EXPLANATORY MEMORANDUM TO

THE CHILD TRUST FUNDS (AMENDMENT No. 3) REGULATIONS 2006.

SI 2006 No. 3195

1. This Explanatory Memorandum has been prepared by HM Revenue and Customs and is laid before the House of Commons by command of Her Majesty.

2. Description

These Regulations amend the Child Trust Funds Regulations 2004 (S.I. 2004/1450) to exempt from tax building society bonuses paid in respect of a Child Trust Fund account. It also exempts such payments from counting towards the annual subscription limit of the account if they are paid directly into the account.

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

None

4. Legislative background

4.1 These regulations are being made under the power conferred by section 13 (with the incidental powers in section 28(1) to (4)) of the Child Trust Funds Act 2004. As such they fall to be laid before the House of Commons (see section 28(7) of that Act). The regulations are being made under the negative resolution procedure.

4.2 Regulation 24 of the Child Trust Funds Regulations 2004 sets out the details of the exemption from tax of account income and gains. The effect of the amendments is to allow building society bonuses paid to children who own a Child Trust Fund account to be paid directly into that account tax free.

5. Territorial extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 The Child Trust Funds Act 2004 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 can also subscribe to the account up to an annual limit. The funds are locked into the account until the child reaches the age of 18.

7.2 The existing Child Trust Funds regulations require annual bonuses paid to children who hold their Child Trust Fund account with building societies to be paid net of tax, unless the child's parents fill in a form provided by HMRC (the R85) to declare that their child is not a tax payer and therefore to allow any payments to be made gross. Payments of annual bonuses are not exempted from tax and so will be paid outside of the Child Trust Fund account to the child by cheque.

7.3 This change will help building societies as the annual bonus will be exempted from tax and if paid by the building society directly in to the Child Trust Fund account it will not affect the subscription limit. The change also means that parents do not have to fill in a form to exempt the child's Child Trust Fund income from tax.

7.4 HMRC informally consulted with Child Trust Fund providers in November 2006. The changed was welcomed by providers in the consultation.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it imposes no new impacts on business, charities or voluntary bodies.

8.2 The impact on the public sector is negligible.

9. Contact

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