Scottish income tax: figures in 2017-18 HMRC Accounts

Introduction

This Technical Note accompanies the 2017-18 HMRC Accounts and provides further detail relating to the Scottish income tax figures it contains.

The 2017-18 Accounts contain both provisional estimated and final tax figures that relate to two different sets of devolved Scottish tax powers:

- Scottish rate of income tax powers devolved by Scotland Act 2012, which applied for the 2016-17 tax year
- further Scottish income tax powers devolved by Scotland Act 2016, which apply to the 2017-18 and subsequent tax year.

As such, there are a number of different figures shown and this Technical Note therefore aims to assist understanding and provide transparency by clarifying:

- what the figures represent
- how the figures have been calculated.

Context: the different sets of Scottish income tax powers

2016-17 tax year

The Scotland Act 2012 gives the Scottish Parliament the power to set a Scottish rate of income tax (SRIT). SRIT applied to non-savings non-dividend income. It allowed the Scottish Parliament to change the amount of income tax that Scottish taxpayers pay and, as a result, the amount that the Scottish Government had to spend in Scotland.

In the 2016-17 tax year the UK basic, higher and additional rates for non-savings non-dividend income were reduced by 10 percentage points (10p in the pound) for Scottish taxpayers. This reduction was replaced by a Scottish rate set at 10 percentage points, so the overall rates paid by Scottish taxpayers remained the same as elsewhere in the UK.

The 2016-17 tax year was agreed, by the UK and Scottish Governments, to be a transitional year for which final SRIT revenues would have no fiscal implications for the level of the Scottish Block Grant from HM Treasury

2017-18 tax year (and onwards)

The Scotland Act 2016 further enhanced the Scottish Parliament's income tax raising powers (superseding SRIT), allowing the Scottish Parliament to set and change its own tax rate bands and limits, introduce new ones, and include a zero rate – applicable to the non-savings and non-dividend income of Scottish taxpayers.

In 2017-18 Scottish income tax rates and thresholds were set at the same levels as those applicable elsewhere in the UK, with the exception of the higher rate threshold which was set at £43,000 in contrast to the £45,000 level for taxpayers elsewhere in the UK.

The further Scottish income tax powers apply from the 2017-18 tax year onwards and also ensure that all monies (i.e. not just the 10 percentage points represented by SRIT) in respect of Scottish income tax go to the Scottish Government.

Figures within 2017-18 HMRC Accounts

i. Final figure for the revenue raised from SRIT in 2016-17

Trust Statement Table 1

SRIT Final Revenue 2016-17				£bn
SA Established SRIT Liability*				1.45
PAYE Established SRIT Liability				2.94
Estimated further SRIT Liability				0.11
Less:	Adjustment for uncollectable amounts		(0.03)	
	Reliefs**	Relief at Source (RAS)	(0.07)	
		Gift Aid	(0.05)	
Final SRIT Revenue for the tax year 2016-17				4.35

* Includes an element of PAYE for SA customers

** These reliefs are those not allocated to individual taxpayer accounts.

What this figure represents

This is the final SRIT outturn figure for 2016-17 and as such reflects revenue solely relating to the 10 percentage points of tax set by the Scottish Parliament for the 2016-17 tax year, rather than all income tax paid by Scottish taxpayers.

How this figure was calculated

SA & PAYE Established SRIT Liability

The final SRIT figure for 2016-17 reflects accrued revenue and has been calculated using actual liabilities data together with some estimation where actual data is unavailable (further details below). [1]

The established SRIT liability for those who submit a Self-Assessment (SA) return is calculated for Scottish taxpayers identified in SA by multiplying the non-savings non-dividends income, net of reliefs, by 10%. Income tax liability is established for all individuals in self-assessment once their tax calculation has been conducted in SA. This includes any

[1] The SA established amount includes £5.4m relating to "Create Return Charges" raised by HMRC in respect of Scottish taxpayers. https://www.gov.uk/hmrc-internal-manuals/self-assessment-manual/sam121650

individual in SA who have also had tax deducted at source from their pay or pension through PAYE.

For individuals who are in PAYE but not in SA, their income tax liability is established when their PAYE account is reconciled. The PAYE established SRIT liability for 2016-17 is calculated for Scottish taxpayers identified in PAYE by multiplying the non-savings non-dividends income, net of reliefs, by 10%. (Further details of how the adjustments for uncollectable amounts and reliefs are set out below.)

For 2016-17, the liability for each Scottish individual in PAYE was calculated to show how much gross income tax was due at the basic rate and the higher rate of tax, separately for savings/dividends income and non-savings non-dividends income for all Scottish taxpayers. No additional rate taxpayers are reconciled in PAYE instead their liabilities are calculated through SA.

For Scottish taxpayers the gross SRIT liability was then calculated as half the amount of tax due on non-savings non-dividends income at basic rate (10%/20%) and a quarter of the tax due on such income at the higher rate (10%/40%). The remaining gross income tax due on non-savings non-dividends income and all income tax due on savings/dividend income remains as UK Income Tax (rUK).

For each individual, Net SRIT and rUK liabilities are calculated by allocating tax reliefs to SRIT and rUK Income Tax proportionately, based on their gross liabilities. Total PAYE established SRIT liabilities are then calculated by summing the net SRIT amount across all Scottish taxpayers[2].

As the Trust Statement makes clear, there are still several areas of estimation that remain in the final 2016-17 revenue figure. Detailed below is an explanation of these elements and how they've been calculated:

Estimated further SRIT liability

Although the vast majority of 2016-17 receipts have now been collected there will still be some outstanding amounts which will be collected at a later stage.

Shown in Table 1 above is an estimate of the remaining, currently unknown, liability that we consider likely to arise ("*Estimated further SRIT liability*"). This amount has been estimated based on a sample of Scottish HMRC taxpayer data over the years 2009-10 to 2015-16 to establish the historic pattern of liabilities reported by the filing deadline and then at yearly points after the end of the tax year. Unestablished liabilities for 2016-17 are then estimated by applying the average growth from these historic liabilities to the known established liabilities for 2016-17 as at April 2018[3].

Adjustment for uncollected SA amounts

This amount has been estimated based on the same sample of HMRC taxpayer data over the years 2009-10 to 2015-16 used to establish the historic pattern of liabilities reported late. The adjustment for uncollected amounts for 2016-17 is then estimated by applying the

[2] The established PAYE amount includes an estimate of £10.5m to reflect the share of liabilities raised through PAYE Settlement Agreements in respect of Scottish taxpayers.
[3] The estimated further SRIT liability includes an estimate of £27.7m to reflect the proportion of SA Settlement Agreements in respect of Scottish taxpayers.

average from these historic collection rates to the known established and unestablished SA liabilities as at April 2018.

Adjustment for uncollected PAYE amounts

Amounts are estimated by analysing data for the last four years, then a forecast is created based on the pattern demonstrated from this data. This gives an estimate of how much PAYE Income Tax (at a UK level) is expected to be remitted or written off for the 2016-17 tax year in future. The SRIT share of this uncollected amount is then determined by analysing PAYE schemes whom are known to have had an amount remitted or written off by April 2018. RTI data is analysed for each of these PAYE schemes to calculate what proportion of total tax collected by these schemes is in respect of Scottish taxpayers. This SRIT share is then applied to the total uncollected amount estimated for the UK to give the uncollected SRIT amount.

Relief At Source (RAS) pension relief

When a pension scheme receives a contribution from a scheme member, the scheme treats this as being received net of basic rate tax and reclaims that basic rate tax relief back from HMRC to add to the member's pension pot. To ensure relief reflects Scottish rates, pension firms are amending their systems to enable them to claim tax relief for Scottish taxpayers at the Scottish basic rate. However, in recognition of the administrative burden this might impose the government decided not to require them to do so before the 2018-19 tax year. As a result, for the first two years after the introduction of the Scottish rate of income tax, HMRC needs to estimate the amount of RAS tax relief which is attributable to Scottish taxpayers and include this in the calculation.

The relief at source (RAS) for pension contributions in this SRIT calculation is determined by using information from annual returns made by pension schemes which show the amount of gross contributions made by scheme members in 2016-17. The proportion relating to Scottish taxpayers is calculated by identifying individual contributions made by scheme members who have a Scottish postcode held on the pension contribution data.

Gift Aid

When a taxpayer makes a charitable donation, the charity is able to claim basic rate tax relief from HMRC on the value of the donation. To minimise their administrative burdens, the government agreed that charities could continue to reclaim this relief at the UK basic rate after the commencement of Scottish income tax powers, irrespective of whether the donor is a Scottish taxpayer. However, as a proportion of these donations will have been made by Scottish taxpayers, it is important to factor the value of the relief into the calculation of Scottish income tax receipts. An estimate has therefore be made of the Scottish taxpayer share of donations on which Gift Aid has been reclaimed.

The Gift Aid relief estimate in this SRIT calculation first requires the total amount of UK donations made in 2016-17 to be calculated. This is constructed from repayments made to charities up to April 2017, combined with a forecast of how much is expected after April 2017. This forecast is calculated by growing the value of repayments made to charities by OBR's forecast of Gross Domestic Product at Market Prices and applying insight from previous tax years as to what proportion relates to 2016-17. The SRIT share has then been calculated by analysing donations made during the tax year for individuals declaring their residential postcode as being in Scotland when making their donation.

ii. Provisional Estimate of revenue raised from SRIT in 2016-17

What this figure represents

The figure (£4.6bn), published in last year's accounts, for the amount of revenue raised from SRIT and was estimated as the actual data was unavailable. For example in respect of Self-Assessment revenue for the 2016-17 tax year where full disclosure was not yet been made to HMRC, and PAYE revenue for taxpayers whose accounts had not been reconciled before this document was published.

How this figure was calculated

Total UK income tax for 2016-17 was estimated in last year's Trust Statement on an accruals basis using PAYE receipts data for 2016-17 and SA liability data for 2014-15 projected to 2016-17 using OBR economic determinants such as profits and wages and salaries. It was aligned to 2015-16 receipts information and adjusted for budget measures in 2016-17.

The Scottish rate of income tax share was then estimated from HMRC's Personal Tax Model which used the 2014-15 Survey of Personal Incomes and incorporated known policy changes and OBR determinants to estimate the share for 2016-17. It was adjusted for differential population growth. This share was then applied to the UK forecast to provide an estimate of SRIT for 2016-17.

Key differences between the original 2016-17 estimate and the final 2016-17 figure

The final figure for the amount of revenue raised by SRIT is £0.26bn lower than estimated in last year's Trust statement. The reason for the changes are:

- outturn data for Self-Assessment for 2016-17 is now available
- the final figure is calculated on liabilities basis but the estimate was calculated on a receipts basis
- the estimate in last year's Trust Statement was based on a share of the UK tax revenue whereas the final figure in this year's Trust Statement is based on identifying individual tax payers.

iii. Provisional estimate of revenue raised from Scottish income tax in 2017-18

What this figure represents

The 2017-18 estimate (£11.90bn) reflects the decision by the Scottish Parliament to set the Scottish income tax rates and thresholds for 2017-18 at the same levels as those applicable elsewhere in the UK, with the exception of the higher rate threshold was set at £43,000 in contrast to the £45,000 level for taxpayers elsewhere in the UK. It represents the full level of income tax collected by HMRC from Scottish taxpayers in 2016-17 from income falling within the scope of Scottish income tax powers (i.e. non-saving and non-dividend income)

How this figure was calculated

The revenue collected from Scottish income tax in 2017-18 has been estimated on a provisional basis. Further information available during 2018-19 will allow refinement of these calculations. Updated figures will be disclosed in the 2018-19 Trust Statement, allowing a final reconciliation for the prior tax year.

This estimate uses similar methodology as was applied for estimating the 2016-17 Scottish rate of income tax which was published in last year's Trust Statement, which is outlined above. However, for 2017-18 Scottish income tax is all income tax due on non-savings non-dividend income. The Scottish share calculated from the Survey of Personal Incomes will reflect both the Scottish income tax share and the additional liability for higher and additional rate Scottish taxpayers.

Figure not within 2017-18 HMRC Accounts

While not shown in the HMRC 2017-18 Accounts, HMRC have also calculated, for illustrative purposes, what the 2016-17 outturn figure would have been had the current (Scotland Act 2016) powers been in place with all Scottish non-savings and non-dividend income tax flowing to the Scottish Government.

i. Total 2016-17 Non-Savings/Non-Dividend (NSND) Scottish income tax

Total 2016-17 NSND Scottish income tax				£bn
SA Established SRIT Liability*				4.36
PAYE Established SRIT Liability				6.37
Estimated further SRIT Liability				0.34
Less:	Adjustment for uncollectable amounts		(0.08)	
	Reliefs**	Relief at Source (RAS)	(0.15)	
		Gift Aid	(0.11)	
Total 2016-17 NSND Scottish income tax				10.70

<u>What this figure represents</u>

1. The further Scottish income tax powers ensure that <u>all</u> monies (i.e. not just the 10 percentage points represented by SRIT) received in respect of Scottish NSND income tax go to the Scottish Government and this is reflected in the Scottish Block Grant Adjustment process outlined in the Fiscal Framework agreed by the UK and Scottish governments.

2. The Scottish Government's Block Grant baseline is reduced to reflect the devolved tax receipts. The initial deduction is based on the <u>full</u> level of income tax collected by HMRC from Scottish taxpayers in 2016-17 on income falling within the scope of Scottish income tax powers (i.e. NSND income) - not just the revenue relating to the 10 percentage points of tax set by the Scottish Parliament

3. This figure therefore differs from the 10 percentage point slice of Scottish taxpayer revenue linked to the Scottish rate of income tax. It represents the <u>full</u> level of income tax collected by HMRC from Scottish taxpayers in 2016-17 from income falling within the scope of Scottish income tax powers (i.e. non-saving and non-dividend income) and forms the base year for the Block Grant Adjustment process.

How this figure was calculated

4. This figure is calculated in a similar way to the final SRIT figure for 2016-17, outlined above, with the exception that gross SRIT liability is calculated as ALL tax due on non-savings non-dividend income for Scottish taxpayers with tax due on savings and dividend income remaining as UK income tax (rUK). Net SRIT liabilities are then calculated by allocating tax reliefs proportionately, based on their gross liabilities.