Tax treatment of social security income: Clause 12 (Scotland)

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The Finance Bill contains provisions to determine the tax treatment of social security income, and, in particular, the social security benefits devolved to Scotland, following LITRG discussions with the Scottish government.

Clause 12 of the Finance Bill sets out the tax treatment of a number of different types of social security income, including the Scottish social security benefits: carer's allowance supplement, best start grant, discretionary housing payment, funeral expense assistance and young carer grant. Carer's allowance supplement is taxable, but the others are exempt from tax.

LITRG has been engaging with the Scottish government in respect of carer's allowance supplement, due to its taxable nature. This engagement has not only involved providing input into guidance materials for recipients and notification letters, but has also included pointing out certain UK legislative amendments that would be required, so that the Scottish government could liaise with their UK contacts as appropriate.

In the first place, carer's allowance supplement is, as the name suggests, a supplement to the UK social security benefit, carer's allowance. Since carer's allowance is taxable, the devolved carer's allowance supplement is also required to be taxable. Thus, as LITRG pointed out, carer's allowance supplement must be added into Table A in ITEPA 2003 s 660. Clause 12 makes provision for this.

Moreover, under the terms of the fiscal framework agreement between the UK and Scottish governments, recipients of carer's allowance supplement should not see their other benefits decrease as a result of their receipt of the devolved benefit (even if the benefit is taxable). LITRG advised the Scottish government of the changes required to UK legislation to ensure that carer's allowance supplement is

disregarded as income for the purposes of determining entitlement to other benefits and tax credits.

These have already been dealt with through UK statutory instruments – this was essential, as recipients started to receive carer's allowance supplement in September 2018, and secondary legislation cannot have retrospective effect. The Social Security (Scotland) Act 2018 (Consequential Modifications) Order 2018 ensures that carer's allowance supplement payments are disregarded in the calculation of income for income support, jobseeker's allowance, state pension credit, housing benefit and employment and support allowance. The Tax Credits and Childcare (Miscellaneous Amendments) Regulations 2018 similarly ensure that carer's allowance supplement payments are disregarded in the calculation of income for tax credits.