

**FOI request 17/02776 – [REDACTED] – material to release**

All SG correspondence with or about the NAO report in November 2017. All SG correspondence with or about the NAO's publication of 'The administration of the Scottish rate of Income Tax 2016-17' in November 2017.

Correspondence with the NAO

**From:** [REDACTED]  
**Sent:** 14 November 2017 08:25  
**To:** [REDACTED]  
**Subject:** RE: Number of Scottish taxpayers affected by different S and rUK threshold in 2017-18

Thanks [REDACTED]

I think that sounds the most appropriate route to go.

It has however been picked up by 4 front pages in Scotland this morning <http://www.bbc.co.uk/news/uk-scotland-41980229> but can't be helped now.

Happy to have a call at any point this morning.

Thanks

[REDACTED]

**From:** [REDACTED]  
**Sent:** 14 November 2017 08:07  
**To:** [REDACTED]  
**Subject:** RE: Number of Scottish taxpayers affected by different S and rUK threshold in 2017-18

Hi [REDACTED]

We're trying to agree a replacement number with HMRC so that we can (re)-publish soon.

We decided to hold it late last night and weren't sure if it could be recalled or would go out automatically at midnight, otherwise I would have let you know what was happening.

[REDACTED]

Sent from my Windows Phone

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**From:** [REDACTED]  
**Sent:** 14/11/2017 07:06  
**To:** [REDACTED]  
**Subject:** RE: Number of Scottish taxpayers affected by different S and rUK threshold in 2017-18

Morning [REDACTED]

We've had reports from journalists that you withdrew your report from publication last night, and I can't find it on your website. Would you be able to let me know the status of your report please?

Thanks

[REDACTED]

**From:** [REDACTED]

**Sent:** 13 November 2017 21:50

**To:** [REDACTED]

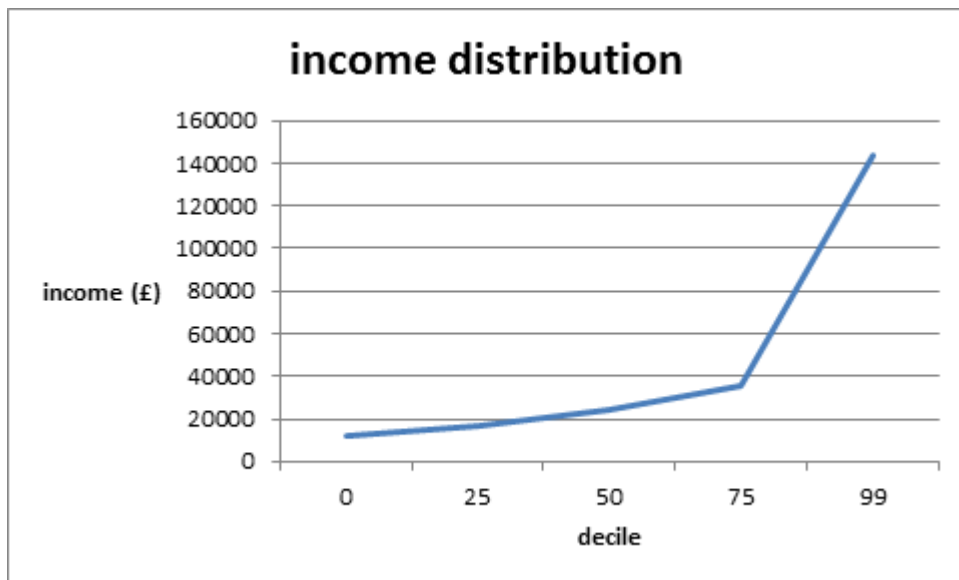
**Subject:** RE: Number of Scottish taxpayers affected by different S and rUK threshold in 2017-18

No problem.

Might also be noting from the SG discussion paper box A and the income distribution of taxpayers

<http://www.gov.scot/Resource/0052/00527052.pdf>

We haven't published the full income distribution, but it broadly goes as below. Whilst this is updated for 2018/19 it is a relatively simple extrapolation from outturn SPI data for 2014/15. The issue being that a straight line between income band analysis of the HMRC data probably could lead to a skewed result in likely overestimating the number of taxpayers in higher bands (due to a lower concentration of taxpayers as you move up the income distribution).



We will just see what the press make of it.

Thanks

[REDACTED]

**From:** [REDACTED]  
**Sent:** 13 November 2017 18:58  
**To:** [REDACTED]  
**Subject:** RE: Number of Scottish taxpayers affected by different S and rUK threshold in 2017-18

Thanks [REDACTED]

To be continued, I expect?

[REDACTED]

**From:** [REDACTED]  
**Sent:** 13 November 2017 17:56  
**To:** [REDACTED]  
**Subject:** RE: Number of Scottish taxpayers affected by different S and rUK threshold in 2017-18

Thanks for this [REDACTED]

I've not been able to source the SG 368,000 figure publically yet, however our discussion paper does estimate 346,000 HR taxpayers and 20,000 AR taxpayers in 2018/19.

We would also look at HMRC's data estimating that there were 365,000 higher rate taxpayers and 21,000 additional rate taxpayers in Scotland in 2017/18.  
<https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age-by-country>

We're proposing lines that point to our and HMRC estimates, but recognise there will be a challenge as to why they differ substantially from yours so I suspect we will all get more questions about that, but we shall see.

Thanks

[REDACTED]

**From:** [REDACTED]  
**Sent:** 13 November 2017 16:48  
**To:** [REDACTED]  
**Subject:** FW: Number of Scottish taxpayers affected by different S and rUK threshold in 2017-18

[attachment exempt]

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Please visit our website at [www.nao.org.uk](http://www.nao.org.uk)

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This email has been received from an external party and has been swept for the presence of computer viruses.  
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**From:** [REDACTED]  
**Sent:** 14 November 2017 10:15  
**To:** [REDACTED]  
**Subject:** RE: SRIT

Thanks for this [REDACTED] much appreciated.

Hopefully HMRC will come back to you quickly.

[REDACTED]

**From:** [REDACTED]  
**Sent:** 14 November 2017 10:08  
**To:** [REDACTED]  
**Subject:** RE: SRIT

[REDACTED]

Thanks very much – we've also contacted HMRC and are hoping to receive similar evidence on their own statistics from earlier this year.

On the press, hopefully the following is a useful line for you to take:

- In discussion with the NAO following the release of the report under embargo, we highlighted that there were other estimates available about the number of higher rate taxpayers that had not previously been discussed;
- Based on these initial conversations, the NAO cancelled publication of the report so that its report reflects the most accurate estimate available given the importance of the number
- The NAO plan to republish the report once it has carried out work to determine which is the best estimate to use in light of other data reported in the report. This may change the numbers disclosed in the embargoed report that 507,000 taxpayers will pay more income

tax and the estimate that 152,000 taxpayers would pay the basic rate of income tax were they not Scottish taxpayers.

- For more details, people can contact the NAO press office.

Regards,

[REDACTED]

**From:** [REDACTED]  
**Sent:** 14 November 2017 09:37  
**To:** [REDACTED]  
**Subject:** RE: SRIT

Hi [REDACTED]

Thanks for the discussion earlier.

I can confirm that the estimates for Scottish taxpayers in 2018/19 made in our income tax discussion paper are based on an assumed inflationary increase in the HRT from 2017/18 to 2018/19 – para 5.1

<http://www.gov.scot/Resource/0052/00527052.pdf> . Although to note that no policy decisions have been made for 2018/19, but we can at least say the estimates are made on the same basis as those for 2017/18.

I have not been able to source a public statement of our estimate of Scottish HR and AR taxpayers in 2017/18, it only appears in internal documents. The closest we get to it is restating HMRC's estimates of Scottish income taxpayers in 2016/17 in our methodology paper <http://www.gov.scot/Publications/2016/12/6669/downloads#res-1> box 3.

As discussed it would be great if you could share your press line on the non-publication of the report as it would be very useful for us to point to.

Happy to discuss

Thanks

[REDACTED]

**From:** [REDACTED]  
**Sent:** 14 November 2017 07:37  
**To:** [REDACTED]  
**Subject:** SRIT

Hi [REDACTED]

Please could you give me a call when you get a chance this morning? It's to talk through the issues you were discussing yesterday on the discussion paper.

Regards,

[REDACTED]  
[REDACTED]  
National Audit Office, 4th floor, St Nicholas Building, St Nicholas Street, Newcastle upon Tyne, Tyne & Wear, NE1 1RF

Telephone: [REDACTED] | Web: <http://www.nao.org.uk/>

Helping the nation spend wisely

## Internal Scottish Government correspondence

Here is the news release -

An estimated 507,000 Scottish taxpayers will pay more tax as a result of changes made by the Scottish Parliament to tax rules in 2017-18, according to a report today by the National Audit Office. HMRC, however, does not expect that the difference between Scotland and the rest of the UK will lead to avoidance or evasion in 2017-18.

In 2017-18, income tax rules in Scotland will differ from the rest of the UK for the first time. HM Revenue & Customs will continue to administer and collect Scottish income tax as part of the UK tax system. Maintaining accurate address records remains the biggest risk facing HMRC in ensuring that Scottish income tax is assessed and collected properly.

The Scottish Government pays the administration costs incurred by HMRC. In 2016-17 these were £6.3 million. HMRC expects to spend £26.8 million in total by 2019-20 on implementing the tax. Most of the spending (around two-thirds) has been on IT costs, such as the cost of changing systems to account for the Scottish rate.

HMRC has identified approximately 2.6 million Scottish taxpayers, including 507,000 that will pay a different rate of tax than the rest of the UK in 2017-18. For the 2016-17 tax year, the Scottish Parliament decided to effectively match the income tax rates in Scotland to those in the rest of the UK. HMRC estimates it will collect £4.6 billion attributable to the Scottish rate of income tax for 2016-17. The actual amount collected will not be known until July 2018. While the estimate is fairly stated, it would benefit from the greater use of taxpayer data from its own systems.

HMRC has now rectified issues that led to it not identifying 420,000 people as potential Scottish taxpayers in 2015. HMRC needs to ensure people paying into pensions schemes receive the right amount of tax relief. HMRC has created a single online route for pension providers to submit annual returns which will improve the consistency of data. However this will only become mandatory from April 2019: until this time HMRC would need to manually adjust tax codes to provide the correct tax relief, if the Scottish Parliament were to set a different basic rate.

The biggest challenge facing HMRC is maintaining accurate address records of the 2.6 million Scottish taxpayers. Neither taxpayers nor employers are legally required to tell HMRC of changes of address. Around 80,000 people in the UK move into or out of Scotland each year. HMRC has carried out an online marketing campaign in Spring 2017 promoting the message that people should inform it if they move house. It also used social media to

promote this message. However, it does not know how many people it has reached or what impact it has had on public readiness to update HMRC about changes of address.

The actual amount of Scottish income tax collected in 2016-17 will not affect the Scottish Government’s budget. But from 2020-21 the Scottish Government’s budget will be adjusted to reflect the actual tax receipts collected from Scottish taxpayers from 2017-18. The Scottish Government will receive £11.9 billion in 2017-18 based on its forecast of Scottish income tax revenue. This includes £108 million as a result of changes to income tax rules where Scottish taxpayers start paying the higher rate of tax (40%) when they earn £43,000 – as opposed to £45,000 in the rest of the UK. Some areas of the funding cycle are yet to be agreed between the Scottish and UK governments, including how estimates will be reconciled to forecasts, exactly when this will happen, and the process for resolving any disputes. With actual Scottish taxpayer data now becoming available, HMRC has the opportunity to set out how this can be used to enhance its estimates of how much tax is attributable to Scottish taxpayers each year

**Amyas Morse, head of the National Audit Office, said today:**

**“HMRC has made good progress in assuring itself of the accuracy of the Scottish taxpayer population, but could do more with its own data to improve the accuracy of income tax receipt estimates. People are at risk of paying the incorrect amount of tax if they do not provide HMRC with accurate address data, and HMRC do not know whether its interventions to raise awareness of this has been successful”**

## Key facts

<b>2.6m</b>	estimated number of Scottish income taxpayers in financial year 2016-17	<b>£4.6bn</b>	estimated amount of income tax paid under the Scottish rate of income tax in 2016-17	<b>0%</b>	difference in rates between Scottish and UK income tax in 2016-17
<b>£6.3 million</b>	Administrative cost to HM Revenue & Customs of implementing the Scottish rate of income tax and related projects in 2016-17				
<b>507,000</b>	Estimated number of Scottish taxpayers affected by the lower threshold for the 40% higher rate income tax band in 2017-18				
<b>£108 million</b>	Estimated amount of extra tax that Scottish taxpayers will pay in 2017-18				

## Notes for Editors

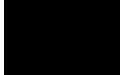
1. The Scotland Act 2012 introduced powers for the Scottish Parliament to apply a Scottish Rate of Income Tax (SRIT) to the non-savings, non-dividend income of Scottish taxpayers from 6 April 2016. Section 25 of the Act defines a Scottish taxpayer as someone whose main place of residence in a given tax year is Scotland, or who spends most of that tax year living in Scotland.
2. As a result of the Scotland Act 2016 from 2017-18, the Scottish Parliament has the power to set the rates and band thresholds (excluding the personal allowance) that apply to all non-savings and non-dividend income tax paid by Scottish taxpayers. HM Revenue & Customs continues to administer and collect Scottish income tax as part of the UK tax system. It pays revenues related to its Scottish tax powers into the UK Consolidated Fund in the same way as it does for all other tax receipts. These

revenues will subsequently be transferred to the Scottish Government and the Scottish Government's resource block grant will be reduced accordingly reflecting its revenue raising powers.

3. The Auditor General for Scotland has provided additional assurance on the NAO's review. This can be obtained by contacting [media@audit-scotland.gov.uk](mailto:media@audit-scotland.gov.uk)
  4. Press notices and reports are available from the date of publication on the [NAO website](#). Hard copies can be obtained by using the relevant links on our website.
  5. The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 785 people. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services. Our work led to audited savings of £734 million in 2016.

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Hi all

As discussed with  we are being asked to comment on a National Audit Office tax report. Email chain below refers. I am trying to get a copy of it as we speak and will forward on we have it.

Thanks

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I have now had confirmation from NAO that they have pulled the report and are seeking to revisit this estimate with HMRC (whose figure whilst not exactly the same as ours, is much closer 366,000 SG plays 386,000 HMRC) and republish. Unfortunately this happened after the press had hit their print deadlines.

They are providing me with their press line explaining the withdrawal of the report, and they are looking to correct the issue quickly, but I would be surprised if this happens before the end of the week if not maybe longer.

I'll pass on the press line as soon as I get it, but my understanding is that they refer to the estimate and that they need to revisit it in light of new information regarding its formulation.

To defend our estimate I would suggest the following

- The Scottish Government uses a sophisticated model to forecast the Scottish tax base, i.e. the total value of all income in Scotland which is subject to income tax, and hence revenue. This approach has been deemed reasonable by the Scottish Fiscal Commission.
- This model draws on more than 40,000 anonymised Scottish tax records for 2014-15, the same year which forms the basis of the NAO's forecast. This data provides a detailed insight into the



income distribution of all Scottish taxpayers. It shows that the income distribution in Scotland is skewed as the number of taxpayers gets increasingly smaller as income rises. [The NAO's illustrative estimation does not take this into account and is thus likely to overestimate the number of people affected by the policy.]

- The Scottish Government's model also projects forward the income distribution to the financial year 2018-19, using a range of assumptions about the future growth in Scottish incomes and the number of taxpayers. In addition, it restricts its analysis to income from employment, pensions and property. [The NAO approach considers all income, including dividends and savings which are not subject to Scottish income tax, and does not project this forward.]

Thanks

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I've chased up with NAO this morning, but haven't had a response. I did continue a discussion with them last night suggesting further reasons why their estimate was on a loose basis, maybe they are reevaluating it. I can confirm that the report is not on their website yet.

Whatever the case is it has been unfortunately too late for the press and the half a million figures makes it onto the front pages of the times, herald and express.

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To see an updated sub in light of the final NAO report and the changed affected Scottish taxpayer estimate.

[Extract of submission – remainder of submission is out of scope]

1. The NAO have a statutory requirement to report annually to the Scottish Parliament on HMRC's implementation and operation of Scottish income tax. This year's report will be published on Tuesday, and reports the following key points;-

- An estimated 507,000 Scottish taxpayers will pay more income tax as a result of Scottish Government income tax policy – but HMRC do not believe that this is sufficient a difference to create an increased avoidance risk. This 507,000 estimate is significantly higher than the SG estimate of 368,000 (and HMRC estimate of 368,000), and separate correspondence deals with this issue.
- The timing of the Scottish budget creates administrative challenges for HMRC.
- Notes that the reconciliation process for tax forecasts, nor dispute mechanism, has not been finalised yet.
- The biggest challenge to HMRC is in maintaining an accurate address database for Scottish taxpayers, especially as neither taxpayers nor employers are legally required to tell HMRC of changes to address, and that HMRC are unaware of how successful they have been in their communications regarding this issue.

- HMRC still has work to do to ensure that people paying into pension schemes receive the right amount of tax relief at source, rather than later in the tax year.

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As mentioned, to see a sub on the NAO Scottish income tax report which will be published tomorrow.

### NAO report

2. The NAO have a statutory requirement to report annually to the Scottish Parliament on HMRC's implementation and operation of Scottish income tax. This year's report will be published on Tuesday, and reports the following key points;-

- An estimated 350,000 Scottish taxpayers will pay more income tax as a result of Scottish Government income tax policy – but HMRC do not believe that this is sufficient a difference to create an increased avoidance risk.
- The timing of the Scottish budget creates administrative challenges for HMRC.
- Notes that the reconciliation process for tax forecasts, nor dispute mechanism, has not been finalised yet.
- The biggest challenge to HMRC is in maintaining an accurate address database for Scottish taxpayers, especially as neither taxpayers nor employers are legally required to tell HMRC of changes to address, and that HMRC are unaware of how successful they have been in their communications regarding this issue.
- HMRC still has work to do to ensure that people paying into pension schemes receive the right amount of tax relief at source, rather than later in the tax year.