

Minister for Public Finance and Digital Economy

## SCOTTISH INCOME TAX – [redacted – out of scope] AND PENSIONS RELIEF

### Purpose

1. To provide information on how [redacted – out of scope] and Pensions Relief At Source (RAS), both UK income tax reliefs, have been applied to Scottish taxpayers from 2018/19.

### Priority

2. Urgent.

### Summary

3. Tax allowances and reliefs that are applied to income tax are a reserved matter. While the Scottish Parliament has the power to set income tax rates and bands for Scottish tax payers, which apply to non-savings non-dividend income, the UK Government retains the power to decide how tax allowances and tax reliefs are applied to Scottish income tax payers.
4. For Pensions Relief At Source and [redacted – out of scope] the UK Government agreed that these will be available to Scottish tax payers at Scottish income tax marginal rates. Further details on these reliefs are set out at Annex A.

### Impact for Scottish tax payers

5. In financial terms no Scottish taxpayer will be worse off with regards to the amount of allowances and reliefs they would have received had there been no changes to Scottish income tax rates and bands policy. There is a potential increased administrative burden for intermediate rate tax payers, but we are continuing to work with HMRC to minimise this.

#### Summary of Impact for Scottish tax payers

	<b>Starter (19%)</b>	<b>Basic (20%)</b>	<b>Intermediate (21%)</b>	<b>Higher (41%), Additional(46%)</b>
<b>Pensions RAS (relief at 20%)</b>	Gain additional 1 percentage point of relief only if claiming through Relief at Source (so not through payroll PAYE)	No impact	Will be able to manually claim additional 1 percentage point of relief – this is the same approach as for higher and additional rate	No impact – will continue to claim additional relief separately (at 21% and 26%)

	[redacted – out of scope]	[redacted – out of scope]	[redacted – out of scope]	[redacted – out of scope]
[redacted – out of scope]	[redacted – out of scope]	[redacted – out of scope]	[redacted – out of scope]	[redacted – out of scope]

[redacted – out of scope]

**Recommendation**

6. I invite you to note the information [redacted – out of scope] and Pensions Relief At Source. Officials would be happy to discuss.

[redacted]  
Tax Division  
[redacted]  
2 August 2018

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness

Aidan Grisewood, Tax Division [redacted]
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## Background on Taxes Allowances and Reliefs

### Pensions Relief at Source (RAS)

1. Prior to the 2018/19 Scottish income tax changes RAS was given automatically to all income taxpayers at the UK basic rate of income tax (20%) through pension providers. For example, if a taxpayer wants to make a £100 contribution to their pension, they only need to pay £80. The scheme administrator reclaims £20 from HMRC and adds this to the scheme to make the total contribution £100. Higher and additional rate taxpayers claim additional relief through HMRC directly.
2. In response to the change in Scottish income tax policy the UK Government agreed that, with the introduction of the starter and intermediate rates, pension providers will continue to claim relief at the UK basic rate (20%) for all income taxpayers. Scottish taxpayers in the intermediate tax band (21%) can claim additional relief in the same way as higher and additional income tax payers.
3. For income tax payers paying at the starter rate and claiming pensions relief through a salary sacrifice scheme, pensions relief will be at the marginal rate (19%). Scottish income tax payers, at the starter rate, claiming pensions relief through Relief at Source will benefit from relief at 20% rate, as administration costs are disproportionately high to reclaim the 1% additional relief they are getting.

#### Issues for taxpayers

4. **Starting rate:** This approach will mean that those paying tax at the starter rate will benefit slightly, gaining an additional 1 percentage point of relief. If these taxpayers received RAS at a rate to match their marginal rate of tax then, if they wanted to make a contribution into their pension of £100, they would have to pay £81 rather than £80.
5. **Basic rate:** There will be no change for basic rate taxpayers.
6. **Intermediate rate:** Intermediate rate taxpayers will need to make a separate claim to receive their full relief. The approach for those paying tax at the intermediate rate is consistent with the treatment of the higher and top rates of tax, however intermediate taxpayers are likely to have previously been basic rate taxpayers and may find this additional step more burdensome since they are not familiar with the process. HMRC are considering an approach that would automatically provide the additional 1 percentage point of pensions relief, but this would not be available for 2018/19 and would come at an additional cost to the SG.
7. **Higher and Additional rate:** Scottish taxpayers in the higher and additional rate bands will continue to claim relief as before, at the Scottish rates.
8. Note: Pension contributions that are made on a “net pay” basis, deducted from salary before tax is applied, will not be affected by Scottish income tax policy and will continue to operate as it currently does for taxpayers at all rates.

[redacted – out of scope]

[redacted – out of scope]