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Dear Richard,

Thank you for giving HMRC the opportunity to provide evidence to the Public Audit Committee on 11 May 2023. I am writing to provide further information on four of the points raised during the hearing.

**The specific rules that determine residence, per Craig Hoy MSP's question at Column 9 of the Official Report.**

Individuals are Scottish taxpayers if they have a 'close connection' to Scotland. This will be the case if the individual has a single place of residence which is located in Scotland. This is also the case if they have more than one place of residence, and their main place of residence is in Scotland for at least as much of the tax year as any one other part of the UK.

A main place of residence is the residence with which an individual has the greatest degree of connection. This is not necessarily the residence where an individual spends the majority of their time, although it commonly may be.

There is no exhaustive list of factors to take into consideration when trying to establish a main place of residence, however some of those which may be considered include: where an individual's children live and go to school; which is their main residence for council tax; and, at which residence the individual is registered to vote. HMRC may choose to enquire into those facts and circumstances.

An individual will not be a Scottish taxpayer if their main place of residence throughout the year is in another part of the UK, even if they spend time working in Scotland.

In some cases it is not possible to identify any place of residence or a main residence. These individuals therefore do not satisfy the test of having a 'close connection' to Scotland or any other part of the UK. Whether or not they are a Scottish taxpayer will depend on the number of days spent in Scotland compared to another part of the UK.

Separate rules apply in respect of Scottish Parliamentarians, who are all Scottish taxpayers.

HMRC publishes detailed guidance on the Scottish residency rules, which can be found at: [Scottish Taxpayer Technical Guidance - HMRC internal manual - GOV.UK \(www.gov.uk\)](http://www.gov.uk).

**Data on the number of people who live abroad but work in Scotland, per Sharon Dowey MSP's question at Column 21 of the Official Report.**

HMRC is able to identify Self-Assessment taxpayers with a UK tax liability who are non-resident for UK tax purposes, and whose HMRC registered address is in Scotland. However, we cannot identify all individuals who are resident outside of the UK but work for a Scottish business. HMRC holds address data indicating the office where payroll is run for an employer, but does not hold address data for an employee's usual place of work. As such, the employee's usual place of work may be in a different part of the UK to the office where payroll is run.

HMRC is currently developing a new longitudinal dataset tracking the residence and income of taxpayers over several years. With this dataset HMRC should be able to carry out analysis looking at the number of individuals who previously lived in Scotland, have since moved abroad, but still have PAYE income.

**The total value lost as a result of the 41,182 cases not assigned a Scottish tax code, per Willie Coffey MSP's question at Column 26 of the Official Report.**

There is no financial loss to the Scottish Government associated with the incorrect application of Scottish tax codes by employers.

HMRC identifies Scottish taxpayers and issues tax codes for employers to operate in PAYE. All tax codes for Scottish taxpayers have the 'S' prefix. The vast majority of employers operate the correct codes, however a small minority of employers apply codes without the Scottish 'S' prefix. This means that a UK code is operated for these individuals and the UK rates of tax are therefore applied.

HMRC identifies cases where an employer has not applied the Scottish code issued to them, and we have a programme of work in place to monitor the error rate and support employers to apply these correctly. This has been agreed with the Scottish Government. The regular scans we conduct show that, generally, between 1-1.5% of employments have a UK code applied by an employer when HMRC has issued a Scottish code.

This is an employer error, and only affects individuals who have been identified by HMRC as Scottish taxpayers. These taxpayers are still identified as Scottish taxpayers on HMRC's systems, regardless of the code their employer operates for them. This means they are included in the calculation of the Scottish income tax outturn, and the Scottish Government therefore does not lose any money as a result of these errors.

Although the operation of an incorrect code may mean that taxpayers pay the incorrect amount of tax in-year, the end of year reconciliation process identifies any discrepancies and issues corrections of any over- or under-payments.

The programme of work we have in place aims to maintain the error rate at a low level and minimise the impact on Scottish taxpayers.

There may be other cases where HMRC holds an incorrect UK address for a Scottish resident, and vice versa, and the wrong code is therefore issued to the employer. These are

separate from cases where employers do not apply the Scottish codes issued to them, and there is a separate programme of work to ensure HMRC holds accurate address data for Scottish taxpayers.

**A list of the private debt collection agencies that operate in Scotland, per Richard Leonard MSP's question at Column 30 of the Official Report.**

Since 2009-10 HMRC has made use of private sector Debt Collection Agencies (DCAs) in order to increase our ability to collect more debts. The use of DCAs is now an established, cost effective part of our normal debt collection operations. Adding capacity to HMRC's internal Debt Management function, it enables us to utilise our resources to focus on higher value, more complex debt.

HMRC currently uses eight DCAs, managed by a managed service supplier; TDX Ltd. These DCAs are:

- 1st Locate (trading as LCS)
- Advantis Credit Ltd
- Ardent Credit Services Ltd (trading as Debt & Revenue Services)
- Bluestone Consumer Finance Limited (trading as Bluestone Credit Management)
- BPO Collections Ltd
- CCS Collect (also known as Commercial Collection Services Ltd)
- Moorcroft Debt Recovery Ltd
- Pastdue Credit Solutions Limited

BPO Collections Ltd and Pastdue Credit Solutions Limited are both based in Scotland. However, HMRC does not segment its debt geographically, therefore all the DCAs HMRC use collect all UK debts. They work across all taxes, not just income tax.

The debt collection activity performed by DCAs on our behalf is limited to desk based, pre-enforcement actions, such as phone calls, letters, and texts. They do not make visits to customers' homes or businesses and do not take any enforcement action on the department's behalf.

I hope this response is helpful.



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