



HM Revenue & Customs

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Dear Convener,

I am writing to inform the Public Audit Committee about a change we are making to HMRC's production of data in relation to Scottish Income Tax (SIT).

As you will know from your previous scrutiny, HMRC calculates the SIT outturn a year after the end of a tax year due to the timing of Self Assessment returns. Following the end of a tax year, we publish a provisional estimate of the SIT outturn for that year in our Annual Report and Accounts. HMRC also calculates the Office for Budget Responsibility's (OBR) SIT forecast on its behalf. The OBR is responsible for the SIT forecast methodology, including the judgements and economic assumptions that underpin it.

The provisional estimate follows the same methodology as the OBR forecast and uses the latest economic determinants provided by the OBR. It updates the previous OBR forecast to reflect factors including latest receipts data and any policy adjustments.

I know the Public Audit Committee has an interest in the data and analysis HMRC produces for SIT. We discuss this planned activity with the Scottish Government, including how we can improve our analytical capability and prioritise resources to provide value for money. Through these discussions we have identified the limited value of the provisional estimate.

The final and most accurate forecast available to the Scottish Government before its budget each year is the OBR autumn forecast. This is published after the provisional estimate, meaning the provisional estimate is out of date by the time the Scottish Government would use it in their decision-making.

There is no legal requirement for HMRC to produce the provisional estimate, nor is it required as part of our Service Level Agreement with the Scottish Government. It does not affect the revenue received by the Scottish Government, or the Scottish Government's spending assumptions. The Scottish Fiscal Commission (SFC) produces the devolved SIT forecast used in the Scottish Government's budget each year.

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The provisional estimate is therefore not materially beneficial to either the Scottish Government or HMRC's administration of SIT. We have therefore agreed with the Scottish Government that we will no longer calculate a provisional estimate of the SIT outturn. The analytical resource spent on it will be redirected to allow our analysts to focus on higher priority work funded by the Scottish Government, such as developing and improving the evidence base. We have discussed this change with colleagues in HM Treasury, the SFC, and the OBR, who are content with this approach.

I want to assure you that this change will not affect the Public Audit Committee's ability to scrutinise HMRC's administration of SIT. We will continue to calculate the SIT outturn and the OBR forecast as we do now. It will still be possible to compare the forecasted SIT outturn with the final outturn figure using the OBR's forecast. Historical analysis shows minimal differences in forecast accuracy between the provisional estimate and OBR forecasts.

We therefore believe this is the right time to make this change as part of our commitment to continuously improving our administration of SIT and ensuring we provide value for money to the Scottish Government. I am happy to discuss this in more detail when I next give evidence to the Public Audit Committee, but do let me know if you have any immediate concerns.

Yours sincerely,

Jonathan Athow
Director General Customer Strategy and Tax Design