

EXPLANATORY MEMORANDUM TO
THE VALUE ADDED TAX (INDEPENDENCE PAYMENT) ORDER
2013

2013 No. 601

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs on behalf of Her Majesty's Treasury and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

This instrument amends Schedule 7A (charge at reduced rate) and Schedule 8 (zero-rating) to the Value Added Tax Act 1994.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 This instrument is made under sections 29A(3) and 30(4) of the Value Added Tax Act 1994.

5. Territorial Extent and Application

5.1 This instrument applies to the whole of the United Kingdom.

6. European Convention on Human Rights

David Gauke, Exchequer Secretary to the Treasury, has made the following statement regarding Human Rights:

“In my view, the provisions of The Value Added Tax (Independence Payment) Order 2013 are compatible with the Convention rights”.

7. Policy background

• *What is being done and why*

7.1 The Department of Work & Pensions (DWP) is reforming the welfare benefits system by introducing the new Universal Credit system. Part of these reforms involves the phasing out of Disability Living Allowance (DLA) and the

introduction of the new Personal Independence Payment (PIP) and Armed Forces Independence Payment (AFIP). AFIP is being introduced by the Ministry of Defence (MoD) on behalf of DWP.

- 7.2 PIP and AFIP will for the foreseeable future operate alongside DLA (the intention is that DLA will eventually be phased out). Certain tax reliefs and exemptions currently apply to disabled people who are in receipt of DLA (in some cases by virtue of the entitlement to the mobility component) and tax legislation needs to be amended if the same reliefs and exemptions are to apply in the future in relation to people who are in receipt of the corresponding new benefits.
- 7.3 Value Added Tax (VAT) legislation provides for a reduced rate of VAT for the grant-funded installation of heating equipment or security goods or connection of a gas supply to those who receive DLA.
- 7.4 The VAT legislation also provides for a zero rate of VAT for disabled people, in receipt of the mobility component of DLA, leasing a motor vehicle from a lessor whose business consists predominantly of the provision of motor vehicles to such persons.^{7.5} This instrument inserts appropriate references to PIP and AFIP into the relevant parts of the VAT legislation to ensure that recipients of these new benefits will benefit from the same VAT reduced and zero rates that apply to recipients of DLA (in some cases by virtue of the entitlement to the mobility component).

- **Consolidation**

- 7.5 There are no plans at present to consolidate Schedule 7A or Schedule 8 to the VAT Act 1994.

8. Consultation outcome

- 8.1 As the changes effected by this instrument are consequential amendments required merely as a result of the reform of the welfare benefits system by the DWP and MoD, they have not been subject to consultation.

9. Guidance

- 9.1 The changes will be reflected in published guidance.

10. Impact

- 10.1 A Tax Information and Impact Note covering this instrument was published on the HMRC website at <http://www.hmrc.gov.uk/thelibrary/tiins/htm>.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & review

12.1 This instrument arises from changes to the benefits system being introduced by the DWP (and MoD) and does not in principle change HMRC's current tax policies. Monitoring of the changes will be done by the relevant Departments as part of their evaluation of the new benefits system.

13. Contacts

13.1 Michelle Stokell at Her Majesty's Revenue and Customs Tel: 020 7147 3967 or e mail michelle.stokell@hmrc.gsi.gov.uk can answer any queries regarding the VAT zero rate element of this instrument.

13.2 John Egerton at Her Majesty's Revenue and Customs Tel: 020 7147 0238 or e mail john.egerton@hmrc.gsi.gov.uk can answer any queries regarding the VAT reduced rate element of this instrument.