National Audit Office

Report
by the Comptroller
and Auditor General

HM Revenue & Customs

The administration of the Scottish Rate of Income Tax 2014-15

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Key facts

HMRC's estimate of the number of Scottish income taxpayers

high-end forecast of the total costs of implementing the Scottish Rate of Income Tax up to 2018-19

amount reimbursed to HMRC by the Scottish Government in respect of implementing the Scottish Rate of Income Tax during 2014-15

Key findings

1 **HM Revenue & Customs' (HMRC's) process for responding to the upcoming Scottish Rate of Income Tax (SRIT) has been thorough.** HMRC has prepared a detailed strategy for identifying Scottish taxpayers, and tested its assumptions in a variety of ways. There is no pre-existing dataset of Scottish taxpayers to compare HMRC's data against. HMRC's decision to use third-party data to verify its population data has helped provide greater assurance on the completeness and accuracy of the Scottish taxpayer data that it already holds. HMRC estimates that there are 2.6 million income taxpayers in Scotland.

2 **Maintaining an accurate record of the Scottish taxpayer population depends on keeping up-to-date address information.** The possibility of a different income tax rate for Scotland and the rest of the UK for the first time means individuals could pay the incorrect rate of income tax if the address held by HMRC is incorrect. Address information can only be updated if taxpayers inform HMRC of a change of address. HMRC has engaged with employers and other stakeholders to encourage this. However, actively ensuring taxpayers keep HMRC informed of their correct address remains a key challenge to HMRC's objective of recovering the correct amount of income tax from Scottish taxpayers.

3 **SRIT is subject to a sound governance process, and HMRC is engaging proactively with the Scottish Government in the run-up to April 2016**. HMRC's relationship with the Scottish Government has allowed timely challenge throughout the project. This has also allowed a greater level of scrutiny of the costs that HMRC has incurred in relation to the SRIT project. The project has been reviewed regularly by the independent Office of Government Commerce, and HMRC has implemented the recommendations in a timely and constructive manner.

4 **HMRC has developed a clear and detailed compliance strategy that considers SRIT's impact on taxpayer behaviour and potential tax avoidance and evasion.** HMRC is aware of the risk of tax avoidance and evasion presented by the possibility of a different rate of income tax in Scotland from April 2016. But so far it has put only limited resources into specific planning for potential tax loss as a result of SRIT. Given the significance and complexity of the SRIT project, HMRC will need to react quickly to the changing compliance environment within the UK from April 2016.

5 **By building on existing and long-standing IT capability, HMRC has minimised the risks and costs associated with the need to develop an entirely new system to administer the SRIT.** HMRC has also designed a comprehensive phased plan for delivery that considers the impact of these changes to the SRIT, and how costs associated with future devolution to other regions could be reduced.

6 **HMRC has developed a clear plan and strategy for communicating about SRIT to different stakeholders.** HMRC has engaged with various stakeholder groups, including employers and pension providers. It has conducted market research to refine its strategy for communicating with the Scottish taxpayer population. HMRC plans to write to potential Scottish taxpayers for the first time in December 2015. HMRC is trying to minimise contact from those who receive its letters. At the same time, it wants to ensure its communication in the lead-up to April 2016 helps refine its data on Scottish taxpayers to make it as accurate and complete as possible. There will be a short window between the responses to HMRC's letters and the rate coming into force in April 2016. Therefore, it is important for HMRC to maximise the impact of its communication strategy during this period.

7 **HMRC plans to communicate with Scottish taxpayers in December 2015.** Due to a delay by the Scottish Government in announcing the Scottish Government's budget, letters to individuals will not advise them on the actual SRIT they will pay in the 2016-17 tax year. The delay in announcing the rate leaves an increasingly narrow timeframe for HMRC to react to responses from taxpayers and refine its taxpayer data before SRIT begins in April 2016.