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27th August

Dear Clare,

I wrote to you on 9 July informing you that the provisional reconciliation for 2024-25 income tax was negative £728 million. The reconciliation was provisional due to the intended revisions to mid-2024 population estimates by the National Records of Scotland (NRS) for Scotland and by the Office for National Statistics (ONS) for England. These revisions have now been published – on 14 July by NRS and 29 July by ONS.

The calculation for the 2024-25 income tax reconciliation has been updated to account for these population updates, and I can confirm that the final 2024-25 income tax reconciliation, which will be applied to the Scottish Budget 2027-28, is negative £720 million. Further details can be found in this statement, published jointly between the Scottish and UK governments, and attached at annex A.

Yours sincerely,

JENNY GILRUTH

Annex A: Income tax outturn reconciliation 2024-25: joint statement with HM Treasury

This statement, jointly agreed by HM Treasury and the Scottish Government, shows both governments' continued ambition to ensure full transparency in, and to improve wider understanding of, the Scottish Government's Fiscal Framework and specifically the reconciliation process.

Reconciliation for 2024-25 Income Tax

On 9th July 2026, HMRC published Income Tax outturn statistics for the tax year 2024-25.

The publication provides the figures for both Scottish Income Tax revenues, and the equivalent Income Tax revenues for the rest of UK that are used to calculate the Scottish Government's Income Tax Block Grant Adjustment (BGA), as set out in the Fiscal Framework agreed between the Scottish and UK Government. This allows the Income Tax reconciliation applying to the 2027-28 Scottish Government budget to be calculated.

The BGA is indexed according to the percentage change in Income Tax revenues in England and Northern Ireland (ENI), weighted by the relative population growth between Scotland and ENI. The calculation doesn't include Wales, where income tax is devolved. The relative population growth rate was confirmed when National Records of Scotland (NRS) published their mid-year population estimates for Scotland on 14 July, followed by the Office for National Statistics (ONS) mid-year population estimates for the rest of the UK on 29 July.

Calculating the reconciliation requires comparing the forecast and outturn figures for Scottish Income Tax revenues and for the Block Grant Adjustment for the year 2024-25. The difference between the forecasts and the outturn is applied to the Scottish Government's Budget and funding in 2027-28. Further background is set out below, after the calculations.

The two reconciliation components will have the following effects, as summarised in the table below:

- **Block Grant Adjustment:** The outturn is higher than was forecast at the time of the 2024-25 Scottish Budget so this will increase the Block Grant Adjustment (and by implication reduce the Scottish Government's block grant) by £512m in 2027-28.
- **Scottish Income Tax Revenue**: The outturn is lower than was forecast at the time of the 2024-25 Scottish Budget so this will decrease Scottish Government funding from its tax revenues by £209m in 2027-28.

Taken together, the net reconciliation effect is a £720m decrease in the Scottish Government's funding for 2027-28.

Reconciliation for 2024-25 Income Tax which will impact the 2027-28 Budget

2024-25 Income Tax (£m)	Revenues	Block Grant Adjustment	Net Budget Position
Forecasts as of Scottish Government Budget 2024-25	18,844	-17,432	1,412
Outturn	18,635	-17,943	692
Change/reconciliation	-209	-512	-720

Note – numbers may not sum due to rounding.

The reconciliation is a normal part of the operation of the Fiscal Framework and ensures that the Scottish Government's funding is based on actual Income Tax revenues, rather than forecasts.

Background

The Scotland Act 2016 devolved additional tax powers to the Scottish Government. In April 2017, the Scottish Government gained the power to set the rates and bands for non-savings and non-dividends (NSND) Income Tax in Scotland. HMRC is responsible for the collection of Scottish Income Tax.

The block grant is adjusted to reflect the impact of the transfer of greater fiscal powers to the Scottish Government. These Block Grant Adjustments are deductions for tax powers and additions for social security benefits. Alongside this, the Scottish Government retains all revenues from devolved taxes.

Initially, the Scottish Government's Income Tax revenues are forecast by the Scottish Fiscal Commission (SFC) and the Income Tax Block Grant Adjustment is based on Office for Budget Responsibility (OBR) Income Tax forecasts for the rest of the UK. Once the forecast revenue is determined and the corresponding Block Grant Adjustment is made, there are no changes in the Scottish Government's funding until outturn data are available.

Income Tax outturn is published in HMRC's Annual Report and Accounts, normally around 16 months after the end of the financial year. This data is used to determine the Scottish Government's funding for the following financial year through a reconciliation process.

The Fiscal Framework agreement enables the Scottish Government to borrow for resource, with an annual limit and overall statutory limit, to address forecast error in relation to devolved and assigned taxes and demand-led welfare expenditure arising from forecasts of Scottish receipts/expenditure and corresponding UK forecasts for the Block Grant Adjustments.

These limits are increased in line with inflation from 2023-24 prices, with the 2026-27 limits being £655 million annually and £1,910 million overall.