National Audit Office

Report
by the Comptroller
and Auditor General

HM Revenue & Customs

Administration of Scottish income tax 2018-19

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SG/2020/1

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National Audit Office

HM Revenue & Customs

Administration of Scottish income tax 2018-19

Report by the Comptroller and Auditor General

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This report considers the administration of the Scottish income tax in 2018-19.

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Key facts

2.5m	**£10,916m**	**£11,660m**
Scottish taxpayers in 2017-18[1]	Scottish income tax revenue in 2017-18[2]	HMRC's estimate of Scottish income tax revenue in 2018-19[3]

£2.0 million project implementation costs in 2018-19

£0.8 million costs of administering Scottish income tax in 2018-19

£1.1 million HM Revenue & Customs' forecast of the remaining project implementation costs in 2019-20

Notes

1 Source: HMRC, *Scottish Income Tax: Experimental Statistics 2016-17 & 2017-18*, 18 July 2019. The number of Scottish taxpayers includes those recorded through the PAYE (2.0 million) and Self Assessment (0.4 million) systems along with an estimate for taxpayer records yet to be finalised.

2 HM Revenue & Customs, *Annual Report and Accounts 2018-19*, HC 2394, July 2019.

3 HM Revenue & Customs, *Annual Report and Accounts 2018-19*, HC 2394, July 2019.

Summary

Introduction

Scottish income tax in 2017-18

1 The Scotland Act 2016 gave the Scottish Parliament full power to determine the rates and thresholds[1] (excluding the personal allowance) paid by Scottish taxpayers on all non-savings, non-dividend income from 6 April 2017. The Scottish Government receives all income tax revenue generated from non-savings, non-dividend income under Scottish income tax policy.

2 In 2017-18 income tax rules in Scotland differed from the rest of the UK for the first time: Scottish taxpayers paid the higher rate of tax (40%) as soon as they earned £43,000 – as opposed to £45,000 in the rest of the UK. Apart from this difference in thresholds, the rate of tax applied to each band remained the same.

3 These powers represent a significant change from 2016-17, where the Scotland Act 2012 first introduced a Scottish rate of income tax by reducing UK income tax rates by 10% and giving the Scottish Parliament the power to apply its own additional rate. In 2016-17, the Scottish Parliament had set the Scottish rate of income tax at 10% of all non-savings, non-dividend income of Scottish taxpayers, so there was no difference to individual taxpayers' liabilities compared with those of taxpayers in the rest of the UK.

Scottish income tax from 2018-19

4 For the 2018-19 tax year, the Scottish income tax rules diverged further from those in the rest of the UK. The Scottish Government introduced two new income tax bands for non-savings, non-dividend income, the starter rate and intermediate rate bands. The rates for the existing higher rate and top rate income tax bands were also increased. The higher rate threshold continues to differ from the UK income tax regime (see **Figure 1** overleaf).

1 The point at which a taxpayer starts to pay a different rate of tax.

Figure 1
2018-19 Scottish income tax rates and bands

The income tax bands and tax rates set out under Scottish income tax policy are shown below

	Scottish income tax rates		Rest of UK income tax rates	
Band	Taxable income	Tax rate (%)	Taxable income	Tax rate (%)
Personal Allowance[1]	Up to £11,850	0	Up to £11,850	0
Starter rate	£11,851 to £13,850	19	–	–
Basic rate	£13,851 to £24,000	20	£11,851 to £46,350	20
Intermediate rate	£24,001 to £43,430	21	–	–
Higher rate	£43,431 to £150,000	41	£46,351 to £150,000	40
Top rate[2]	over £150,000	46	over £150,000	45

Notes

1 A taxpayer's Personal Allowance is reduced by £1 for every £2 of net income above £100,000.

2 This is known as the Additional Rate in the Rest of the UK.

Source: HM Revenue & Customs, Income Tax rates and Personal Allowances, available at: www.gov.uk/income-tax-rates/previous-tax-years, accessed October 2019 and HM Revenue & Customs, *Income Tax in Scotland*, available at: www.gov.uk/scottish-income-tax/previous-tax-year, accessed October 2019.

Roles and responsibilities

5 HM Revenue & Customs (HMRC) administers and collects Scottish income tax as part of the UK tax system. Taxpayer records with Scottish addresses are identified in HMRC's systems by a flag which indicates that they are subject to Scottish income tax rates and thresholds. HM Treasury is responsible for the payment of the Scottish income tax to the Scottish Government.

6 Following the end of each tax year, HMRC produces a provisional estimate of the Scottish income tax revenue for that year. The final outturn is calculated in the following year once HMRC has received further information from taxpayers and employers. HMRC's Annual Report and Accounts 2018-19 reported the outturn for 2017-18 and an estimate of revenue collected for 2018-19. The final outturn for Scottish income tax collected in 2018-19 will be disclosed in HMRC's Annual Report and Accounts 2019-20, expected to be published in July 2020.

Remit of the Comptroller and Auditor General

7 Section 80HA of the Scotland Act 1998, as amended by the Finance Act 2014, requires the Comptroller and Auditor General (C&AG) to prepare a report for each financial year on:

- the adequacy of any of HMRC's rules and procedures put in place, in consequence of the Scottish rate provisions, for the purpose of ensuring the proper assessment and collection of income tax charged at rates determined under those provisions;
- whether these rules and procedures are being complied with;
- the correctness of the sums brought to account by HMRC which relate to income tax which is attributable to a Scottish rate resolution; and
- the accuracy and fairness of the amounts which are reimbursed to HMRC as administrative expenses.

8 This report considers:

- HMRC's calculation of the 2017-18 income tax revenue attributable to Scotland and provides assurance on the correctness of the amounts brought to account (Part One);
- HMRC's estimation of the 2018-19 income tax revenue attributable to Scotland and our view on the methodology used to estimate the amount (Part One);
- key controls operated by HMRC in the assessment and collection of income tax (Part Two);
- HMRC's approach to assessing and mitigating the risk of non-compliance with Scottish tax requirements (Part Two); and
- the cost of administering Scottish income tax, and we provide assurance on whether the amounts are accurate and fair in the context of the costs incurred by HMRC (Part Three).

9 Appendix One sets out our audit approach and methodology.

Key findings

Scottish income tax 2017-18 final outturn

10 HMRC calculated the final revenue outturn for 2017-18 as £10,916 million representing amounts collected under Scottish income tax policy. We examined the methodology for the calculation of the actual outturn, which necessarily includes some remaining areas of estimation. In these areas, we have evaluated the basis of HMRC's estimate including the relevant assumptions and the available data. Based on our procedures, we have concluded that the Scottish income tax revenue outturn for 2017-18 is fairly stated.

11 The complete and accurate calculation of the outturn of Scottish income tax revenue is a central responsibility of HMRC's role in devolved taxes. The calculation of the 2017-18 outturn included a new adjustment to the methodology. The methodology is agreed annually with the Scottish Government and HMRC has also published a summary in its statistical publication.[2] **We consider that the governance arrangements could be enhanced by formalising the full detail of the methodology in a single document that is ratified by all parties with any subsequent changes subject to approval by the Scottish Income Tax Board.** This will support understanding of the process, strengthen the governance around changes to the methodology and form a baseline position from which future refinements can be made (paragraphs 1.2 to 1.20).

Scottish income tax 2018-19 estimate

12 HMRC has estimated Scottish income tax revenue for 2018-19 as £11,660 million.[3] The methodology used by HMRC to produce the 2018-19 provisional estimate is largely consistent with the prior year; however, it includes an adjustment to reflect potential overestimation in the underlying methodology. This was calculated through comparison of the 2017-18 outturn with a revised estimate of 2017-18 revenue based on the same methodology with the latest assumptions and data. The 2018-19 provisional estimate has been scaled down by the percentage difference observed (3.6%) on the assumption that the same level of forecast error will be present in the 2018-19 estimate. We have set out the limitations of HMRC's modelling approach in our past reports and summarise these in Part One.

13 HMRC should continue to improve the accuracy of the revenue estimate by incorporating more of the outturn data for Scottish income tax as it becomes available in future years. HMRC now has access to actual tax liability data for Scottish taxpayers, which has been used to calibrate the estimate to reflect previous over-estimation in 2016-17 and 2017-18. The current methodology for estimating the revenue is consistent with the methodology used by the Office for Budget Responsibility (OBR) to forecast income tax receipts for both Scotland and at the whole-of-UK level (paragraphs 1.21 to 1.30).

2 HM Revenue & Customs, *Scottish Income Tax: Experimental Statistics 2016-17 & 2017-18*, July 2019.
3 HM Revenue & Customs, *Annual Report and Accounts 2018-19*, HC 2394, July 2019.

Administering Scottish income tax

14 Under Section 2 of the Exchequer and Audit Departments Act 1921 the C&AG is already responsible for considering the adequacy of the systems HMRC has in place for the assessment and collection of tax in the UK, including income tax. In this year's Standard Report, which accompanies HMRC's Annual Report and Accounts 2018-19,[4] we concluded that HMRC framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out.

15 Having completed our additional work on devolved tax matters, we are satisfied that HMRC has adequate rules and procedures to ensure the proper assessment and collection of Scottish income tax and that they are being complied with (paragraphs 2.5 to 2.20).

16 HMRC obtains assurance over the accuracy of its address records from a comparison with third-party data. Although HMRC has not identified any significant or widespread instances of taxpayers changing their address to obtain a tax advantage, the comparison with third-party data has not been undertaken since November 2017. The timetable for completing this exercise has been agreed between HMRC and the Scottish Government in accordance with the Service Level Agreement. Scottish and UK income tax will diverge further in 2019-20 and HMRC is repeating the exercise in November 2019, the findings of which we will consider as part of our next report. **HMRC should consider whether the third-party data clash exercise should be undertaken annually, and the most appropriate point in the reporting cycle to do this, in providing more regular assurance over the taxpayer data used to calculate the revenue outturn** (paragraphs 2.27 to 2.28 and 2.38 to 2.39).

Costs

17 In 2018-19 HMRC incurred and recharged £2.8 million of costs, of which £0.8 million was running costs and £2.0 million was implementation costs.

18 We examined HMRC's method for estimating the costs of collecting and administering the Scottish income tax for the year to ensure this was reasonable in the context of the agreement with the Scottish Government. Based on our procedures, we have concluded that the amount repaid by the Scottish Government for the year ended 31 March 2019 is fairly stated (paragraphs 3.4 to 3.5).

4 HM Revenue & Customs, *Annual Report and Accounts 2018-19*, HC 2394, July 2019.

Part One

Income tax collected from Scottish taxpayers

1.1 Part One of this report covers HM Revenue & Customs' (HMRC's) calculation of the final revenue outturn for Scottish income tax in 2017-18 and its estimate of Scottish income tax revenue for 2018-19. This includes:

- our assessment of HMRC's calculation of Scottish income tax outturn for 2017-18, including the data limitations and judgements applied by HMRC in areas of uncertainty within the calculation; and
- our views on HMRC's estimate of Scottish income tax revenue for 2018-19 and the features and limitations of HMRC's methodology, including the adjustment made to the estimation methodology as a result of the 2017-18 outturn being lower than originally estimated.

The Scottish income tax 2017-18 final outturn

1.2 HMRC's calculation of the outturn for Scottish income tax revenue for 2017-18 is £10,916 million. This compares with its previous estimate for 2017-18 of £11,896 million published in its Annual Report and Accounts 2017-18 in July 2018.[5]

1.3 HMRC calculated the final outturn figure from several components, which are added together to produce the total Scottish income tax liability for 2017-18. Each component is calculated using one or more sources of data to extract the total Scottish income tax liability.

1.4 Most of the outturn calculation, some £10,844 million, is based on established tax liabilities, where the tax owed has been finalised by HMRC and the taxpayer records have been fully reconciled.[6] The established liabilities are calculated from the final tax liability data extracted from the PAYE and Self Assessment income tax systems.

1.5 Adjustments or estimates are made where the tax due has not yet been finalised, or where HMRC must estimate the Scottish share of tax and reliefs; the estimated amounts total £72 million (net) (**Figure 2**). In some areas of the calculation, the income tax liability data is not available to specifically identify the Scottish share of individual income tax liabilities, reliefs or other adjustments. Therefore, some balances are apportioned between Scotland and the rest of the UK based on other available data. The key components of the calculation of outturn are described in more detail below.

5 HM Revenue & Customs, *Annual Report and Accounts 2017-18*, HC 1222, July 2018.
6 See paragraphs 2.9 to 2.10 for details of HMRC's reconciliations process.

Figure 2

HM Revenue & Customs' (HMRC's) calculation of the 2017-18 Scottish income tax revenue

HMRC published the main elements of its calculation in its Annual Report and Accounts 2018-19. The table below shows which elements are based on established data and where areas of estimation are included

	Amounts based on established taxpayer liabilities (£m)	Amounts based on estimated liabilities and adjustments (£m)	Total (£m)
Self Assessment established liability[1]	4,562	(48)[2]	4,514
PAYE established liability[1]	6,282	11[3]	6,293
Estimated further liabilities[4]		431	431
Deductions from revenue:			
Adjustment for uncollectable amounts[5]		(79)	(79)
Pension relief at source[6]		(141)	(141)
Gift Aid[7]		(103)	(103)
Total	**10,844**	**72**	**10,916**

Notes

1. Self Assessment and PAYE established tax liabilities are based primarily on the tax liability data held by HMRC.
2. This adjustment includes a £45 million addition to estimate the Scottish share of manually entered liabilities and records that are not accessed by HMRC when calculating the outturn and a deduction of £93 million from the Scottish share of tax reliefs claimed through Self Assessment, totalling a net deduction of £48 million.
3. Estimated amounts include a £31 million estimate of Scottish share of PAYE settlement agreement and a deduction of £20 million from the Scottish share of tax reliefs set against PAYE income.
4. This is HMRC's estimate of PAYE tax liabilities that have not yet been finalised and where tax liabilities are expected from future Self Assessment returns or compliance activity.
5. Some PAYE and Self Assessment income tax liabilities are never settled because either employers or taxpayers fail to pay the full amounts due to HMRC. The estimated Scottish share of debts not expected to be collected is deducted.
6. Pension contributions attract income tax relief. The estimated Scottish share of the relief claimed by pension scheme administrators is deducted.
7. Gift aid relief is available on charitable donations and reduces the tax liability. The estimated Scottish share of relief claimed by charities is deducted.
8. Total does not equal sum of components due to rounding.

Source: *HM Revenue & Customs Annual Report and Accounts 2018-19*, HC 2394, July 2019 and National Audit Office analysis of HM Revenue & Customs data

Self Assessment established liability

1.6 The Self Assessment established liability of £4,562 million represents the calculation of all income tax attributable to Scotland from Scottish Self Assessment taxpayers in 2017-18. The calculation of Self Assessment liabilities is mainly based on the extraction of Scottish taxpayer data from HMRC's systems but with some apportionment of other balances as shown in Figure 2.

1.7 Scottish taxpayers are identified by a 'Scottish indicator' flag in HMRC's 'Computerised Environment for Self Assessment' (CESA) system. By extracting Scottish taxpayer records from CESA, HMRC can identify the total Scottish income tax liabilities. Minor adjustments have also been made to apportion Scotland's share of other relevant Self Assessment balances where specific data is not available, including:

- an estimate of £45 million from manually entered liabilities, which do not provide a split of the liability between taxes, and records which are not accessed by HMRC as part of the calculation;[7] and
- an estimate of £93 million deducted for the Scottish share of tax reliefs claimed through Self Assessment.

PAYE established liability

1.8 The Pay As You Earn (PAYE) established liability of £6,282 million represents the sum of all income tax attributable to Scotland from Scottish PAYE taxpayers in 2017-18. While most PAYE liabilities are based on extraction of Scottish taxpayer data from HMRC's systems, some apportionment of other smaller elements is required as detailed in Figure 2 above.

1.9 Under PAYE, employers submit data monthly to HMRC on the earnings and tax deductions made for their employees and this information is recorded in HMRC's National Insurance & PAYE Service (NPS). Scottish taxpayers are identified in NPS by a residency indicator based on taxpayer postcode information. By extracting Scottish taxpayer records from NPS, HMRC can identify the total Scottish income tax liabilities.

1.10 HMRC deducts an estimate of the Scottish share of tax reliefs given against PAYE liabilities. A further adjustment is made to apportion the tax collected from employers under PAYE settlement agreements where the identity of individual taxpayers is not recorded, and tax liabilities are instead settled on a scheme basis.[8] By analysing the relevant PAYE schemes, HMRC determined the Scottish proportion of each scheme and allocated settlement agreement revenue according to the Scottish share.

7 Liabilities are manually entered onto HMRC systems in some cases where charges are raised following compliance activity, such as following missing Self Assessment returns.

8 A PAYE settlement agreement allows employers to make one annual payment to cover all tax due on minor, irregular or impracticable expenses or benefits for employees in the scheme, reducing the administration burden of compliance for employers.

Estimated further liabilities

1.11 Most Self Assessment liabilities for 2017-18 are established prior to calculation of the outturn. Nevertheless, HMRC knows from past years that Self Assessment tax liabilities will continue to be established and collected for up to six years, as it receives additional information from taxpayers and as a result of its compliance activity. The estimated additional liability of these elements is estimated based on past performance and is reflected in the 2017-18 outturn (**Figure 3**).

1.12 The PAYE established liabilities are calculated based on reconciled records where the tax liability has been finalised. Our audit procedures identified that at the point of calculation a larger than usual number of unreconciled records existed, due to required system upgrades relating to the introduction of Simple Assessment. The tax liability relating to these records was not reflected under HMRC's initial methodology. An adjustment to the methodology for the 2017-18 Outturn has been introduced to estimate the additional Scottish tax liabilities yet to be finalised through PAYE reconciliations.

Deductions from revenue

1.13 HMRC makes deductions from revenue outturn recognising that not all taxpayer liabilities will be collected in practice, see Figure 2 above. HMRC uses historical information to calculate this deduction and apportions an amount for Scottish taxpayers.

1.14 Some PAYE and Self Assessment income tax liabilities are never settled because either employers or taxpayers fail to pay the full amounts due. HMRC has analysed historic data for the whole of the UK to determine the pattern of uncollected liabilities and then apportioned an amount relating to Scottish taxpayers.

Figure 3

Estimated further Scottish tax liabilities

HM Revenue & Customs (HMRC) knows that further liabilities for taxpayers will be established for up to six years from new information received by HMRC and compliance activity undertaken

	£ million
Further Self Assessment liabilities	234
Self Assessment settlement agreements	87
Liabilities from PAYE unreconciled cases	111
Total[1]	**431**

Note

1 Total does not equal sum of components due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data and calculations

1.15 Pension contributions attract income tax relief at the taxpayer's marginal rate of income tax.[9] Pension scheme administrators claim tax relief at the basic rate from HMRC on behalf of their scheme members. HMRC has apportioned the Scottish share of the pension relief claimed across the UK in 2017-18 based on analysis of 2016-17 pension contribution data supplied by pension administrators. This is the latest data available.

1.16 Gift Aid relief is available for taxpayers on charitable donations at the taxpayer's marginal rate of income tax.[10] Charities claim tax relief at the basic rate from HMRC on behalf of their donors. HMRC calculated the total Gift Aid relief for 2017-18 by combining the actual claim payments to date with a forecast of future claims based on analysis of historical data. HMRC apportioned the Scottish share of this total by taking the average of two apportionment methods: the Scottish share of income as a proportion of total income and the number of Scottish taxpayers as a proportion of total UK taxpayers.

Agreement with the Scottish Government

1.17 The methodology used to calculate the 2017-18 outturn for Scottish income tax was agreed between HMRC and the Scottish Government representatives via:

- discussion and agreement of the methodology as it has developed, including areas where estimation would be required, data inputs, significant assumptions and calculation processes;
- approval of the 2017-18 outturn methodology by the Scottish Income Tax Board, attended by HMRC and Scottish Government representatives; and
- further discussions following the identification of the need for an adjustment.

1.18 The complete and accurate calculation of the outturn of Scottish income tax revenue is a core part of HMRC's role in devolved taxes administration. The 2017-18 final outturn includes an additional adjustment to estimate tax revenue from unreconciled PAYE records, which is a change in the methodology (see paragraph 1.12). This adjustment has been discussed and agreed between the Scottish Government and HMRC, however, neither the existing methodology nor this change have been formally agreed.

1.19 The methodology is agreed annually with the Scottish Government and HMRC has also published a summary in its statistical publication. We consider the governance could be further enhanced by formalising the full detail of the methodology in a single document that is ratified by all parties with any subsequent changes subject to approval by the Scottish Income Tax Board. This will support understanding of the process, strengthen the governance around changes to the methodology and form a baseline position from which future refinements can be made.

9 A taxpayer's marginal rate of income tax is the percentage of tax paid on the next pound of income earned.
10 A taxpayer's marginal rate of income tax is the percentage of tax paid on the next pound of income earned.

National Audit Office conclusion

1.20 We have examined the methodology for the calculation of outturn, which necessarily includes some remaining areas of estimation. In these areas we have evaluated the basis of HMRC's estimate including the relevant assumptions and the available data. Based on our procedures, we have concluded that the Scottish income tax revenue outturn for 2017-18 is fairly stated.

The Scottish income tax estimate for 2018-19

1.21 HMRC has estimated it will collect £11,660 million of Scottish income tax revenue relating to the 2018-19 year.[11] The final outturn for the 2018-19 year will be calculated in May 2020 and is expected to be published in HMRC's 2019-20 annual report and accounts.

HMRC's revenue estimate for 2018-19

1.22 HMRC's methodology for estimating Scottish income tax revenue for 2018-19 is based on taxpayer data from 2016-17 extracted from its Survey of Personal Incomes. Scotland's percentage share of the overall UK income tax liability is determined through analysis of the data in a model replicating the UK income tax system known as the Personal Tax Model. The data is adjusted to reflect demographic and policy changes that are expected or known to have taken place between 2016-17 and 2018-19. The share is then applied to the total UK tax liability to produce an estimate of revenue for Scottish income tax (**Figure 4** overleaf).

1.23 The methodology used by HMRC to produce the 2018-19 provisional estimate is largely consistent with the approach used to produce the 2017-18 estimate; however, it includes an adjustment to reflect potential overestimation in the underlying methodology.

1.24 HMRC's previous estimate of 2017-18 Scottish income tax, published in July 2018, was £11,896 million based on a model using data from its Survey of Personal Incomes from 2015-16. The 2017-18 outturn of £10,916 million calculated in 2019 is £980 million (8.2%) lower than the estimated amount.

1.25 HMRC has introduced an additional adjustment to calibrate the revenue estimate to the outturn. This assumes that the 2018-19 revenue estimate would also be overestimated if there was no adjustment.

1.26 The adjustment has been calculated through comparison of the 2017-18 outturn with a revised estimate of 2017-18 revenue using the same methodology with the most recent assumptions and data. The 2018-19 provisional estimate has been scaled down by the percentage difference observed. This was a deduction of 3.6% (Figure 4).

11 HM Revenue & Customs, *Annual Report and Accounts 2018-19*, HC 2394, July 2019.

Figure 4

Method for calculating the 2018-19 income tax revenue estimate

The revenue estimate relies upon sample data and an apportionment of UK-wide estimates to calculate a Scottish share of income tax revenue

Survey of Personal Incomes

HM Revenue & Customs (HMRC) collected data from a 1.5% sample of UK taxpayers in 2016-17[1]

→

Personal Tax Model

HMRC calculated the percentage share of income tax that was Scottish: 6.89%

→

Adjustments

HMRC adjusted for changes to population and tax legislation between 2016-17 and 2018-19: 6.97%

→

Total UK income tax liability 2018-19

HMRC combined Self Assessment liabilities[2] with PAYE receipts to calculate the total liability[3] for the UK: £175.8 billion

→

Total Scottish income tax liability 2018-19

HMRC applied the proportion to the total income tax liability for 2018-19 to give an estimate: £12.1 billion[4]

→

Scottish income tax 2018-19 revenue estimate

HMRC deducted 3.6% for perceived error in the estimate methodology based on 2017-18: £11.7 billion

Notes

1 HMRC's annual Survey of Personal Incomes is a sample of UK taxpayers' data from the PAYE and Self Assessment tax systems. The Personal Tax Model (PTM) projects the outcome for income tax liabilities in 2018-19, taking into account the full Scottish income tax powers and adjusting for differing rates of population growth and economic factors such as wage increases, to calculate the Scottish share.

2 Annex B: Data sources and methodology, HMRC UK Income Tax Liabilities Statistics; 2016-17 Survey of Personal Incomes with projections to 2019-20, 28 June 2019.

3 Non-savings, non-dividend income only.

4 PAYE data comes from Real Time Information and Self-Assessment data comes from HMRC's Self-Assessment Model.

5 To obtain the estimate of £12.1 billion, there are four adjustments made to account for factors not addressed by the PTM, reducing the estimate by £150 million.

Source: National Audit Office analysis of HM Revenue & Customs data and calculations

1.27 More broadly, the limitations that we have previously described in relation to HMRC's methodology for estimating Scottish income tax revenue remain relevant for 2018-19:

- the reliance on sample data;
- the method combines the calculation of PAYE and Self Assessment liabilities for the UK so the amount apportioned to Scotland does not reflect the differing proportions of each type of taxpayer between Scotland and the rest of the UK;
- the data used for PAYE includes all income types, and does not exclude non-savings and non-dividend income; and
- an assumption must be made around the volume and value of under- and over-payments relating to PAYE liabilities.

1.28 The adjustment to calibrate the 2018-19 estimate based on comparison of the calculated 2017-18 outturn to the estimated 2017-18 amount produced by this methodology also introduces the following limitations:

- an assumption is made that the 2018-19 estimate based on the above methodology would overestimate the Scottish income tax revenue by the same error rate as the estimate in 2017-18 did; and
- the causes of the overestimate within the 2017-18 estimate are not fully understood and any socioeconomic factors contributing towards the overestimate in 2017-18 may be different in 2018-19.

Alternative approaches to estimating revenue

1.29 The current methodology for estimating the revenue is consistent with the methodology used by the Office for Budget Responsibility (OBR) to forecast income tax receipts for both Scotland and at the whole-of-UK level.[12] HMRC's Personal Tax Model relies on economic inputs which are produced by the OBR as part of the national economic forecasts.

1.30 HMRC now has access to actual tax liability data for Scottish taxpayers, which has been used to calibrate the estimate to reflect previous over-estimation in 2016-17 and 2017-18. As HMRC acquires more outturn data for Scottish income tax over time, there is further scope for it to use this information to refine its future estimates of Scottish income tax revenue. Incorporating more of the actual Scottish income tax outturn data into the methodology could improve the accuracy of the estimate.

12 Office for Budget Responsibility, *Devolved tax and spending forecasts*, March 2019.

Part Two

Administering Scottish income tax

2.1 This part of the report covers:

- HM Revenue & Customs' (HMRC's) key processes in administering the income tax system and our approach to assurance (paragraphs 2.5–2.20);
- progress on implementing the relief at source project for administering tax relief on pensions contributions (paragraphs 2.21–2.24);
- procedures used to identify and maintain a complete and accurate record of the Scottish taxpayer population (paragraphs 2.25–2.33); and
- activity undertaken by HMRC to identify and respond to compliance risks (paragraphs 2.34–2.42).

2.2 Under Section 2 of the Exchequer and Audit Departments Act 1921 the Comptroller and Auditor General is already responsible for considering the adequacy of the systems HMRC has in place for the assessment and collection of tax in the UK, including income tax. In this year's Standard Report, which accompanies HMRC's annual report and accounts, we concluded that HMRC framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out.

2.3 To support the conclusions of this report our UK-wide testing is extended to incorporate the specific divergences caused by devolution. We also undertake specific procedures around address cleansing and tax compliance to inform our assessment of the completeness of Scottish income tax.

2.4 Having completed our additional work on devolved tax matters, we are satisfied that HMRC has adequate rules and procedures to ensure the proper assessment and collection of Scottish income tax, and that they are being complied with. In reaching our conclusions on these rules and procedures we have also examined several other elements of devolved tax administration including the ongoing maintenance of Scottish taxpayer records, the identification and response to devolved tax compliance risks and the progress of the relief at source project.

The income tax system

2.5 The income tax system is consistent across the UK. Depending on the type of income that an individual receives, income tax will be assessed and collected by employer's deductions from earnings through Pay As You Earn (PAYE), the taxpayer submitting a Self Assessment return, or both.

2.6 The PAYE and Self Assessment processes have common principles, despite utilising different IT systems and data sources to assess and collect tax. **Figure 5** overleaf identifies these principles and describes the main processes for each income tax stream.

2.7 Taxpayer information is submitted to HMRC through several channels. For PAYE, employers and pension providers complete monthly data submissions containing information about individuals' earnings, pension payments and tax deductions. Self Assessment taxpayers complete an annual submission containing details of all the income they have received during the tax year.

2.8 The submissions processing systems complete data validation checks and then route the information to the appropriate tax processing system. A matching function identifies the relevant taxpayer record and stores the new data or updates the existing information in the relevant database.

2.9 The tax processing system consolidates all the available data to produce a total income figure for each taxpayer and calculates the associated income tax liability using the relevant business rules. The output from the income tax liability calculation is then stored on the appropriate taxpayer record.

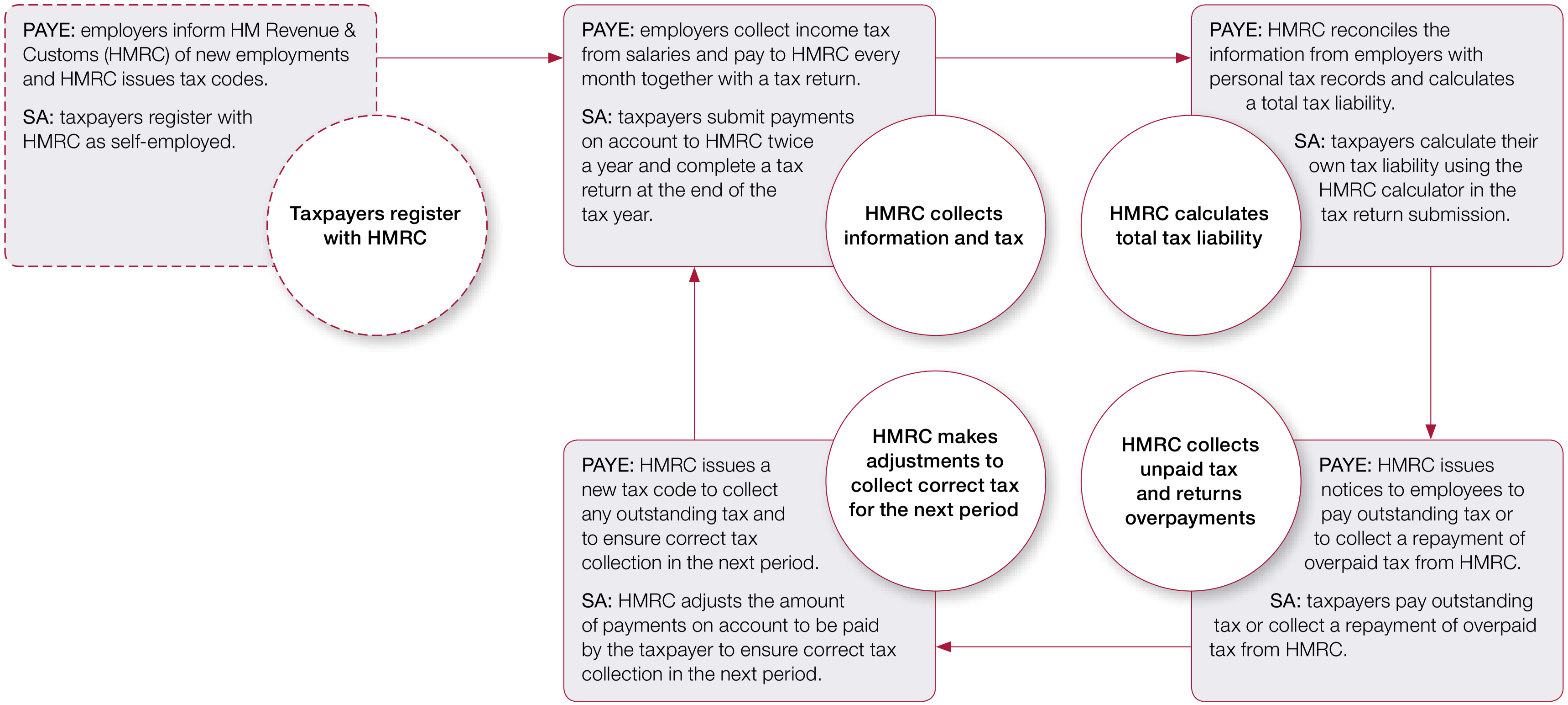
2.10 The calculated tax liability is compared with the amounts deducted at source or collected from taxpayers directly through payments on account. The reconciliation determines whether the correct amount of tax has been collected. Where tax has been underpaid this will be collected from the taxpayer or overpaid tax will be refunded.

2.11 For PAYE taxpayers, tax codes are recalculated based on the latest tax liability data and, if necessary, HMRC will update the tax code for the forthcoming tax year by issuing a coding notice to the taxpayer and the employer.

Figure 5

The UK income tax system

The Pay As You Earn (PAYE) and Self Assessment (SA) processes share common principles in the assessment and collection of income tax



Note

1 PAYE and Self Assessment processes do not occur simultaneously. PAYE is processed during the tax year and reconciled after the end of the tax year. Self Assessment returns are not submitted until the January following the end of the tax year.

Source: National Audit Office analysis of HM Revenue & Customs processes

Devolved income tax

2.12 The only differences in the administration of devolved taxes, when compared to the UK processes, are the business rules that the system applies when completing the tax liability and tax code calculations. The rules for Scottish taxpayers are as follows:

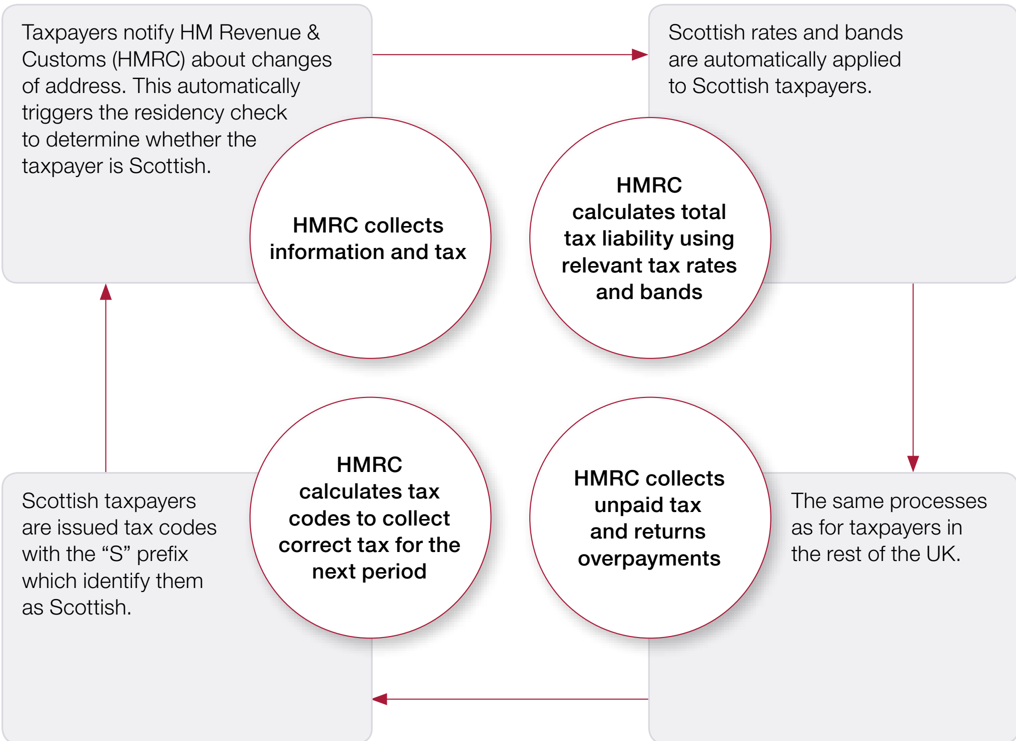
- The system checks the residency status of the individual and where an individual has been identified as Scottish applies the 'S' tax code prefix. This instructs employers to collect tax under the Scottish tax rates. Where an individual is no longer resident in Scotland the 'S' prefix is removed.
- Where an individual has been identified as Scottish, the Scottish tax rates and bands are applied to the reported income when calculating the liability for the current tax year.
- If an individual has been identified as Scottish and they are enrolled on a PAYE scheme, the system uses the Scottish income tax rates and thresholds to calculate a new tax code for the following year.

2.13 **Figure 6** shows where these divergences occur within the income tax system.

Figure 6

Divergences in the income tax system for Scottish taxpayers

The business rules are configured to process income tax using the rates and thresholds applicable to a taxpayer's residency status



Source: National Audit Office analysis of HM Revenue & Customs processes

2.14 The correct application of these business rules is dependent upon the completeness and accuracy of address data that HMRC holds for each taxpayer, and the maintenance of a master list of UK addresses that confirms which are Scottish.

2.15 Self Assessment returns submitted for the 2017-18 financial year included a tick box for the taxpayer to state whether they were resident in Scotland. Some taxpayers did not complete the tick box correctly and this resulted in around 30,000 taxpayers whose residency status was assessed as 'rest of UK' when the address held by HMRC was Scottish. This was resolved by HMRC using the taxpayer's address held on their records to calculate their tax liability rather than the tick box on the Self Assessment return. Taxpayers were notified if there was a discrepancy and asked to update their address if required.

Assurance of income tax processing

2.16 Our annual programme of audit work on HMRC includes procedures that provide assurance over the key tax processing controls. These controls can be broadly divided into two categories:

- automated system controls around data-handling, storage and processing; and
- key business controls that have a high level of automation but are complex.

2.17 To assure the automated system controls we map the system functionality of the income tax cycle and confirm that the automated controls are implemented appropriately. These controls include the:

- processing of data submissions, including basic data format and validation checks;
- transferring of data between systems and ultimately to the correct tax system;
- matching of data to the correct taxpayer record and updating it as necessary; and
- application of the appropriate business rules to the calculation processes for each taxpayer – including their residency status for devolved tax purposes.

2.18 HMRC completes several phases of assurance testing on key business controls to confirm system functionality following the annual updates to business rules that reflect changing tax rates, thresholds and allowances for the UK and the devolved administrations. As part of our audit we evaluate the scope of this testing and reperform elements of the work to confirm HMRC's conclusions. The key processes in PAYE include annual:

- reconciliation of PAYE taxpayers to confirm the tax due on earnings and calculate any over- or under-payments of tax based on the country of residency; and
- issue of tax codes for PAYE taxpayers which incorporate residency information to ensure that employers deduct tax under the tax rules of the correct country.

2.19 Similar processes are applied to each individual Self Assessment return once it is received by HMRC.

2.20 Our overall assessment of HMRC's systems for collecting tax across the UK is included in the Standard Report.[13] Having completed our additional work on devolved tax issues, we are satisfied that HMRC has adequate rules and procedures to ensure the proper assessment and collection of Scottish income tax and that these are being complied with.

Tax relief on pension contributions

2.21 In our previous report,[14] we outlined HMRC's plans for implementing a new system for administering tax relief for pension contributions. It is important that Scottish taxpayers are identified within each pension scheme so that tax relief is allocated correctly.

2.22 In 2017-18, income tax rates were the same in Scotland and the rest of the UK, although the higher rate threshold was different. In 2018-19, Scotland introduced different rates and bands, and the rates of relief will also therefore differ. Relief at source continues to be applied at the basic rate of 20% for all taxpayers.[15] Scottish taxpayers who pay tax at a rate above 20% can claim the remaining tax relief through a Self Assessment return or by contacting HMRC.

2.23 To administer relief at source, HMRC requires that all providers submit an annual report in a specified format, listing all member contributions in the previous tax year. Since April 2019 it has been mandatory for pension providers to use HMRC's online Secure Data Exchange Service (SDES) to submit returns. Returns should be submitted to HMRC by July of each year.

2.24 HMRC is in the process of introducing automatic processing of the residency status of scheme members. This will utilise the temporary process in place during 2017-18 to trace the scheme members submitted to HMRC and notify pension providers of the residency status of their members. Notifications are due to be sent out by January 2020, prior to the start of the next tax year. In 2017-18 HMRC traced 93% of scheme members notified to them.

13 Report by the Comptroller and Auditor General, *HM Revenue & Customs 2018-19 Accounts*, HC 2394, July 2019.
14 Comptroller and Auditor General, *The administration of the Scottish Rate of Income Tax 2016-17*, Session 2017–2019, HC 620, SG/2017/265, November 2017.
15 Relief at source is the portion of tax relief that is automatically applied to pension contributions. Pension providers claim this relief from HMRC on behalf of their members.

Scottish taxpayer population

2.25 A Scottish taxpayer is someone with a tax liability whose main place of residence during the tax year is Scotland. Scottish parliamentarians are also deemed to be Scottish taxpayers. Identifying the Scottish taxpayer population continues to be the main challenge to HMRC in administering Scottish income tax. HMRC undertakes a programme of checks on the overall taxpayer population.

Assurance processes

2.26 To ensure that the right amount of tax is collected from individuals and allocated to the appropriate government it is essential that address information is correct. HMRC has implemented several assurance processes to maintain the completeness and accuracy of its address data used to identify Scottish taxpayers (**Figure 7**). Where errors or inconsistencies have been identified HMRC has, or plans to take, corrective action.

2.27 The third-party data clash exercise provides HMRC with assurance over the accuracy of its address records and indicates whether taxpayers are keeping their address up-to-date. Where records differ these are not updated, as it is possible for either the address held by HMRC or the address within the third-party data source to be incorrect. Where differences are identified which suggest an alternative potential address on the opposite side of the Scotland/England border to that held by HMRC, HMRC contacts the taxpayer to request that they confirm or update their address details.

2.28 From its analysis of the data clash exercise initiated in November 2017, HMRC concluded that its identification of Scottish taxpayers was correct in 98%–99% of cases.[16] The third-party data clash exercise has not been repeated in 2018-19, but HMRC is repeating the exercise in November 2019 and we will review the findings in our future report. The timetable for completing this assurance work has been agreed between HMRC and the Scottish Government in accordance with the Service Level Agreement.

2.29 An additional scan was run in May 2019 to identify taxpayers who did not have Scottish residency set when their tax record was created as a result of a system error during the implementation period. This identified around 20,000 taxpayer records where a new record was created after HMRC's initial identification exercises in 2015-16 and where the taxpayer had not changed or updated their address.[17]

16 HM Revenue & Customs, *Scottish Income Tax HMRC Annual Report 2018*, September 2018.
17 New records are typically created when a National Insurance number is issued as a UK resident reaches age 15.

Figure 7
Assurance over the Scottish taxpayer population

HM Revenue & Customs (HMRC) undertakes a number of assurance activities designed to maintain the completeness of the Scottish tax base

Assurance activity	Purpose	Results
Controls ensuring Scottish residency is correctly determined using the address held by HMRC:		
New postcode scan	Comparison of HMRC's list of Scottish postcodes with data from the Office of National Statistics (ONS) ensures HMRC's list is kept up-to-date.	Postcode data is received quarterly from the ONS. 1,363 new postcodes were added in 2018-19.
Address cleansing	Scans of taxpayer records to identify missing or invalid postcodes which would result in an incorrect residency status being applied.	13,708 missing postcodes were identified in the July 2019 scan and 1,391 highest priority cases cleared. The remaining cases do not have live employment records. 7,224 invalid postcodes identified for review.[1]
Controls to identify incorrect addresses held by HMRC:		
Third party data clash	A comparison of taxpayer address records with third party data sources[2] to identify cases where HMRC records are inconsistent with third party data.	This was performed in November 2017; 9,177 inconsistences were identified.[3]
Controls monitoring the operation of PAYE by employers:		
Tax code comparison scans	A comparison of tax codes in PAYE submissions with the taxpayer record to identify cases where the employer is operating a different tax code to HMRC.	67,569 cases were identified in May 2019 where the 'S' code was not being operated as expected by the employer. 34,023 cases were identified in August 2019.[4]

Notes

1 Invalid postcodes identified can be corrected or can be manually set as Scottish where the correct postcode cannot be determined from the address. These are being processed by HMRC staff in October 2019.

2 A range of third party data sets are used including the electoral register and credit reference agencies.

3 A third party data clash exercise is currently planned for November 2019.

4 This is an employer compliance issue only and does not impact the tax revenue allocated to Scotland as HMRC has correctly identified these individuals as Scottish taxpayers.

Source: National Audit Office summary of HM Revenue & Customs activities

Scottish parliamentarians

2.30 Scottish parliamentarians are automatically deemed to be Scottish taxpayers in any tax year during which they are in office.[18] This applies to the 129 elected members of the Scottish Parliament (MSPs) along with 59 members of Parliament in Westminster representing a constituency in Scotland and six members of the European Parliament representing Scotland.[19]

2.31 Records relating to Scottish parliamentarians are not processed using normal business rules. HMRC has a manual process in place to identify the records of Scottish parliamentarians and ensure that they are recorded as Scottish taxpayers regardless of their residency. This requires communication of required information to them by employers or from parliamentarians themselves and must be completed annually.

2.32 In February 2019, 45 members of the Scottish Parliament were issued with a non-Scottish tax code for 2019-20 because their Scottish residency status had not been set for that year prior to HMRC's annual tax code issuing process. Before these tax codes were used by employers, HMRC implemented a process to check the tax codes communicated for Scottish parliamentarians and issue corrected Scottish tax codes where necessary.

2.33 HMRC has now implemented a weekly process to check the residency status, tax codes issued and tax codes being operated by employers of Scottish parliamentarians, and will again conduct manual processes to identify all Scottish parliamentarians prior to annual coding for 2020-21 tax codes. HMRC intends to implement further manual processes to review paper 2018-19 Self Assessment calculations for Scottish parliamentarians to ensure that these have used Scottish tax rates and bands.

Compliance risks

2.34 HMRC applies risk-based compliance activity to the collection of Scottish income tax in the same way as is applied to the collection of income tax from taxpayers in the rest of the UK. HMRC's approach to tackling taxpayer non-compliance involves:

- promoting compliance with tax law by designing it into systems and processes, such as by making it easier for taxpayers to pay tax;
- preventing non-compliance before it occurs by using available data to spot mistakes, personalise services and support, block fraudulent claims and automate calculations; and
- responding by identifying and targeting the areas where there may be tax at risk.[20]

18 The Scotland Act 2012.
19 European Parliament website, www.europarl.europa.eu
20 HM Revenue & Customs, *Tackling tax avoidance, evasion, and other forms of non-compliance*, March 2019.

2.35 HMRC considers compliance risk annually through its UK-wide Strategic Picture of Risk (SPR) assessment. HMRC applies a customer group segmentation approach to assess the compliance risks for each group at the whole-of-UK level. HMRC's compliance activities are targeted at the most significant risks within each customer group. HMRC considers the main areas of risk to Scottish income tax to be compliance risks which are tackled at the whole-of-UK level. Risks present across the UK include:[21]

- registered individuals or businesses deliberately omitting, concealing or misrepresenting information in order to reduce their tax liabilities;
- the hidden economy, where an entire source of income is not declared or where a declared source of income is deliberately understated; and
- individuals undertaking tax avoidance, exploiting the tax rules to gain a tax advantage that Parliament never intended.

2.36 The UK-wide SPR assessment is central in informing the Scottish compliance strategy. HMRC conducts an assessment of risk relating specifically to Scottish income tax, which is based on analysis of the Scottish subset of the whole-of-UK data, plus the findings from specific work undertaken by specialist teams that monitor wealthy individuals and large companies. The Scottish SPR was updated by HMRC and shared with the Scottish Government in line with the agreed timetable and the Service Level Agreement. The Scottish SPR includes:

- analysis of the Scottish taxpayer population and associated tax liabilities;
- an assessment of the overall income tax risks and the impact for Scotland; and
- estimates of the potential tax loss for each of the identified risks.

2.37 In 2018-19, the Scottish and rest-of-UK tax regimes diverged further (**Figure 8** overleaf). The increased divergence gives rise to a potential risk that taxpayers could manipulate their residency status due to the incentive of reducing their tax liability. This could include failure to notify HMRC of a change of address or the deliberate manipulation of address information. HMRC considers the risk of these behaviours taking place to be very low compared with the overall risk of non-compliance affecting taxpayers across the UK, such as efforts to avoid or reduce liabilities altogether.

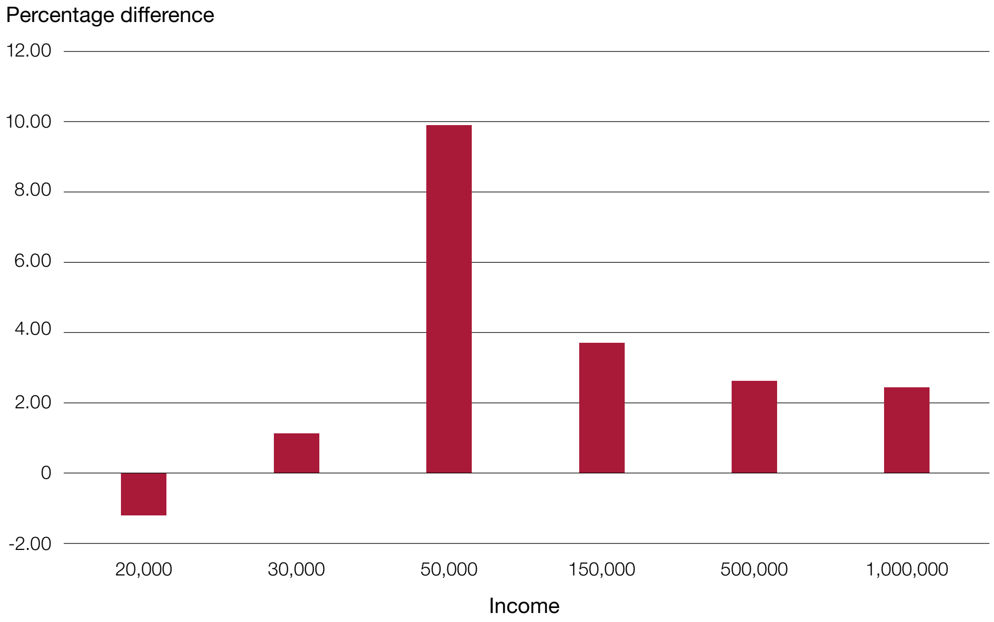
2.38 HMRC has not identified any significant or widespread instances of taxpayers changing their address to obtain a tax advantage. HMRC monitors the accuracy of its address records by corroborating its data with third-party data sources. If the number of discrepancies increased this may indicate that taxpayers are not keeping their address details up to date with HMRC, either through error or deliberate non-compliance.

21 HM Revenue & Customs, *Measuring tax gaps 2019 edition*, June 2019.

Figure 8

Differences in tax liability between a Scottish taxpayer and a rest of UK taxpayer in 2018-19

The difference in the tax liability for a Scottish taxpayer is small relative to an equivalent UK taxpayer but the relative impact varies across income levels



Income (£)	Scottish income tax (£)	UK income tax (£)	Difference (£)
20,000	1,610	1,630	20
30,000	3,670	3,630	40
50,000	9,184	8,360	824
150,000	55,043	53,100	1,943
500,000	216,043	210,600	5,443
1,000,000	446,043	435,600	10,443

Note

1 This illustration assumes that a taxpayer has only non-savings, non-dividend income during the year and has a full Personal Allowance. It does not include any other allowances or reliefs.

Source: National Audit Office analysis of income tax in Scotland and the UK for 2018-19

2.39 Scottish and UK income tax will diverge further in 2019-20. The third-party data corroboration exercise has not been undertaken for Scottish taxpayers since November 2017. HMRC should consider whether the third-party data clash exercise should be undertaken annually, and the most appropriate point in the reporting cycle to do this, in providing more regular assurance over the taxpayer data used to calculate the revenue outturn.

2.40 HMRC provided its Scottish Income Tax Annual Report 2019 to the Finance and Constitution Committee of the Scottish Parliament, which includes details of the planned compliance activities to mitigate the risks faced. A more detailed view of compliance was also communicated to the Scottish Government through the Scottish Income Tax Compliance Strategy and Compliance Plan 2018-19. We will examine the results of this compliance work as they become available.

Governance arrangements

2.41 During the implementation of the Scotland Act 2012 and the Scotland Act 2016, governance of Scottish income tax was managed through the individual projects (Scottish Rate of Income Tax, Further Scottish Income Tax powers and Scottish Relief at Source) with a monthly Scottish Income Tax Project Board reporting to the quarterly Scottish Programme Board. In January 2019 the Scottish Income Tax Board replaced that governance structure to oversee the delivery of Scottish income tax as business as usual.

2.42 The Board is responsible for overseeing the delivery of Scottish income tax, ensuring that HMRC meets its obligations under the Service Level Agreement and agreeing costs to be recharged to the Scottish Government. Representatives from HMRC, HM Treasury and the Scottish Government attend quarterly Board meetings.

Part Three

Costs

3.1 This part considers the administrative costs of Scottish income tax and whether these costs are reasonable.

3.2 Under the Service Level Agreement between HM Revenue & Customs (HMRC) and the Scottish Government, the Scottish Government is required to reimburse HMRC for “net additional costs wholly and necessarily incurred as a result of the administration of the Scottish income tax powers”.

3.3 A supporting framework sets out the principles for identifying net additional costs. HMRC recharges costs that can be validated as specifically related to the administration of devolved Scottish income tax powers and not the costs of administering the overall income tax system in Scotland.

Costs incurred in 2018-19

3.4 In 2018-19 HMRC invoiced the Scottish Government for £2.8 million of costs on the three Scottish income tax projects, of which £0.8 million was running costs.

3.5 We examined HMRC’s method for estimating the costs of collecting and administering Scottish income tax for the year to ensure this was reasonable in the context of the agreement with the Scottish Government. Based on our procedures, we have concluded that the amount repaid by the Scottish Government for the year ended 31 March 2019 is accurate and fair.

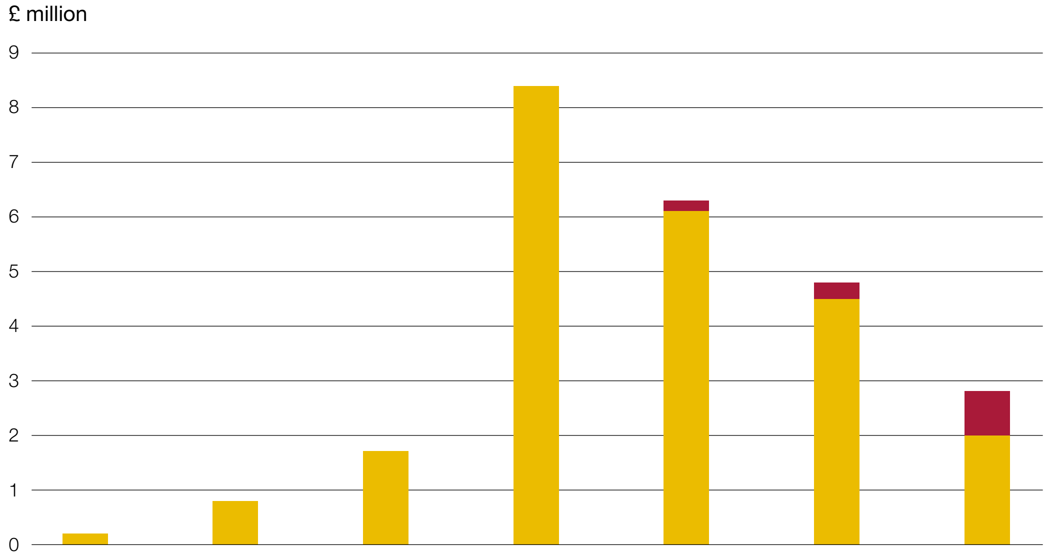
Estimated total cost of implementing Scottish income tax projects

3.6 From 2012-13 to 2018-19 HMRC has spent a total of £23.7 million on implementing the Scottish rate of income tax project, further Scottish income tax powers project and associated relief at source project. HMRC expects to spend a further £1.1 million on implementation over the remaining lifecycle of the project, primarily to deliver the relief at source system. **Figure 9** provides a summary of costs to date.

Figure 9

Actual spending on Scottish income tax projects from 2012-13 to 2018-19

Spending is moving from implementation costs to running costs as the projects draw to a close



	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Operating costs	0.0	0.0	0.0	0.0	0.2	0.4	0.8
Implementation costs	0.2	0.8	1.7	8.4	6.1	4.5	2.0

Notes

1 Costs are for the Scottish rate of income tax project, further Scottish income tax powers project and the relief at source project.

2 Figures may not sum due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

Appendix One

Our audit approach

1 Section 80HA of the Scotland Act 1998, as amended by the Finance Act 2014, requires the Comptroller and Auditor General (C&AG) to prepare a report for each financial year on:

- the adequacy of any of HM Revenue & Customs' (HMRC's) rules and procedures put in place, in consequence of the Scottish rate provisions, for the purpose of ensuring the proper assessment and collection of income tax charged at rates determined under those provisions;
- whether these rules and procedures are being complied with;
- the correctness of the sums brought to account by HMRC which relate to income tax which is attributable to a Scottish rate resolution; and
- the accuracy and fairness of the amounts which are reimbursed to HMRC as administrative expenses.

2 To reach the conclusions set out in this report in relation to the rules and procedures operated by HMRC we have drawn directly from our statutory audit work on HMRC's Annual Report and Accounts, including the C&AG's report on the controls operating within HMRC over the proper assessment, collection and allocation of tax under Section 2 of the Exchequer and Audit Departments Act 1921. We have also completed specific audit procedures over controls relevant to the administration of devolved taxes.

3 We have audited the data, methodologies, assumptions and mechanics of the calculation of revenue outturn for 2017-18, which are described in this report. Where the outturn calculation relies upon estimation this work has been planned and completed by applying the principles set out in International Standards on Auditing (UK) 540 Auditing Accounting Estimates and Related Disclosures to design audit procedures relevant to the nature of the estimates and to a sufficient level of precision.

4 In relation to administration costs our conclusion on the accuracy and fairness of the costs charged to the Scottish Government is based upon an evaluation of the costs against the details of the Service Level Agreement and the supporting framework for costs agreed between both parties. Some of the costs incurred are estimated by HMRC from available data on customer contacts and staff time. During the audit we also obtained evidence that both parties regularly discuss and review the cost budgets and forecasts as well as agreeing the amounts to be invoiced and paid.

5 All of these audit procedures have been planned, performed and reviewed in accordance with our internal quality control procedures for financial audit.

6 To present HMRC's approach to compliance risk we have reviewed published and unpublished HMRC documents about Scottish income tax, including project documentation, risk and compliance documentation and the details of key assurance work being performed by HMRC.

7 This document review has been supplemented by semi-structured interviews with HMRC staff in a number of areas of the business. We also spoke to the Scottish Government and Audit Scotland to inform our risk assessment and planning work for this report.

8 We reached our findings following our analysis of evidence collected between May and October 2019.

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