EXPLANATORY MEMORANDUM TO

THE CHILD TRUST FUND (AMENDMENT) REGULATIONS 2012

2012 No. 1870

1. This explanatory memorandum has been prepared by H.M. Revenue and Customs and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 This statutory instrument amends the Child Trust Fund Regulations 2004 (S.I. 2004/1450) ("the principal regulations") to remove the restriction on "connected" accounts where both accounts are one or other of an ISA, Junior ISA or Child Trust Fund. The changes in this instrument are administrative and technical and do not affect liability to tax.

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

3.1 None.

4. Legislative Context

4.1 Child Trust Funds (CTF) are tax advantaged investment products, introduced in 2005 for eligible children born on or after 1 September 2002. They allow children to save in a cash or stocks and shares account without being taxed on any income or gains arising from, or received in relation to, those savings.

4.2 ISAs were introduced in 1999 and Junior ISAs were introduced on 1st November 2011 for children aged below 18 years who are not eligible to hold a CTF. ISA and Junior ISA have similar tax advantages to a CTF but are not compulsory and do not contain Government payments.

4.3 The principal regulations, which this statutory instrument amends, were made and laid on 27 May 2004 using powers in sections 3 and 28 of the Child Trust Funds Act 2004.

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

7. Policy background

7.1 The principal regulations prohibit a connection between a CTF and other investments where, by virtue of the connection, the CTF would enjoy more favourable terms.

7.2 The prohibition was devised to prevent the artificial increase of tax advantaged returns through the manipulation of interest between a CTF and a taxable investment. This instrument removes this prohibition where the connected accounts in which the investments are held are both tax advantaged accounts. This will allow account providers to offer more favourable terms for a CTF where another tax advantaged account (such as an ISA) is held with the same provider, whether it is held by the account holder or another person.

7.3 A similar change is being made to the Individual Savings Account Regulations 1998 (SI 1998/1870).

8. Consultation outcome

8.1 This instrument implements a measure which was announced on 29 March 2012 (http://www.hmrc.gov.uk/ctf/ctf-bulletin63.pdf). Draft regulations were published for comment on 14 June 2012 (http://www.hmrc.gov.uk/isa/bulletin44.pdf). Representative bodies, CTF managers and other interested parties who responded to these announcements were generally supportive of the change, and respondents identified no potential difficulties with the proposed change or the relevant draft legislation.

9. Guidance

9.1 HMRC's Guidance Notes for CTF managers will be updated to reflect the changes to the CTF rules. The Guidance Notes are available at http://www.hmrc.gov.uk/ctf/ctfguidancenotes.pdf

10. Impact

10.1 The impact on charities and voluntary bodies is nil.

10.2 The impact on the public sector is nil.

10.3 A Tax Information and Impact Note covering this instrument will be published on the HMRC website at http://www.hmrc.gov.uk/thelibrary/tiins.htm.

11. Regulating small business

11.1 The legislation applies to small businesses. All CTF managers could benefit from these changes, regardless of size. The changes could

increase the marketing and other opportunities available to these managers.

12. Monitoring & review

12.1 HMRC will continue to review compliance with the CTF rules using the information provided annually by CTF managers.

13. Contact

Simon Turner at the H.M. Revenue and Customs Tel: 0151 472 6325 or email: simon.turner@hmrc.gsi.gov.uk can answer queries regarding the instrument.