



# Exemption from income tax and National Insurance contributions: lump sums provided under armed forces early departure scheme

---

## Who is likely to be affected?

Armed Forces personnel leaving the service on or after 1 April 2015 who receive a lump sum payment under the new Armed Forces Early Departure Payment 2015 (EDP 15) scheme.

## General description of the measure

The measure will extend the current income tax exemption for lump sum payments under the Armed Forces Early Departure Payment 2005 (EDP 05) scheme, to include payments made under the new EDP 15 scheme, which has been established under the Armed Forces Early Departure Payments Scheme Regulations 2014.

There will be a corresponding National Insurance Contributions (NICs) disregard.

## Policy objective

This measure will ensure that Armed Forces personnel leaving the service on or after 1 April 2015, who qualify for payment under the EDP 15 scheme, receive the same tax and NICs treatment on their lump sum as personnel receiving lump sum payments under the EDP 05 scheme.

## Background to the measure

Lump sum payments made to qualifying Armed Forces personnel under the existing EDP 05 scheme are exempt from income tax and are disregarded for NICs purposes.

The EDP 15 scheme will be introduced by the Ministry of Defence (MoD) from 1 April 2015.

The measure will ensure that the tax and NICs treatment of lump sum payments under the new scheme is the same as those under the existing scheme.

The measure was announced at Autumn Statement 2014.

## Detailed proposal

### Operative date

This measure will have effect on and after 1 April 2015.

### Current law

Section 640A of the Income Tax (Earnings and Pensions) Act (ITEPA) 2003, exempts lump sum payments made under the EDP 05 scheme from any liability to income tax.

Schedule 3 to the Social Security (Contributions) Regulations 2001 provides for payments to be disregarded in the calculation of earnings for the purposes of earnings-related contributions.

Paragraph 10A of Part 6 of Schedule 3 to the Social Security (Contributions) Regulations 2001 provides for a disregard from earnings for Class 1 NICs purposes for payments made under the EDP 05 scheme.

## Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend section 640A of ITEPA 2003 to extend the income tax exemption to lump sum payments made to Armed Forces personnel under the Armed Forces Early Departure Payments Scheme Regulations 2014.

An amendment will be made to the Social Security (Contributions) Regulations 2001 to disregard from earnings for Class 1 NICs purposes payments made under the EDP 15 scheme.

## Summary of impacts

<b>Exchequer impact (£m)</b>	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
<b>Economic impact</b>	This measure is not expected to have any significant economic impacts.					
<b>Impact on individuals, households and families</b>	The measure ensures that Armed Forces personnel continue to receive the benefits in question free of tax. The measure is not expected to impact on family formation, stability or breakdown.					
<b>Equalities impacts</b>	This measure will affect Armed Forces services personnel qualifying for the exemption. It will therefore impact those sharing protected characteristics which are under-represented amongst the Armed Forces. It is not expected to have an impact on others.					
<b>Impact on business including civil society organisations</b>	This measure is expected to have no impact on businesses or civil society organisations.					
<b>Operational impact (£m) (HMRC or other)</b>	There will be no additional costs for HM Revenue & Customs in implementing these changes.					
<b>Other impacts</b>	Other impacts have been considered and none have been identified.					

## Monitoring and evaluation

This measure will be reviewed subject to any further information provided by the MoD.

## Further advice

If you have any questions about this change, please contact the Employment Income Policy Team (email: [employmentincome.policy@hmrc.gsi.gov.uk](mailto:employmentincome.policy@hmrc.gsi.gov.uk)).

**1 Lump sums provided under armed forces early departure scheme**

- (1) In section 640A of ITEPA 2003 (lump sums provided under armed forces early departure scheme), at the end insert “or the Armed Forces Early Departure Payments Scheme Regulations 2014 (S.I. 2014/2328)”.
- (2) Subsection (1) comes into force on 1 April 2015.

## EXPLANATORY NOTE

### LUMP SUMS PROVIDED UNDER ARMED FORCES EARLY DEPARTURE SCHEME

#### SUMMARY

1. This measure extends the existing income tax exemption for lump sum payments made to Armed Forces personnel under the Early Departure Payment 2005 (EDP 05) scheme to include lump sum payments made under the new Early Departure Payment 2015 (EDP 15) scheme.

#### DETAILS OF THE CLAUSE

2. Subsection (1) extends the income tax exemption for lump sum payments provided under the Early Departure Payments Scheme in section 640A of the Income Tax (Earnings and Pensions) Act 2003, to include lump sum payments made to Armed Forces personnel under the Armed Forces Early Departure Payments Scheme Regulations 2014 (SI 2014/2328).

3. Subsection (2) states that subsection (1) will apply to all lump sum payments made under the new EDP scheme from 1 April 2015.

#### BACKGROUND NOTE

4. Under the EDP 05 scheme, individuals leaving the armed forces before age 55 who are at least 40 years of age and have at least 18 years of service, are entitled to a lump sum and monthly payments until they reach 65, after which their preserved pension and pension lump sum are payable.

5. An existing tax exemption enables lump sum payments under the EDP 05 scheme to be made without deduction of income tax and there is a corresponding disregard for National Insurance contributions. The tax exemption was introduced in 2005 to ensure continuity of treatment with lump sum payments made under previous Ministry of Defence schemes. EDP scheme monthly payments are treated in the same way as regular pension payments and are subject to PAYE.

6. The Ministry of Defence will introduce a new EDP scheme (EDP 15) on 1 April 2015.

7. This change will extend the existing tax exemption for lump sum payments to include such payments made under the new EDP scheme, from 1 April 2015.

8. If you have any questions about this change, or comments on the legislation, please contact Paul Blakeley on 03000 559026 (email: [employmentincome.policy@hmrc.gsi.gov.uk](mailto:employmentincome.policy@hmrc.gsi.gov.uk)).