

# How to tax a settlement payment

---

When assessing the tax status of a settlement payment, this is the starting position:

Payment		Is it taxable?
Contractual payments and earnings (including contractual PILONS)	Any payment in reward for services past, present or future.	Yes
Settlement of discrimination claims arising during employment (eg Mr A v HMRC)	Must be clearly unrelated to termination of employment	No
Compensation for injury to feelings during employment	Must be clearly unrelated to termination of employment	No
Settlement payments on termination of employment	Excludes contractual PILONS but may include discretionary payments in lieu of notice	First £30,000 tax free
Compensation for injury to feelings on termination of employment	No longer treated differently from other non-contractual termination payments	

While this is the general position, it is important to note that there is conflicting case law and the First-tier Tax Tribunal is not bound by its previous decisions. Further, the specific facts of a given case may have a significant impact on the tax position. It is therefore worth taking advice at an early stage in negotiations to avoid reaching an agreement on tax treatment that HMRC might challenge.