Dear Chief Secretary,

The Finance and Constitution Committee considered at its meeting this morning the third annual reports from the UK and Scottish Governments on the implementation of the Scotland Act 2016 and the Seventh Annual Report on the Implementation and Operation of Part 3 (Financial Provisions) of the Scotland Act 2012. The Committee noted the Scottish Government’s request that a “policy spillover” be considered in relation to the increase of the Personal Allowance for 2018-19 and 2019-20. The Scottish Government’s implementation report states that this is:

“because UK Government’s decisions to increase the Personal Allowance for 2018-19 and 2019-20 have a relatively larger impact on Scottish income tax liabilities, because Scotland has proportionally more basic rate taxpayers than the rest of the UK. This means that these decisions reduce the Scottish income tax base and income tax receipts proportionately more than the rest of the UK income tax base.”

Our adviser on the Fiscal Framework, Dr David Eiser, has told us that it is reasonable to believe that an increase in the personal allowance will negatively affect the Scottish Budget. The Committee also notes that the Fiscal Framework states that “where either government makes a policy decision that affects the tax receipts or expenditure of the other, the decision-making government will reimburse the other if there is an additional cost, or receive a transfer from the other if there is a saving.”
The Committee would welcome the views of HM Treasury on whether the policy spillover provisions within the Fiscal Framework have been triggered by the decision of the UK Government to increase the Personal Allowance for 2018-19 and 2019-20. If so, we also ask that you provide details of the size of any reimbursement which may be due to the Scottish Budget and when that will be made.

Yours sincerely,

Bruce Crawford MSP
Convener