

## Briefing for the Citizen Participation and Public Petitions Committee on petition [PE1923: Align the Higher rate tax threshold to £37,501 in line with the rest of the UK](#), lodged by Peter Watson

Brief overview of issues raised by the petition

[PE1923](#) calls on the Scottish Parliament to urge the Scottish Government to align the Scottish higher rate tax threshold to £37,501 with the rate across the rest of the UK.

### Income tax policy in England, Wales and Northern Ireland

- In the current tax year (2021-22), the higher rate tax threshold in England, Wales and Northern Ireland is **£37,701** (note: this is different from the figure of £37,501 cited in the petition, which was the higher rate tax threshold for England, Wales and Northern Ireland in 2020-21).
- The higher rate tax threshold will remain unchanged at £37,701 in 2022-23.
- When the tax-free personal allowance of £12,570 is taken into account, this means that taxpayers in England, Wales and Northern Ireland will pay the higher rate of income tax (40%) on earnings between £50,271 and £150,000.

### Income tax policy in Scotland

- Scotland has a five-band income tax policy, compared with the three-band policy in place in the rest of the UK (rUK).

- The higher rate threshold in Scotland is currently £31,093 and will remain at this level in 2022-23.
- The higher rate of income tax in Scotland is 41%, which is higher than the equivalent rate in rUK of 40%.
- The tax-free personal allowance is set at UK level, so is also £12,570 in Scotland.
- This means that, after taking the personal allowance into account, taxpayers in Scotland pay 41% on earnings between £43,663 and £150,000.

The HMRC website provides information on the [different income tax thresholds in place across the UK in each year since 2018-19](#).

The [SPICe briefing on the 2022-23 Scottish budget](#) sets out the income tax policies for 2022-23 for both Scotland and rUK. (Note that the heading for Table 2 in the briefing should read **2022-23**). All the thresholds set out here include the personal allowance of £12,570. As noted above, the higher rate threshold is unchanged from 2021-22 across the whole of the UK.

## Implications of the different higher rate threshold in Scotland

- The lower higher rate threshold in Scotland means that taxpayers in Scotland start to pay higher rate tax sooner than they would in the rest of the UK.
- If Scotland had the same higher rate threshold as the rUK, then all individuals earning above £43,662 would pay less income tax than they do under the current Scottish income tax policy. For example, an individual earning £50,000 would pay £1,267.60 less income tax in Scotland if Scotland had the same higher rate threshold as the rUK (£50,270).
- If Scotland had the same higher rate threshold as the rUK, this would also reduce the amount of income tax revenue available for the Scottish Government to spend.
- In 2022-23, increasing the higher rate threshold to the same level as the rUK would reduce income tax revenues by an estimated **£520 million**. This estimate is based on SPICe

calculations using the [UKMOD model](#). Individuals affected by this income tax change might also adapt their behaviour which could reduce income tax revenues even further.

- The Scottish Government would therefore have to reduce its spending plans by an equivalent amount.
- Once the Scottish Parliament has agreed the Scottish Government budget for 2022-23, including the [Scottish Rate Resolution](#), which sets the income tax policy that underpins the budget, income tax policy for 2022-23 can no longer be changed. These votes will take place in February 2022.
- A new Scottish Rate Resolution could in principle be lodged before the start of the new tax year in April 2022, but the budget would also need to be amended to reflect the revised income tax revenues. After that, the next opportunity for changing income tax policy would then be during the budget process for 2023-24.

## Key Organisations and relevant links

- [Scottish Government budget 2022-23](#)
- [Scottish Government income tax policy 2022-23](#)
- [Scottish Fiscal Commission Economic and Fiscal Forecasts December 2021](#)
- [UK Government Autumn Budget and Spending Review 2021](#)
- [HMRC Income Tax Rates and Bands](#)

**Nicola Hudson**  
**Senior Analyst**  
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