EXPLANATORY MEMORANDUM TO

THE POST OFFICE CAPTURE REDRESS SCHEME (TAX EXEMPTIONS AND RELIEF) REGULATIONS 2025

2025 No. 1130

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 Dan Tomlinson 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 Aslihan Grantham at HMRC can be contacted by email at the following address with any queries regarding the instrument: employmentincomepolicy@hmrc.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The Department for Business and Trade has recently established the Capture Redress Scheme (CRS), a compensation scheme designed to provide financial redress to postmasters who experienced losses due to errors in the Capture software used in the operation of their branches. The purpose of the instrument is to exempt compensation payments made under the CRS from Income Tax, Capital Gains Tax (CGT), Corporation Tax (where applicable), and relieve them from Inheritance Tax (IHT). It also includes those made as onward payments or to those who were a director or shareholder in a company or a partner in a partnership which no longer exists, but which would have been eligible for compensation. The exemptions and the relief will apply with retrospective effect from 27 October 2025 which is the earliest date that the CRS will open.

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 will establish the CRS to compensate postmasters who were affected by IT issues and had to cover shortfalls from their own funds.

5.2 The Capture IT software was used by postmasters prior to Horizon, between 1992 and 2000. In 2024, the Minister for Services, Small Business and Exports acknowledged the findings of an investigation which concluded that that there was a reasonable likelihood the Capture software could have caused accounting shortfalls for postmasters, leaving postmasters to pay back shortfalls to the Post Office and committed to providing redress to those impacted.

5.3 Some recipients of CRS payments are corporate entities; these payments will be exempted from Corporation Tax. Relevant onward payments made by companies will be exempt from Income Tax and CGT. Where the corporate entity has been dissolved payments will be made to nominated individuals; these payments will be exempt from Income Tax, Corporation Tax, CGT and relieved from IHT.

5.4 Funding for the CRS 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 CRS process would be subject to taxes. Payments will therefore be made exempt from Income Tax, CGT, Corporation Tax (where applicable) and relieved from IHT.

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 Corporation Tax 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. These regulations can be made with retrospective effect.

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

6.3 The instrument will provide that payments are exempt from Income Tax 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 of the Finance Act 2020, and from Corporation Tax under Paragraph 9 of Part 2 of Schedule 15 of the Finance Act 2020. Relevant onward payments made by companies will be exempt from Income Tax and CGT under Paragraph 10 of Part 2 of Schedule 15 of

the Finance Act 2020. The exemptions will be effective and wholly relieving from 27 October 2025.

6.4 Statutory Instruments have already been laid to exempt similar payments made under schemes launched as a result of the Horizon IT issues. Although the affected cohort are postmasters, payments under the CRS are outside the scope of any existing exemptions laid for Horizon related schemes.

Why was this approach taken to change the law?

6.5 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 it affects a small number of individuals. Previous statutory instruments to exempt payments under Horizon-related schemes have been positively received.

10.2 The instrument does not include a statutory review clause.

[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. These regulations can be made with retrospective effect.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative 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").