

EXPLANATORY MEMORANDUM
THE CHILD TRUST FUNDS REGULATIONS 2004 No. 1450

1. This explanatory memorandum has been prepared by the Commissioners of Inland Revenue and is laid before Parliament by Command of Her Majesty.

Description

2. The regulations provide for the level of the Government contributions and the annual subscription limits together with administrative procedures for opening and running accounts. The regulations also set out details of the types of account and the investments within them, details of the tax treatment of the Child Trust Fund account and various rules for financial institutions who wish to offer Child Trust Fund accounts.

Matters of Special interest to the Joint Committee on Statutory Instruments

3. None.

Legislative Background

4. These regulations are being made under powers conferred by sections 3(1) to (5) and (7) , 5, 6(1) to (3), 7, 8(1). 9(2), 11(1), 12(2), 13, 15, 16, 23(1) and 28 (1) to (4) of the Child Trust Funds Act 2004. The regulations are being made under the negative resolution procedure.
5. The regulations are the first use of these powers since the Child Trust Funds Act received Royal Assent on 13 May 2004. Further Child Trust Fund regulations will be made at a later date on CTF appeals, the role of the Official Solicitor in connection with certain looked after children, the tax treatment of Child Trust Fund insurance business and early access to the CTF for terminally ill children.

EU legislation

6. The Child Trust Funds Regulations do not implement EU legislation.

Extent

7. The instrument applies to all of the United Kingdom.

Policy Background

8. The Child Trust Funds Act 2004 (c. 6) provides for Child Trust Fund accounts to be opened for all eligible children born on or after 1 September 2002. The Child Trust Fund is a savings and investment account for children. The Government will make contributions to this account with an additional payment for children from lower income families. In addition to the Government contributions, the child's family and friends will also be able to

subscribe to the account up to an annual limit. The funds will be locked into the account until the child reaches the age of 18.

9. There are four key objectives for the Child Trust Fund :
- To help people to understand the benefits of saving and investing
 - To encourage parents and children to develop the savings habit and to engage with financial institutions:
 - To ensure that in future all children have a financial asset at the start of adult life and
 - To build on financial education.

Around 700,000 children a year will receive a Child Trust Fund account.

10. The regulations fulfil the policy objectives by implementing various aspects of Child Trust Funds so that the scheme can begin in April 2005. They will be of particular use to financial institutions developing products ready for the launch. The regulations are to a considerable extent – and at the request of potential providers - modelled on existing provisions for Individual Savings Account on which much of the structure of the Child Trust Fund has been based
11. There has been considerable public interest in Child Trust Funds since the Government first consulted on a Government assisted savings vehicle for Children in April 2001 in the consultation paper ‘Savings and Assets for All’. This was followed by a further consultation document, ‘Delivering Savings and Assets’ was published in November 2001, reporting on the results of the first consultation and describing further work on the potential methods of delivery for Child Trust Funds.
12. In Budget 2003 the introduction of Child Trust Funds was announced and that accounts were to be available by 2005. Later, in October 2003 the paper ‘Detailed Proposals for the Child Trust Fund’ was published setting out the key features of the scheme. This was followed by the introduction of the Child Trust Funds Bill to Parliament in November 2003. Draft Child Trust Fund regulations were published in February 2004.

Impact

13. A full Regulatory Impact Assessment was prepared for the introduction of the Child Trust Funds Bill in November 2003.

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