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Kenneth Gibson MSP  
Convener  
Finance and Public Administration Committee  
The Scottish Parliament  
Edinburgh  
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Dear Kenneth,

HMRC has today published statistics on 2021-22 outturn for Scottish Income Tax, as well as the equivalent UK Government liabilities.

It shows that £13,724 million of Scottish Income Tax was raised in 2021-22. Scotland's Income Tax liabilities grew by a record £1.8 billion (14.9%) between 2020-21 and 2021-22, and the number of Scottish taxpayers grew by 130,000 (5%). However, Income Tax liabilities grew marginally faster in the rest of the UK (15.5%). The strong growth in Income Tax in both Scotland and the rest of the UK, compared to previous years, is due to a combination of factors. Nominal earnings grew strongly in 2021-22 as the economy recovered from the Covid-19 pandemic while tight labour market conditions put further upward pressure on wage growth.

### Reconciliation

Based on the figures in today's outturn publication, and as required under the Fiscal Framework, the provisional reconciliation for 2021-22 Scottish Income Tax has been calculated and agreed with the UK Government as -£390 million. This reconciliation will be applied to the 2024-25 Scottish Budget, and the relevant calculations are set out as an Annex to this letter.

Scottish Income Tax receipts in 2021-22 grew significantly faster than forecast in May 2023, meaning that the reconciliation is significantly below the latest forecast in May's Medium Term Financial Strategy (MTFS) which predicted a negative reconciliation of -£712 million.

It is important to note that this reconciliation is provisional. Due to differences in timing of the Census in Scotland compared to the rest of the UK, the population estimates for 2021 are not yet available on a consistent basis. In order to ensure consistency, HM Treasury and the Scottish Government have agreed to calculate the Block Grant Adjustment using population figures based on the ONS Mid-Year Population Estimates 2020. As such, the Block Grant Adjustments remain provisional, and will be revised once the Scottish Census 2022 results are available for the ONS to incorporate into their mid-year estimates. An additional reconciliation will then be required to account for this final population data, at a date to be determined.

Reconciliations are a regular feature of the operation of the Fiscal Framework, required to address forecast error in relation to revenues and BGAs. However, the adjustment still exceeds the £300 million of resource borrowing powers that we currently have to manage it under the current operation of the Fiscal Framework. This is also the biggest Income Tax reconciliation payment for forecast error faced to date, with original Budget forecasts created during the height of the pandemic - a time of unprecedented economic uncertainty. It is vital that increased fiscal flexibilities are considered as part of the Fiscal Framework Review, to allow us to properly respond to any Scottish-specific risks to Income Tax revenue and smooth the impact of any forecast volatility on our Budget.

### Net position

The Income Tax net position - the difference between revenue raised and the Block Grant Adjustment (BGA) - remains positive at +£85 million in 2021-22, a small deterioration compared to the previous year. This means the Scottish Budget continues to benefit from Income Tax devolution.

Tax performance is complex, and reflects a range of factors, including economic performance, regional and sectoral issues, demographics, and the composition of the tax base as well as differences in government economic and tax policy. The relatively weaker overall performance of Scottish Income Tax primarily reflects weaker earnings growth as well as distributional and sectoral factors.

Previously published analysis showed that this weaker relative performance in Scotland since Income Tax was devolved is associated with lower earnings growth in the tax rich North East of Scotland, caused by the downturn in the oil and gas industry, at the same time as strong growth in rUK earnings in London and the South East, driven by growth in the financial services sector.

Data from HMRC's Real Time Information (RTI) system for 2022-23, also published today, suggests that performance has been improving further, with growth in RTI tax receipts outperforming the rUK in that year.

A statement, jointly agreed with HM Treasury (HMT), outlining the Scottish Income Tax reconciliation process has been made available, and can be found at the link below and will also be available on the HM Treasury website. This follows the approach taken for previous outturn publications. This joint statement delivers on the Finance and Public Administration Committee's recommendation that HMT and the Scottish Government should jointly set out the Income Tax reconciliation process and shows our continued commitment to ensuring full transparency around the Fiscal Framework and specifically the reconciliation process.

<https://www.gov.scot/publications/income-tax-outturn-reconciliation-2021-2022-joint-statement-with-hm-treasury>

**TOM ARTHUR**

**ANNEX: Provisional reconciliation for 2021-22 Income Tax which will impact the 2024-25 Budget**

<b>2021-22 Income Tax</b>			
	<b>Revenues (£m)</b>	<b>BGA (£m)</b>	<b>Net Budget Position (£m)</b>
<b>Forecast at Budget 2021-22</b>	12,263	-11,788	475
<b>Outturn 2021-22</b>	13,724	-13,639	85
<b>Provisional reconciliation (Change)</b>	1,461	-1,851	<b>-390</b>