



HM Revenue
& Customs

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Richard Leonard MSP
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Public Audit Committee
Scottish Parliament
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Dear Convener,

Thank you for giving HMRC the opportunity to give evidence to the Public Audit Committee on 25 April 2024. I am writing to provide further information on the points raised by Willie Coffey MSP about employers who do not apply the Scottish 'S' codes correctly.

HMRC identifies Scottish taxpayers and issues tax codes for employers to operate PAYE for Scottish taxpayers. All tax codes for Scottish taxpayers have the 'S' prefix.

The vast majority of employers operate the correct codes. Where employers apply codes without the Scottish 'S' prefix, a UK code is operated for these individuals and the UK rates of tax are applied. Where this happens, it is an employer error, and only affects individuals who have been identified by HMRC as Scottish taxpayers.

Taxpayers affected by this issue 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 receives the right amount of money at the right time.

Although the operation of an incorrect code may mean that these taxpayers pay the incorrect amount of tax in-year, HMRC's end of year reconciliation process identifies any discrepancies and issues corrections of any over- or under-payments of tax. We have a programme of work in place to monitor the error rate and support employers to apply Scottish codes correctly. This has been agreed with the Scottish Government.

We have limited data available on which employers apply incorrect tax codes. The data we do have is the essential information that allows us to reissue the correct codes to employers and contact those employers who may need further support to make corrections. We are currently exploring options to address this gap in our data and gather more information on both the size of the employers who make these errors, and on the taxpayers impacted. This will help identify any trends and support our efforts to help employers get it right.

We are confident that the work we currently undertake is effective at maintaining the error rate at a low level. The regular scans we conduct show that between 1-1.5% of

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employments have a UK code applied by their employer, where HMRC has issued a Scottish code to the employer. This has remained stable over recent years, and is an improvement from the error rate of around 4% in the 2019-20 tax year. There will always be some employers who make mistakes in the codes they apply. This is not limited to 'S' codes as employers across the UK make similar errors in applying tax codes.

We will continue to monitor the error rate for 'S' codes and work closely with the Scottish Government to ensure our work on this issue is effective. I will write to you again in six months to update the committee on our work to gather more data on the employers who make these errors and the taxpayers affected.

Yours sincerely,

Jonathan Athow
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