EXPLANATORY MEMORANDUM TO

THE HORIZON SHORTFALL SCHEME APPEALS (TAX EXEMPTIONS AND RELIEF) REGULATIONS 2025

2025 No. 434

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of His Majesty's Treasury and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 James Murray MP, Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Philip Batchelor, Deputy Director for Income Tax Policy at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Amir Miah at HMRC email: employmentincomepolicy@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The purpose of this instrument is to exempt from tax the payments made under the Horizon Shortfall Scheme (HSS) Appeals process. This is a new appeals process to provide redress to postmasters affected by the Horizon scandal to ensure they receive the full settlement they are entitled to. The instrument will exempt such payments from Income Tax (IT) and Capital Gains Tax (CGT) and relieve them from Inheritance Tax (IHT). Where payments are awarded to corporate entities, they shall also be exempted from Corporation Tax (CT). The relevant payments are the payments made under the HSS Appeals process. Relevant onward payments made by companies will be exempt from IT and CGT. Where a payment is due to a corporate entity that has been dissolved, payments made to nominated individuals will be exempt from IT, CGT, and relieved from IHT.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The Department for Business and Trade are establishing the HSS Appeals process to provide redress for postmasters.

5.2 Horizon Shortfall Scheme compensated postmasters who suffered shortfalls as a result of the faulty Horizon software and made up these shortfalls from their own funds to avoid an unjust criminal conviction.

5.3 The HSS Appeals process will allow postmasters within the Horizon Shortfall Scheme to appeal their settlement offer. Eligible postmasters who have settled their claim will be allowed to appeal their offer and may be entitled to further compensation, after their claim is reassessed. Those who have not settled will be able to pursue their claim either through the Department for Business and Trade administered HSS Appeals, which will be exempt, or under the current Dispute Resolution Process, managed by Post Office Limited. Payments from the Dispute Resolution Process will remain liable to IT, CGT, CT and IHT. Postmasters who have settled their claim and have received payment from the Horizon Shortfall Scheme Fixed Sum award will not be eligible to claim under this new scheme.

5.4 Funding for the HSS Appeals process will be provided fully by central government. The Government wishes to clarify the tax treatment so that individuals know that they do not need to report receipt of the payments to HMRC. An exemption will reduce the administrative burden on individuals so that their payments are full and final.

What was the previous policy, how is this different?

5.5 Without the measure, payments made to postmasters in the HSS Appeals process would be subject to taxes. Payments will therefore be made exempt from IT, CGT, CT and relieved from IHT through Statutory Instrument.

6. Legislative and Legal Context

How has the law changed?

6.1 Schedule 15 Finance Act 2020 contains a regulation-making power for the Treasury, by regulations, to provide that no liability to IT, CGT, and IHT arises on "qualifying payments" and no liability to CT arises on "relevant compensation payments". This includes compensation payments made by or on behalf of the Government or a public authority where they are specified in regulations made by the Treasury by Statutory Instrument.

6.2 This instrument is being made to set out the tax treatment of a new compensation payment: those made under the HSS Appeals process. This is recognised as qualifying payments under Paragraph 2(5) of Schedule 15 Finance Act 2020 and relevant compensation payments under Paragraph 7(1)(e) of Schedule 15 Finance Act 2020.

6.3 The instrument will provide that payments are exempt from IT and CGT under Paragraphs 3(5) and 4(3)(c) of Schedule 15 Finance Act 2020, respectively. Payments will also be relieved from IHT under Paragraph 5(7) of Schedule 15 Finance Act 2020, and from CT under Paragraph 9 of Part 2 of Schedule 15 Finance Act 2020. Relevant onward payments made by companies will be exempt from IT and CGT under Paragraph 10 of Part 2 of Schedule 15 Finance Act 2020. The exemptions will be effective and wholly relieving from 28 April 2025.

Why was this approach taken to change the law?

6.4 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 No formal consultation exercise has been held as these changes are wholly relieving to the taxpayer.

8. Applicable Guidance

8.1 Guidance will be provided via the bodies administering the scheme.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument will be published on the gov.uk website.[1]

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because these compensation payments are made to a small number of individuals. Therefore, there are no wider impacts on businesses, charities or voluntary bodies.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because these compensation payments are made to a small number of individuals. Therefore, there are no wider impacts on the public sector.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 There are no plans to monitor or review the instrument as the measure impacts a small number of postmasters and previous similar measures in respect of the Horizon Scandal have been welcomed.

10.2 The instrument does not include a statutory review clause in line with the requirements of the Small Business, Enterprise and Employment Act 2015.

[1] Tax Information and Impact Note: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 Schedule 15 to the Finance Act 2020 conferred on the Treasury the power to make regulations to exempt compensation payments made by or on behalf of the government or a public authority from IT, CGT and CT and relieve them from IHT.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").