

CHILD TRUST FUNDS ACT 2004

EXPLANATORY NOTES

SUMMARY AND BACKGROUND

3. In Budget 2003, the Chancellor announced the introduction of the Child Trust Fund, providing children born from September 2002 with an endowment of £250 together with an additional endowment of £250 for children in families on low incomes (Official Report, volume 403, column 286, 9 April 2003).
4. The Government has conducted two formal consultations on the broad policy proposals of the Child Trust Fund. “Saving and Assets for All” published in April 2001 sought agreement on the principles behind the Child Trust Fund. In “Delivering Saving and Assets” in November 2001 the Government set out more specific proposals for delivering the Child Trust Fund. Both of these papers are available on the Treasury website. In October 2003 the Government published its detailed proposals for the Child Trust Fund, setting out for the public and financial providers how this policy will be implemented.
5. The policy objectives of the Child Trust Fund are to:
 - help people understand the benefits of saving and investing;
 - encourage parents and children to develop the saving habit and engage with financial institutions;
 - ensure that in future all children have a financial asset at the start of adult life; and
 - build on financial education to help people make better financial choices throughout their lives.
6. Under the Child Trust Fund, the Government will make payments to children which can only be invested in Child Trust Fund accounts. These accounts will be long-term savings and investment accounts. Families will be encouraged to contribute to these accounts but no withdrawals will be allowed until the child is 18. At that point only the 18 year old will be entitled to withdraw the money.
7. This legislation imposes a duty on the Inland Revenue to pay Government contributions to eligible children. It also sets out the qualifying conditions for eligibility for the Child Trust Fund and some of the requirements to be met by financial services providers who wish to offer Child Trust Fund accounts. Further details of the requirements for both providers and accounts will be set out in regulations. The Act contains additional provisions covering such matters as tax relief, the use of information and arrangements for appeals.
8. There are administrative links between the Child Trust Fund and child benefit and child tax credit. Eligibility for the initial contribution to a Child Trust Fund account is based on an award of child benefit for a child living in the UK (with the exception of children in care for whom special arrangements will be made). There will be no need for parents to claim the initial contribution. A payment will be made automatically following the award of child benefit (where the child lives in the UK). Children will be eligible for

*These notes refer to the Child Trust Funds Act 2004
(c.6) which received Royal Assent on 13 May 2004*

the additional contribution if they are part of a family claiming child tax credit with a household income below the income threshold for child tax credit. Again, there will be no need to claim the additional contribution. The Inland Revenue will make the payment into the child's account once the child tax credit claim has been finalised.

9. Child benefit cannot be claimed for children who are being looked after by a local authority. The Act ensures that special arrangements are made so that these children do not miss out on the Child Trust Fund. Under these arrangements, local authorities will inform the Inland Revenue of eligible children who have gone into care. The Inland Revenue will then ensure that accounts are opened for those children for whom no child benefit claim has been made. Children in care will automatically receive an amount representing the initial and additional contributions when accounts are opened in these circumstances.