

FINANCE ACT 2012

EXPLANATORY NOTES

INTRODUCTION

Section 16: Employment Income Exemptions: Armed Forces

Summary

1. **Section 16** will exempt from income tax, payments of the Continuity of Education Allowance (CEA) by the Ministry of Defence (MoD) to or in respect of serving and deceased members of the Armed Forces.
2. The SECTION also makes consequential amendments to the existing exemptions for payments of the Operational Allowance and Council Tax Relief to members of the Armed Forces to align the specifications of the legal authority under which these payments are made.

Details of the Section

3. Subsection (1) introduces amendments to Chapter 8 of Part 4 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) (exemptions: special kinds of employees)
4. Subsection (2) amends section 297A of ITEPA (exemption for Operational Allowance) so that; “by the Secretary of State” is replaced with “under a Royal Warrant made under Section 333 of the Armed Forces Act 2006”.
5. Subsection (3) amends section 297B of ITEPA (exemption for Council Tax Relief) so that; “by the Secretary of State” is replaced with “under a Royal Warrant made under Section 333 of the Armed Forces Act 2006”.
6. Subsection (4) inserts new section 297C into ITEPA.
7. New section 297C(1) makes provision for payments of the CEA to or in respect of serving or deceased members of the Armed Forces to be exempt from income tax. New section 297C(2) specifies the legal authority under which payments of the CEA are made.
8. Subsection (5) provides that the amendments made by the section have effect in relation to payments made on or after 6 April 2012.

Background Note

9. The CEA is paid to service personnel to provide a continuity of education for their children that would not otherwise be possible if they accompanied their parents on frequent assignments both at home and overseas.
10. The CEA is currently liable to tax but the tax is paid by the Ministry of Defence on behalf of CEA where paid to recipients based in the UK.
11. This new exemption aims to support the principles of the Armed Forces Covenant and in particular the principle that service personnel and their families should not be put at any disadvantage from entering into military life. It seeks to mitigate the financial

*These notes refer to the Finance Act 2012 (c.14)
which received Royal Assent on 17 July 2012*

impact of providing a secure and continuing education acknowledging the particular circumstances in which these men and women serve and the particular difficulties they face.