

The Scottish Rate of Income Tax

Identifying Scottish taxpayers

HMRC has been developing its approach to identifying Scottish taxpayers so that the Scottish rate can be correctly applied to their income, in consultation with the Scottish Government.

The key to Scottish taxpayer identification is the location of an individual's main place of residence. Scottish taxpayer status applies for a whole tax year – if an individual's main place of residence is in Scotland for the majority of the tax year, they will be a Scottish taxpayer. HMRC will produce guidance to assist taxpayers in determining their main place of residence. As is the case with Council Tax, this will be based on an individual's circumstances, it is not an elective regime.

HMRC hold complete addresses for the vast majority of UK resident taxpayers, which they use for correspondence purposes, and they will use these as a basis for the identification of Scottish taxpayers. HMRC has identified a risk that using these addresses, without further corroboration, might not provide sufficient confidence that the Scottish rate has been correctly applied, and has been exploring options to supplement its data with information from other sources.

HMRC's approach will involve UK wide HMRC data being compared with other data on residence (for example, the Scottish Electoral Register) to identify individuals who appear to live in Scotland, but for whom HMRC hold an address elsewhere in the UK. Once this scan has been completed, HMRC and Scottish Government will work together to agree a suitable and proportionate strategy which may include contacting these individuals. HMRC are examining other data sources to supplement their own data. As part of this, the Scottish Government has consulted on whether HMRC should be given access to NHS Scotland's address data.

Following this activity to improve the quality of HMRC address data, HMRC will write to customers who they believe to be Scottish taxpayers in autumn 2015. Alongside this, HMRC will be undertaking publicity to raise awareness of the Scottish rate throughout the UK. This will encourage taxpayers whose main place of residence is in Scotland, but who have not been contacted directly as part of the campaign, to notify HMRC of their correct address, and to remind taxpayers of the need to notify HMRC when they change their address.

Once this activity has been completed, in spring 2016, HMRC will issue PAYE tax codes to employers and pension providers as usual. Those applying to Scottish taxpayers will indicate that the Scottish rates should be used in relation to these employees.

For customers who move home from elsewhere in the UK to Scotland (or vice versa) during the tax year, HMRC will make adjustments to their tax code to reflect any change of status. Broadly, if a customer moves in the first half of the tax year this is likely to trigger a change of Scottish taxpayer status (as the new home will be their main place of residence for the majority of the tax year).

Notifying Scottish taxpayers of the Scottish Rate

The two governments agreed that the decision on how Scottish taxpayers should be made aware of the amount of Scottish income tax they pay is one for the Scottish Government. In the light of consultation with representatives of employers, pension payers and payroll operators, the Scottish Government has asked for the Scottish rate to be shown separately in HMRC's online Tax Calculator, which enables individuals to estimate how much income tax they would pay based on their tax code and income, and in the annual Tax Summary provided by HMRC that will show individuals how their income tax was calculated for the previous tax year. Employers will be required to show the Scottish rate element of income tax separately in the annual statement of income tax liability (P60), which is issued to individuals after the end of the tax year showing deductions of tax and National Insurance Contributions. HMRC are consulting employers on the specific changes required to the P60.

HM Revenue & Customs

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