EXPLANATORY MEMORANDUM TO

THE CHILD TRUST FUNDS (AMENDMENT) REGULATIONS 2009

2009 No.

1. This explanatory memorandum has been prepared by HM 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 the already announced universal age 7 government payments to Child Trust Fund accounts. The Regulations also change the eligibility criteria for the additional payment to Child Trust Fund accounts of children in lower income families.

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 two policy changes to the Child Trust Fund, namely:

- to deliver new Government payments to Child Trust Fund accounts when children reach the age of 7, and

- to amend the eligibility rules for the additional Government payment that goes to children in lower income families. This amendment is being implemented following issues raised by the Treasury Select Committee when it heard evidence on the Child Trust Fund from the former Economic Secretary Kitty Ussher on 14 May 2008.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Economic Secretary to the Treasury, Ian Pearson MP, has made the following statement regarding Human Rights:

In my view the provisions of the draft Child Trust Funds (Amendment) Regulations 2009 are compatible with the Convention rights.

7. Policy background

- ***What is being done and why***

7.1 All children born since 1 September 2002, 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 provides an initial contribution of £250, and children in lower income families are entitled to a top-up contribution of a further £250. Children are eligible for this additional payment if their families are entitled to the maximum child tax credit at the time when the child becomes eligible for the Child Trust Fund.

These Regulations will allow for:

- The Government announcement, originally in 2003, with further details in the Budget 2006, that a further top-up payment will be made to all eligible Child Trust Fund children when they reach the age of 7. These payments will consist of a universal payment of £250 plus a further £250 for children in families on lower incomes. All looked after children will receive a payment of £500.

- The Economic Secretary to the Treasury's announcement to the Chairman of the Treasury Select Committee of 17 July 2008 that the criteria under which children become eligible for an additional payment would be amended with effect from 6 April 2008. Treasury Select Committee members had raised concerns that the existing Child Trust Fund rules might indirectly disadvantage children of particularly vulnerable parents who otherwise might miss out because a tax credit claim was not made within 3 months of the child benefit commencement date. This amendment extends the additional payment eligibility window from three months to one year.

- ***Consolidation***

7.2 No

8. Consultation outcome

8.1 At the Pre-Budget Report in 2005 the Government announced a consultation on:
- The value of the universal age 7 payments into Child Trust Fund accounts,
- The value of the additional payment to children in lower income families at age 7, and
- The ratio of progressivity between the universal and additional age 7 payments.

A further element of consultation was added at Pre-Budget Report 2005, to invite views on the timing of the universal age 7 payments. Views were invited from industry, consumer organisations, charities and other stakeholders by 28 February 2006.

11 consultation responses were received and the majority were in favour of aligning the age 7 payments with the Government's initial payments made when the Child Trust Fund account is opened. Taking these views into account, at Budget 2006 the Chancellor announced that the universal age 7 payments would be £250 and the additional payment would be £250. HMRC will pay the age 7 universal payments

into Child Trust Fund accounts at around the time of the child's 7th birthday. Additional payments will be made when the child tax credit claim covering the income tax year of the child's 7th birthday is finalised.

9. Guidance

9.1 After the Regulations have been laid HMRC will issue industry specific guidance to all Child Trust Fund providers advising them how the new payments will operate.

10. Impact

10.1 The impact on business, charities or voluntary bodies is nil.

10.2 The impact on the public sector is nil.

10.3 The Government payments to be made at age 7 form part of the original Child Trust Fund full Regulatory Impact Assessment that was published in November 2003 and can be found at http://www.hmrc.gov.uk/ria/ria_fiinal_child_trust_fund.pdf. The updated cost of the age 7 payments is at table 9 of the Child Trust Fund Annual Statistical Report and can be found at http://www.hmrc.gov.uk/ctf/statistical-report-2008.pdf

A Regulatory Impact Assessment has not been prepared for the part of this instrument regarding the extension of the additional payment eligibility as it has no impact on business, charities or voluntary bodies.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 The impact upon small business will be nil or negligible as Child Trust Fund providers already have systems in place for the extra business they will obtain from the Government payments they will receive when a child reaches age 7.

12. Monitoring & review

12.1 HM Revenue and Customs will keep statistical details of the age 7 and additional payments made.

13. Contact

David Ensor at HM Revenue and Customs Tel: 0207 147 2838 or email: David.Ensor@hmrc.gsi.gov.uk can answer any queries regarding the instrument.