EXPLANATORY MEMORANDUM TO

The draft Child Trust Funds (Amendment No. 3) Regulations 2010

2010 No. [XXXX]

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 These Regulations amend the Child Trust Funds Regulations 2004 (S.I. 2004/1450). They provide for a reduction in the amounts of the government contributions made when all accounts are opened and those made to children in low income families and looked after children, and for the ending of government contributions into Child Trust Fund accounts when a child attains the age of seven. They also provide for the future ending of specific government contributions to disabled children.

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

3.1 None.

4. Legislative Context

4.1 This instrument is being made to implement a policy change to the Child Trust Fund schemes, namely to reduce the amount of the government contributions when all accounts are opened, to reduce the government contributions to children in low income families and looked after children, to end all government contributions to the Child Trust Funds of seven year olds and to end all government contributions to disabled children.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Financial Secretary to the Treasury, Mark Hoban MP, has made the following statement regarding Human Rights:

In my view the provisions of the draft Child Trust Funds (Amendment No. 3) Regulations 2010 are compatible with the Convention rights.

7. Policy Background

7.1 All children born on or after 1 September 2002 and who are the subject of a child benefit award are eligible for the Child Trust Fund, as long as they live in the UK and are not subject to immigration control. The Government currently provides an

initial contribution of £250, and children in lower income families are entitled to a top-up contribution of a further £250. The Government currently provides a further contribution of £250 when the child reaches age seven, with children in lower income families similarly entitled to another top-up contribution of £250. Disabled children also receive £100 annual contributions from the Government, with more severely disabled children getting £200 each year. Friends and family can contribute up to £1,200 into the account each year and there are special arrangements so that children looked after by local authorities do not miss out either at birth or age seven.

7.2 The Government announced on 24 May 2010 that it intends to end all government contributions into Child Trust Fund accounts. Furthermore, where government contributions cannot be ended using secondary legislation, the Government will first reduce the value of those contributions before ending them.

7.3 These Regulations end all government contributions at age seven into Child Trust Funds. Specifically, the universal government contribution of £250 to all eligible seven year olds, the additional £250 contribution to seven year old children in low income families, and the special contribution of £500 to children aged seven that are looked after by local authorities, will all be ended by these Regulations. Children who turn seven on or after 1 August 2010 will not receive these contributions. If the Regulations come into force on a date later than 1 August 2010 then children who turn seven after the day the Regulations are made will not receive these contributions.

7.4 These Regulations also end government contributions made to Child Trust Funds of disabled children with effect from 5 April 2011. Currently children entitled to any rate of Disability Living Allowance are entitled to an annual government contribution to their Child Trust Fund of £100, or £200 if they are entitled to the highest rate of the care component of Disability Living Allowance. Entitlement to this annual government contribution is currently based on tax years. Entitlement will cease from 2011-12 onwards.

7.5 These Regulations also reduce the amount of the government contributions made into Child Trust Funds when first opened. Parents, or a child's legal guardians, currently receive a voucher valued at £250 from H.M. Revenue and Customs to open their child's Child Trust Fund. Children for whom Child Benefit is first paid on or after 3 August 2010 will be issued a voucher valued at £50. If the Regulations are not made by 2 August 2010 then children for whom Child Benefit is first paid after the first Monday after the Regulations are made will be issued a voucher valued at £50. Vouchers issued for children for whom Child Benefit is first paid on or before 2 August, or on or before the first Monday after the Regulations are made (whichever is applicable) will be honoured by the Government at their current value of £250.

7.6 These Regulations also reduce the amount of the additional government contributions made to children in low income families. Children in households earning less than the maximum Child Tax Credit threshold (£16,190 per annum in 2010-11) receive an additional government contribution into their Child Trust Fund. This instrument reduces the value of the government contribution from £250 to £50

for all children for whom Child Benefit is first paid on or after 3 August 2010, or after the first Monday after the Regulations are made if that is after 2 August 2010.

7.7 These Regulations also reduce the amount of the special contribution the government makes to looked after children. Some looked after children do not receive the initial or additional payments as they are not in a Child Benefit award. Instead these children receive a government contribution of £500 into their Child Trust Fund accounts. These Regulations will reduce this amount to £100 in line with the reductions in the initial and additional contributions, and this will take effect for children that are born on or after 2 August 2010, or born after the first Monday after the Regulations are made if later, and who first become eligible to a Child Trust Fund by virtue of being taken into care.

7.8 Parents of children born and in the UK before 2 August 2010 will have three months to claim Child Benefit in order for the award of Child Benefit to be granted from 2 August 2010 or earlier and for their child to be entitled to a government contribution of £250 to open their Child Trust Fund rather than the lower £50 contribution to be paid to those born later. These Regulations provide that three other groups of children will all have the same three month opportunity to get the £250 initial payment (or the £500 special payment for children in local authority care). These are:

- looked after children in the care of a local authority (international refugee children who go into care are excluded if they first come to the UK on or after 2 August 2010),
- children not entitled to have Child Benefit paid for them but nevertheless eligible to Child Trust Fund by virtue of an relevant EU provision or international agreement, and
- children entitled to a Child Trust Fund as a result of having immigration controls lifted.

So children born before 2 August 2010 that have either been taken into the care of a local authority before 2 November 2010, became entitled to a Child Trust Fund by virtue of an EU or other international agreement before 2 November 2010, or had any immigration controls imposed on them lifted before 2 November 2010, will all be entitled to the £250 initial government contribution (or the £500 special payment for children in local authority care). The Regulations also have a similar effect on the dates that determine which children will get the £250 or £50 government contribution into the Child Trust Fund accounts of children in low income families. If these Regulations are not made by 2 August 2010 then these three month periods will take effect from whatever date the Regulations come into force accordingly.

- ***Consolidation***

7.9 Not appropriate.

8. Consultation Outcome

8.1 Not applicable.

9. Guidance

9.1 The rule changes implemented by this instrument will be incorporated into H.M. Revenue and Customs' Child Trust Fund guidance for providers and local authorities. H.M. Revenue and Customs will issue guidance to providers as to how these changes to contributions will affect them.

10. Impact

10.1 Child Trust Fund providers' information systems will use their existing electronic interface with H.M. Revenue and Customs. Changes in the value of government contributions into Child Trust funds were envisaged when both government and industry systems were specified and built. Providers of Child Trust Funds may chose to amend their marketing and other literature to reflect these changes. There is no impact on charities or voluntary bodies. The impact on the public sector is negligible, although some administrative savings will be made by not making contributions at age 7 and to disabled children.

10.2 An Impact Assessment has not been prepared for this instrument.

11. Regulating Small Business

11.1 The legislation applies to small business.

11.2 The impact upon small business will be negligible. Child Trust Fund providers already have systems in place to make government contributions and to vary the amounts of those contributions if necessary. However, providers may chose to amend their marketing and other literature to reflect these changes.

12. Monitoring & Review

12.1 The impact of the measures will be monitored under H.M. Revenue and Customs' broader plans for monitoring trends and developments in the savings and investments sector. H.M. Revenue and Customs collects data on Child Trust Fund investments and uses it to publish annual statistics and this policy will be monitored as part of that process.

13. Contact

Declan Norris at H.M. Revenue and Customs Tel: 020 7147 0855 or email: Declan.norris@hmrc.gsi.gov.uk can answer any queries regarding the instrument.