Scotland Act 2012 – Public Audit Committee consideration

SUBMISSION FROM THE SCOTTISH GOVERNMENT

Implementing the Scottish Rate of Income Tax

Tax issues

The Scotland Act 2012 transfers powers for the Scottish Parliament to pass legislation to introduce new taxes to replace the UK Stamp Duty Land Tax and Landfill Tax (the UK Government has indicated that current taxes will cease from 1 April 2015). It also introduces the Scottish Rate of Income Tax (UK Government has proposed 1 April 2016 as the start date). Scottish Government officials are in regular contact with staff from HMRC to plan for the implementation of these measures. An Inter-government Assurance Board (IAB) jointly chaired by Scottish Government and HMT officials and including official representation from HMRC oversees the implementation work has been set up. At Ministerial level, work on taxation issues is overseen by the Joint Ministerial Committee (JEC).

The Scottish Rate of Income Tax (SRIT)

The rate at which SRIT is levied will be proposed by Scottish Ministers and approved by the Parliament by Resolution (in respect of 2016-17 onwards). To provide level revenues, a rate of 10 pence would have to be agreed by the Parliament. A Resolution will have to be passed each year, before the end of the tax year. The Scottish variable rate (SVR) is abolished. Scottish Ministers will be responsible for proposing the tax rate but not for any other element of the tax nor for its administration. It will be administered and collected by HMRC as part of the UK income tax system. HMRC is developing a project plan for the development, implementation and operation of administrative and IT systems. This will be overseen by an HMRC programme board, which met for the first time in London on 19 June. Scottish Ministers have accepted the UK Government’s position that the SG budget should meet HMRC’s reasonable costs in setting up and running SRIT. This project is currently estimated to cost c. £40-45 million with running costs of about £4m to £4.5m a year.

Respective roles and responsibilities between HMRC and SG for the operation of the Scottish rate are set out in a Memorandum of Understanding. The MoU will be agreed by Ministers before it comes into effect. The aim of setting out roles and responsibilities is to provide assurance that the implementation and operation of SRIT is transparent, efficient and represents value for money, with clear lines of accountability. A key element of the arrangements will be the appointment by HMRC of an additional accountable officer to account for progress on SRIT to the Scottish Parliament and its Committees, both in the set-up phase and in operation.

During the passage of the Scotland Act, HMRC consulted business interests and charities in Scotland about elements of the SRIT proposals by means of a High Level

---

Implementation Group, chaired by the Secretary of State for Scotland. There were also working groups for pensions firms and for charities. Representatives from the Scottish Government were invited to sit on these groups as observers.

Section 33 of the 2012 Scotland Act places a duty on each of the Secretary of State for Scotland and Scottish Ministers to make reports on the implementation and operation of the Finance Part (Part 3) of the Act. Both reports will be laid before the Scottish and UK Parliaments annually until the first anniversary of when the last financial provision comes into force.

**Detail on the MoU**

Deciding which costs should fall on SG, which on HMRC – the agreement reached in March on the Scotland Bill means that costs incurred as a direct result of setting up and operating SRIT will be met by SG. Costs that are incurred indirectly – for example through changes to the SRIT system as a result of new developments initiated by HMRC elsewhere within the taxation system – will be met by HMRC. The MoU will list specific types of costs which appear to fall into these 2 categories to help provide certainty.

How to provide assurance that the costs falling on SG represent value for money for Scottish taxpayers. The original Command Paper indicated that HMRC would appoint an additional Accountable Officer with specific responsibility for SRIT. The MoU proposes that SG will be able to obtain independent assessment of estimated IT costs in the start-up phase to 2016. It is also proposed that HMRC will provide sufficiently detailed information in support of non-IT cost estimates during the start-up phase to enable SG to satisfy itself that they represent value for money. The statutory annual reports on progress to be produced by both Governments should also report on any cost issues.

On providing assurance that systems will calculate, collect and account accurately for SRIT, it is proposed that HMRC should consult on the system testing arrangements, including provision for audit and review. Officials from the Scottish Government are included in the membership of both the HMRC Scotland Act programme implementation board, and the HMRC SRIT implementation project board. This gives us access to regular, detailed reports and supporting information and enables us to ask and pursue questions.

On compliance, HMRC will, once the SRIT system is up and running, conduct risk analysis and assessment, and compliance and anti-avoidance activity, on individuals in relation to Scottish taxpayer status, and on employers to ensure that PAYE systems are being operated properly in accounting for SRIT. The nature of this risk and compliance activity will be discussed with SG. Where SG proposes that further activity should be carried out in respect of SRIT and it is agreed that this is feasible and would reduce revenue risk and improve compliance, HMRC will carry out such activity, with any extra costs borne by SG.

On third party assurance, as set out in the Command Paper there will be a report to the Scottish Parliament on the administration of SRIT, including all associated expenditure and receipts, as part of the National Audit Office (NAO)’s annual report.
on HMRC’s overall performance. This report will be presented annually to the Scottish Parliament by the HMRC Additional Accounting Officer for SRIT. He or she will attend meetings of the Parliament or its Committees to answer questions about the report.

**Introduction of the Scottish Rate of Income Tax**

As noted above, from April 2016 Scottish Ministers will propose and the Scottish Parliament will set annually a Scottish rate of income tax.

The basic, higher and additional rates of income tax would be reduced by 10p with the Scottish block grant adjusted accordingly. Scottish Ministers would therefore have to propose a rate of 10p to ensure expenditure levels are maintained.

The Scottish rate would be paid by every Scottish tax payer as defined in the Act and would apply to income from earnings and pensions but not income from savings and dividends. It will be assessed and collected by HMRC.

The amount paid over to the Scottish Government would be based on forecasts of Scottish rate receipts prepared by the Office of Budgetary Responsibility. Forecasts would be reconciled with actual receipts after the end of the relevant financial year, and the amount paid over adjusted by reference to the reconciliation.

Following the introduction of the Scottish rate there will be a transitional period of at least two years during which forecast receipts and the block grant adjustment will remain notional, meaning that there will be no net effect on the Scottish block grant (other than the effect of setting a rate different from 10p in the pound). After the transitional period, the block grant adjustment will be applied in full, as will the reconciliation process.