



National Audit Office

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Dear Mr Leonard

ADMINISTRATION OF SCOTTISH INCOME TAX 2021-22

Thank you for the opportunity to give evidence to your Committee on 9 February 2022, I look forward to meeting with you and other members to discuss the outcome of my 2022-23 report in due course. During the hearing, I committed to providing you with some further information, which I have set out below.

HM Revenue & Customs' (HMRC's) management of tax compliance

I referred to my recent report on *'Managing tax compliance following the pandemic'* which is available [here](#). The Committee of Public Accounts met on 26 January 2023 to scrutinise HMRC's management of tax compliance and is due to publish its own report shortly. In the meantime, a transcript of the hearing can be found [here](#), which may be of interest to the Committee.

Split between Pay As You Earn (PAYE) and Self Assessment taxpayers in Scotland

HMRC's calculation of Scottish income tax outturn for 2020-21 is based on actual tax collected from Scottish taxpayers during the year. These established taxpayer liabilities are set out in **Figure 3** of [my report](#), on page 13. For 2020-21, £6,893 million was collected through PAYE, representing 57% of established taxpayer liabilities in that year. £5,173 million (43%) was paid through Self Assessment.

HMRC's approach to calculating the estimate of Scottish income tax for 2021-22 is set out in **Figure 4** of my report, on page 17. HMRC's methodology involves using sample data to forecast the expected income tax liability for the UK as a whole. The estimated proportion related to Scottish taxpayers is based on historical data from HMRC's PAYE and Self Assessment systems, adjusted for known changes in population, earnings and tax legislation relevant to Scotland. Paragraph 1.22 of my report sets out my view on the limitations of the current methodology, one of which is the fact that the amount apportioned to Scotland does not reflect the differing proportions of each type of taxpayer between Scotland and the rest of the UK.

HMRC's estimate of 2020-21 Scottish income tax revenue was £12,035 million, meaning the actual outturn of £11,948 million was £87 million, or 0.7%, lower than it had forecast. The equivalent difference in comparing the 2019-20 estimate and outturn was £130 million, or 1.1%. Overall, I have reasonable assurance that HMRC's methodology results in a materially accurate estimate of Scottish income tax revenue and that the estimate appears to be becoming more accurate over time. This is something I keep under constant review and may choose to make recommendations to HMRC in the future where the accuracy of the estimate is found to have decreased. As discussed at the hearing, this is particularly pertinent in the context of further divergence in Scottish income tax policy and current economic volatility.

The use of debt collection agencies in Scotland

You asked for further information on HMRC's use of debt collection agencies in Scotland. My November 2021 [report](#) on *'Managing tax debt through the pandemic'* considered developments in HMRC's approach to debt management, including the use of debt collection agencies for the whole of the UK, but I do not have any data on the use of debt collection agencies in Scotland.

I understand that HMRC colleagues are due to appear before your Committee shortly and will be best placed to provide you with the information you are seeking. In scoping my 2022-23 report on the administration of Scottish income tax, I will consider any data available on the management of tax debt in Scotland and the findings I am able to report to you.

The incorrect application of 'S' codes by employers

As described in paragraph 2.21 on page 27 of my report, in March 2022, HMRC identified 41,182 Scottish taxpayer records where employers were not operating a tax code with an 'S' prefix. This represented 1.1% of cases at that time, down from 1.2% the previous March. HMRC told us that the number of employers that repeatedly use the incorrect tax code is very low and so it does not routinely track information on repeat offenders. HMRC may be able to undertake some further analysis in response to your enquiry, however I do not have any further information.

I hope you find this information helpful and that it addresses the questions posed by the Committee.

Yours sincerely

Gareth Davies
Comptroller and Auditor General