

# Employer-Financed Retirement Benefits - Armed Forces

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## Who is likely to be affected?

Former members of the armed forces who have retired and receive certain benefits from their former employer.

## General description of the measure

Regulations will be introduced to ensure that retired former members of the armed forces and their families will not be taxed on tuition fees paid for them under the Further and Higher Education commitment introduced in 2009, lump sums they receive under the resettlement commutation, resettlement grants and gratuity earnings schemes introduced in 2010 and the provision of independent inquest advice.

## Policy objective

This measure supports the Government's new Armed Forces Covenant published on 16 May 2011 by ensuring that special consideration is given to the unique circumstances of former members of the armed forces in respect of their pension provision, that the spirit of the commitment made to provide further and higher education free of tuition fees is met and that support is provided to families of members of the armed forces and veterans.

## Background to the measure

This measure provides a previously unannounced tax exemption for the payment of tuition fees from 2009 and for the provision of independent inquest advice from 2010. It also continues a tax exemption for lump sums previously paid out of the Armed Forces Pension Scheme 1975 and paid under new schemes from 2010. Informal consultation at an official level has taken place with the Ministry of Defence (MOD).

## Detailed proposal

### Operative date

The legislation will have effect for the payment of tuition fees on and after 6 April 2009 and for the payment of lump sums and the provision of independent inquest advice on and after 6 April 2010.

### Current law

The tuition fees paid since 2009 are employer-financed retirement benefits schemes under section 393A of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA). When benefits under the schemes are received by retired former members of the armed forces a tax charge arises under section 394 ITEPA. The benefits provided by a former employer are taxable as income of whoever receives the benefit.

Retired former members of the armed forces who receive a benefit such as a payment from the resettlement and gratuity earnings schemes that were established on 6 April 2010 are taxable on the payments they receive.

Where the former member of the armed forces has not retired an exemption is available under section 411 ITEPA.

A service to provide independent inquest advice to the families of those who have died in service is partly-funded by the MOD. So the cost of providing the advice is taxable as the income of the member of the family receiving the benefit.

## Proposed revisions

The new secondary legislation will provide an exemption from income tax for retired former members of the armed forces on the payment of tuition fees for a first further or higher education qualification, for the payment of lump sums that they receive under the resettlement commutation, resettlement grants and gratuity earnings schemes and for the provision of independent inquest advice.

## Summary of impacts

<b>Exchequer impact (£m)</b>	This measure is expected to have a negligible impact on Exchequer revenue. Any Exchequer impact will be set out at Autumn 2011.
<b>Economic impact</b>	Do not envisage that these changes will lead to any significant economic impact.
<b>Impact on individuals and households</b>	<p>These changes only affect individual householders who are retired former members of the armed forces eligible to have tuition fees paid or receive the relevant lump sums and to the families of those who have died in service.</p> <p>On previous trends MOD expect around 175 former members of the armed forces a year will take advantage of the education funding. There is a reducing number who continue to be members of the Armed Forces Pension Scheme 1975 entitled to the lump sums which have not been taxed since they were introduced in the 1970s. MOD expect inquest advice to be sought in about 50 cases a year.</p>
<b>Equalities impacts</b>	The exemptions do not impact on the nine equality groups as they apply to all retired former members of the armed forces who receive the payments and their families, including partners. The exemptions are not limited to or by any of the nine equality groups, even age, given that some members of the armed forces can retire before the normal minimum pension age.
<b>Impact on business including civil society organisations</b>	No impact on business as it only affects retired former members of the armed forces and their families.
<b>Operational impact (£m) (HMRC or other)</b>	<p>The cost of providing the exemption is negligible.</p> <p>The exemption for tuition fees will impact on both HMRC and the MOD as it removes the need to provide a split tax treatment (which would be difficult to determine) for those receiving the benefit of having tuition fees paid. The exemption for lump sums and independent inquest advice will impact on the MOD as it removes the need to introduce a new system to</p>

	report and tax these payments at source.
<b>Other impacts</b>	Other impacts are not relevant as the exemptions only apply to retired former members of the armed forces.

### **Monitoring and evaluation**

The changes which are a combination of a continuation of a previous exemption and new exemptions on negligible amounts will be monitored in the usual ongoing compliance processes.

### **Further advice**

If you have any questions about this change, please contact Beverley Davies on phone number 020 7147 2869 (email: [beverley.davies@hmrc.gsi.gov.uk](mailto:beverley.davies@hmrc.gsi.gov.uk)).

### **Declaration**

Mark Hoban MP, the Financial Secretary has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.