

New clause 9: Tax treatment of supplementary welfare payments: Northern Ireland

Summary

1. This clause introduces a power for HM Treasury to make regulations which make supplementary payments, paid by the Northern Ireland Executive to benefits claimants affected by Welfare Reform, either exempt from income tax or chargeable on a different basis. This power will apply to supplementary payments funded by the Northern Ireland Executive made on or after 6 April 2016, and allows regulations to be made which are retrospective to that date.

Details of the clause

2. Subsection 1 and 2 defines 'supplementary welfare payment' as a payment made under regulations made by the Northern Ireland Executive which allow discretionary payments and support to be given to individuals affected by welfare reform.
3. Subsection 3 gives the Treasury the power to make regulations to amend Chapters 1 to 5 of Part 10 of the Income Tax (Employment and Pensions) Act 2003, which deal with social security income, to make the supplementary payments either taxable or non-taxable.
4. Subsection 4 allows the regulations to make different provision for different cases, as well as incidental or supplementary provision, in order to ensure that each supplementary payment can be given the correct tax status. It also allows for amendments to other legislation (including any provision of the Income Tax Acts) which is affected as a consequence of the changes made by the regulations.
5. Subsection 5 states that regulations made before the end of the current tax year relating to the 2016/17 tax year can have retrospective effect from 6 April 2016.
6. Subsections 6 and 7 provide that the regulations are to be made by Statutory Instrument under the negative procedure.
7. Subsection 8 makes a consequential amendment to section 655(2) of the Income Tax (Earnings and Pensions) Act 2003

Background note

8. As part of an agreement to implement Welfare Reform equivalent to that established in the rest of the United Kingdom since 2012, the Northern Ireland Executive ('NIE') agreed to provide 'transitional protection' to claimants' if their income is reduced compared to pre-reform levels. This will be in the form of supplementary payments which will, for a transitional period, top up claimants' benefits to the level of income they were receiving prior to Welfare Reform. The funding will come from existing NIE budgets.
9. The government announced (at Budget 2016) that legislation would be introduced to exempt from income tax supplementary payments, paid by the NIE, to social security benefits that are themselves currently exempt from income tax. Meanwhile, supplementary payments to taxable benefits will be subject to income tax.
10. The exemption from income tax of any such payments will apply from April 2016.