EXPLANATORY MEMORANDUM TO THE

CHILD TRUST FUNDS (AMENDMENT NO 2) REGULATIONS 2005

2005 No.909

1. This explanatory memorandum has been prepared by HM Treasury and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Description

These regulations supplement and amend the main Child Trust Fund regulations. They provide that credit unions may act as a provider of child trust funds (provided that they are authorised persons under the Financial Services and Markets Act 2000), and offer cash deposit accounts for the Child Trust Fund, following an announcement in the 2005 Budget on 16 March.

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

These Regulations have been made and laid less than 21 days before they come into force. They arise from discussions between representatives of Credit Unions and officials, and the position reached so far was announced in the Budget on 16th March. The Regulations were subsequently drafted and made. As they extend the categories of persons who may act as providers of child trust funds (and as a small supplementary measure make a reduction in the information requirements on providers) their effect is wholly relieving.

4. Legislative Background

4.1 These regulations supplement the main CTF regulations by providing that a credit union must be an authorised person within the meaning of section 31 (1) (a) of the Financial Services and Markets Act 2000. They provide for credit unions to be included in the list of CTF deposit takers and for credit union deposit accounts to be qualifying investments for a CTF account. The regulations also provide that credit unions can accept CTF vouchers only from a responsible person or the child if over 16 who fulfils qualification for admission to membership of the credit union.

4.2 The regulations also make an amendment to the items required in the annual information return which CTF providers have to submit within 60 days of the end of each tax year. (The first return will not be due until after 6 April 2006).

4.3 The present regulations are made under powers in sections 3(1) and (5), 15 and 28(1) to (4) of the Child Trust Funds Act 2004.

5. Extent

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

These regulations are subject to annulment and do not amend primary legislation.

7. Policy background

7.1 The Child Trust Funds Act 2004 (c6) 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 long-term savings and investment account for children; the Government will make contributions to this account with additional payments for children from low-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.

7.2 There are four key objectives for the Child Trust Fund:

- To help people to understand the benefits of savings 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
- To build on financial education

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

7.3 The regulations allow credit unions to become a CTF provider. Although they could previously make available another provider's stakeholder CTF account they could not offer their own cash deposit accounts for the CTF. These regulations now allow them to do so. The separate amendment to the information return is in response to feedback from CTF providers. This will improve the running of the scheme.

8. Impact

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

9. Contact

Elspeth Fearn at the Inland Revenue (Tel 020 7184 7147) or e-mail elspeth.fearn@ir.gsi.gov.uk.