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Mel Stride MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

25 January 2018

Dear Mel,

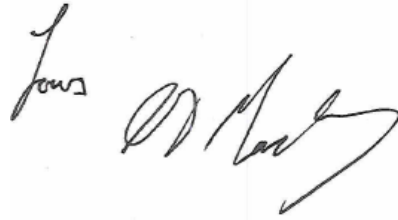
In my draft budget for 2018/19 I proposed a new income tax policy for Scotland. This proposal seeks to raise additional revenue, whilst delivering greater fairness. It does so by using the Scotland Act 2016 income tax powers to introduce two new tax bands, as well as changing the rates of two existing bands.

The partial devolution of income tax powers and separation of responsibility for collection of Scottish income tax creates some areas where the Scottish Parliament, in exercising its powers, creates some potential consequences for eligibility for reliefs and associated potential administrative burdens for taxpayers. In particular, the draft budget income tax policy proposal would, as current legislation stands, reduce the eligibility of Scottish taxpayers for marriage allowance; and administrative questions have been raised over the application of pensions relief at source and Gift Aid.

Our respective officials have engaged constructively on these matters in anticipation of changes in income tax policy and noted potential consequences in the production of the Scottish Government's discussion paper "The Role of Income Tax in Scotland". There has also been good engagement with stakeholders on these issues both before and after publication of the draft budget.

Despite this good work, there is understandably still some external uncertainty on administrative issues. I therefore welcome your quick clarification of the UK Government's position on marriage tax allowance, which will ensure that Scottish taxpayers in the starter and intermediate rates of tax will maintain the same eligibility to the relief as those taxpayers in the rest of the UK. I would also welcome your commitment to making similar progress with the issue of applying pensions relief for these same taxpayers. In addition to pensions relief, I recognise that there is also potential work to be done on applying Gift Aid, as well as property income relief.

We all have the same aim of making devolution work, and I again welcome the engagement between our officials in achieving this. Once the changes have been made to ensure that our income tax policy proposal for 2018-19 can be delivered in an effective manner, I would value further engagement between our officials to ensure that we can be prepared for any future income tax policy changes should they be needed.

A handwritten signature in black ink, appearing to read 'Derek Mackay', written over a light blue grid background.

DEREK MACKAY