



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Wes Streeting MP
House of Commons
London
SW1A 0AA

5 June 2020

Dear Wes

FINANCE BILL CLAUSE 10

Thank you for your question at the Finance Bill Public Bill Committee on 4 June, on the Government's approach to exempting from income tax bursary payments made to care leavers aged 16-24 who start apprenticeships in England. I undertook to write to you to set out the Government's reasoning in more detail.

The apprenticeship bursary is paid and administered by the Education and Skills Funding Agency (ESFA), an executive agency of the Department of Education. The stated intention of these bursaries is to support "Care leavers.... [who have] struggled to make ends meet and pay the bills after taking up an apprenticeship on low rates of pay when they cannot rely on additional support from parents such as being able to continue to living in the family home".

In general, payments made in connection with an employment, including apprenticeships, are chargeable to income tax and National Insurance contributions unless there is a specific provision to exempt them. Bursaries paid by the Government are often non-taxable because they do not derive from employment and may aim to provide financial support to a specific group. Bursaries will normally be taxable where there is a genuine link between the payment and an employment.

HMRC consider that the clear link between the payment and the care leaver's employment means that this bursary would normally be treated as earnings, and would result in liability to tax and National Insurance contributions.

You asked why S776 of the Income Tax (Trading and Other Income) Act 2005 could not be used to exempt this bursary from tax. This section relates to individuals in receipt of scholarship income, which can include bursaries, but the section requires the individual to be in full-time education at a university, college, school or other educational establishment. Not all bursaries are scholarship payments, and this is the case with the care leavers' apprenticeship bursary payment, which relates to an employment. Therefore, this bursary falls outside the scope of S776 and is best legislated for under the Finance Bill 2020.

The ESFA retains responsibility for managing the terms and conditions of an eligible bursary payment. There are several conditions which need to be met for a care leaver to join a qualifying apprenticeship scheme and claim a bursary payment, and these may be subject to frequent change and amendments. It is thus important that the legislation exempting the payment is relevant and up-to-date as to the requirements of the scheme.

Therefore, new primary legislation has been introduced in order to set out the general apprenticeship bursary scheme. Regulations under this legislation can be updated in future with relative ease as may be needed where the conditions for an eligible care leaver change.

I should also note that, in order to ensure payments of this bursary will not be subject to National Insurance contributions, a Class 1 NICs disregard will be introduced through regulations after Royal Assent.

I am copying this letter to the Chairs and other members of the Public Bill Committee, and am depositing a copy of this letter in the Library of the House.

A handwritten signature in black ink, appearing to read 'Jesse', written in a cursive style.

RT HON JESSE NORMAN MP