



HM Revenue
& Customs

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Bruce Crawford, MSP
Convener Finance and Constitution Committee
M4.17
The Scottish Parliament
Edinburgh
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Dear Mr Crawford

At our appearance before your committee on 14th December Sarah Walker and I undertook to provide further information in relation to a number of issues. With my apologies for the delay in responding to you, here is the information you and your members were seeking.

1. Data relating to Scottish income tax payers

Mr McKee and Mr Harvie enquired about HMRC data on Scottish taxpayers broken down by band – the extent to which it was available and the frequency with which it was/could be provided.

As I outlined in my oral evidence, HMRC already publishes, on an annual basis, [regionally disaggregated income tax data](#). This data does not provide a breakdown of taxpayers per income band; however, we have previously provided the Scottish Parliament Information Centre such information when requested.

With the commencement of devolved Scottish income tax powers, the need for such data has increased, to enable the effective exercise of devolved tax powers. HMRC is currently in discussion with the Scottish Government and Scottish Fiscal Commission to decide on and put in place the practical arrangements to provide both annual and in-year information relating to Scottish income tax, including a

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breakdown by income band. We are also in contact with the Scottish Parliament Information Centre, so are aware of their needs and will continue to keep them informed of developments with the Scottish Government and Fiscal Commission.

2. Income tax collected after the block grant reconciliation point

Mr Kelly enquired as to the extent of income tax paid/collected after the block grant reconciliation point and how this tax was reflected in the Block Grant adjustment process for Scottish tax powers.

Under the Block Grant adjustment process for Scottish tax powers, there is a reconciliation, 15 months after the end of each tax year, between the receipts forecast for that year and the actual outturn level of receipts.

The vast majority of income tax receipts will have been collected at the reconciliation point; however, there will undoubtedly be a very small element that, for a variety of reasons, will be collected after that point. The historic UK average position (with very little variation) is that, within twelve months of the end of any given tax year, virtually 100% of PAYE payments and approximately 97% of self-assessment payments will have been received. Since PAYE represents the lion's share of total income tax at UK level (and even more so for Scottish income tax) the proportion of Scottish income tax collected after the reconciliation point will therefore represent less than 0.5% of the total.

To ensure that there is no question of the Scottish Government losing out as a result of post-reconciliation payments of tax, the reconciliation calculations specifically include an estimated allowance for such receipts.

This estimate will initially be calculated using previous years UK data held by HMRC but to ensure that the estimation is refined over time, each tax year's cohort of Scottish taxpayers will be tracked by HMRC for a further three years, to increase knowledge of Scottish income tax payment patterns and ensure that this is reflected in the reconciliation calculations.

3. Impact of incorporation on income tax receipts

The Covener (Mr Crawford) enquired as to data illustrating the impact of incorporation on income tax receipts.

While HMRC have not published any recent analysis relating to tax motivated incorporation we have worked closely on the issue over the last year with the Office of Budgetary Responsibility (OBR). This resulted in an analysis of the effect of incorporations on tax receipts (in Box 4.1 on pages 121-123) of the OBR's [Economic and Fiscal Outlook](#), published in November 2016.

I hope the information within this letter provides you and your members with the further detail you required.

Yours sincerely

Jim Harra