



Government Legal Department

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10 March 2023

Dear Sir Wyn,

Horizon IT Inquiry – tax treatment of Historical Shortfall and Group Litigation Schemes

Thank you for your letter of 28 February relating to the tax treatment of the Historical Shortfall and Group Litigation Schemes in the context of The Post Office Horizon Compensation and Infected Blood Interim Compensation Payment Schemes (Tax Exemptions and Relief) Regulations 2023 (SI 2023/184) ('the Regulations').

The Department appreciates your willingness to agree a short extension of time to provide you with this reply.

Historic Shortfall Scheme ('HSS')

You have asked about the Government's intention to legislate further on the scope of tax exemption for applicants under the HSS.

The Government is working to ensure all victims of the Horizon IT scandal are returned to the financial position they would have been in had the wrongdoings not occurred.

HSS offers have been calculated on a gross basis with tax on the final amount withheld on HMRC's behalf. This means that the scheme will have paid for the tax on compensation faced by most postmasters.

An issue has been identified on the tax treatment of some postmasters with claims for loss of earnings under the HSS, particularly those with larger claims, where postmasters may be pushed into a higher tax bracket due to receiving compensation in a lump sum as opposed to receiving those earnings over several tax years.

The Department wants to see fair compensation for all victims and is working urgently to address this issue with the Post Office, HMT and HMRC. We will write to you at the earliest opportunity with an update on the steps that we plan to take.

Gary Howard - Head of Division
Emma Parker - Deputy Director, Team Leader Planning, Infrastructure & Environment



The Department is also working hard to ensure the fair treatment of Horizon victims, including with regards to the impacts of compensation across each the different schemes.

Group Litigation Order Scheme (GLO)

You also asked why GLO is not included in the Regulations in relation to inheritance tax ('IHT').

We can confirm that the GLO payments will not be exempt from IHT, and only payments made under the OHC scheme are exempt. OHC payments are mostly focussed on compensating individuals for the wrongful prosecution they have been subject to, and so are consistent in nature with previous Government compensation schemes that received an exemption from IHT under Schedule 15 to the Finance Act 2020 (the Troubles Permanent Disablement Payment Scheme and Windrush Compensation Scheme).

The GLO Scheme, however, aims to restore postmasters back into the position they would have been in had it not been for the breach of Post Office's contractual obligations. As IHT is not chargeable at the point of payment, but at the point of death, an IHT exemption would apply any number of years after the compensation is paid, regardless of whether that individual has spent these particular funds or not. Given a postmaster would not have had an IHT exemption on the money had it been paid at the correct time, we believe it would not be appropriate to exempt payments made under the GLO scheme. The source of wealth is not normally considered when valuing an individual's estate for IHT, so this treatment is consistent with similar payments.

Yours sincerely

[GRO]

**Peter Johnson
For the Treasury Solicitor**

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