to make increased subscriptions into those accounts and they and the child will be able to benefit from the increased tax advantages offered as a result.

10.2 From 1 January 2012 a few hundred parents will have a shorter period to use their CTF voucher before HMRC automatically open an account on behalf of the child. In all cases, whether the voucher is used or not, this will see the child get an account at the same time or earlier than would otherwise have been the case. Parents will continue to be able to move the account, with the government payment, to the provider of their choice once it has been opened, be it by them or HMRC.

10.3 There is no impact on charities or voluntary bodies by any of the changes in this instrument.

10.4 There is no impact on the public sector, other than that HMRC will be able to make substantial operational cost savings earlier than would otherwise have been the case due to the bringing forward of the opening of some accounts.

10.5 A Tax Information and Impact Note will be published on the HMRC website at [www.hmrc.gov.uk/thelibrary/tiins.htm](http://www.hmrc.gov.uk/thelibrary/tiins.htm).

## **11. Regulating Small Business**

11.1 The legislation applies to small business.

11.2 Providers will need to make changes to their systems and publicity to cater for the new subscription ceiling. Ultimately the new subscription limit is voluntary for providers to implement, however we expect the vast majority to implement the changes willingly as it gives them an opportunity to increase their holdings through increased subscriptions.

## **12. Monitoring & review**

12.1 HMRC will monitor compliance with the revised requirements as part of the risk-based audit program of CTF providers.

## **13 Contact**

Declan Norris at HMRC, tel: 020 7147 0855 or email: [declan.norris@hmrc.gsi.gov.uk](mailto:declan.norris@hmrc.gsi.gov.uk), can answer any queries regarding the instrument.