National Audit Office

REPORT

Administration of Scottish income tax 2024-25

HM Revenue & Customs

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Summary

Introduction

1 The Scotland Act 2016 gave the Scottish Parliament power to determine the tax bands and rates (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 The Scottish Parliament has set different income tax bands and rates in Scotland from the rest of the UK. In 2018-19 it introduced a five-band system, which continued until 2023-24. There are three tax bands in the rest of the UK (**Figure 1**). For 2024-25, the Scottish Parliament introduced a new 45% advanced rate for income between £75,000 and £125,140, moving Scotland to a six-band system. It raised the top rate by 1% to 48% and also increased the starter and basic rate band thresholds by 6.7% in line with inflation. All other income tax rates and thresholds were frozen. Compared with taxpayers living elsewhere in the UK, in 2024-25, Scottish taxpayers in the lower bands paid a lower marginal rate of tax, and those earning more than £26,561 paid a higher marginal rate. The threshold at which the higher rate was payable in Scotland was lower than in the rest of the UK. For the 2025-26 tax year, the Scottish Government increased the thresholds at which Scottish taxpayers pay basic and intermediate rates of income tax by 3.5%, while freezing all other thresholds.

Roles and responsibilities

3 HM Treasury is responsible for paying Scottish income tax to the Scottish Government. HM Revenue & Customs (HMRC) administers and collects Scottish income tax as part of the UK tax system. It identifies taxpayers living in Scotland by applying a 'flag' in its systems that indicates they are subject to Scottish income tax rates and thresholds. HMRC has calculated that there were 2.9 million Scottish taxpayers in 2023-24 (2022-23: 2.8 million).

4 Following the end of each tax year, HMRC produces a provisional estimate of Scottish income tax revenue for that year. It calculates the final outturn the following year, once it has received further information from taxpayers and employers. This report covers the final outturn for 2023-24 and HMRC's provisional estimate for 2024-25. HMRC expects to publish the outturn for 2024-25 in its 2025-26 Annual Report and Accounts.

Figure 1

Income tax rates and bands in Scotland and the rest of the UK for 2024-25

For 2024-25 there were six tax bands above the personal allowance in Scotland compared with three in the rest of the UK

	Income tax rates in Scotland	
Band	**Taxable income**	**Tax rate**
	(£)	(%)
Personal allowance	Up to 12,570	0
Starter rate	12,571 to 14,876	19
Basic rate	14,877 to 26,561	20
Intermediate rate	25,562 to 43,662	21
Higher rate	43,663 to 75,000	42
Advanced rate	75,001 to 125,140	45
Top rate	More than 125,140	48

	Income tax rates in the rest of the UK	
	Taxable income	**Tax rate**
	(£)	(%)
Personal allowance	Up to 12,570	0
Basic rate	12,571 to 50,270	20
Higher rate	50,271 to 125,140	40
Additional rate	More than 125,140	45

Note

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

Source: HM Revenue & Customs, Income Tax rates and Personal Allowances, available at: www.gov.uk/income-tax-rates/previous-tax-years, accessed August 2025; and HM Revenue & Customs, Income Tax in Scotland, available at: www.gov.uk/scottish-income-tax, accessed August 2025

5 Section 80HA of the Scotland Act 1998, as amended by the Finance Act 2014 and the Scotland Act 2016, requires the UK Comptroller and Auditor General (C&AG) to prepare a report for each financial year on:

- the adequacy of HMRC's rules and procedures, in consequence of the Scottish rate provisions, to ensure the proper assessment and collection of income tax charged at rates determined by those provisions;
- whether HMRC is complying with these rules and procedures;
- the correctness of the sums brought to account by HMRC which relate to income tax that is attributable to a Scottish rate resolution; and
- the accuracy and fairness of amounts reimbursed to HMRC as administrative expenses.

6 This report assesses:

- HMRC's calculation of the 2023-24 income tax revenue for Scotland (the 'outturn') and assurance on the correctness of amounts brought to account (Part One);
- HMRC's estimate of the 2024-25 income tax revenue for Scotland and our view on the estimate methodology (Part One);
- key controls operated by HMRC to assess and collect 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 – we provide assurance on the accuracy and fairness of these amounts in the context of costs incurred by HMRC (Part Three).

7 Appendix One sets out our audit evidence base.

Key findings

Scottish income tax 2023-24 final outturn and 2024-25 estimate

8 HMRC calculated the final outturn for 2023-24 as £17,093 million, representing amounts collected under Scottish income tax policy. This represents an increase of 12.7% compared with the outturn for 2022-23. HMRC largely based the outturn calculation on established tax liabilities where HMRC has finalised the tax owed and fully reconciled the taxpayer records. The calculation includes some areas of estimation and adjustments, for instance where HMRC had not yet received returns from taxpayers or where HMRC does not have Scotland-specific data. In these areas, we have evaluated the basis of HMRC's estimates, including the relevant assumptions and available data. The gross total of the estimates and adjustments made by HMRC constituted 4.7% of the gross outturn in 2023-24 (2022-23: 5.4%). Based on our audit work, we have concluded that the Scottish income tax revenue outturn for 2023-24 is fairly stated (paragraphs 1.2 to 1.13 and Figure 2).

9 HMRC has estimated Scottish income tax revenue for 2024-25 as £18,967 million. The estimate HMRC produces is solely for financial reporting purposes in its annual accounts and does not affect the amount of income tax revenue that the Scottish Government receives. However, based on recent years, it has proved to be a reasonable indicator of the amount of income tax likely to be collected from Scottish taxpayers: the outturn in 2023-24 was £161 million (-0.9%) lower than HMRC's provisional estimate. HMRC expects to calculate the finalised 2024-25 income tax outturn attributable to Scotland by July 2026 (paragraphs 1.14 to 1.18).

Administration of Scottish income tax

10 **HMRC has adequate rules and procedures in place to ensure the proper assessment and collection of Scottish income tax, and it is complying with those rules.** Our work on Scottish income tax builds on our wider assessment of HMRC's rules and procedures, completed as part of our annual audit of HMRC. As part of that audit, we concluded that HMRC had framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that these regulations and procedures are being duly carried out. Where Scottish-specific data are not available, HMRC could consider whether there are any areas where it is feasible and beneficial to start collecting such data to improve the accuracy of its revenue collection and estimation, and assessment of compliance risks (paragraphs 1.8, 2.2 to 2.15 and 2.48).

11 **Maintaining an accurate and complete record of the addresses of Scottish taxpayers remains HMRC's key challenge in administering the system, as HMRC does not have a central database for identifying Scottish residents.** HMRC relies on taxpayers or employers notifying it of a change of address, although there is no legal requirement for them to do so. HMRC has not sought to make this a legal requirement partly due to the disproportionate burden this would place on taxpayers. To check addresses, HMRC undertakes various exercises including those listed below.

- The number of Scottish residents with taxable income in 2024-25 found to have a missing or invalid postcode through HMRC's address-cleansing work remained relatively low at 1,815 (2023-24: 1,766). As part of its assurance work, HMRC told us it updated all these records.
- In its 2025 exercise to compare the Scottish address records it holds with third-party data, the latest available, HMRC was able to successfully match 72.2% of address records, up from 71.9% in 2024. HMRC reviewed the records that could not be verified with third-party data and checked them against its internal sources. Overall, HMRC matched 95.12% of the records to a Scottish address using either third-party or its internal data (2024: 94.96%). It could not find a match in either source in 4.62% of cases.
- HMRC assesses the residency status of individuals who own one or more properties outside Scotland but within the UK. In 2023-24, the latest data available, HMRC identified 20,000 addresses where it could not confirm a change of address from Scotland to the rest of the UK. HMRC plans to update the analysis with a new methodology in 2025-26, which will inform recommendations to the Scottish Government on any further work needed (paragraphs 2.19 to 2.32 and Figure 6).

12 **HMRC's latest assessment is that the risk of address manipulation by Scottish taxpayers remains low, though this relies on compliance information gathered up to two years in arrears.** HMRC produces an annual Strategic Picture of Risk (SPR) for Scottish income tax. In 2024-25, it considered the main areas of risk to Scottish income tax to be the same as those compliance risks which it assesses at the whole-of-UK level. It did not identify any risks in its SPR specifically relating to Scotland. HMRC's assessment draws on insights gathered through compliance investigations which, given when it requires taxpayers to submit tax returns, typically apply to tax liabilities from two years previous. This means that any increased risk from diverging tax policy such as the introduction of the new advanced rate band may not be apparent until at least 2026-27. In its investigations to date, HMRC has not identified any significant or widespread instances of taxpayers changing their address to obtain a tax advantage. HMRC monitors trends in various data to give a more timely indication of whether compliance risk is increasing, including the number of discrepancies from its third-party data exercise and the number of cross-border changes of address. Its data on cross-border address changes are also subject to a time lag in their availability, and HMRC has encountered difficulties for the last two years with importing relevant land and property transaction data into its system to check against these data. This year, HMRC is undertaking a new process to attempt to resolve these issues, using the land and property data along with other data sources. As part of its engagement with wealthy taxpayers, HMRC also assesses any risk of misrepresenting Scottish taxpayer status for wealthy Scottish taxpayers, specifically the residence status. In 2024-25, HMRC did not identify any Scottish income tax compliance risks specific to wealthy individuals or find any evidence of increased non-compliance (paragraphs 2.18, 2.33 to 2.36 and 2.40 to 2.41).

13 **HMRC estimated a compliance yield of £630 million in 2023-24 based on Scotland's share of UK compliance risks.** Compliance yield is HMRC's estimate of the additional revenues it has generated through its compliance work, and the revenue losses it has prevented. It is how HMRC measures the effectiveness of its enforcement and compliance activities. HMRC estimated that Scotland's share of net losses from compliance risks in 2022-23, the most recent data available, was £1.2 billion. HMRC calculates these figures as a proportion of the equivalent UK figure, rather than using Scotland-specific data to quantify the risks. HMRC does not report on geographical variations in the level of compliance risk, or the relative success of compliance activity in Scotland compared with the rest of the UK (paragraphs 2.45 and 2.46).

14 **HMRC has long-term plans to evaluate the Scottish income tax compliance approach and is considering whether to start calculating a Scottish tax gap.** In August 2024, HMRC and the Scottish Government agreed on a long-term evaluation plan. The first three phases of this plan included aims to assess how well the compliance approach works and how it might respond if risks increase. In 2024-25, both organisations agreed to prioritise the possibility of producing a Scottish income tax gap, shifting focus away from progressing the evaluation plan. The tax gap would represent the difference between the amount of tax that should be paid to HMRC by Scottish income taxpayers and the amount actually paid. HMRC continues to strengthen its data and methods to support evaluation work, while the Scottish Income Tax Board will continue to oversee progress and consider further evaluation in future. A joint HMRC and Scottish Government compliance working group also monitors potential risks. For example, it conducted a baseline analysis in June 2024 of online discussion of Scottish income tax evasion or avoidance following recent tax rate changes, which could be used for future monitoring (paragraphs 2.37 to 2.39).

Costs

15 **In 2024-25, HMRC incurred £1.2 million for the cost of administering Scottish income tax, and re-charged this to the Scottish Government.** Of this amount, £0.5 million related to running costs, £0.1 million less than in 2023-24. The remaining £0.7 million related to the implementation of the advanced rate of Scottish income tax, including ensuring the Pay As You Earn and Self Assessment systems were updated to accommodate the new advanced tax band introduced in 2024-25. We examined HMRC's method for estimating the costs of collecting and administering Scottish income tax for the year ended 31 March 2024. Based on our audit work, we have concluded that the amount paid by the Scottish Government was accurate and fair in the context of the agreement between HMRC and the Scottish Government (paragraphs 3.4, 3.5 and 3.7).

Recommendations and considerations

16 The increasing divergence in Scottish tax policy makes it more important that HMRC takes the opportunity to review its strategy and has a coherent well-planned approach in place that clearly addresses potentially changing compliance risks.

- We recommend that HMRC completes its planned evaluation of the Scottish compliance approach as soon as possible, so it can identify areas for improvement and prioritisation. It should set out a clear plan of actions and deadlines for delivery for the evaluation.
- HMRC should look for more immediate areas of potential improvement to assess and manage compliance risks or improve the accuracy of revenue collection. This could include introducing the collection of Scottish-specific data to areas where it is not currently available; extending its compliance focus on Scottish taxpayers/addresses (as identified by HMRC) to non-Scottish taxpayers; and undertaking further work to understand the cause and potential impact on revenues from unmatched cases in its third-party and internal data assurance checks (paragraphs 1.8, 2.28, 2.37 and 2.48).