EXPLANATORY MEMORANDUM TO

THE LESBIAN, GAY, BISEXUAL AND TRANSGENDER FINANCIAL RECOGNITION SCHEME (INCOME TAX EXEMPTION) REGULATIONS 2025

2025 No. 12

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.

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

2. Declaration

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

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

3. Contact

3.1 Navreet Thind, at HMRC email: incometaxstructuremailbox@hmrc.gov.uk, or by phone: 03000 590 537, 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 the legislation is to exempt payments made under the Ministry of Defence's Lesbian, Gay, Bisexual and Transgender Financial Recognition Scheme (LGBT Financial Recognition Scheme) from Income Tax.

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 Ministry of Defence (MoD) will deliver a new LGBT Financial Recognition Scheme. This will provide financial awards to living LGBT veterans who served from 1967-2000 and were wrongfully dismissed, discharged or forced to resign, as a result of the ban on homosexuality in the Armed Forces.

5.2 Under current legislation, all payments made under the LGBT Financial Recognition Scheme would be subject to Income Tax. The Government wishes to exempt these payments from Income Tax.

6. Legislative and Legal Context

How has the law changed?

6.1 Schedule 15 to the Finance Act 2020 ("FA 2020") contains a regulation-making power for the Treasury, by regulations, to provide that no liability to Income Tax arises on "qualifying 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 scheme providing payments made under the LGBT Financial Recognition Scheme. These are recognised as qualifying payments under Paragraph 2(5) of Schedule 15 FA 2020.

6.3 The instrument will provide that the scheme payments are exempt from Income Tax under Paragraph 3(5) of Schedule 15 FA 2020. The exemptions will be wholly relieving from the date of introduction.

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 has taken place as these are minor changes which are wholly relieving to the taxpayer.

8. Applicable Guidance

8.1 Guidance will be provided by the body administering the new scheme.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note has not been prepared for this instrument because it contains no substantive changes to tax policy.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, 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 there are no resource, IT or financial consequences for HMRC.

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.

10.2 The instrument does not include a statutory review clause because it does not make or amend regulatory provisions that relate to business activity.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 Schedule 15 FA 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 Income Tax.

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").