Dear Bruce,

PERSONAL ALLOWANCE POLICY SPILLOVERS

1. Thank you for your letter of 8 May on the effects of the income tax personal allowance on the Scottish Government’s funding. I can confirm that the Scottish Government have raised this issue with the UK government, and HM Treasury officials are giving it full consideration.

2. I have set out the UK government’s position on this matter to Derek Mackay MSP in a letter on the 26 April 2019. In that letter, I stated that the UK government is committed to implementing and supporting the Scottish Government’s Fiscal Framework, and to ensuring that the devolution of tax powers in Scotland is a success. This includes following the clear principles and processes for when the policy decisions of one administration affect the revenue or expenditure of the other, through the spillovers process.

3. The UK government’s position is that CPI-linked increases to the income tax personal allowance in April 2018 do not constitute a change of government policy. This policy is legislated for in the Income Tax Act 2007 and so CPI-linked increases are the basis on which – in the absence of any announced policy change - the Office for Budget Responsibility forecasts income tax. Therefore, this CPI-linked policy forms the baseline against which we consider any detriment or windfall. We do not accept that there was a change of government policy for 2018-19, so there cannot be any ‘spillover’ detriment (or windfall) to the Scottish Government’s funding as a result.

4. The UK Government accepts that the above-inflation increase to the personal allowance in April 2019 constituted a change to the policy, as will the freeze to the
personal allowance in April 2020. I can confirm that HM Treasury officials are considering the Scottish Government’s analysis of this issue, which Scottish Government officials presented at the official-level Joint Exchequer Committee. If the Scottish Government and HM Treasury agree on the methodological approach, we will consider if any transfer of funding (in either direction) is due for these years.

5. I am copying this letter to the Chancellor of the Exchequer, the Financial Secretary to the Treasury, and the Secretary of State for Scotland.

Best wishes,

RT HON ELIZABETH TRUSS MP