



HM Revenue
& Customs

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Dear Convener,

Thank you for giving HMRC the opportunity to give evidence to the Public Audit Committee on 26 March 2025. Ahead of that, I am writing to provide the results of the 2024 third party data assurance exercise, which were not available at the time the NAO published their report on 17 January. I am also providing additional insight that the Committee has sought into the application of Scottish PAYE codes by employers.

Background to the Third-Party Address Assurance Exercise

The third-party data assurance exercise involves comparing HMRC taxpayer address records with third-party data sources. The aim of the exercise is to corroborate the residency status held by HMRC and provide assurance as to the overall accuracy of HMRC's Scottish residency data.

There are two stages to this exercise. The first stage, carried out by an external supplier, compares approximately 90 million address records held by HMRC with third party data including the electoral roll, data from Experian and Royal Mail, data from a pool of retailers and the Post Office Postcode Address File. This enables the supplier to corroborate the Scottish residence information that we hold, as well as identify any records that hold a different residency in the third-party data.

Where the exercise reveals address data that appears to be incorrect, we write to individuals to ask them to update their address if necessary. This includes writing to individuals where records were matched to an UK address but we held a Scottish address (4,287) and individuals where we held a UK address but the third-party data held a Scottish address (2,730).

During the second stage, undertaken within HMRC, we analyse all the Scottish records that could not be matched to any address in the initial comparison. We remove duplicate, deceased, under 18, and overseas records and use further internal data sources to try to corroborate each unmatched address.

Results of the 2024 Exercise

Information is available in large print, audio and Braille formats.
Text Relay service number – 18001



Overall, the results give us confidence that our address information is of good quality and therefore we are able to administer Scottish Income Tax effectively. Let me take you through the various stages of the analysis and our overall conclusion.

The first stage was carried out in August 2024. It found that, of 5.5 million Scottish address records compared, 71.7% were successfully matched to a Scottish address. This means our supplier was able to corroborate that these individuals are resident in Scotland. Fewer than 1% of Scottish address records were identified as having a different residency in the third-party data.

The second stage analysed the 28.2% of Scottish records unmatched in the initial comparison. After duplicate, deceased, under 18, and overseas records were removed we assessed that the residency status was correct in 94.9% of cases. When only considering cases where a match was made, 99.6% of cases were matched as Scottish.

It is important to recognise these figures relate to records rather than individuals, which could be historic accounts which are no longer active or relate to individuals who have since been allocated a National Insurance number. We are confident the proportion of correctly identified Scottish cases in HMRC's data will be between 98 to 99% when we only consider active records. The remaining 1 to 2% of records are not necessarily wrong, only uncorroborated.

We view this overall result as encouraging and is in line with the results from previous exercises and suggests that there has been no change in the accuracy of HMRC's residency data following the introduction of the Additional Rate band in April 2024. This assurance exercise will be repeated in August 2025 and the Scottish Income Tax Board has agreed that if the results are broadly in line again we will return to carrying out this exercise every two years.

Additional S-Code Analysis

I also want to update you on our work to obtain more data about the employers who incorrectly apply the Scottish 'S' codes issued to them by HMRC, and the individuals affected.

HMRC issues tax codes to employers to operate for individuals in Pay As You Earn (PAYE). These tax codes reflect the residency status, and tax codes for Scottish taxpayers have an 'S' prefix. Most employers operate these codes correctly but between 1 to 2% of employments that should have the 'S' prefix do not. This means that some taxpayers pay the wrong amount of tax in-year. However, the end of year reconciliation process addresses any over- or under-payments and there is no impact on the revenue received by the Scottish Government.

We have explored the sector and size of employers making errors as well as the software they are using and the earnings of the affected individuals. 'Employer' in this case refers to employers, pension providers and third parties.

We cannot share the names of the employers or software providers making these of errors due to data protection laws but we have identified the employers with the highest number of errors related to Scottish codes in the last three tax years. This has identified two employers

who are consistently applying Scottish codes incorrectly. We have also identified the software products causing the highest number of discrepancies.

The highest number of errors was made in the Financial and Insurance Activities sector while the lowest number of errors are made in the Human Health and Social Work Activities sector. Further analysis will split the data out for Scotland and help determine if any sectors are over-represented.

Errors where HMRC issues a Scottish tax code but the employer operates a UK tax code are evenly split between large, medium, small, and micro employers.

Our analysis so far indicates that the majority of errors for Scottish tax codes relate to taxpayers earning less than £43,000, but we need to complete more work to fully understand the data.

Next Steps

Our Employer Engagement Team has begun to contact these employers and software providers to understand what has gone wrong and help them to correct the errors.

We will conduct further analysis of the data and use the insight we obtain to review our approach to this issue with the Scottish Government. Our current approach of reissuing tax codes to employers and contacting them to help them correct the errors has helped to maintain the error rate at a low level, but more data will help us identify if there is more we can do. I am happy to provide further information once we have completed this work.

I hope you find this helpful.

Yours sincerely,

Jonathan Athow
Director General, Customer Strategy & Tax Design