Payments for the Benefit of Family Members: Repeal of Relief

Who is likely to be affected?

Individuals who are required by their employer, or under an Act of Parliament, to make payments to secure provision after their death for their spouse/civil partner or children.

General description of the measure

Individuals may claim income tax relief of up to a maximum of £20 per year where they are required by their employer, or under an Act of Parliament, to make payments that secure a provision for their surviving spouse/civil partner or children. The pensions code provides more generous relief for similar expenditure therefore the relief is no longer necessary and is being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs websites.

Detailed proposal

Operative date

The relief will no longer be available for payments made by an individual on or after 6 April 2013.

Current law

A UK resident individual who is required under an Act of Parliament, or by their employer to make payments for the provision after their death for their spouse/civil partner or children, can claim tax relief under section 459 of the Income Tax Act 2007 (ITA).

Whilst the amount of the relief is equal to income tax on the basic rate on the amounts an individual is required to pay, the maximum relief available is equal to £20 (tax at the basic rate on £100).

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal section 459 of ITA so that relief is no longer available for payments made on or after the operative date for the benefit of family members.

Where the payments made by an individual and eligible for this relief have been used to acquire an annuity, payments from that annuity are already treated as pension income through section 609 of the Income Tax (Earnings and Pensions) Act 2003. This section will be adjusted so that payments from this type of annuity will continue to be treated as pension income.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	The change has no significant economic impacts.				
Impact on individuals and households	Around 1,000 individuals and households who claimed the relief in previous tax years will no longer be eligible for a tax relief of up to £20 per year, and the impact is not expected to be significant as the amount of relief available is small. A greater amount of relief is already available under the pensions code for similar provisions. Individuals may need to discuss arrangements with their employers to enable them to obtain relief under pensions code arrangements.				
Equalities impacts	As the change removes a small amount of relief, and because relief for similar benefits is available under the pensions code, no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	Some employers may need to discuss with employees how relief can be given under the pensions code and 'net pay' arrangements. However with fewer than 1,000 employees affected it is unlikely that many employers would need to familiarise themselves with the policy change and engage with their staff. Consequently the impact on administrative burdens is expected to be negligible.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	Small firms: as this relief is only claimed by few individuals, it is very unlikely that there will be a significant impact on small employers.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Jon Prothero on 0207 147 2785 (email: insurancequeries.ct&vat@hmrc.gsi.gov.uk).

1 Abolition of income tax relief relating to certain payments made for benefit of family members etc

(1) In Chapter 6 of Part 8 of ITA 2007 omit section 459 (which provides income tax relief in relation to certain payments made by individuals for the benefit of family members).

(2) In ITA 2007—

(a) in sections 26(1)(a) and 27(5) omit "section 459 of this Act or section 273 of ICTA (payments for benefit of family members)",

(b) in section 423(5)—

(i) after paragraph (b) insert "and", and

(ii) omit paragraph (d) and the "and" immediately before it,

(c) in section 460—

(i) omit subsection (1)(b) and the "or" immediately before it, and

(ii) in subsection (4) for ", 458 or 459" substitute "or 458",

(d) in section 809G(2)(c) for ", 458 or 459" substitute "or 458", and

(e) omit section 811(6)(d).

(3) Section 609 of ITEPA 2003 (annuities for the benefit of dependents) is amended as follows.

(4) In subsection (1) for the words from the second "which" to the end substitute "—

(a) which, in the tax year 2012-13 or an earlier tax year, satisfied the conditions for relief under section 273 of ICTA or section 459 of ITA 2007 (obligatory contributions to secure an annuity for the benefit of dependents), or

(b) which fall within subsection (3)".

(5) After subsection (2) insert—

"(3) A sum falls within this subsection if—

(a) in the tax year 2013-14 or a later tax year, the sum is paid by an individual, or is deducted from an individual's earnings, under an Act or the individual's terms and conditions of employment,

(b) the sum is for the purpose of—

(i) securing a deferred annuity after the individual's death for the individual's surviving spouse or civil partner, or

(ii) making provision after the individual's death for the individual's children, and

(c) the individual—

(i) is UK resident for the tax year in which the sum is paid or deducted, or

(ii) at any time in that tax year, falls within any of paragraphs (a) to (f) of section 460(3) of ITA 2007 (matters relating to residence).

(4) Subsection (3)(a) does not cover contributions paid by a person under—

(a) Part 1 of the Social Security Contributions and Benefits Act 1992, or

(b) Part 1 of the Social Security Contributions and Benefits (Northern Ireland) Act 1992.

(5) In subsection (3)(a) "earnings" has the meaning given by section 62."

(6) The amendments made by this section have effect for the tax year 2013-14 and subsequent tax years.

EXPLANATORY NOTE

ABOLITION OF INCOME TAX RELIEF RELATING TO CERTAIN PAYMENTS MADE FOR BENEFIT OF FAMILY MEMBERS

SUMMARY

1. This clause removes a tax relief for certain individuals who are required to pay an amount or amounts (including deductions from earnings) to secure an annuity for a surviving spouse or civil partner, or to provide for the individual's surviving children.

DETAILS OF THE CLAUSE

2. Subsection (1) removes entitlement to this relief by omitting section 459 Chapter 6 of Part 8 Income Tax Act 2007 (ITA).

3. Subsection (2) amends and removes several other supporting provisions in ITA and the Income and Corporation and Taxes Act 1988 , as a direct consequence of removing the relief.

4. Subsections (3) to (5) amend section 609 Income Tax (Earnings and Pensions) Act 2003 (ITEPA) which determines the amount of annuity payments that are treated as pension income, and the person liable to tax on this income. The amendment ensures that section 609 ITEPA continues to apply to the type of annuity for which relief was available under section 459 ITA, despite the removal of the relief.

5. Subsection (4) provides for section 609 ITEPA to continue to apply to annuities for the benefit of dependants where all or part of sums paid to acquire these annuities satisfied the conditions for relief in tax years up to and including 2012-13.

6. Subsection (5) imports the parts of section 459 ITA that identify the type of annuities to which section 609 ITEPA applies. These new parts of section 609 ITEPA will apply to sums paid in the tax year 2013-14 or later years, in order to acquire annuities for the benefit of dependants.

7. Subsection (6) provides that the various amendments described above will have effect for 2013-14 and subsequent years, so the last year for which the relief is available will be 2012-13.

BACKGROUND NOTE

8. Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

9. "Consultation on the abolition of 36 tax reliefs" was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available via both the HM Treasury and HM Revenue & Customs websites.

10. This relief was introduced in Finance Act 1853 with the aim of encouraging social provision. The relief has been consolidated in various Tax Acts since it was first introduced but is now limited to a maximum of £20 each year and has been superseded by reliefs available under the pensions code.

11. If you have any questions about this change or comments on the legislation, please contact Jon Prothero on 0207 147 2785 (email: insurancequeries.ct&vat@hmrc.gsi.gov.uk).