EXPLANATORY MEMORANDUM TO

THE INCOME TAX (EXEMPTION OF KINSHIP ALLOWANCE PAYMENTS IN KINSHIP ZONES) ORDER 2026

2026 No. 538

1. Introduction

1.1. This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) and is laid before the House of Commons by Command of His Majesty.

2. Declaration

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

2.2. Elizabeth Arnold, Director for Business, Assets and International, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1. The Business Profits Policy Team at HMRC can be contacted by email at the following address with any queries regarding the instrument: businessprofits.admin@hmrc.gov.uk. Alternatively, the department can be contacted by telephone: 03000 592550.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1. The purpose of the legislation is to exempt kinship allowance payments made under Department for Education's (DfE) Kinship Zones Pilot scheme from Income Tax. This DfE scheme offers kinship allowance payments to kinship carers to give new support to families.

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 England.

5. Policy Context

What is being done and why?

5.1. The DfE's Kinship Zones Pilot scheme provides kinship allowance payments to kinship carers with the aim of improving the stability of kinship placements, reducing reliance on local authority care, and creating parity with foster care support. These kinship allowance payments made to kinship carers will be exempted from Income Tax to align the tax treatment of kinship allowance payments made under the pilot to other similar payments made to some kinship carers. This tax exemption does not cover 'excluded relatives', who are normally the child's parents and their spouses, if

any excluded relatives take part in the scheme. This is in line with the existing exemptions for other types of payment to some kinship carers. This policy will impact 4,500 kinship carers who take part in the pilot scheme.

What was the previous policy, how is this different?

5.2. The default position without amending this legislation was for the pilot scheme payments to be subject to Income Tax. There was no previous policy on this specific scheme.

6. Legislative and Legal Context

How has the law changed?

6.1. This instrument amends S744 of the Income Tax (Trading and Other Income) Act 2005 (the Act) to include a specific reference to the Kinship Zones Pilot scheme.

Why was this approach taken to change the law?

6.2. S747 of the Act allows the Treasury to add these payments to the existing exemption from Income Tax without the need for primary legislation, offering a more flexible and efficient route to introducing this exemption.

7. Consultation

Summary of consultation outcome and methodology

7.1. A consultation was not undertaken as this SI serves to support a policy change made by the DfE, and the changes are wholly relieving to the taxpayer.

8. Applicable Guidance

8.1. This SI does not implement or require guidance. Guidance will be provided by the body 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 is available on the GOV.UK website. The DfE will assess the overall impact of the scheme.

Impact on businesses, charities and voluntary bodies

9.2. There is no impact on businesses, charities or voluntary bodies as this measure only impacts individuals.

9.3. The legislation does not impact small or micro businesses.

9.4. The impact on the public sector is expected to be positive, as this measure supports the DfE's Kinship Zones pilot scheme. The scheme is designed to increase the stability of kinship care arrangements and reduce the need for local authority care. By encouraging more sustainable kinship placements, it is anticipated that there will be a reduction in the number of foster placements required, easing pressure on local authority resources and potentially lowering associated costs.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1. The approach to monitoring this legislation is that this measure will be kept under review through communication with affected taxpayer groups and DfE.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1. None.

12. European Convention on Human Rights

12.1. The Exchequer Secretary to the Treasury has made the following statement regarding Human Rights:
"In my view the provisions of The Income Tax (Exemption of Kinship Allowance Payments in Kinship Zones) Order 2026 are compatible with the Convention rights."

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").