



SERVICE LEVEL AGREEMENT FOR OPERATION OF SCOTTISH INCOME TAX BY HMRC

Contents

INTRODUCTION.....	2
Purpose	2
Roles and responsibilities	2
THE AGREEMENT FRAMEWORK	3
Parties to the Agreement.....	3
Duration of the Agreement.....	4
Legal Effect.....	4
Derivation.....	4
SERVICE REQUIREMENT.....	4
Overarching Aims.....	4
Key Requirements.....	5
MANAGEMENT ARRANGEMENTS.....	5
Cost and Reimbursement Arrangements	6
Day-to-Day Relationships.....	6
Dispute Resolution.....	7
Review, Monitoring and Reporting.....	7
Change or Variations to the Agreement.....	8
Business Continuity.....	8
ANNEX A: Operation of Scottish Income Tax - HMRC Performance Measures.....	10
ANNEX B: Operation of Scottish Income Tax - Rechargeable Costs Framework.....	19

INTRODUCTION

Purpose

1. The Scottish Parliament has been provided with increased rate-setting powers in Scotland Acts 2012 and 2016. However, Scottish income tax remains part of the UK income tax system: it continues to be administered by Her Majesty's Revenue and Customs (HMRC); and, responsibility for the Personal Allowance, the tax base and tax reliefs remain reserved to the UK Parliament.
2. Forecast Scottish income tax receipts flow from HM Treasury into the Scottish Government's Consolidated Fund. This amount is reconciled annually against the amount of income tax that HMRC collects.
3. HMRC remain accountable for the collection and management of Scottish income tax and need to be able to evidence that they are doing so in an efficient and effective manner.
4. The Scottish Government is required to meet any net additional costs incurred by HMRC as a result of the introduction of Scottish income tax.
5. The Scottish Government needs sufficient data from HMRC to:
 - discharge its duties in respect of: forecasting, developing income tax policy, setting rates; and budgeting for any variance in Scottish income tax collected against forecasts; and
 - assure itself of HMRC's efficiency and effectiveness in operating Scottish Income tax.
6. This Service Level Agreement (Agreement) sets down the requirements and performance measures for the operation of Scottish income tax which will ensure a consistent quality of service to Scottish taxpayers and allow HMRC and the Scottish Government to meet their respective responsibilities in respect of operating Scottish income tax.

Roles and responsibilities

7. HMRC are responsible for the collection and management of the revenues from income tax by virtue of Section 5(1)(a) of the [Commissioners for Revenue and Customs Act 2005](#). HMRC has appointed an Additional Accounting officer with the overall responsibility for Scottish income tax powers who is accountable for the performance of HMRC in establishing and operating Scottish income tax powers.
8. Part 3 of the [Scotland Act 2012](#) provided the Scottish Parliament with the power to set the Scottish Rate of Income Tax (SRIT), which allows the Scottish Parliament to set a rate

for a proportion of the income tax paid by Scottish taxpayers. The [Scotland Act 2012, Section 25 \(Appointed Years\) Order 2015](#) determined that the tax year 2016-17 was the first year to which SRIT would have effect.

9. Part 2 of the [Scotland Act 2016](#) provides the Scottish Parliament with the power to set the rates and band thresholds (excluding the personal allowance) that will apply to all non-savings non-dividend income tax paid by Scottish taxpayers. The [Scotland Act 2016 \(Commencement No. 2\) Regulations 2016](#) determined that the tax year 2017-18 was the first year to which Scottish income tax (SIT) powers would have effect.
10. Each year the Scottish Parliament must pass a Scottish Rate Resolution which will set the income tax rates and bands to be applied for Scottish taxpayers. This must be passed prior to the start of the tax year in which the rates are due to apply.
11. The ability to change, add or remove income tax reliefs remains reserved to the UK Parliament.
12. The ability to define, change, add or remove types of income to which income tax can be applied remains reserved to the UK Parliament.
13. Any issues of dispute about the administration of Scottish income tax will be matters between Scottish taxpayers and HMRC.
14. Additionally, under the [Fiscal Framework](#) agreed between the UK and Scottish Governments in 2016, the Scottish Government is required to reimburse the UK government for net additional costs wholly and necessarily incurred as a result of the administration of the Scottish income tax powers.
15. HMRC administers SIT and SRIT on behalf of the Scottish Government. It remains responsible for the preservation of customer data relating to SRIT and Scottish income tax customers in line with its usual processes.
16. To that end, HMRC also retains responsibility as the [“Data Controller”](#) for SIT and SRIT and adherence to wider data protection law, including the General Data Protection Regulation (GDPR) and the Data Protection Act (DPA) 2018, in line with its own organizational [Privacy Notice](#).

THE AGREEMENT FRAMEWORK

Parties to the Agreement

17. This Agreement is entered into between Her Majesty’s Revenue and Customs and the Scottish Government.

Duration of the Agreement

18. Notwithstanding the date of signatures this updated Agreement, and its preceding iteration, have effect from 6 April 2017. This document has no expiry date, but it will cease to have effect if Scottish income tax powers are repealed. The document may be brought to an end by agreement between HMRC and the Scottish Government.

Legal Effect

19. This is an agreement between HMRC and the Scottish Government. It has no formal legal force. Nevertheless both parties expect its terms to be followed. Arrangements for dealing with disputes are set out at paragraphs 37 – 39.

Derivation

20. HMRC and the Scottish Government have an overarching [Memorandum of Understanding](#) which sets out HMRC and the Scottish Government's on-going respective responsibilities at an official level in relation to establishing and operating the Scottish income tax powers in an efficient and effective manner. It also provides the framework for inter-Government work at Ministerial and official level to oversee the establishment and operation of the Scottish income tax powers.
21. This Agreement should be read in conjunction with the Memorandum of Understanding and the Fiscal Framework.

SERVICE REQUIREMENT

Overarching Aims

22. The overarching aims in respect of HMRC's administration of Scottish income tax are:
 - HMRC will identify the Scottish taxpayer population and collect from it the correct rates of Scottish income tax to ensure the Scottish Government receives the correct amount of income tax revenue each year.
 - HMRC will account for the amount of Scottish income tax collected and report this in an Extract of HMRC's Accounts to the Scottish Parliament each year.
 - HMRC will continue to administer income tax for Scottish taxpayers, and the employers of Scottish taxpayers and their payroll software providers in a manner equivalent to the service provided elsewhere in the UK.

- HMRC will provide the Scottish Government with sufficient timely data to allow it to discharge its own duties in respect of Scottish income tax.
- HMRC will invoice the Scottish Government for agreed net additional costs wholly and necessarily incurred as a result of the administration of Scottish income tax rates.

Key Requirements

23. The following key requirements have been identified for HMRC's operation and administration of the Scottish income tax powers:
- identify and maintain an accurate and robust record of the Scottish income taxpayer population.
 - apply the appropriate Scottish rates to the non-savings, non-dividend income of Scottish taxpayers to allow HMRC to collect and account for the correct amount of income tax revenue due to the Scottish Government.
 - apply the same level of customer service, support and transparency to Scottish income taxpayers, and the employers of Scottish tax payers, as applied to income taxpayers in the rest of the UK.
 - provide the Scottish Government with sufficient relevant and timely information and data to discharge its duties in respect of rate-setting and forecasting for Scottish income tax.
 - provide the Scottish Government with sufficient relevant and timely information and data to discharge its duties in respect of cash management due to any change between forecast and collected amounts of Scottish income tax.
 - provide the Scottish Government with sufficient relevant and timely information and data for assurance purposes and to budget effectively for any net additional costs to be recharged to the Scottish Government.
 - apply risk based compliance activity to the collection of Scottish income tax in the same way as is applied to the collection of income tax from taxpayers in the rest of the UK.
 - provide the Scottish Government with sufficient relevant and timely information and data to assure itself of the effective use of Scottish Government money in the administration of Scottish income tax by the HMRC, including compliance and enforcement activity.
24. Performance measures in respect of these requirements are attached at ANNEX A: Operation of Scottish Income Tax - HMRC Performance Measures.

MANAGEMENT ARRANGEMENTS

Cost and Reimbursement Arrangements

25. HMRC will recharge the Scottish Government for any net additional costs wholly and necessarily incurred as a result of the administration of the Scottish income tax powers. Any net additional costs will be charged on a full business costs basis.
26. HMRC and the Scottish Government have developed a framework document identifying the known areas where net additional administrative costs will fall and identifying the information that HMRC will rely on to calculate these costs. This will be used as the basis for raising and agreeing invoices with the Scottish Government. This document will be kept up to date to ensure it continues to capture all areas of rechargeable work and is attached at ANNEX B: Operation of Scottish Income Tax Rechargeable Costs Framework.
27. HMRC will invoice Scottish Government for costs incurred on a quarterly basis having first provided a detailed costs paper which been considered and agreed at the quarterly meetings identified at paragraph 40.
28. Scottish Government will make payment to HMRC within 30 days of the invoice date, or within 30 days of receipt of the invoice if there is a delay of more than 5 days between invoice date and date of receipt.
29. Where required, accrual arrangements will be agreed in advance between HMRC and the Scottish Government for Quarter 4 payments (January – March) to ensure these payments are made in the appropriate financial year.

Day-to-Day Relationships

30. It is expected that both parties will do all things reasonably within their power that are necessary or desirable to give effect to the spirit and intent of the Agreement.
31. Both parties are expected to act in good faith and use their best endeavours to resolve by agreement any disputes, differences or questions arising out of or relating to this Agreement.
32. Both parties will nominate a single point of contact (SPoC) to oversee the day-to-day management of any matters relating to this Agreement.

33. Such matters will be handled in a pro-active and inclusive manner to ensure that the ongoing, administration of income tax for Scottish taxpayers continues to the required levels as set out in this Agreement.
34. When a dispute arises about the operation of this Agreement, or any variation or interpretation of this Agreement, both parties will initially seek to resolve this informally through the SPoCs. Where individual SPoCs cannot resolve any such dispute, in the first instance any such dispute is to be raised with the relevant Deputy Directors in each organisation as Chairs of the Scottish Income Tax Board.
35. If this does not resolve the issue, it will be referred to the signatories of this Agreement, who will work with the SPoCs and any other relevant individuals to resolve it.

Dispute Resolution

36. If the process set out above fails to secure resolution to any dispute between HMRC and the Scottish Government concerning the operation of this Agreement, or any variation or interpretation of this Agreement, the issue will be referred to the Additional Accountable Officer in HMRC and the Scottish Government's Director General Scottish Exchequer for decision.
37. In exceptional circumstances, where the dispute cannot be resolved by the above process, it is open to either party to refer to Ministers. The Joint Exchequer Committee provides Ministerial oversight of the programme of work, and will be the final arbiter in points of dispute.
38. Each SPoC will keep each other informed of any planned escalation, prior to the escalation happening.

Review, Monitoring and Reporting

39. The Scottish Income Tax Board will meet quarterly, chaired by the relevant Deputy Directors in each organisation (or their delegates). The SPoCs will agree the agenda and the Board will consider any relevant matters arising from the delivery of any aspect of this Agreement. This includes all business as usual activity around Scottish income tax, across operations, compliance, data and policy. These will consider financial data provided by HMRC for this period so should fall in line with the quarterly reporting and invoicing requirements.
40. Bi-annual Review meetings will be held between the signatories of this Agreement at which the overall effectiveness of this Agreement and HMRC's performance against it will be kept under review.

41. HMRC will publish an annual Scottish Income Tax Report in September which covers the activity it has undertaken in the preceding tax year relating to this Agreement and its performance measures. It will also provide the Scottish Government with in-year updates and the quarterly/monthly provision of information as set out detail in the delivery and reporting schedule for each performance measure at Annex A.
42. The Agreement will be reviewed after the confirmation of UK and Scottish Government income tax rates and bands each year to review compliance with the stated aims and ensure that the Agreement remains fit for purpose. Any changes to the content of the Agreement arising from such a review will be marked by the issue of a new, dated, version number. While such a review will be led by the signatories to the Agreement and SPoCs, it will include input from subject matter experts and policy colleagues, as required.
43. It is open, however, for either party to request to review the Agreement at any stage.

Change or Variations to the Agreement

44. HMRC and the Scottish Government need to inform the other as soon as possible of any circumstances which might lead to the need for an alteration to the obligations of either party under this Agreement.
45. Any significant changes to the agreement shall be negotiated and signed-off by the signatory parties.
46. Any minor variations to the delivery of any of the subsidiary agreements should, however, be able to be agreed between the identified SPoCs within HMRC and the Scottish Government.

Business Continuity

47. Both parties must inform the other immediately if any issue arises relating to business continuity in respect of the administration and collection of Scottish income tax.

Signed on behalf of their relevant organisations:

Lucy O'Carroll

Lucy O'Carroll
Director Taxation
Scottish Government

Date:



Carol Bristow
Director Individuals Policy
HMRC

Date: 29 September 2020

ANNEX A: Operation of Scottish Income Tax - HMRC Performance Measures

	Requirement	HMRC Measure	Delivery and Reporting Schedule
1	Identify and maintain an accurate and robust record of the Scottish taxpayer population.	<p>HMRC annually provide an assessment of risk and planned approach, based on Scottish Strategic Picture of Risk, to Scottish taxpayer identification as a bespoke element of income tax compliance activity. Additionally provide an annual report on the outcome of that compliance activity once it has been undertaken.</p>	<ul style="list-style-type: none"> • Strategic picture of risk provided to the Scottish Government in August each year. • Annual compliance assessment and plan to address provided to Scottish Government by July each year. • Summary of the compliance plan and outcome of activity report in HMRC's annual Scottish income tax report published in September.
		<p>HMRC address data maintenance:</p> <p>i) Comparison of HMRC UK-wide data set with third party data sets e.g. the Scottish Electoral Register & credit reference agencies, to corroborate address held by HMRC.</p> <p>ii) Where individual addresses not corroborated by step (i) comparison exercises using street/ town association and postcode data with other third party and internal data sources, to establish likely STp status.</p> <p>iii) Where corroboration of STp status not achieved by steps (i & ii) and identify and communication sent to target individuals (PTA/email/letter) – i.e.:</p> <ul style="list-style-type: none"> • potential Scottish taxpayers where HMRC holds an address outside of Scotland but third party data indicated a potential address in Scotland; and, • individuals for whom HMRC hold a Scottish correspondence address but a main address elsewhere in the UK. <p>iv) Monitoring response to communications and resulting changes in taxpayer address.</p>	<ul style="list-style-type: none"> • Timeframe for third party comparison exercise to be agreed annually by HMRC and Scottish Government. • Scottish Government updated, in year, of outcome of comparison exercise and any resulting further actions and timescales. • Detail and outcome of activity reported in HMRC's annual Scottish income tax report.

	Requirement	HMRC Measure	Delivery and Reporting Schedule
1 (ctd)	Identify and maintain an accurate and robust record of the Scottish taxpayer population.	Identification and correction of corrupted or blank addresses within the potential Scottish taxpayer population: <ul style="list-style-type: none"> • Cleansing incomplete or corrupt postcodes identified from comparison exercise utilising Ordnance Survey and Royal Mail • Updating records with corrupt or blank addresses using third party data • Identifying and correcting customer records with a Scottish address but a blank and/or incomplete postcode. 	<ul style="list-style-type: none"> • Timeframe for address cleansing exercises to be agreed annually by HMRC and Scottish Government • Scottish Government updated, in year, on the outcome of address cleansing exercises and any resulting further actions and timescales, in year. • Detail and outcome of activity reported in HMRC's annual Scottish income tax report.
		In- year changes to Scottish Address Flag status (monthly)	<ul style="list-style-type: none"> • Monthly breakdown provided in Quarterly Business Intelligence Reports (July, October, January, April). • Annual Business Intelligence Report provided in May and published in HMRC's annual Scottish income tax report.
		Conservation of accuracy of 'S' code application on records with Scottish/English Borders postcodes.	<ul style="list-style-type: none"> • Timeframe for border post code accuracy exercise to be agreed annually by HMRC and Scottish Government by the start of the tax year. • Scottish Government updated, in year, on outcome of conservation exercise and any resulting further actions and timescales. • Detail and outcome of activity reported in HMRC's annual Scottish income tax report.

	Requirement	HMRC Measure	Delivery and Reporting Schedule
1 (ctd)	Identify and maintain an accurate and robust record of the Scottish taxpayer population.	Ongoing process to ensure accuracy of 'S' codes on Scottish taxpayers under Section 80D(4) of Scotland Act.	<ul style="list-style-type: none"> Confirmation of activity and outcome in HMRC's annual Scottish income tax report.
		Quality Management checks on postcode data supporting the identification of Scottish taxpayers.	<ul style="list-style-type: none"> Timeframe for post code quality management check to be agreed annually by HMRC & SG by the start of the tax year Detail and outcome of activity reports in HMRC's annual Scottish income tax report.
		Ongoing process to provide taxpayers' residency statuses to Pensions Providers for Relief At Source (RAS) pensions.	<ul style="list-style-type: none"> Update provided to SG following key business events.
2	Collect and account for Scottish income tax revenues at Scottish income tax rates.	Publication of Scottish income tax receipts in HMRC Annual Accounts (published in July of each year & audited by NAO). Publication of rUK income tax receipts (equivalent non-savings, non-dividends) in the HMRC Scottish income tax statistics publication.	<ul style="list-style-type: none"> HMRC Annual Report in July, reported in HMRC Scottish income tax statistics publication and HMRC's annual Scottish income tax report. HMRC Scottish income tax statistics publication, expected to be published following HMRC Annual Accounts, within 4 weeks.
		Extract of HMRC Accounts and HMRC Scottish income tax statistics publication provided to Scottish Parliament.	<ul style="list-style-type: none"> Provided annually, after Scottish Parliament's summer recess with HMRC's annual Scottish income tax report in September.
3	Apply the same level of customer service, support and transparency to Scottish income taxpayers as is applied	Telephony (monthly)* <ul style="list-style-type: none"> Total Calls = Number of calls received via the designated SRIT telephone line. IVR (ITA) %deflected 	<ul style="list-style-type: none"> Monthly breakdown provided in Quarterly Business Intelligence Reports (July, October, January, April).

	to income tax payers in the rest of the UK.	<ul style="list-style-type: none"> • Answered, total number answered by an HMRC advisor. • Average Queue time of Answered call • Abandoned in Queue, total number of calls • Average Wait Before Abandoned • Overall SRIT calls %handled. 	<ul style="list-style-type: none"> • Annual Business Intelligence Report provided in May and published in HMRC's annual Scottish income tax report.
	Requirement	HMRC Measure	Delivery and Reporting Schedule
3 (ctd)	Apply the same level of customer service, support and transparency to Scottish income taxpayers as is applied to income tax payers in the rest of the UK.	<ul style="list-style-type: none"> • 	
		Post (monthly)* <ul style="list-style-type: none"> • Number of Scottish income tax post received. • Number of Scottish income tax post answered. 	<ul style="list-style-type: none"> • Breakdown provided in Annual Business Intelligence Report provided in May and published in HMRC's annual Scottish income tax report.
		Complaints (monthly)* <ul style="list-style-type: none"> • Number of Scottish income tax complaints received • Number of Scottish income tax complaints answered • Complaint category • Complaint Status 	<ul style="list-style-type: none"> • Breakdown provided in Annual Business Intelligence Report provided in May and published in HMRC's annual Scottish income tax report.
		Online calculators which rely on income tax rates and thresholds are accurate for Scottish taxpayers.	<ul style="list-style-type: none"> • Reviewed annually and updated, as required, for start of tax year • Detail and outcome of activity reported in HMRC's annual Scottish income tax report.
		Tax tables issued to digitally exempt employers reflect Scottish rates and thresholds.	<ul style="list-style-type: none"> • Annual exercise following confirmation of Scottish rate and thresholds – activity and outcome reported in HMRC's annual Scottish income tax report.

	Requirement	HMRC Measure	Delivery and Reporting Schedule
3 (ctd)	Apply the same level of customer service, support and transparency to Scottish income taxpayers as is applied to income tax payers in the rest of the UK.	Outputs to individual Scottish taxpayers (i.e. P2 coding notices and Annual Tax Summary) accurately reflect Scottish income tax.	<ul style="list-style-type: none"> • Ongoing assurance processes undertaken with activity and outcomes reported in HMRC's annual Scottish income tax report.
		HMRC small business payroll tools amended for Scottish income tax.	<ul style="list-style-type: none"> • Annual exercise, following confirmation of Scottish rate and thresholds – activity and outcome reported in HMRC's annual Scottish income tax report.
		Personal taxation guidance available to a Scottish taxpayer on GOV.UK is commensurate to that available to a taxpayer in the rest of the UK.	<ul style="list-style-type: none"> • Reviewed annually and updated, as required, for start of tax year. • Scottish Government updated, in year, of actions taken. • Detail and outcome of activity reported in HMRC's annual Scottish income tax report.
4	Provide the Scottish Government with sufficient relevant and timely information and data for rate-setting and forecasting for Scottish income tax.	Provision of Public Use Tape income tax data for CY(-2).	<ul style="list-style-type: none"> • Annually - the delivery date will be agreed by the end of January each year (the expectation for normal delivery is by mid to late April). • Detail and outcome of activity reported in HMRC's annual Scottish income tax report.

	Requirement	HMRC Measure	Delivery and Reporting Schedule
5	Provide the Scottish Government with sufficient relevant and timely information and data to discharge its duties in respect of cash management due to any change between forecast and collected amounts of Scottish income tax.	Monthly liabilities reported by employers for Scottish taxpayers in employment (i.e. those within the PAYE system with 'S' code identifier at that point in time).	<ul style="list-style-type: none"> • Monthly provision (and from September 2017, HMRC publication) of previous month's liabilities synchronised to publication of monthly UK income tax receipts data. • Liabilities included in the Scottish income tax statistics publication following HMRC Annual Report • Detail of activity reported in HMRC's annual Scottish income tax report.
		Scottish Government and HMRC will also: <ul style="list-style-type: none"> • explore further how outturn Scottish income tax receipts may vary from both forecast and reported in year liabilities; and, • periodically review data provided to Scottish Government to check whether monthly employer RTI data on Scottish taxpayer liabilities remains the best way to meet Scottish Government real time data needs. 	<ul style="list-style-type: none"> • Ongoing engagement between Scottish Government and HMRC through the analytical working group. • Detail of activity and outcomes reporting in HMRC's annual Scottish income tax report.
6	Provide the Scottish Government with sufficient relevant and timely information for assurance purposes and to budget effectively for any net additional administrative costs to be recharged to the Scottish Government.	Rechargeable costs framework kept up to date to cover all identified and anticipated administrative costs	<ul style="list-style-type: none"> • Ongoing engagement between SG and HMRC. • Detail of activity and outcomes reporting in HMRC's annual Scottish income tax report.

	Requirement	HMRC Measure	Delivery and Reporting Schedule
7	Apply risk based compliance activity to the collection of Scottish income tax in the same way as is applied to the collection of income tax from taxpayers in the rest of the UK (this is additional to specific Scottish taxpayer population activity listed under requirement 1).	<p>HMRC's approach to enforcement and compliance will be applied across all income tax collection, including Scottish income tax.</p> <ul style="list-style-type: none"> • PROMOTE – designing our processes and taxpayer products to stop careless errors. Helping customers get things right first time e.g. pre-population of forms with address data • PREVENT – exploiting our digital services using our data to identify risks as they arise and giving customers the opportunity to correct their mistakes before they reach HMRC e.g. pop-up information boxes on self-assessment returns • RESPOND – intervening to address specific compliance risks through: <ul style="list-style-type: none"> i) employer level activity (real time information, submitted by employers, is monitored to ensure correct tax codes & tax tables are used – discrepancies identified are subject to further investigation). ii) agent compliance (agents represent 8m customers – HMRC therefore engages extensively with agents to impact their clients' behaviour and promote voluntary compliance). iii) enquiries into self-assessment returns iv) dedicated teams to analyse risk related to High Net Worth and Affluent taxpayers <p>The effectiveness of this work will be reported at the UK level, as the same standards are being applied to both Scottish and rUK income tax liabilities.</p>	<ul style="list-style-type: none"> • Annual compliance assessment and plan to address provided to Scottish Government by July each year. • Summary of compliance plan activity and outcomes reported in HMRC's annual Scottish income tax report published in September.

NOTES

* These measures relate solely to enquiries on Scottish taxpayer status. Numbers of Scottish income tax specific enquiries (i.e. those regarding taxpayer status) are likely to be significantly lower than general income tax enquiries (i.e. those issues that potentially affect Scottish and rUK taxpayers equally), and therefore the potential for higher volatility in the Scottish specific figures is higher than for whole of UK income tax enquiries. HMRC's quarterly UK performance reports include any contact made by Scottish taxpayers on any other issues including any contact made via i-forms. These are published on GOV.UK.

GLOSSARY OF TERMS AND ABBREVIATIONS

Digitally exempt - the vast majority of employers must send their payroll data to HMRC online. However, a small number of '*Digitally exempt*' employers have the option of sending payroll submissions to HM Revenue and Customs (HMRC) either online or on paper. Guidance on who is eligible can be found at <https://www.gov.uk/guidance/find-out-which-employers-are-exempt-from-online-payroll-reporting>

PAYE –The Pay As You Earn (PAYE) system is a method of paying income tax and national insurance contributions. Employers deduct, and pass to HMRC, tax and national insurance contributions from their employees' wages or occupational pension, before the wages or pensions are paid.

Self-Assessment - Self-assessment is a system of collecting taxes from those who do not contribute through PAYE, or who earn additional income apart from their main employment. Taxpayers self-assess their tax liability, and complete a tax return detailing the taxes due to HMRC and any reliefs that may apply to them. **'S' code** – To enable the PAYE system to operate correctly, HMRC sends employers an individual code made up of letters and numbers for every UK employee. These codes enable employers to deduct the right levels of income tax and national insurance contributions for each employee. A code prefixed by an 'S' (an S-code) tells the employer that the employee is a Scottish taxpayer so income tax should be deducted from earnings using the rates and thresholds set by the Scottish Parliament.

Scottish Address Flag Status – Whether or not an individual is a Scottish taxpayer is decided by place of residence. Where it holds a Scottish address for an individual, HMRC therefore electronically marks (Scottish Address Flag) that record as Scottish - the mark/flag being removed or added if the individual moves into or out of Scotland. If present and the individual is in employment, the mark/flag enables HMRC IT systems to automatically issue a PAYE 'S Code' letting the employer know that the employee is a Scottish taxpayer, so income tax should be deducted from earnings using the rates and thresholds set by the Scottish Parliament.

SPI - The Survey of Personal Incomes (SPI, <https://www.gov.uk/government/collections/personal-incomes-statistics>) is a set of income tax data, produced annually by HMRC from the information it holds on a large sample group of UK individuals. The SPI is used assess the potential impact of proposed changes to tax rates and

thresholds in order to inform Ministerial decisions on tax policy. It is also used to provide summary information for the National Accounts that are prepared by the Office for National Statistics, in addition to provide information to Members of Parliament, other Government Departments, companies, organisations and individuals.

Public Use Tape income tax data for CY(-2) - The Public Use Tape is an anonymised dataset based on the SPI, amended to ensure taxpayer confidentiality. HMRC makes the Public Use Tape publically available to enable statistical research by organisations and individuals outside of HMRC. The SPI and therefore the Public Use Tape, are always drawn from the latest year for which HMRC has a full set of income tax data – in any given year this will always be the data from two tax years earlier (CY-2). This is due to the timeframe in which HMRC receives information from taxpayers (e.g. self-employed individuals do not have to make return of their income for a year until January 31st of the following year).

RTI - Real Time Information (RTI) is the system through which employers send employee payroll information to HMRC at the same time as the employee is paid, usually monthly, rather than at the end of the tax year.

ANNEX B: Operation of Scottish Income Tax - Rechargeable Costs Framework

Background and Purpose

1. HMRC is responsible for the operation of Scottish Income Tax as part of the UK Income Tax system. Under the Fiscal Framework Agreement between the UK and Scottish Government, the Scottish Government will reimburse the HMRC for net additional costs wholly and necessarily incurred as a result of the implementation and administration of the Income Tax powers.¹
2. Under HMRC's Tax Devolution Programme and Projects, HMRC has made changes to its systems and processes to ensure the effective and efficient collection and management of Scottish Income Tax. Associated with these changes are new and ongoing administrative costs to operate Scottish income tax processes and systems.
3. 3. The Memorandum of Understanding between HMRC and the Scottish Government sets out, at paras 4.1 to 4.3, which costs should be borne by HMRC and which costs should be borne by the Scottish Government². This framework sets out the principles that HMRC will apply when identifying the administrative costs associated with the operation of Scottish Income Tax that will be recharged to the Scottish Government. HMRC will charge its services at full business cost, in line with HM Treasury policy (managing public money). Where costs are incurred under contract by third parties, including HMRC's IT supplier, these will be charged at-cost.³
4. It is a living document which will be kept up to date to reflect all known and anticipated administrative costs and should be read in conjunction with the Memorandum of Understanding and Service Level Agreement between HMRC and the Scottish Government.

Principle of Net Additional Costs

5. HMRC will use the same process for identifying the net additional costs of operating the Scottish income tax powers devolved in the Scotland Act 2016 as applied to identifying the marginal costs for the Scottish Rate of Income Tax. HMRC will, therefore, look to recharge the costs of elements

¹ For the purpose of this document 'Scottish Income Tax' includes the Scottish rate of income tax power devolved to the Scottish Parliament in the Scotland Act 2012 which operated in the tax year 2016/17, and the further Scottish income tax powers devolved in the Scotland Act 2016 which have been in operation from 2017/18. The Fiscal Framework Agreement can be found at: <https://www.gov.uk/government/publications/the-agreement-between-the-scottish-government-and-the-united-kingdom-government-on-the-scottish-governments-fiscal-framework>

² The Memorandum of Understanding can be found at: <https://www.gov.scot/publications/scottish-income-tax-powers-memorandum-of-understanding/>

³ For more information see Managing Public Money, <https://www.gov.uk/government/publications/managing-public-money>

that relate specifically to the administration of the Scottish income tax powers and not every cost related to the administration of the Income Tax system for Scottish taxpayers. In applying this principle, the rechargeable costs are, therefore, not replacing another cost relating to that taxpayer. This means these are additional costs and there is no saving to HMRC to net against.

Examples of the net additional cost principle

- Customer contact: HMRC get a wide range of calls from Scottish taxpayers, however, the vast majority of these would not be recharged to the Scottish Government. HMRC will recharge for calls from someone asking about their Scottish taxpayer status, but not the Scottish taxpayer customer who is calling to change their name.
- Customer outputs: HMRC issue P2 coding notices throughout each year to Scottish taxpayers. However, HMRC will only recharge the Scottish Government for the print and post costs where the P2 notice has been issued a result of the customer's change in status to or from a Scottish taxpayer, or as a consequence of an additional Scottish specific coding exercise. Therefore, the issue of annual codes or daily codes (other than because of the change of status) to Scottish taxpayers would not be recharged, as this is part of HMRC usual operating routines to support the tax system across the UK.

Recharging net additional costs

6. HMRC will identify all products and work carried out to administer Scottish Income Tax and determine whether they meet the net additional costs principle prior to recharging any associated costs to the Scottish Government. Change Control Boards (CCBs) will be held to approve products and work for which the cost exceeds £50k. At these CCBs, HMRC will set out the rationale for the costs, and the Scottish Government will have the opportunity to challenge HMRC on the proposed expenditure.
7. HMRC will collate and be able to provide the relevant supporting data to assure the accuracy of the charges being levied and, where appropriate, set out how these costs relate to the requirements in the SLA. The Scottish Government has the right to request and query the supporting data. Monthly meetings will take place to review the costs of the previous month and compare them to the forecast, and the SIT Board will approve the quarterly finance reports before an invoice is raised for the administration costs.
8. HMRC will provide a forecast of the annual administrative costs to the Scottish Government at the end of Q3, for the following financial year to assist the Scottish Government with their budget-setting processes. This will be an indication only as it will not include any bespoke requests, subsequent tasks identified or cessation of existing tasks during the course of the following year. Changes that will affect future years will be reflected in the next annual forecast.

9. Throughout any one financial year there will be routine activities which happen once, as well as activity which will carry on throughout the year. In addition to this there may be requests from the Scottish Government which result in additional, bespoke activity
10. Operational Business Areas tasks can result in peaks of work or a small additional resource on an ongoing basis. HMRC will assess the number of annualised FTE, (or part of an FTE) that is required to perform these tasks and the most cost effective way HMRC resource can be allocated– e.g. HMRC can ‘flex’ staff in to deal with specific peaks of work or identify part of an existing FTE resource for a few hours per week across the full year. All HMRC staff resource working on Scottish income tax tasks that have been identified as attracting net additional costs, however, will be required to record the time taken on these tasks and it is this that will be used to calculate the cost recharged to the Scottish Government. This is in line with the charging mechanism for staffing resource that HMRC has in place with other government departments.
11. Some net additional costs will be governed by existing commercial contracts that HMRC has with external IT suppliers, e.g. IT Service Lines, print & post costs, IT change requests. HMRC, however, are committed to ensuring value for money and price competitiveness by awarding short term contracts and putting out to tender as and when current contracts come to a close. HMRC will provide the Scottish Government with documentation to support these costs while protecting the commercial confidentiality of any third party e.g. a redacted copy of the IT Supplier documentation.

Instances where net additional cost may not be recharged

12. HMRC will recharge the Scottish Government for net additional costs that it can identify and validate in line with the terms of the SLA. However, HMRC will take a pragmatic approach to collecting data required to identify rechargeable costs to ensure that any charging mechanism is in itself not too costly to maintain.
13. There may also be instances where HMRC can identify costs but due to the low level of volumes it will be more onerous and costly to collect the evidence. HMRC would not be seeking recharge in these circumstances as it would fall below a de minimis level

Example of where a net additional cost may not be recharged

- Customer contact: HMRC collect information on call types via tagging within the automated telephony system (an interactive voice recognition system that incoming calls are channelled through based on what the caller states their query is concerning). In this way, direct queries relating to status can easily be uniquely identified and attract a cost to the Scottish Government. However, some calls relating to Scottish Income Tax status will come through under a different tag or as part of a wider call e.g. self-assessment.

For these types of calls, the telephony system would not identify them as a Scottish Income Tax call, nor would it be possible to manually identify the amount of time incurred on the element of the call relating to Scottish income tax. Therefore, HMRC would not be seeking to recharge in these cases.

Cost drivers and charging mechanisms

14. Below is a table of identified categories of work associated with costs for administering Scottish income tax and the agreed types of charging mechanisms which will be used to validate and calculate the costs. The range of mechanisms reflects the diversity of the tasks, including HMRC staff resource recording time on task, as well as bespoke IT Change Requests being raised and impacted by HMRC IT Suppliers. A more detailed list will be maintained which identifies each administrative task undertaken by HMRC, including an agreed assessment of which charging mechanism will be applied.
15. Both the types of charging mechanisms and the list of individual tasks being charged against will be subject to change where new tasks are identified or a change in the charging mechanism emerges.
16. HMRC and the Scottish Government will work together to ensure that the table below (and the separate associated detailed list of tasks) is kept up to date and agreed.

Cost Category	Additional cost driver	HMRC Validation and Evidence of costs incurred
Customer Contact	Telephone Contact	<p>HMRC Resource - Call time average</p> <ul style="list-style-type: none"> • HMRC's interactive telephony service captures number of calls with tagged words (e.g. Scottish taxpayer status). • The number of calls is multiplied by the average call time to provide the overall amount of time used. • Calculated time will be multiplied by full business costs and charged on that basis.
	SRIT correspondence, including Complaint handling	<p>HMRC Resource Time Recording</p> <ul style="list-style-type: none"> • HMRC record the number of contacts/complaints received concerning Scottish taxpayer status using either an IT Work Management Item, if created, or a manual record. • Staff time taken to deal with each item will be recorded and notified to the finance team. • C- Charging will be based on the full business costs and time taken.
	Compliance case handling	<p>HMRC Resource Time Recording</p> <ul style="list-style-type: none"> • HMRC record the number and type of compliance cases concerning Scottish income tax using either an IT Work Management Item, if created, or a manual record. • The number of cases of each type will be multiplied by its average case handling time to provide the overall amount of time used. • Charging will be based on the full business costs and time taken.
Maintenance of Scottish Income Tax (systems and processes)	Annual non-IT supplier activities	<p>HMRC Resource Time Recording</p> <ul style="list-style-type: none"> • Annual Maintenance will cover a variety of activities designed to maintain the integrity of the Income Tax system. • These costs may cover activities such as updating specific guidance, postcode maintenance, changes to tax tables, data analysis and compliance work. • Staff time taken will be recorded and provided to Finance Team. • Charging will be based on the full business costs and time taken. Charges will only be raised for those activities relating solely to Scottish income tax with description of output/outcome provided.

Cost Category	Additional cost driver	HMRC Validation and Evidence of costs incurred
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Maintenance of Scottish Income Tax (systems and processes) (ctd.)	IT supplier impacts - Service lines	<p>IT Supplier Contractor Invoices</p> <ul style="list-style-type: none"> • HMRC challenge all IT supplier costs to ensure they are in line with agreed contracts. • SO2 Service lines - Costs relating to Business Applications, Support and Maintenance • Initial 5 year estimate provided during Final Supplier Proposals discussions. • Identification of specific Scottish Income Tax lines (currently 11) • HMRC will receive the actual costs incurred from the IT Supplier against these lines and recharge these costs.
	IT supplier impacts - Change requests	<p>IT Supplier Contracts Invoices</p> <ul style="list-style-type: none"> • HMRC challenge all IT supplier costs to ensure they are in line with agreed contracts. • Any annual maintenance activity or bespoke requests that require an IT changes will go through the Change Request process. • An IT impact will be raised, and the formal impact information and estimate costs will be shared with the Scottish Government to reach agreement on whether to proceed with the change. • HMRC will receive invoices on actual costs incurred from the IT Supplier against the Change Request deliverables and recharge these costs.
HMRC Scottish taxpayer outputs	P2 and P9 coding notices	<p>Print and Post costs</p> <ul style="list-style-type: none"> • HMRC will record numbers of coding notices generated as the result of a change of Scottish taxpayer status. • Detail of the actual print and post costs relating to these numbers will be provided by the PAYE process team to the Finance team. • Charging will be based on these actual costs in line with existing HMRC contract for these services/ HMRC will receive invoices on actual costs incurred from the third party provider and the Scottish Government will be recharged.
Other administrative costs not included in the full business costs	Other administrative costs, such as, travel and subsistence and training	<p>HMRC Administrative Costs not included in full business costs</p> <ul style="list-style-type: none"> • HMRC will record relevant T & S expenses and recharge the costs to the Scottish Government. • HMRC will record relevant training costs and will recharge to the Scottish Government.
Cost Category	Additional cost driver	HMRC Validation and Evidence of costs incurred

Scottish Government requests	Scottish Government request	<p>By agreement</p> <ul style="list-style-type: none"> • HMRC will impact the costs of any request by the Scottish Government for HMRC to undertake additional, bespoke activity (e.g. additional compliance work allowed for under the MoU) • HMRC will undertake an impact which will cover staff resource and/or IT costs, as appropriate. • The impact information and estimated costs will be shared with the Scottish Government to reach agreement on whether to proceed with the activity. • An appropriate charging mechanism will be agreed for the activity. • A workplan will be produced summarising the agreed activity and estimated costs, which will be presented to the SIT Board ahead of the start of the tax year for their approval.
Relationship Management	HMRC Customer Relations Manager (CRM) work on Scottish Income Tax, and with the Scottish Government	<p>HMRC Resource Time Recording</p> <ul style="list-style-type: none"> • This is a new role created to support the ongoing relationship between the Scottish Government and HMRC. • Staff time taken will be recorded and provided to Finance Team, alongside a quarterly summary of activities undertaken. • Charging will be based on the full business costs and time taken.
Non Chargeable time	Unable to quantify	<ul style="list-style-type: none"> • HMRC will not charge for Scottish income tax activities which cannot be separately quantified e.g. because they are part of a much broader query/activity.
	Below a de minimis	<ul style="list-style-type: none"> • HMRC may not charge for Scottish income tax activities which although quantifiable, the process to quantification will cost more to determine than the actual cost incurred.