



Strong public services are vital for a thriving economy. However, continued cuts to our budget by the UK Government mean that in 2019-20 our fiscal budget allocation for day to day spending will be £200 million lower in real terms than it is this year. In the Draft Budget the Scottish Government has outlined proposals for changing the rates and bands of income tax in Scotland to raise an additional £164 million to enable the Scottish Government to fulfil our commitments to the NHS without having to reduce spending in other areas. In 2018/19, Scottish income tax receipts are forecast to raise £366m more than the corresponding block grant adjustment.

The current rates and bands for 2017-18:

Name	Rate	Band
Basic Rate	20%	Over £11,500* - £43,000
Higher Rate	40%	Over £43,000 - £150,000
Additional Rate	45%	Above £150,000**

Proposed rates and bands for 2018-19:

Name	Rate	Band
Starter Rate	19%	Over £11,850* - £13,850
Basic Rate	20%	Over £13,850 - £24,000
Intermediate Rate	21%	Over £24,000 - £44,273
Higher Rate	41%	Over £44,273 - £150,000**
Top Rate	46%	Above £150,000** +

*Assumes individuals are in receipt of the Standard UK Personal Allowance.

**Those earning more than £100,000 will see their Personal Allowance reduced by £1 for every £2 earned over £100,000.

How did we decide on these proposals?

In November we published a Discussion paper: The Role of Income Tax in Scotland’s Budget, and conducted a series of roundtable discussions with business and third sector organisations, think tanks and tax professionals. As well as this, a range of individuals and organisations have written to us with their views on the Approaches we outlined in the paper. All of these views were considered when deciding on this policy.

Impact on Taxpayers:

	% of Scottish income tax payers who will pay less	% of Scottish income tax payers who will pay more
Compared to the rest of the UK	55%	45%
Compared to 2017-18	70%	30%

Compared to elsewhere in the UK next year:

- Those earning less than £26,000 (1.4 million tax payers) will pay slightly less income tax next year than if they lived elsewhere in the UK- assuming an unchanged income. This means that 55% of Scottish income taxpayers will pay less tax than if they lived in other parts of the UK in 2018-19.
- When considering current basic rate taxpayers 64% will pay less in Scotland than they will elsewhere in the UK in 2018-19.

Compared to 2017-18:

- Due to the introduction of the Starter Rate and the increase in the Personal Allowance, every Scottish taxpayer earning less than £33,000 in 2018-19 (1.8 million tax payers) will pay less income tax than they did in 2017-18, for a given level of income.
- Overall, 70% of Scottish income taxpayers will pay less tax next year compared to what they are paying this year for a given level of income.
- When considering current basic rate tax payers, 81% will pay less next year than in 2017-18, under our proposals.

The table below compares the change in take home pay for individuals earning different levels of income. Three different comparisons are provided.

- The first shows the impact of Scottish Government changes to rates and bands only
- The second shows the impact of Scottish Government changes to rates and bands combined with inflationary changes to thresholds and the personal allowance coming into effect next year. This demonstrates the impact of all income tax changes introduced in 2018-19 compared to 2017-18.
- The third sets out the difference in income tax paid when compared to the rest of the UK.

Example incomes (p.a.)	Change in Take Home Pay		
	Impact of SG changes to rates and bands only	Impact of SG changes to rates and bands and inflationary changes to thresholds	Impact relative to the rest of the UK
£15,000	£20	£90	£20
£20,000	£20	£90	£20
£26,000	£0	£70	£0
£33,000	-£70	£0	-£70
£35,000	-£90	-£20	-£90
£40,000	-£140	-£70	-£140
£50,000	-£240	£85	-£655
£60,000	-£340	-£15	-£755
£75,000	-£490	-£165	-£905
£100,000	-£740	-£415	-£1,155
£120,000	-£1,040	-£715	-£1,455
£150,000	-£1,359	-£1,174	-£1,774

Impact on Households: For all deciles except the 10th (the highest income earning) our income tax policy proposals see an increase in average household income in 2018-19 relative to this year, as shown below. Additionally, the chart on the right here shows that, relative to the rest of the UK, we are protecting the lowest earning 5 deciles.

Figure 1: Household impact relative to 2017-18

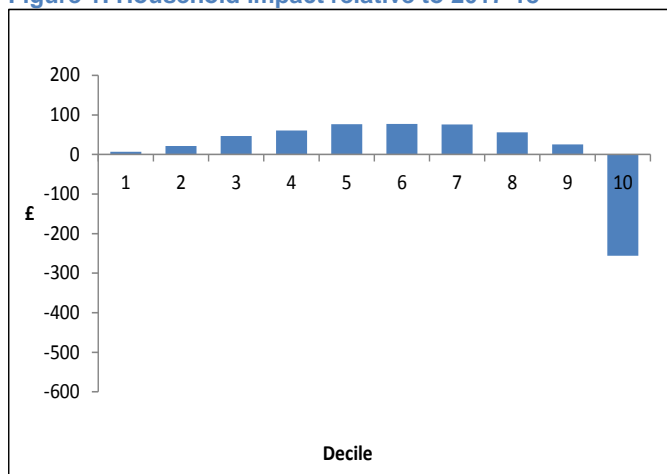
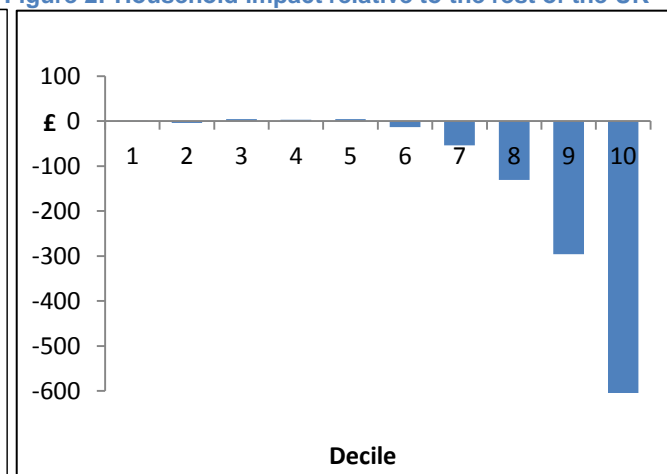


Figure 2: Household impact relative to the rest of the UK



Further information on the distributional impact of the Scottish Government's income tax changes are available at <http://www.gov.scot/Topics/Government/Finance/scottishapproach/Scottishincometax2018-2019>