

Explanatory Note

Clause 38: Limited exemption from income tax for sporting testimonial payments

Summary

1. This clause introduces a limited exemption from the charge to income tax which is being introduced as section 226A of the Income Tax (Earnings & Pensions) Act 2003 (ITEPA). It provides for new section 306B in Chapter 9 Part 4 ITEPA which allows a single life-time exemption of £50,000 to be set against the earnings from a sporting testimonial.

Details of the clause

2. Subsection (1) provides that new section 306B applies where a payment from a sporting testimonial would fall within the provisions of new section 226A for income tax purposes. This means that where a sporting testimonial is the result of a contractual right or of customary expectation, the exemption will not apply. Subsection (2) removes the income tax liability for the exempt amount.
3. Subsection (3) introduces the relevant conditions. Subsection (4) provides that the exemption is only available in relation to one testimonial, and subsection (5) provides for the maximum level of the exemption at £50,000.
4. Subsection (6) provides that the exemption can be used over more than one tax year. As long as all the events qualify under section 226(2) as being either a series of events forming one testimonial, or a single event forming one testimonial as appropriate, the exemption can apply to the relevant sporting testimonial payments made even when those may be staggered over a period of time.
5. Subsection (7) provides that the exemption only applies where a sporting testimonial has been announced on or after 25 November 2015 for income from events taking place on or after 6 April 2017. This means that for a testimonial year announced on or after 25 November 2015 with the events taking place, say, between September 2016 and September 2017, only the payments from events taking place after 5 April 2017 can be taken into account for the exemption to apply. The payments for events taking place before 6 April 2017 will not be subject to the charge to tax in any event.
6. Subsection (8) limits the timing of the availability of the exemption if the professional sports person has died to 12 months from the date of death. There is precedent for this elsewhere in Part 4 ITEPA.

Background note

7. The government recognises that sporting testimonial payments may be an important part of the transition from a career as a professional sportsperson to a new career or retirement, especially for those in the lower echelons of professional sport who might have had more modest incomes. As a result, they have decided to introduce a limited exemption. This clause sets out the circumstances in which that exemption can apply.
8. Following consultation, the government announced at the Spending Review and Autumn Statement 2015 (paragraph 3.18), that it would legislate to put the tax treatment of sporting testimonial payments beyond doubt and would also legislate for an exemption from income tax for part or all of the amount given to the sportsperson or a third party at his or her request up to a maximum of £50,000.
9. Separate provisions for the Income Tax charging provisions as announced and for Corporation Tax deductions as appropriate are also being published on 9 December 2015.
10. If you have any questions about this change, or comments on the legislation, please contact the Employment Income Team on 03000 521589 (email: employmentincome.policy@hmrc.gsi.gov.uk)

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