EXPLANATORY MEMORANDUM TO

THE SUCCESSFUL LEGACY APPEALS SCHEMES (INCOME TAX EXEMPTION) REGULATIONS 2026

2026 No. 584

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, the Exchequer Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.

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

3. Contact

3.1 Keshini Jayasekera at HMRC (email: incometaxstructuremailbox@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 the legislation is to exempt payments made under the Department for Work and Pensions (DWP) Successful Legacy Appeals scheme and payments made by the Department for Communities in Northern Ireland (DCNI) under the corresponding scheme for Northern Ireland (together, the "Schemes") from income tax. The Schemes compensate eligible individuals who experienced a financial loss when moving from their previous benefits onto Universal Credit, and legislation prevented them from being reinstated on their previous benefits when the decision that ended those benefits was later reversed.

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 Successful Legacy Appeals compensation scheme was introduced by DWP on 14th May 2026 in response to the Court of Appeal decision in *R (on the application of TD, AD and R) v Secretary of State for Work and Pensions* [2020] EWCA Civ 618. The case concerned individuals who experienced a financial loss when moving from their previous benefits onto Universal Credit, where legislation prevented them from being reinstated on their previous benefits when the decision that ended those benefits was later reversed. The court ruled that some individuals in this position were discriminated against, and tasked DWP to consider how best to resolve this.

5.2 The SLA scheme will provide compensation to eligible individuals, as a lump sum payment. A corresponding scheme is to be introduced for Northern Ireland by the DCNI. Under current legislation, payments made under Schemes would be subject to income tax. The government wishes to exempt these payments from income tax, to align with the tax treatment of payments of other individuals who have migrated to Universal Credit.

What was the previous policy, how is this different?

5.3 Without exemption, these payments would be subject to income tax. Pursuant to this instrument, the payments will be exempt from income tax.

6. Legislative and Legal Context

How has the law changed?

6.1 Paragraph 3 of Schedule 15 to the Finance Act 2020 ("FA 2020") provides that no liability to income tax arises on "qualifying payments". Under paragraph 2(5), a "qualifying payment" includes compensation payments made by or on behalf of, among others, the Government of the United Kingdom or a part of it where the payments are specified in regulations made by the Treasury by Statutory Instrument.

6.2 This instrument is being made to set out the income tax treatment of payments made by DWP and DCNI under the Schemes. These are recognised as qualifying payments under paragraph 2(5) of Schedule 15 FA 2020.

6.3 The instrument will therefore provide that the scheme payments are exempt from income tax under paragraph 3 of Schedule 15 FA 2020.

6.4 The exemption from income tax is with retrospective effect from 14 May 2026 and will be wholly relieving from the date of introduction.

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 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 bodies administering the 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 These Regulations make retrospective provision. Paragraph 3 of 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 from a date specified in the regulations, which under paragraph 3(5) may be a date before the regulations are made. These Regulations exempt payments received on or after 14th May 2026, when the Scheme was launched. This ensures that eligible individuals can receive compensation promptly after applying for it. This measure is wholly relieving to the taxpayer, and does not impose any additional financial or regulatory burdens on any person.

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").