HM Revenue & Customs

Legislative changes resulting from the introduction of the Scottish rate of income tax

Who is likely to be affected?

Employers and pension providers and individuals identified as Scottish taxpayers.

General description of the measure

The measure will amend the structure of the income tax legislation setting out how the Scottish rate of income tax (SRIT) is applied in calculating the overall rates of tax applicable to the non-savings income of Scottish taxpayers.

Policy objective

The measure will ensure that the income tax legislation relating to the SRIT can be applied to a number of consequential areas in a clear and straightforward manner. It has no effect on the tax paid by any Scottish or other taxpayer.

Background to the measure

The Scotland Act 2012 legislated for the SRIT which is expected to be introduced in April 2016. The Act inserts provisions into the Scotland Act 1998 to define who should pay the SRIT and the basis on which the rate will be set and also amends the Income Tax Act 2007 (ITA) to calculate the overall rates of tax to be paid by Scottish taxpayers.

HM Revenue & Customs (HMRC) published a Technical Note in May 2012 setting out the Government's policy intentions where the Scottish rate setting power interacts with other areas of the income tax system (for example, in relation to Gift Aid and pensions tax relief). In preparing to legislate for these proposals, it has become clear that the Scottish rate of income tax provisions in ITA, as amended by the 2012 Act, will be complex to apply for the purposes of the measures in the Technical Note.

This measure therefore amends the SRIT provisions in ITA so that subsequent secondary legislation to apply the proposals in the Technical Note can be made to work more clearly and effectively.

Detailed proposal

Operative date

The changes to introduce the SRIT are expected to take effect on 6 April 2016.

Current law

Chapter 2 of Part 2 of ITA deals with the rates at which income tax is charged. The Scotland Act 2012 inserted new sections 6(2A)-(2C) into ITA, which set out that section 6(2) of ITA does not apply to the non-savings income of a Scottish taxpayer.

Section 6(2B) of ITA sets out how to calculate the basic, higher and additional rates of tax to be paid by Scottish taxpayers on their non-savings income – the UK rates are reduced by 10 percentage points and a single Scottish rate is added to these reduced amounts.

Section 10 then sets out the income on which the Scottish basic, higher and additional rates in section 6(2B) is charged.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to remove section 6(2A)-(2C) and the amendments made to section 10 by the Scotland Act 2012 and replace these by inserting new sections 6A and 11A into ITA. These will set out the Scottish basic rate, Scottish higher rate and Scottish additional rate, how each is calculated, and the income charged at these rates. The calculation of these rates will remain unchanged. But the structure of the provisions is changed so that they apply as needed elsewhere in the Income Tax Acts, and so that consequential amendments can be applied by Order under section 80G of the Scotland Act 1998 to implement the changes consulted on in the May 2012 Technical Note.

Other consequential amendments will also be made to other parts of ITA, the Scotland Act 1998 and other legislation as a result of the redrafted provisions.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	The measure is not expected to have any economic impacts.				
Impact on individuals and households	This measure will enable changes to be made which will mean that certain types of income will be taxed at Scottish (rather than UK) rates. Any impact on individuals in receipt of this income will depend on rates set by the Scottish Government.				
Equalities impacts	This measure will have no impact on people with protected characteristics.				
Impact on business including civil society organisations	This measure enables the implementation of a previously announced policy, which will require employers and pension providers to make changes to their systems. The changes announced here are expected to have no impact on business.				
Operational impact (£m) (HMRC or other)	This measure enables part of HMRC's wider work in introducing the Scottish rate of income tax and will not increase the costs.				
Other impacts	Other impacts have been considered and none has been identified.				

Monitoring and evaluation

This measure changes the structure of the income tax legislation setting out how the SRIT is applied, but does not alter the policy. It will therefore be monitored as part of the existing wider arrangements relating to the SRIT as a whole.

Further advice

If you have any questions about this change, please contact Doug Stoneham on 03000 586858 (email: douglas.stoneham@hmrc.gsi.gov.uk) or contact Ian Sainsbury on 03000 586739 (email: ian.sainsbury@hmrc.gsi.gov.uk).