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The Child Trust Fund

The Child Trust Fund (CTF) is a long-term savings and investment account set up by the Government, and is for all children living in the UK born between 1 September 2002 and 31 December 2010 inclusive.

There are three main types of CTF account, available from providers approved by HM Revenue & Customs (HMRC), either direct or through their distributors:

- Savings accounts
- Accounts that invest in shares
- Stakeholder CTF account (charges no more than 1.5% a year)

The choice depends on various factors, such as attitude to risk and return, and the charges involved, but essentially the first type of account is a form of deposit account, paying interest, while the others involve a stock market investment.

The only way to open a CTF Account is by using the voucher which represents the Government's initial £50 (from 1 August 2010) contribution. HMRC stopped issuing new vouchers from 1 January 2011. The vouchers are valid for one year from issue. Therefore it is possible for a CTF account to be opened at any time up to 31 December 2011.

Children who are in families that received Child Tax Credit and have an annual income at or below the income limit (£15,890 in 2011-12) will be paid a further £50 in addition to the starting contribution of £50.

Before parents or carers can receive the voucher, they must first claim and be awarded Child Benefit. Deciding who will use the voucher to open the account is an important decision as that person – known as the *registered contact* – is responsible for managing the account until the child is 16.

If no one with parental responsibility has opened an account by the time the voucher expires, HMRC will open a stakeholder CTF account on the child's behalf.

Family and friends can still contribute at any time, up to a maximum of £1,200 in any one year (the CTF starts on the child's birthday). The investment limit will rise to £3,600 per year from November 2011, in line with the limit for the new Junior ISA.

When children reach the age of 16, they are entitled to manage their own CTF accounts. When they register with the provider as the new registered contact, they will receive the annual statements and will be able to move the account or change the type of account. But they will not be able to withdraw money from the account until their 18th birthday, at which stage the account stops being a CTF account and the funds become unconditionally available to spend or continue investing.

Although there is no tax relief for payments into the CTF, any growth in the fund is free of both income tax and capital gains tax. In addition, the special rule affecting children's income in excess of £100 from capital provided by parents does not apply.