EXPLANATORY MEMORANDUM TO THE

THE CHILD TRUST FUNDS (INSURANCE COMPANIES) REGULATIONS 2004

2004 No.2680

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

Description

2. The regulations provide for the exemption from corporation tax of income and gains that arise to an insurance company providing child trust funds, so far as it relates to the company's child trust fund business (CTFB). They also provide for the profit from operating child trust fund business to be taxed in the same way as profits from ISA business, and for losses arising on one category to be set off against profits from the other.

Matters of Special interest to the Joint Committee on Statutory Instruments

3. None.

Legislative Background

4.1 These regulations are being made under powers in section 333B Income and Corporation Taxes Act 1988 as extended to CTFB by section 14 of the Child Trust Funds Act 2004. The regulations are being made under the negative resolution procedure.

4.2 The regulations are the first use of the section 333B powers as extended.

Extent

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

European Convention on Human Rights

6.1 The Financial Secretary to the Treasury has made the following statement:

In my view the provisions of the Child Trust Funds (Insurance Companies) Regulations 2004 are compatible with the convention rights.

Policy Background

7.1 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.

7.2 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.

7.3 The regulations fulfil the policy objectives by providing a framework for both the exemption of income in the hands of an insurance company providing a Child Trust Fund equivalent to the exemption enjoyed by other products and for taxing the insurer's profits from the business. The regulations are to a considerable extent – and at the request of potential providers - modelled on existing provisions for Individual Savings Account business of companies carrying on life assurance business.

Impact

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

Contact

9 Richard Thomas at the Inland Revenue [Tel 020 7438 6553 or e-mail Richard.thomas@ir.gsi.gov.uk