
STATUTORY INSTRUMENTS

2025 No. 861

INCOME TAX

**The Disability Premium Compensation Scheme
(Income Tax Exemption) Regulations 2025**

<i>Made</i>	- - - -	<i>14th July 2025</i>
<i>Laid before the House of Commons</i>	- - - -	<i>15th July 2025</i>
<i>Coming into force</i>	- -	<i>8th August 2025</i>

The Treasury make the following Regulations in exercise of the powers conferred by paragraphs 2(5) and (6) and 3(5) of Schedule 15 to the Finance Act 2020⁽¹⁾.

Citation and commencement

1. These Regulations may be cited as the Disability Premium Compensation Scheme (Income Tax Exemption) Regulations 2025 and come into force on 8th August 2025.

Exemption from income tax for disability premium compensation scheme payments

2.—(1) Payments made by the Department for Work and Pensions under the DWP disability premium compensation scheme⁽²⁾ and payments made by the Department for Communities in Northern Ireland under the corresponding scheme for Northern Ireland are qualifying payments for the purposes of paragraph 3 of Schedule 15 to the Finance Act 2020.

(2) This regulation applies to payments received on or after 18th December 2024.

(3) In this regulation “DWP disability premium compensation scheme” means the scheme created by the Department for Work and Pensions to compensate people who—

- (a) have been awarded universal credit, where the first day of the first assessment period in relation to that award fell before 14th February 2024,
- (b) have been awarded the universal credit transitional severe disability premium element, and
- (c) before they were awarded universal credit, were entitled to an award of one or more relevant legacy benefits that included a disability premium or element as specified in

(1) 2020 c. 14. Paragraph 2(6) of Schedule 15 was amended by section 12 of the Finance Act 2024 (c. 3).

(2) The background to the scheme is described in the letter dated 25 February 2025 from Neil Couling CB CBE to Debbie Abrahams MP of the Work and Pensions Select Committee: <https://committees.parliament.uk/publications/46777/documents/240791/default/>. Paper copies of the letter are available for inspection at: His Majesty’s Revenue and Customs, 100 Parliament Street, London SW1A 2BQ.

Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

paragraph 4 of Schedule 3 to the Universal Credit (Transitional Provisions) Regulations 2014(3).

14th July 2025

Jeff Smith
Taiwo Owatemi
Two of the Lords Commissioners of His
Majesty's Treasury

(3) [S.I. 2014/1230](#), amended by [S.I. 2023/1238](#); there are other amendments but none is relevant.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations provide for an exemption from income tax with retrospective effect for:

- payments made by the Department for Work and Pensions to universal credit claimants previously entitled to certain legacy benefit disability premiums or elements, and
- payments made by the Department for Communities in Northern Ireland under the corresponding scheme for Northern Ireland,

(together, the “Scheme”).

Schedule 15 to the Finance Act 2020 (c. 14) provides for exemptions and relief from tax in respect of qualifying payments. Under paragraph 2(5) of that Schedule the Treasury may by regulations specify compensation payments made by a public authority or by or on behalf of the United Kingdom government to be qualifying payments. Paragraph 3 of that Schedule provides for an exemption from income tax in respect of a receipt of a qualifying payment. Paragraph 3(5) of that Schedule authorises instruments made under paragraph 2(5) of the same Schedule to have retrospective effect.

Regulation 2 specifies that payments under the Scheme are qualifying payments for the purposes of paragraph 3 of Schedule 15 to the Finance Act 2020. This means there is no liability to income tax arising from payments under the Scheme received on or after 18th December 2024.

In the case of the Queen (on the application of) TP and AR (TP and AR No. 3) ([2022] EWHC 123 Admin), the court concluded that there was a difference in treatment between severe disability premium recipients who naturally migrated from legacy benefits to universal credit, by virtue of making a claim to universal credit as a result of a change in their circumstances, and those who remain on legacy benefits.

Following this case, the Universal Credit (Transitional Provisions) (Amendment) Regulations 2023 (S.I. 2023/1238) and the Universal Credit (Transitional Provisions) (Amendment) Regulations (Northern Ireland) 2024 (S.R. 2024 No. 5) (together, the “UCTPA Regulations”) were introduced. The UCTPA Regulations provide for an additional amount of universal credit to be payable to certain claimants who were previously entitled to certain types of disability premiums or elements in connection with their legacy benefits. Eligible claimants are entitled to the additional amount as part of their universal credit award from 14th February 2024, without those amounts being subject to income tax.

The Scheme compensates eligible claimants in respect of periods falling before 14th February 2024.

A Tax Information and Impact Note has not been prepared for this instrument because it contains no substantive changes to tax policy.