

*These notes refer to the Income Tax (Earnings and Pensions)  
Act 2003 (c.1) which received Royal Assent on 6th March 2003*

# **INCOME TAX (EARNINGS AND PENSIONS) ACT 2003**

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## **EXPLANATORY NOTES**

### **COMMENTARY ON SECTIONS**

#### ***Example 3***

***Ne = £5,000; Da = 183; De = 183; Smg = 0***

#### **Part 10: Social security income**

##### **Overview**

2583. This Part identifies the income that is taxed as social security income. It derives mainly from section 617 of ICTA. It also derives from other provisions of the Income Tax Acts that deal with the taxation of social security income.
2584. Section 617 of ICTA contains the main rules and charges United Kingdom social security benefits to tax under Schedule E. It sets out in narrative form the various social security benefits that are charged to tax. It also identifies the benefits that are not charged to tax. And it provides that some of those benefits are not to be treated as income for any income tax purpose.
2585. Subsections (3) and (4) of section 617 of ICTA deal with whether social security contributions may be deducted for tax purposes. The sections in this Part deal only with the charging of benefits. So the rules about deductions are not rewritten here.
2586. The aim of the social security income Part is to set out all the rules charging or exempting benefits payable under the social security Acts. The approach is to list the benefits in two tables. One table lists the taxable benefits and the other lists the non-taxable benefits.
2587. The Part also sets out the charging and exemption rules that apply to foreign benefits.

#### ***Chapter 1: Introduction***

##### **Overview**

2588. This Chapter sets out the structure of the social security income Part.

#### ***Section 655: Structure of Part 10***

2589. This is the only section in the Chapter. It is new.
2590. *Subsection (1)* lists the other Chapters in the Part. It identifies the different Chapters that deal with United Kingdom and foreign social security benefits. In each case, different Chapters deal with the benefits that are charged to tax and those that are exempt.

2591. *Subsection (2)* is a signpost to three rules that apply to government payments but which are not dealt with in this Part. The rules are not rewritten in this Part because they may apply more widely than to social security income alone. For instance, a Treasury order under section 151 of FA 1996 may require that a benefit is taxed as a business receipt.

## ***Chapter 2: Tax on social security income***

### **Overview**

2592. This Chapter imposes the charge on “net taxable social security income” and explains how to calculate “net taxable social security income”. There are four steps in the process:

- **Step one** - identify the income as social security income;
- **Step two** - exclude any exempt income;
- **Step three** - calculate the amount of “taxable social security income”; and
- **Step four** - calculate “net taxable social security income” by allowing any payroll giving deductions from “taxable social security income”.

2593. These steps are carried out separately for each United Kingdom and foreign social security benefit.

2594. The Chapter includes a signpost to the provisions that identify the person liable to pay any tax charged on United Kingdom and foreign social security benefits.

### ***Section 656: Nature of charge to tax on social security income***

2595. This section explains that the charge on social security income does not extend to income that is exempt from tax. It is new.

2596. Exempt income is included in the definition of social security income but is not taxed. The definition of “exempt income” applies for the purposes of the social security income Part. In particular, the expression is used in section 681(1) (taxable and other foreign benefits: exemptions).

### ***Section 657: Meaning of “social security income”, “taxable benefits” etc.***

2597. This section introduces the terms which are used to identify the benefits that are taxable and to arrive at the amount of income that is charged to tax. It is new.

2598. *Subsection (2)* makes it clear that the expression “social security income” (used in section 656) includes both taxable benefits and those that are exempt.

2599. *Subsection (4)* ensures that the four statutory payments listed in section 660(2) are not included in social security income if they are charged to tax as employment income.

### ***Section 658: Amount charged to tax***

2600. This section imposes the charge to tax. It is new.

2601. The section explains how relief for payroll giving is allowed against social security income. The rules for the relief are in Part 12. Those rules depend on a definition of “taxable social security income” from which the payroll giving deduction (“PGD”) is subtracted to arrive at the “net taxable social security income”. That lower amount is the amount on which tax is charged.

2602. Each taxable benefit is treated separately in the calculation of net taxable social security income.

**Section 659: Person liable for tax**

2603. This section is a signpost to the sections later in the Part where the person liable for the tax is identified for United Kingdom and foreign benefits. It is new.

**Chapter 3: Taxable UK social security benefits**

**Overview**

2604. This Chapter sets out the rules for taxing United Kingdom social security benefits.

2605. The charge on United Kingdom social security benefits in ICTA is under Schedule E. The charge is under paragraph 5 of Schedule E (section 19(1) of ICTA):

“...any other provision of the Tax Acts directing tax to be charged under this Schedule ...

2606. Section 150(a) of ICTA charges allowances under Job Release schemes. The last Order under the Job Release Act 1977 extended the effect of the Act to 29 September 1988. So this Act does not rewrite paragraph (a) of the section (or section 191 of ICTA). The other paragraphs, which charge statutory adoption pay, statutory maternity pay, statutory paternity pay and statutory sick pay, are rewritten in this Act - see paragraph 2608.

2607. The Chapter sets out the income chargeable. It also identifies the basis of assessment and the person chargeable.

**Section 660: Taxable benefits: UK benefits – Table A**

2608. This section sets out the United Kingdom benefits that are taxable. It derives from section 617(1) of ICTA. That subsection deals with most United Kingdom benefits (some of which are taxed in Part 9 as pensions). The table in this section also lists other benefits that are not within section 617:

- statutory adoption pay, statutory maternity pay, statutory paternity pay and statutory sick pay, from section 150 of ICTA;
- income support, from section 151 of ICTA;
- jobseeker’s allowance, from section 151A of ICTA; and
- incapacity benefit, from section 139 of FA 1994.

2609. *Subsection (1)* is the first of the tables (“Table A”). This table lists the taxable UK benefits. The second table (“Table B”) is in section 677 – see paragraph 2682.

2610. The table identifies each benefit by the section of the social security Act under which it is paid. The table also identifies the corresponding Northern Ireland provision if it has been enacted. The suspension of the Northern Ireland Assembly has prevented the enactment of some proposed Northern Ireland provisions. Those provisions are described rather than identified in the table.

2611. The table arranges the benefits in alphabetical order. This means that a particular benefit should be easy to find. And it should be easy to maintain the clarity of the table because it will be easy to insert any new benefit into the table in the right place.

2612. Incapacity benefit is included in the table of taxable benefits. See *Change 143* in Annex 1.

2613. *Subsection (2)* is a special rule for statutory adoption pay, statutory maternity pay, statutory paternity pay and statutory sick pay. It derives from the opening words “if they would not otherwise be (chargeable)” in section 150 of ICTA.

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2614. In most cases these payments are earnings from an employment and charged to tax under the employment income Parts of this Act. This subsection ensures that a charge under the employment income Parts takes precedence over a charge under the social security income Part.
2615. In other cases the payments are made by the government. Then there is no charge to tax on them as earnings and they are charged as social security income.

***Section 661: Taxable social security income***

2616. This section sets out the basis of assessment for some United Kingdom social security benefits. It derives from section 41(2) of FA 1989, which applies only to the benefits (and pensions) mentioned in section 41(1) of FA 1989.
2617. Incapacity benefit is explicitly brought within the rule in section 41 of FA 1989 by section 139(3) of FA 1994.
2618. Five benefits in Table A are not covered by the rule in section 41 of FA 1989. They are statutory adoption pay, statutory maternity pay, statutory paternity pay statutory sick pay (all charged to tax by section 150 of ICTA) and jobseeker's allowance (charged to tax by section 151A of ICTA). There is no statutory basis of assessment for these benefits in ICTA.
2619. So the section applies only to the first four benefits listed in Table A.

***Section 662: Person liable for tax***

2620. This section identifies the person chargeable. It is new.
2621. The rule in this section applies only to United Kingdom social security income. But an identical rule applies to foreign social security income – see section 680.
2622. The social security income Part includes income that ICTA taxes under Schedule E and income that ICTA taxes under Schedule D. For income taxed under Schedule D section 59(1) of ICTA identifies the person chargeable as the person “receiving or entitled” to the income.
2623. There is no equivalent of section 59(1) of ICTA for social security benefits that ICTA taxes under Schedule E. It would be inconsistent to identify a person chargeable for some but not all social security income. The social security income Part avoids this inconsistency. It makes the person liable for tax on social security income the person receiving or entitled to the income in all cases where ICTA does not specify the person chargeable. See *Change 135* in Annex 1.

***Chapter 4 Taxable UK social security benefits: exemptions***

**Overview**

2624. This Chapter sets out the partial exemptions that apply to the taxable benefits listed in Table A. It derives from sections 151, 151A and 617 of ICTA and section 139 of FA 1994.
2625. One exemption applies generally. That is the exemption for any part of a benefit that is in respect of a child. The other exemptions relate to part of the following benefits:
- incapacity benefit;
  - income support; and
  - jobseeker's allowance.
2626. This Chapter deals with the benefits that are sometimes taxable. Chapter 5 deals with the benefits that are never taxable.

2627. Section 617(2) of ICTA provides that payments within the subsection “shall not be treated as income for any purpose of the Income Tax Acts”. In order to make the exemptions simple and consistent the phrase “no liability to income tax arises” is used throughout this Act to express exemption from tax. See *Note 28* in Annex 2.

***Section 663: Long-term incapacity benefit: previous entitlement to invalidity benefit***

2628. Long-term incapacity benefit is usually taxable. But this section exempts long-term incapacity benefit from tax in some circumstances. The section derives from section 139(2) and (5) of FA 1994.
2629. *Subsection (1)* exempts long-term incapacity benefit from tax if it relates to a period of incapacity for work that started before 13 April 1995. On 13 April 1995 incapacity benefit replaced sickness benefit and invalidity benefit.
2630. This provision has a limited life because no new claimants will be entitled to the exemption. But a significant number of claimants remain entitled to the exemption.
2631. *Subsection (2)* contains the definition of invalidity benefit. This was the expression used to describe invalidity pension and invalidity allowance. Neither sickness benefit nor invalidity benefit was taxable.

***Section 664: Short-term incapacity benefit not payable at the higher rate***

2632. This section limits the charge to tax on short-term incapacity benefit. It relies on definitions in the social security legislation. It derives from section 139(1)(a) of FA 1994.
2633. The charge on incapacity benefit in section 139 of FA 1994 excludes “benefit payable for an initial period of incapacity”. That period is defined as a period for which short-term benefit is payable other than at the “higher rate”.
2634. *Subsection (1)* restricts the charge to tax on short-term incapacity benefit so that it is taxable only if it is payable at the “higher rate”.
2635. *Subsection (2)* cross-refers to the definition of “higher rate” in the social security legislation. The phrase is construed in accordance with section 30B(5) of the Social Security Contributions and Benefits Act 1992. That section refers to the rates of benefit set out in Schedule 4 to the Act. The benefit is payable at the “higher rate” after the first 196 days of a period of incapacity for work.
2636. As noted in paragraph 2608, incapacity benefit is charged to tax by section 139 of FA 1994. So it is logical for the benefit to be excluded from the charge in section 617 of ICTA. A free-standing charge was set up by section 139 of FA 1994 in case section 617(1) was not effective in taxing a new benefit – an explicit charge was thought to be safer.
2637. When incapacity benefit replaced sickness benefit and invalidity benefit in 1995, the references to the older benefits were not removed from section 617(1) of ICTA (some publishers have updated the text to help the reader). Instead, section 13(2) of the Social Security (Incapacity for Work) Act 1994 treats the references to sickness benefit and invalidity benefit in section 617(1)(a) as references to incapacity benefit. So incapacity benefit appears to be excluded from the charge in section 617 by subsection (1)(a).
2638. A consequence of exclusion from the section 617(1) charge would be that the benefit is not regarded as income for income tax purposes because of section 617(2)(c). This was overlooked when section 139 of FA 1994 set up the free-standing charge. So the benefit is apparently disregarded by section 617 of ICTA but clearly taxed by section 139 of FA 1994.
2639. This Act clarifies the law, to bring it into line with the clear, undisputed, policy objective (to tax incapacity benefit) and generally accepted practice. See *Change 143* in Annex 1.

## **Income support**

### ***Section 665: Exempt unless payable to member of couple involved in trade dispute***

2640. This section derives from section 151(1)(b) of ICTA.
2641. It contains the basic rule that income support is taxable only if it is payable to a member of a couple and the claimant but not the claimant's partner is on strike. (Section 151 of ICTA refers to Part 5 of the Social Security Act 1986. In accordance with the Social Security (Consequential Amendments) Act 1992 that reference is to be read as being to section 126 of the Social Security Contributions and Benefits Act 1992. Some publishers have updated the text to help the reader). If both are on strike, there is no benefit "in respect of the relevant couple" (see paragraph 2651 and section 668) and nothing is taxable. There is a similar rule for jobseeker's allowance in section 673 (see paragraph 2671).
2642. Sections 666 to 668 (see paragraphs 2645 to 2656) contain other limitations to the charge on income support.
2643. The section includes no reference to the rule in section 151(1)(a) of ICTA because, in the circumstances described in that paragraph (the application of the "available for work" test), income support is no longer payable. The claimant would now be entitled to jobseeker's allowance instead.
2644. So this Act does not rewrite the rule in section 151(1)(a) of ICTA which is no longer needed.

### ***Section 666: Child maintenance bonus***

2645. This section sets out the first restriction to the charge on income support. It derives from section 617(2)(ad) of ICTA.
2646. It deals with the exemption from tax for a child maintenance bonus paid under the Child Support Act 1995. That Act provides that the bonus is to be treated as income support (or jobseeker's allowance). So the exemption appears in this section. The corresponding exemption for a bonus treated as jobseeker's allowance is in section 670 – see paragraph 2659.

### ***Section 667: Amounts in excess of taxable maximum***

2647. This section deals with the second restriction to the charge on income support. It derives from section 151(3) of ICTA.
2648. *Subsection (1)* sets out the restriction. No more than the "taxable maximum" of the benefit is taxable. This term is used in section 151(3) of ICTA. The section retains it as a useful and clear label for the amount that has to be calculated by applying the rules in section 668.

### ***Section 668: Taxable maximum***

2649. This section sets out how to calculate the "taxable maximum", which is used in applying the restriction in section 667(1). The section derives from section 151(5) and (7) of ICTA. Those subsections tax only the part of the benefit that is attributable to the person involved in the strike.
2650. The rules are complicated because they have to deal with:
- amounts of income support that are attributable to persons other than the person involved in the strike; and
  - benefit payable for a period of less than a week.

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2651. *Subsections (1) and (2)* set out how to calculate the “taxable maximum” for a week. Subsection (1) is the rule for the simple case where the amount of income support derives from the circumstances of the couple alone. Subsection (2) is the rule for the case where the benefit includes amounts for other people, such as children or adult dependants.
2652. In either case the section restricts the tax charge to one half of the amount of the benefit attributable to the couple.
2653. The charge on income support is in section 151 of ICTA rather than section 617 of ICTA. So the general exemption for an increase in benefit for a child in section 617(1) (b) does not apply. But the definition of “taxable maximum” in section 151 ensures that any such increase is never taxed.
2654. Income support is included in the table of taxable United Kingdom benefits (section 660). So the general exemption for any increase in the benefit for a child applies (section 676). The sections exempt this increase twice: once in subsection (2) of this section in calculating the “taxable maximum” for income support, and again (generally) in section 676. This double exemption does not present any difficulties.
2655. *Subsection (3)* gives the method for calculating the “taxable maximum” if the benefit is payable for a period of less than a week. The section uses a method statement and a formula to make the rule easier to understand.
2656. It is not clear why a fraction of one-sixth is used in section 151(5) of ICTA. It was probably carried forward from the days of supplementary and unemployment benefit. The section uses one-seventh as the fraction. This brings the section into line with both the relevant social security regulations: regulation 73 of [SI 1987 No 1967](#) (income support) and regulation 150 of [SI 1996 No 207](#) (jobseeker’s allowance). See *Change 144* in Annex 1

***Section 669: Interpretation***

2657. This section contains the meanings of the expressions used in sections 667 and 668. It is new.
- “Married couple” means a man and woman who are married to each other and are members of the same household.
  - “Unmarried couple” means a man and woman who are not married to each other but are living together as husband and wife.

**Jobseeker’s allowance**

***Section 670: Child maintenance bonus***

2658. This section sets out the first restriction to the charge to tax on jobseeker’s allowance. It derives from section 617(2)(ad) of ICTA.
2659. The section deals with the exemption from tax for a child maintenance bonus paid under the Child Support Act 1995. That Act provides that the bonus is to be treated as jobseeker’s allowance (or income support). So the exemption appears in this section. The corresponding exemption for a bonus treated as income support is in section 666 – see paragraph [2646](#).

***Section 671: Amounts in excess of taxable maximum***

2660. This section deals with the second restriction to the charge to tax on jobseeker’s allowance. It derives from section 151A of ICTA.
2661. *Subsection (1)* sets out the restriction. No more than the “taxable maximum” of the benefit is taxable. This term is used in section 151A(2) of ICTA. The section retains

it as a useful and clear label for an amount that has to be calculated by applying the rules in sections 672 to 674.

2662. There are two types of jobseeker's allowance: income-based and contribution-based. The amount of a contribution-based allowance is determined simply by the claimant's age. But a couple may also qualify for an income-based addition to a contribution-based allowance, to bring the allowance up to the amount of income support.
2663. In the case of a couple, the taxable maximum is based on what would have been payable to the couple as an income-based allowance.
2664. The rules are complicated because they have to deal with:
- the difference between an income-based allowance and a contribution-based allowance;
  - amounts of jobseeker's allowance that are attributable to persons other than the claimant;
  - a person involved in a strike being prevented from claiming the allowance; and
  - an allowance payable for a period of less than a week.

### ***Section 672: Taxable maximum: general***

2665. This section sets out how to calculate the "taxable maximum", for use in section 671. It derives from section 151A(3) of ICTA.

### ***Section 673: Taxable maximum: income-based jobseeker's allowance***

2666. This section sets out how to calculate the "taxable maximum" for a week in the case of an income-based allowance. It derives from section 151A(4), (6) and (8) of ICTA.
2667. *Subsection (2)* sets out the rule for a single person. The taxable maximum is based on the amount of the contribution-based allowance which would have been payable to the person, excluding any amount of the allowance that is for other people such as children or adult dependants.
2668. *Subsection (3)* sets out the general rule for a member of a couple. The taxable maximum is the "applicable amount", excluding any amount of the allowance that is for other people such as children or adult dependants.
2669. The charge on an income-based jobseeker's allowance is in section 151A of ICTA rather than section 617 of ICTA. So the general exemption for an increase in benefit for a child in section 617(1)(b) does not apply. But the definition of "taxable maximum" in section 151A ensures that any such increase is never taxed.
2670. Jobseeker's allowance is included in the table of taxable United Kingdom benefits (section 660). So the general exemption for any increase in the benefit for a child applies (section 676). The sections exempt this increase twice: once in subsection (3) of this section in calculating the "taxable maximum" for jobseeker's allowance, and again (generally) in section 676. This double exemption does not present any difficulties.
2671. *Subsection (4)* sets out the special rule that applies if one member of a couple is involved in a strike. There is a similar rule for income support (see section 665).

### ***Section 674: Taxable maximum: contribution-based jobseeker's allowance***

2672. This section sets out how to calculate the "taxable maximum" for a week in the case of a contribution-based allowance. It derives from section 151A(5) and (7) of ICTA.



2673. *Subsection (2)* sets out the rule for a single person. The taxable maximum is based on the amount of the “age-related amount” applicable to the person, excluding any amount of the allowance that relates to other people such as children or adult dependants.
2674. *Subsection (3)* sets out the general rule for a member of a couple. The taxable maximum is based on the amount of the income-based allowance which would have been payable to the person, excluding any amount of the allowance that relates to other people such as children or adult dependants.
2675. The charge on a contribution-based jobseeker’s allowance is in section 151A of ICTA rather than in section 617 of ICTA. So the general exemption for an increase in benefit for a child in section 617(1)(b) does not apply. But the definition of “taxable maximum” in section 151A ensures that any such increase is never taxed.
2676. Jobseeker’s allowance is included in the table of taxable United Kingdom benefits (section 660). So the general exemption for any increase in the benefit for a child applies (section 676). The sections exempt this increase twice: once in subsection (3) of this section in calculating the “taxable maximum” for jobseeker’s allowance, and again (generally) in section 676. This double exemption does not present any difficulties.

### ***Section 675: Interpretation***

2677. This section contains the meanings of the expressions used in the rules in sections 671 to 674.
- The “applicable amount” is the “age-related amount”, less some earnings and pension receipts. It is usually the level to which income is made up by income support.
  - A “contribution-based jobseeker’s allowance” is one based on the claimant’s Class 1 contributions in the two years before the year of claim.
  - An “income-based jobseeker’s allowance” is one based on the claimant’s income.
  - “Married couple” means a man and woman who are married to each other and are members of the same household.
  - “Unmarried couple” means a man and woman who are not married to each other but are living together as husband and wife.

### ***Section 676: Increases in respect of children***

2678. This section exempts the part of a benefit that is for a child. It derives from section 617(1)(b) of ICTA.

## ***Chapter 5: UK social security benefits wholly exempt from income tax***

### **Overview**

2679. This Chapter sets out the United Kingdom benefits that are not charged to tax.
2680. This Chapter deals with the benefits that are never taxable. Chapter 4 deals with the benefits that are sometimes taxable.

### ***Section 677: UK social security benefits wholly exempt from tax: Table B***

2681. This section introduces and sets out the table (“Table B”) of exempt benefits. It derives from section 617(1)(a) and (2) of ICTA.
2682. *Subsection (1)* introduces the second of the tables (“Table B”). This table lists the exempt United Kingdom benefits. The first table (“Table A”) is in section 660 – see paragraph 2609.

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2683. In order to make the exemptions simple and consistent the phrase “no liability to income tax arises” is used throughout this Act to express exemption from tax. See *Note 28* in Annex 2.
2684. Part 1 of the table identifies each benefit by the section of the social security Act under which it is paid. Part 2 of the table identifies the benefits that are paid under regulations. The table also identifies the corresponding Northern Ireland provisions.
2685. The table arranges the benefits in alphabetical order. This means that a particular benefit should be easy to find. And it should be easy to maintain the clarity of the table because it will be easy to insert any new benefit into the table in the right place.
2686. Disabled person’s tax credit and working families’ tax credit are abolished by section 1(3) of the Tax Credits Act 2002. They are not taxable. The exemption is preserved by paragraph 88 of Schedule 7 to this Act.
2687. *Subsection (2)* is a signpost to the special treatment of industrial death benefit. This benefit is part of industrial injuries benefit, which appears in Table B and is not generally taxable. But industrial death benefit is a pension and is charged to tax in the pension income Part.

## ***Chapter 6: Taxable foreign benefits***

### **Overview**

2688. This Chapter sets out the rules for taxing foreign social security benefits.
2689. There is no explicit charge on foreign social security benefits in ICTA. But the benefits arise from rights under foreign social security law and those rights are “possessions out of the United Kingdom” (section 18(3) of ICTA). So the income is assessable under Schedule D Case V.
2690. This Act includes an explicit charge to tax on foreign social security benefits. See *Change 145* in Annex 1.

### ***Section 678: Taxable benefits: foreign benefits***

2691. This section identifies the foreign benefits that are taxable. The section is new. The taxable foreign benefits are part of “taxable benefits” (section 657(3)).
2692. *Subsection (1)(a)* uses words similar to those used in section 318(2)(c) of ICTA (war pensions) to identify the foreign benefits that are taxable. *Subsection (1)(b)* reproduces the territorial restriction in paragraph (a)(i) of Schedule D (section 18(1) of ICTA). A foreign social security benefit is charged to tax only if it is payable to a United Kingdom resident.
2693. *Subsection (2)* is a boundary rule. It provides that a foreign social security benefit that is also a pension is taxed only once, in the pension income Part. United Kingdom benefits that are pensions are identified in the pension income Part and do not appear in Table A. So there is no overlap. But it is theoretically possible for a foreign benefit within this section to take the form of a pension. In that case, the boundary rule ensures that the benefit is charged as a pension and qualifies for the one-tenth deduction in section 65(2) of ICTA.

### ***Section 679: Taxable social security income***

2694. This section deals with the basis of assessment. It identifies the amount of taxable social security income, which feeds into the computation of net taxable social security income in section 658. The section invokes sections 65, 68, 584 and 585 of ICTA.
2695. In ICTA the basis of assessment for a foreign social security benefit is given by the rules of Schedule D Case V. The social security income Part does not repeat those

rules but cross-refers the reader to them. The rules are in section 65 of ICTA and include the remittance basis. Section 65 is modified by the rules for Irish income in section 68 of ICTA. Sections 584 and 585 of ICTA are also relevant. Section 584 gives relief for income taxed on an arising basis if that income cannot be remitted to the United Kingdom. Section 585 gives relief for income taxed on a remittance basis if the remittances are delayed.

***Section 680: Person liable for tax***

2696. This section provides that the person chargeable is the person receiving or entitled to the income. It derives from section 59(1) of ICTA.
2697. Paragraph 2689 explains that the charge on foreign social security benefits in ICTA is under Schedule D. So section 59(1) of ICTA applies to charge the person receiving or entitled to the income.

***Chapter 7: Taxable and other foreign benefits: exemptions***

**Overview**

2698. This Chapter sets out the foreign benefits that are not charged to tax. It is new.

***Section 681: Taxable and other foreign benefits: exemptions***

2699. The section derives from ESC A24. This Act legislates the ESC that exempts certain foreign benefits from tax. In practice the ESC is applied not only to the benefits set out in the ESC but to all foreign benefits that correspond to exempt United Kingdom benefits. The section reflects this. See *Change 146* in Annex 1.
2700. In order to make the exemptions simple and consistent the phrase “no liability to income tax arises” is used throughout this Act to express exemption from tax. See *Note 28* in Annex 2.
2701. *Subsection (1)* deals with foreign benefits that correspond to the taxable UK benefits listed in Table A. It exempts the foreign benefits to the same extent that the United Kingdom benefits are exempt income because of one of the rules in Chapter 4. The definition of “exempt income” is in section 656(2).
2702. *Subsection (2)* deals with the foreign benefits that correspond to the exempt UK social security benefits listed in Table B (in Chapter 5). These foreign benefits are not substantially similar to the taxable UK benefits listed in Table A. So they are not covered by subsection (1). But they are wholly exempt from tax. The phrase “no liability to tax” removes not only a charge under this Part but any charge to income tax.