

**EXPLANATORY MEMORANDUM TO THE
CHILD TRUST FUNDS (AMENDMENT) REGULATIONS 2005**

2005 No.

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

2. **Description**

2.1 These regulations require the Inland Revenue to make a further contribution of £250 to account providers for children eligible for the Child Trust Fund for whom child benefit is first paid after 5 April 2005 provided they are in households receiving the child elements in income support or jobseeker's allowance at that time.

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

3.1 None

4. **Legislative Background**

4.1 These regulations are being made under powers conferred by section 10 of the Child Trust Funds Act 2004. These are the first CTF regulations to be made under the affirmative resolution procedure. Regulations were made in May, October [and December] 2004 using the negative resolution procedure (details of the powers used can be found in the explanatory memoranda to those regulations).

4.2 Eligibility for the additional Child Trust Fund payment to children in lower income households is based on a finalised award of Child Tax Credit (see section 9 of the CTF Act). Some families receiving income support or jobseeker's allowance will not move to Child Tax Credits until after the launch of the Child Trust Fund. The CTF Act does not allow for an additional payment to children in families receiving income support or jobseeker's allowance where the first date child benefit was paid is 6 April 2005 or later. The regulations being made under section 10 will support the policy intention for children in lower income households to receive an additional payment.

5. **Extent**

5.1 This instrument applies to all of the United Kingdom.

6. **European Convention on Human Rights**

6.1 The Financial Secretary to the Treasury, Stephen Timms MP, has made the following statement regarding Human Rights:

In my view the provisions of the Child Trust Funds (Amendment) Regulations 2005 are compatible with the Convention rights.

7. **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 long-term savings and investment account for children. The Government will make contributions to this account with additional payments for children from lower income families. In addition to the Government contributions, the child's family and friends will 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 to the Child Trust Fund:

- To help people understand the benefits of saving and investing;
- To encourage parents and children to develop the savings habit and engage with financial institutions;
- To ensure that in future all children have a financial asset at the start of adult life to invest in their future; and
- To build on financial education to help people make better financial choices.

Around 700,000 children a year will receive a Child Trust Fund account.

7.3 All eligible children will receive a Government payment of £250 with children in families on lower incomes receiving a further £250. Children will be eligible for the second payment if they are part of a family claiming child tax credit with a household income below the income threshold for child tax credit.

7.4 Some families receiving income support or jobseeker's allowance stayed on those benefits rather than moving to child tax credits at its introduction. The proposed amendment to the regulations ensures that children do not miss out purely because their parents had not been moved on to child tax credits.

8. **Impact**

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

9. **Contact**

Catherine Nalty at the Inland Revenue Tel: 020 7147 2854 or e-mail: catherine.nalty@ir.gsi.gov.uk can answer any queries regarding the instrument.