

EXPLANATORY MEMORANDUM TO
THE HORIZON CONVICTIONS REDRESS SCHEME (AMENDMENT) AND
GRENFELL SUPPORT (RESTORATIVE JUSTICE) PROGRAMME (INCOME TAX
EXEMPTION) REGULATIONS 2025

2025 No. 867

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, 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 Amir Miah at HMRC email: employmentincomepolicy@hmrc.gov.uk (for the Post Office compensation schemes), and Eunice Gonyora at HMRC email: incometaxstructuremailbox@hmrc.gov.uk (for Grenfell Support (Restorative Justice)), 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 this instrument is to exempt payments from Income Tax and Capital Gains Tax, and relieve payments from Inheritance Tax (all with retrospective effect) made by the Department for Business and Trade (DBT) to eligible postmasters under the Horizon Convictions Redress Scheme (HCRS) in the following new categories:
- Postmasters who have had their convictions overturned by a Court
 - Postmasters who were prosecuted for alleged offences committed while the Horizon system was in use by the Post Office but did not face criminal convictions
 - Postmasters who received a caution of any kind, whether validly given or not, for an offence involving the Horizon system, or
 - In Scotland, received an alternative to prosecution, whether validly given or not, or received a purported alternative to prosecution from Post Office Limited¹.

¹ The relevant definition of alternative to prosecution is given in section 4(5) of the Post Office (Horizon System) Offences (Scotland) Act 2024

- 4.2 The instrument also exempts payments made by the Royal Borough of Kensington and Chelsea, under the Grenfell Support (Restorative Justice) programme from Income Tax with retrospective effect.

Where does the legislation extend to, and apply?

- 4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.
- 4.4 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?

Horizon Convictions Redress Scheme

- 5.1 The Department for Business and Trade (DBT) is merging the Overturned Convictions (OC) scheme with the HCRS and will administer the payments. HCRS will be broadened to capture OC claimants who had their convictions overturned by a Court and will also capture claimants that were prosecuted for alleged offences while the Horizon software was in use, but were not convicted, or who received a caution of any kind whether validly given or not, for an offence involving the Horizon system or in Scotland received an alternative to prosecution, whether validly given or not, or received a purported alternative to prosecution from Post Office Limited. This means that they will receive a compensation payment that is exempt from Income Tax and Capital Gains Tax, and relieved from Inheritance Tax.
- 5.2 This will be achieved by amending the Statutory Instrument SI 2024/818 to broaden the scope of the exemption and capture payments made to new categories of claimants and reflect that payments will be made by DBT.
- 5.3 Funding for HCRS is provided for by central Government and the Government has already clarified the tax treatment for payments made under HCRS. The amendment to the existing Statutory Instrument will reduce the administrative burden for postmasters that have had their convictions overturned by a Court, received a caution of any kind whether validly given or not, or postmasters prosecuted for alleged offences committed while the Horizon system was in use by the Post Office but did not face criminal convictions or in Scotland received an alternative to prosecution, whether validly given or not, or received a purported alternative to prosecution from Post Office Limited. Amending the Statutory Instrument ensures these postmasters receive a full and final settlement.

Grenfell Support (Restorative Justice)

- 5.4 The Royal Borough of Kensington and Chelsea is administering a programme of support, the Grenfell Support (Restorative Justice) programme, for those affected by the 2017 Grenfell Tower fire. This programme includes financial support for the bereaved and survivors, the immediate community near Grenfell Tower, and education and training support for bereaved, survivors and the immediate community.
- 5.5 Without this instrument, payments under this programme are currently not exempted from Income Tax.
- 5.6 The Government wishes to exempt these payments from Income Tax. This will clarify the tax treatment of these payments, so that individuals know they do not have to report receipt of these payments to HMRC and that individuals will know their

payments are full and final. The tax exemption will apply from the date of introduction of the programme, from 5th June 2024.

What was the previous policy, how is this different?

Horizon Convictions Redress Scheme

- 5.7 Without the measure to amend SI 2024/818, payments made by DBT to postmasters in the following three categories would be subject to tax:
- Postmasters who have had their convictions overturned by a Court
 - Postmasters who were prosecuted for alleged offences committed while the Horizon system was in use by the Post Office but did not face criminal convictions
 - Postmasters who received a caution of any kind whether validly given or not, for an offence involving the Horizon system
 - In Scotland, received an alternative to prosecution, whether validly given or not, or received a purported alternative to prosecution from Post Office Limited.
- 5.8 Payments will therefore be made exempt from Income Tax and Capital Gains Tax, and relieved from Inheritance Tax.

Grenfell Support (Restorative Justice)

- 5.9 As the Grenfell Support (Restorative Justice) is a new programme there is no change to previous policy as this instrument is introducing an Income Tax exemption.

6. Legislative and Legal Context

How has the law changed?

- 6.1 Schedule 15 to the Finance Act 2020 contains a regulation-making power for the Treasury, by regulations, to provide that no liability to Income Tax, Capital Gains Tax, and Inheritance Tax arises on “qualifying payments”. This includes compensation payments made by or on behalf of the Government or other public authority where they are specified in regulations made by the Treasury by Statutory Instrument.

Horizon Convictions Redress Scheme

- 6.2 This instrument is being made to amend the tax treatment of payments made under a compensation scheme: those made under the HCRS. These were originally designated as qualifying payments under paragraph 2(5) of Schedule 15 to the Finance Act 2020 by SI 2024/818.
- 6.3 The instrument will amend the definition of HCRS to provide that payments in new categories are exempt from Income Tax and Capital Gains Tax under paragraphs 3(5) and 4(3)(c) of Schedule 15 to the Finance Act 2020, respectively. Payments will also be relieved from Inheritance Tax under paragraph 5(7) of Schedule 15 to the Finance Act 2020. The exemptions and relief will be with retrospective effect and will be wholly relieving from 3rd June 2025.

Grenfell Support (Restorative Justice)

- 6.4 Payments made under the Grenfell Support (Restorative Justice) programme are designated as qualifying payments under paragraph 2(5) of Schedule 15 to the Finance Act 2020.

- 6.5 The instrument will provide that payments under the programme are exempt from Income Tax under paragraph 3(5) of Schedule 15 to the Finance Act 2020. The exemption will be with retrospective effect and will be wholly relieving from 5th June 2024.

Why was this approach taken to change the law?

- 6.6 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 schemes.

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 because these compensation payments are made to 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 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 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 other public authority from Income Tax, Capital Gains Tax and relieve them from Inheritance Tax. These regulations can be made with retrospective effect.
- 11.2 This instrument is being made with retrospective effect.

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”).