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REPORT

Administration of Scottish income tax 2024-25

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Administration of Scottish income tax 2024-25

HM Revenue & Customs

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

15 December 2025

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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).

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 2023-24 and its provisional estimate of Scottish income tax revenue for 2024-25. This includes:

- our assessment of HMRC's Scottish income tax outturn calculation for 2023-24, including data limitations and HMRC's judgements in areas of uncertainty; and
- our views on HMRC's estimate of Scottish income tax revenue for 2024-25 and the features and limitations of HMRC's methodology.

The Scottish income tax 2023-24 final outturn

1.2 HMRC's calculation of the outturn for Scottish income tax revenue for 2023-24 is £17,093 million. HMRC calculates the final outturn figure from several components, which it aggregates to produce the total Scottish income tax liability. HMRC calculates each component using one or more sources of data.

1.3 The outturn for 2023-24 represents an increase of 12.7% compared with 2022-23. The outturn for non-savings, non-dividend income tax for the rest of the UK increased by 10.1% in 2023-24. HMRC attributes the higher growth in revenue from Scottish income tax in 2023-24 to the increase in higher and top rates in Scotland, while rates in the rest of the UK stayed the same.

Components of the outturn

1.4 HMRC largely based the outturn calculation on established tax liabilities, some £17,208 million, where HMRC has finalised the tax owed and fully reconciled the taxpayer records. HMRC calculates the established liabilities from the final tax liability data extracted from the Pay As You Earn (PAYE) and Self Assessment income tax systems.

1.5 HMRC makes adjustments or estimates where it has not yet finalised the tax due, or where it must estimate the Scottish share of uncollectable amounts or tax reliefs. The reduction in Scottish income tax outturn arising from these adjustments was £115 million (net) (**Figure 2**).[1] In some areas of the calculation, HMRC does not have data in sufficient detail to identify income tax liabilities, reliefs or other adjustments relating to individual taxpayers. HMRC estimated the Scottish share of these balances by using other available data, such as population and income data, to apportion the balance between Scotland and the rest of the UK. The gross total of all the estimates and adjustments made by HMRC totalled £862 million in 2023-24, or 4.7% of the gross outturn.[2] The overall proportion of the estimates and adjustments relative to the gross outturn remains broadly consistent with previous years (5.4% in 2022-23 and 5.4% in 2021-22).[3,4]

1.6 As detailed in last year's report, in July 2024, HMRC reported some discrepancies identified in the outturn figures it had previously published in respect of Scottish income tax and the equivalent taxes elsewhere in the UK.[5] This led to HMRC overstating the Scottish income tax outturn by an average of £78 million per year, or 0.7% of the previously reported outturn between 2016-17 and 2021-22. HMRC revised its outturn calculations to remove the duplicate records for each of the affected years. HMRC reported that, from the 2022-23 outturn publication, the outturn methodology has been permanently amended to avoid this double counting of some taxpayers.

1.7 Last year we reported that HM Treasury and the Scottish Government calculated that the revised outturn figures in Scotland and the rest of the UK between 2016-17 and 2021-22, together with revised population estimates following the Scottish Census in 2022, would have reduced the Scottish budget by £29 million overall for that period.[6] HM Treasury and the Scottish Government continue to discuss whether any adjustments are needed to amounts previously paid to the Scottish Government following the historical discrepancies in the outturn calculations.

1 The sum of the established tax liabilities and the net adjustments does not equal the reported outturn due to rounding.
2 This gross total is made up of £423 million estimated liabilities and £439 million deductions. Estimates and adjustments for Self Assessment and PAYE liabilities include both amounts that are added as estimates and those deducted from revenue, so this gross total is higher than the sum of the individual components presented in Figure 2.
3 For this year's report, we reviewed our methodology for calculating the proportion of estimates and adjustments as a percentage of the outturn. Instead of using the net outturn figure as a denominator, we use the gross outturn. This tends to be larger, therefore reducing the proportion estimate. We also reviewed our categorisation of which components were estimated, and removed some from the numerator (for example, some reliefs). This also reduces the proportion estimate. HMRC's calculation of this proportion estimate may also be smaller than the National Audit Office's, as it excludes some further elements of the numerator as non-estimated.
4 The net total of estimates and adjusted values shows more fluctuation year on year (a reduction of £115 million in 2023-24, £17 million in 2022-23, and £100 million in 2021-22).
5 Comptroller and Auditor General, *Administration of Scottish income tax 2023-24,* Session 2024-25, HC 541, National Audit Office, January 2025.
6 HM Treasury and the Scottish Government, *Scottish Income Tax outturn reconciliation for 2022-23,* updated 15 January 2025.

Figure 2

HM Revenue & Customs' (HMRC's) calculation of the 2023-24 Scottish income tax revenue outturn

The majority of the outturn is based on established liabilities with a small proportion estimated by HMRC

	2023-24 outturn			2022-23 outturn		
	Established amounts	Estimates and adjustments	Total	Established amounts	Estimates and adjustments	Total
	(£mn)	(£mn)	(£mn)	(£mn)	(£mn)	(£mn)
Self Assessment liabilities	6,685	(87)	**6,598**	6,597	(57)	**6,540**
Pay As You Earn (PAYE) liabilities	10,523	36	**10,558**	8,590	19	**8,609**
Estimated further liabilities	–	376	**376**	–	414	**414**
Deductions from revenue	–	(439)	**(439)**	–	(394)	**(394)**
Total	**17,208**	**(115)**	**17,093**	**15,187**	**(17)**	**15,169**

Notes

1 Self Assessment and PAYE liabilities are based primarily on the tax liability data held by HMRC, although some amounts are based on estimates as well.

2 Estimated further liabilities are 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.

3 Deductions from revenue include tax relief on pension contributions and Gift Aid and an estimate for the share of tax liabilities that either employers or taxpayers fail to pay.

4 Numbers shown in brackets are negative numbers.

5 Figures may not sum to totals due to rounding.

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

1.8 The other components of HMRC's methodology for calculating the outturn have remained broadly the same since the prior year. The methodology includes areas of estimation, for instance where HMRC had not yet received returns from taxpayers. In these areas, we evaluated the basis for HMRC's estimate including relevant assumptions and available data. Based on our financial audit work, we concluded that the Scottish income tax revenue outturn for 2023-24 is fairly stated. We describe the key components of the outturn calculation in more detail below. 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 the outturn.

Self Assessment liabilities

1.9 The Self Assessment total liability of £6,685 million represents all income tax attributable to Scotland from Scottish Self Assessment taxpayers in 2023-24. HMRC identifies Scottish taxpayers by using its record of Scottish residency status in its Computerised Environment for Self Assessment (CESA) system. The calculation of Self Assessment liabilities is mainly based on the extraction of Scottish taxpayers from CESA. HMRC deducted £87 million to estimate Scotland's share of other relevant Self Assessment balances where specific data are not available.[7]

PAYE liabilities

1.10 The PAYE total established liability of £10,523 million represents all income tax attributable to Scotland from Scottish PAYE taxpayers in 2023-24. Under PAYE, employers submit monthly data to HMRC on the earnings and tax deductions made for their employees, and HMRC records this information in its National Insurance and PAYE Service (NPS) system. HMRC identifies Scottish taxpayers in the NPS using a residency indicator based on taxpayer postcode information. HMRC identifies the total Scottish income tax liabilities by extracting Scottish taxpayer records from the NPS.

1.11 Most PAYE liabilities are based on Scottish taxpayer data extracted from the NPS, but some apportionment of other smaller elements is required. The sum of these adjustments in 2023-24 was an increase in liabilities of £36 million.[8]

Estimated further liabilities

1.12 Most Self Assessment liabilities for 2023-24 were established prior to calculating 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 afterwards. This is because HMRC continues to receive additional information from taxpayers and through its compliance activity. HMRC calculates the estimated additional liability for these elements based on past performance and estimated it at £376 million in the 2023-24 outturn.

7 This includes the following: an estimate of £27 million from manually entered liabilities and assessments, which do not provide a split of the liability between taxes; an adjustment of £22 million to cover sensitive records, which HMRC does not access when calculating Scottish income tax; and a deduction of £136 million for the Scottish share of tax reliefs claimed through Self Assessment, for which HMRC does not collect Scotland-specific data.

8 This includes a deduction of £11 million to cover the Scottish share of tax reliefs given against PAYE liabilities, for which HMRC does not collect Scotland-specific data. HMRC also made an adjustment of £46 million to apportion the tax it collects from employers under PAYE settlement agreements. These agreements allow employers to make one annual payment to cover all tax due on minor, irregular or impracticable expenses or benefits for employers in the scheme. As tax liabilities are settled through one payment for the employer, the identity of individual taxpayers is not recorded and, therefore, HMRC analyses employer submissions to determine the Scottish proportion of UK-wide settlement agreement revenue.

Deductions from revenue

1.13 HMRC deducted a total of £439 million from the outturn revenue, made up of the following.

- £91 million for liabilities HMRC does not expect to collect. Some PAYE and Self Assessment income tax liabilities are never settled because either employers or taxpayers fail to pay the full amounts due. HMRC analyses historical data for the UK as a whole to determine patterns of uncollected liabilities and then apportions an amount relating to Scottish taxpayers.
- £223 million in pension contributions and £126 million in Gift Aid, both of which attract income tax relief at the taxpayer's marginal rate of income tax. Pension scheme administrators claim tax relief at the basic rate from HMRC on behalf of their scheme members, while charities claim tax relief at the basic rate from HMRC on behalf of their donors. HMRC calculates both deductions by estimating the Scottish share of each tax relief claimed across the UK, using historical data.

The Scottish income tax provisional estimate for 2024-25

1.14 HMRC estimates it will collect £18,967 million of Scottish income tax revenue relating to the 2024-25 year.[9] This provisional estimate suggests an increase of £1,874 million (11.0%) against the 2023-24 outturn. For the UK overall, the increase was 10.0%. These increases may reflect rises in earnings, the freezing of some thresholds (for example, for personal allowance), the introduction of the advanced rate, and increases in the top rate of income tax in Scotland. HMRC expects to publish the final outturn for the 2024-25 year in its 2025-26 Annual Report and Accounts by July 2026.

1.15 HMRC's provisional estimate is solely for financial reporting purposes in its annual accounts. It does not affect the amount of revenue that the Scottish Government receives, which is based on independent forecasts of Scottish income tax from the Scottish Fiscal Commission (SFC) and the Office for Budget Responsibility (OBR). When HMRC confirms the final outturn, an adjustment is then made to the Scottish Government's budget to account for any difference between the forecasts and the final amount. In any given year, therefore, the funding will reflect the forecast income tax revenue for that tax year, together with any adjustment required from the tax year three years previously.

9 HM Revenue & Customs, *Annual Report and Accounts 2024 to 2025*, HC 1039, July 2025.

1.16 The Scottish Government uses the SFC and OBR forecasts, as well as regular updates on the amount of income tax paid through PAYE systems, to understand the amount of income tax likely to be collected from Scottish taxpayers, though HMRC's provisional estimate can also provide a useful indicator based on historical experience. The outturn in 2023-24 was £161 million (–0.9%) lower than HMRC's provisional estimate.

1.17 HMRC's methodology to estimate Scottish income tax revenue in 2024-25 is largely unchanged from that it used to calculate the 2023-24 estimate. The methodology relies on taxpayer data from HMRC's Survey of Personal Incomes (SPI). The latest SPI data available to HMRC at the time it produced the estimate were from 2022-23. HMRC then adjusted the data to reflect demographic and policy changes that it expects or knows have taken place between 2022-23 and 2024-25. The SPI sample is less than 2% of UK taxpayers, which introduces sampling uncertainty into the revenue estimate. It also combines the calculation of PAYE and Self Assessment liabilities, so does not reflect the differing proportions of each type of taxpayer between Scotland and the rest of the UK. There is also an inherent risk that data from 2022-23 will not accurately reflect the taxpayer base for 2024-25.

1.18 As part of our financial audit work, our review of the provisional estimate methodology concluded that HMRC's approach is reasonable for the purposes of producing the estimate.

Part Two

Administering Scottish income tax

2.1 This part of the report covers:

- HM Revenue & Customs' (HMRC's) key processes to administer the income tax system and how we have obtained assurance on them;
- HMRC's procedures to identify and maintain a complete and accurate record of the Scottish taxpayer population; and
- how HMRC identifies and responds to compliance risks.

2.2 HMRC uses the same systems to administer income tax, whether it comes from a taxpayer in Scotland or the rest of the UK. However, HMRC also operates additional rules and procedures for Scotland, which we assess below. This reflects HMRC's responsibility to administer income tax for Scottish taxpayers in the same way as the service provided elsewhere in the UK.

2.3 Under Section 2 of the Exchequer and Audit Departments Act 1921, the UK Comptroller and Auditor General (C&AG) must consider the adequacy of HMRC's systems to assess and collect tax in the UK, including income tax. Each year we publish a report (the Standard Report), alongside HMRC's Annual Report and Accounts, setting out the C&AG's conclusions in this respect. Our 2024-25 Standard Report 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 they are duly carried out.

2.4 To support the conclusions of this report, we used our UK-wide testing to address risks and approaches arising from divergences in income tax policy. We also undertook specific procedures looking at HMRC's address-cleansing and wider tax compliance activities. These informed our assessment of the completeness and accuracy of HMRC's Scottish income tax estimates. To reach our conclusions, we examined several elements of devolved tax administration, such as HMRC's ongoing maintenance of Scottish taxpayer records, and how it identified and responded to devolved tax compliance risks.

The income tax system

2.5 HMRC's system to collect income tax is consistent across the UK. Depending on the type of income an individual receives, income tax is assessed and collected mainly by employers deducting earnings through Pay As You Earn (PAYE), or by the taxpayer submitting a Self Assessment return, or a combination of these methods.[10]

2.6 The PAYE and Self Assessment processes share common principles, despite HMRC using different IT systems and data sources to assess and collect tax. **Figure 3** identifies these principles and describes the main processes for each income tax stream.

Assurance of income tax processing

2.7 Our annual audit work programme on HMRC includes procedures providing assurance over key tax processing controls. These controls are broadly divided into two categories:

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

2.8 Following annual updates to business rules to reflect changing tax rates, thresholds and allowances for the UK and devolved administrations, HMRC completes several phases of assurance testing on key business controls to confirm system functionality. We evaluate the scope of this testing and re-perform elements to confirm HMRC's conclusions as part of our audit. The key processes for PAYE include annual:

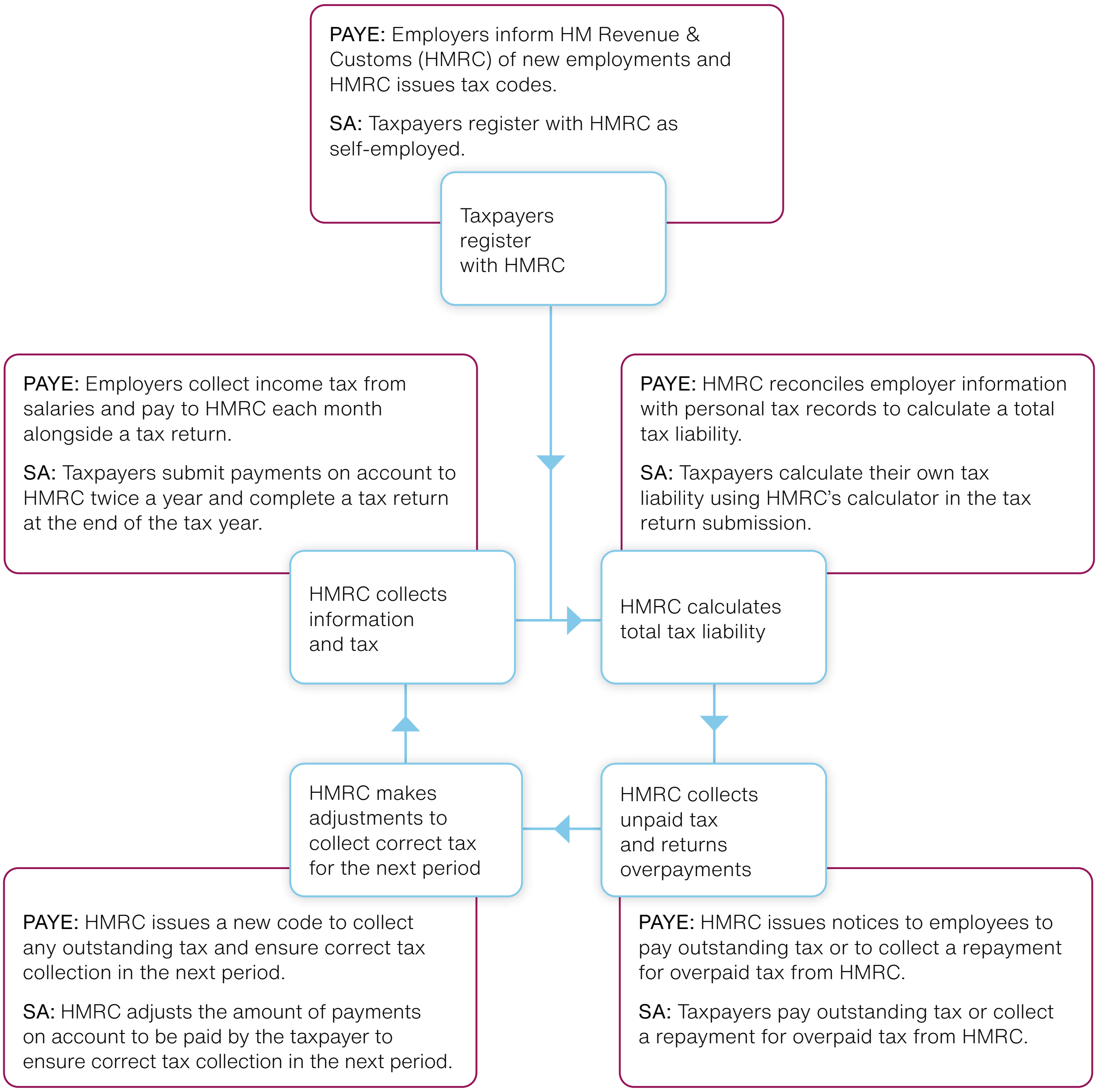
- reconciling of employer information with personal tax records to confirm tax due on earnings and calculate any over- or underpayments of tax based on country of residence; and
- issuing of tax codes to PAYE taxpayers that incorporate residency information to ensure employers deduct tax under the tax rules of the correct country.

2.9 HMRC applies similar processes to each individual Self Assessment return that it receives. Self Assessment taxpayers make payments on account and at the year-end calculate their own tax liability using HMRC's calculator in their tax return submission.

10 HMRC also collects tax from some taxpayers using the Simple Assessment method, calculating how much tax they owe using information it already holds. This applies, for example, when HMRC cannot automatically collect tax through income or when someone must pay tax on their state pension.

Figure 3
The UK income tax system

The Pay As You Earn (PAYE) and Self Assessment (SA) processes share common principles to assess and collect income tax



→ Tax cycle

Notes

1 PAYE and Self Assessment do not occur simultaneously. PAYE is processed during the tax year (6 April to 5 March) and reconciled after the tax year ends. Self Assessment returns are not submitted until the January following the end of the tax year.

2 After the tax year ends, HMRC's PAYE reconciliation process calculates the income tax liability for each taxpayer using all available data. The calculated liability is compared with amounts deducted at source or collected from taxpayers directly to determine whether the correct tax has been collected.

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

Devolved income tax

2.10 The main differences in administering Scottish income tax, when compared with UK processes, are the business rules that the HMRC system applies when completing tax liability and tax code calculations. There have been no significant changes to system rules since our last report covering 2023-24.

2.11 A Scottish taxpayer is someone with a tax liability whose main place of residence during the tax year is Scotland.[11,12] The rules that the HMRC system applies for Scottish taxpayers are as follows.

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

2.12 Self Assessment returns include a check box for the taxpayer to state whether they resided in Scotland during the tax year. If this contradicts HMRC's records, HMRC uses the address it holds to calculate the taxpayer's tax liability. HMRC notifies taxpayers of the discrepancy and asks them to update their address if required. HMRC does not collect data on the number of discrepancies. **Figure 4** shows how Scottish taxpayers are processed within the UK income tax system.

Tax relief on pension contributions

2.13 HMRC must identify Scottish taxpayers so that tax relief is correctly allocated. Pension administrators claim tax relief at source on behalf of their members and add this to their members' contributions. HMRC applies tax relief on pension contributions at the basic rate of 20% for all taxpayers. Scottish taxpayers paying a tax rate above 20% can claim the remaining tax relief through a Self Assessment return or by contacting HMRC.[13]

11 HMRC applies the 'day count test' when an individual has more than one place of residence and no clear main place of residence. HMRC treats the individual as a Scottish taxpayer if they spend more days in Scotland than in any other part of the UK.

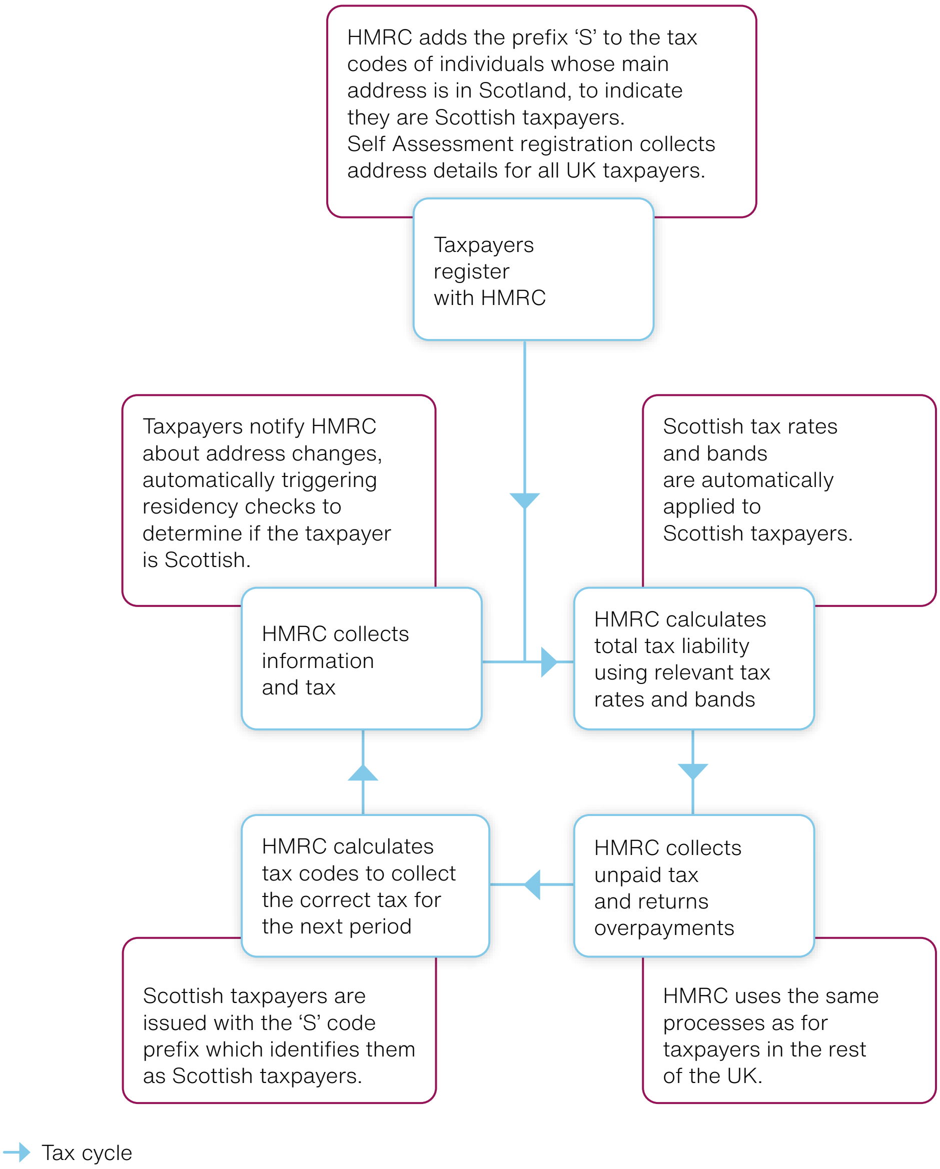
12 Scottish Parliamentarians are automatically deemed as Scottish taxpayers in any tax year they are in office, regardless of where they reside. This applies to the elected members of the Scottish Parliament and those members of Parliament in Westminster representing a constituency in Scotland. Once HMRC records a Scottish Parliamentarian as a Scottish taxpayer, its system automatically overrides its normal business rules, and always records them as Scottish taxpayers until HMRC manually resets the override for each Parliamentarian. HMRC told us that it did not identify any issues in relation to Scottish parliamentarians being recorded as Scottish taxpayers during 2024-25.

13 For Scottish taxpayers who only pay tax at the Scottish starter rate of 19%, HMRC does not currently recover the difference between the Scottish starter and Scottish basic rate.

Figure 4

How the UK tax system processes Scottish income taxpayers

HM Revenue & Customs' (HMRC's) business rules are configured to process income tax using the rates and thresholds applicable to a taxpayer's residency status



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

2.14 To administer relief at source, HMRC requires all pension administrators to submit an annual return of information, which provides details of their members and their pension contributions during the previous tax year. HMRC's Relief at Source system then automatically matches scheme members against addresses held by HMRC and confirms the residency status of pension scheme members to identify Scottish taxpayers and ensure the correct relief is applied at source. HMRC then issues a report to all pension administrators confirming the residency of their members. HMRC confirmed the residency status for 93% of pension scheme members in the UK following the 2023-24 tax year, which is a similar proportion to that of the past six years. A Scotland-specific figure for the proportion of residency statuses confirmed is not available. Following the 2023-24 tax year, HMRC issued Annual Notification of Residency Reports in January 2025.

Tax relief on Gift Aid contributions

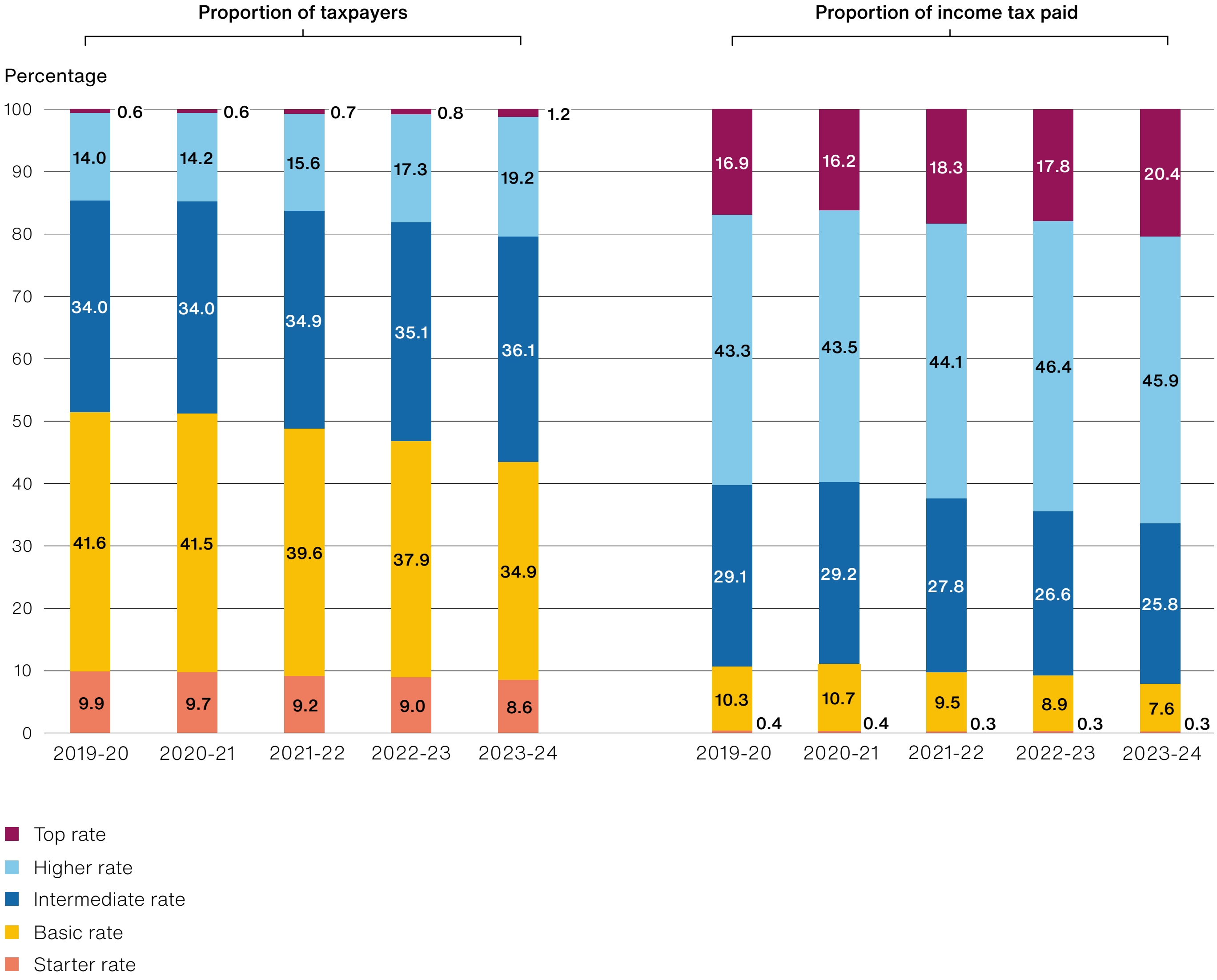
2.15 HMRC provides tax relief on Gift Aid contributions in Scotland at the UK basic rate of 20%. This is because HMRC does not have systems in place to establish the residency of taxpayers donating to charity. All taxpayers paying tax above the basic rate can claim back the difference between their tax rate and the basic rate on their donation. Where donations are made by Scottish taxpayers, HMRC applies the correct rate of relief when it is notified of the donated amount either through a request to amend a tax code or via a Self Assessment return.

Scottish taxpayer population

2.16 HMRC has calculated that there were 2.9 million Scottish taxpayers in 2023-24, which is a 5.7% increase from 2.8 million in 2022-23 (rest of the UK: 6.0%). The increase in the number of taxpayers reflects the freeze in the personal allowance threshold. Higher rate and top rate taxpayers accounted for 20.4% of the Scottish income tax population in 2023-24 (up from 18.1% in 2022-23) and contributed 66.3% of tax paid (up from 64.2% in 2022-23, **Figure 5**). These increases reflect the movement of taxpayers into higher tax brackets due to incomes rising while tax thresholds stayed the same or were lowered (for example, in the case of the top rate). Starter rate and basic rate taxpayers accounted for 43.5% (down from 46.9% in 2022-23) and provided 7.9% of tax paid (down from 9.2% in 2022-23). Broadly, trends for Scottish taxpayers mirror those in the rest of the UK, in terms of an increasing number of taxpayers and a higher proportion of taxpayers paying at least the higher rate who account for a greater share of income tax revenue.

Figure 5
Scottish income tax bands by proportion of taxpayers and proportion of income tax paid, 2019-20 to 2023-24

The proportion of Scottish income taxpayers who are starter rate or basic rate taxpayers fell from 51.5% in 2019-20 to 43.5% in 2023-24, and the proportion of income tax paid by these taxpayers fell from 10.7% to 7.9%



Note
1 2023-24 is the latest year for which data are available.

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

2.17 The Scottish Parliament has set income tax bands and rates in Scotland that are different from the rest of the UK since 2018-19.

- From 2018-19 to 2023-24, there were five tax bands in Scotland, compared with three in the rest of the UK.
- In 2023-24, Scottish income tax policy diverged further from the rest of the UK, as the top rate rose from 46% to 47% and the higher rate increased from 41% to 42%.
- For 2024-25, the policy diverged further, introducing a new 45% advanced rate band for income between £75,000 and £125,140, meaning there were six income tax bands in Scotland compared with three in the rest of the UK. The top rate was also raised from 47% to 48%. The Scottish Government has not published any information on the potential impact or costs of implementation for taxpayers of the new advanced rate band (for example, employers having to take account of the new tax band). HMRC told us that it provided information required by third-party providers to update payroll software used by businesses. A 2021 evaluation by the Scottish Government for the introduction of the five-tax-band structure found that the reforms introduced additional complexities to the tax system, with technology reducing any impacts, but that there were no significant new costs for businesses or payroll operators.

2.18 The net effect of these tax policy changes is that some taxpayers with lower incomes pay less tax in Scotland than a taxpayer elsewhere in the UK, while some taxpayers with higher incomes pay more. Where taxpayers are subject to higher Scottish tax rates, they may seek to manipulate their residency status to reduce their tax liability. This could include failing to notify HMRC of address changes or deliberately falsifying address information, especially wealthy taxpayers or those with multiple properties in Scotland and the rest of the UK. Based on its monitoring, HMRC considers that the risk of these behaviours is low compared with the overall risk of non-compliance across the UK, such as efforts to avoid or reduce liabilities altogether.

Address assurance

2.19 HMRC does not have a centralised database for specifically identifying Scottish tax residents. As a result, maintaining accurate and complete records of the Scottish taxpayer population continues to be the main challenge for HMRC in administering Scottish income tax. HMRC considers a number of information sources for changes of address but relies primarily on taxpayers informing it of such changes in a timely manner, although taxpayers are not legally required to do this. HMRC has stated that there is currently no case for making this a legal requirement because of the disproportionate burden it would place on taxpayers, and because HMRC can collect data from other parts of government. HMRC also obtains address information from other sources, such as employers, although it is not mandatory for employers to provide updates when their employees' addresses change. In 2024-25, HMRC reinforced key Scottish income tax messages by reminding individuals to update their address details via platforms such as the personal tax account and annual tax summaries.

2.20 Address information must be correct to ensure the right amount of tax is collected from individuals and allocated to the appropriate government. HMRC has several assurance processes in place to maintain the completeness and accuracy of the address data it uses to identify Scottish taxpayers (**Figure 6** on page 26).

Postcode scans

2.21 HMRC scans taxpayer records to identify missing or invalid postcodes which would result in an incorrect residency status being applied. The 2024-25 scan identified 54,138 postcodes as either missing or invalid. HMRC investigates and updates all cases where individuals were either employed or receiving a pension. In 2024-25, HMRC told us it updated 1,815 postcodes, a similar level to 2023-24 (1,766). HMRC told us that cases it has not updated are classified as dormant because they have no current taxable income and therefore no income tax attributable to Scotland in 2024-25.

The administration of Scottish tax codes

2.22 Where an employer does not apply the ‘S’ prefix to an employee’s tax code, they will deduct tax at the rate that applies to the rest of the UK. At the end of the tax year, HMRC reconciles what each taxpayer has paid in tax against what it thinks they should have paid. HMRC then uses this finalised information and the residency status held on its systems to calculate the tax liability each taxpayer should pay. The outturn for Scotland is, therefore, unaffected where the ‘S’ prefix in an individual’s tax code is not correctly applied by an employer. In 2024-25, HMRC used the employer bulletin, agent update, customer compliance managers, employer and payroll forums, GOV.UK, and social media to emphasise the importance of correctly applying ‘S’ tax codes issued by HMRC.

2.23 Using a tax code without the ‘S’ prefix could result in Scottish taxpayers either under- or overpaying tax during the tax year. In this situation, taxpayers may have to pay additional amounts in future years to offset an underpayment or await a refund from HMRC for any overpayments. HMRC does not collate the number of reconciliations for Scottish taxpayers where the amount of tax collected was different from the amount HMRC calculated should have been paid.

2.24 Each month, HMRC compares tax codes in PAYE submissions with its own taxpayer record to identify cases where employers are using a different tax code. In April 2024, there were 45,928 cases (1.3% of cases) where employers were not operating a tax code with an ‘S’ prefix. HMRC’s wider approach to incorrect ‘S’ codes focuses on reminding, educating and supporting employers to apply the correct codes, reissuing codes where necessary, and contacting employers that repeatedly make errors to help them resolve the problem. HMRC stated that this strategy has reduced the error rate for missing ‘S’ prefixes from around 4% in 2019-20 to around 1.26% in April 2024, and it intends to continue this work to keep the error rate low.

Figure 6

Assurance over the Scottish taxpayer population

HM Revenue & Customs (HMRC) carries out several assurance activities to maintain the completeness and accuracy of the Scottish tax base

Assurance activity	Description and purpose	Results
Controls ensuring Scottish residency is correctly determined using the address held by HMRC		
New postcodes	Comparison of HMRC's list of Scottish postcodes with Office for National Statistics (ONS) data to ensure postcodes are up to date.	HMRC receives postcode data quarterly from the ONS. HMRC added 1,229 new postcodes in 2024-25.
Address cleansing	Scans of taxpayer records held by HMRC to identify missing or invalid postcodes which would result in an incorrect residency status being applied.	Scans undertaken in 2024-25 identified 54,138 missing or invalid postcodes. HMRC told us that it updated 1,815 of these postcodes because they had a record of current employment or pension to make sure no Scottish Government revenue is lost.[1]
Cross-border postcodes	HMRC's systems flag address changes where new addresses lie in a postcode that crosses the England–Scotland border. HMRC reviews these cases to ensure it determines the correct residency.	In 2024-25, HMRC reviewed 20 cross-border cases, of which it amended six following investigation. HMRC told us that it amended all six to Scottish residency.
Missing residency flags	Scans to identify Scottish taxpayer records that are not flagged as such in the system.	HMRC's scans during 2024-25 identified 2,348 cases. HMRC told us that all records were updated.
Controls monitoring the operation of Pay As You Earn (PAYE) by employers		
Tax code comparison scans	A comparison between tax codes in PAYE submissions with HMRC's taxpayer record to identify cases where the employer is applying a different tax code to HMRC.	In April 2024 HMRC identified 45,928 cases where 'S' prefixes were not correctly applied to tax codes.[2] It wrote to employers to ask them to update the incorrect tax codes.
Controls to identify incorrect addresses held by HMRC		
Third-party data assurance exercise	A comparison of taxpayer address records held by HMRC with third-party data sources to identify cases where HMRC records are inconsistent with third-party data. The exercise is HMRC's main source of assurance over the accuracy of its address records.	The exercise performed in 2025 compared 5.6 million Scottish address records. HMRC identified 5,800 records where the residency determined from the address held by HMRC did not match the residency suggested by the third-party data. HMRC wrote letters to the individuals concerned, asking them to update their address records.
Wealthy individuals	HMRC performs checks and procedures to review the movements of wealthy individuals and ensure their addresses are up to date.[3] Specialist teams develop an in-depth understanding of the finances, behaviours and compliance risks of these taxpayers.	

Notes

1 Invalid postcodes identified are corrected or manually set as Scottish where the correct postcode cannot be determined from the address.

2 Figures are from HMRC's analysis of monthly tax code scans and show the number of tax codes where the Scottish 'S' prefix was not correctly applied, and where the tax code would have otherwise been correct.

3 HMRC defines wealthy individuals as those with incomes of £200,000 or more, or with assets equal to or above £2 million in any of the last three years.

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

2.25 We have previously encouraged HMRC to follow up with employers applying incorrect tax codes, particularly those making persistent errors. In November 2024, HMRC expanded its reporting to include the characteristics of employers using incorrect tax codes and, in January 2025, it reported its early insights into the employer's application of 'S' codes. HMRC reported that there were more errors by large businesses and the financial and insurance sector.[14] The majority of errors relate to Scottish low-rate taxpayers.[15] HMRC also identified the top employers with the highest number of errors in the last three tax years, with plans to engage directly with two employers persistently applying incorrect 'S' codes. HMRC's initial analysis indicated possible links between errors and the treatment of 'no net liability' taxpayers, and incorrect country code assignments within the National PAYE service.[16,17] HMRC plans to conduct further analysis and root-cause investigations to address these discrepancies and improve the accuracy of Scottish 'S' code application.

Third-party data exercise

2.26 HMRC periodically compares the Scottish taxpayer address records it holds with third-party data to identify differences. This comparison is HMRC's main source of assurance over its address information. Between 2019 and 2023, HMRC ran this exercise every two years. HMRC agreed with the Scottish Government to run an additional third-party data exercise in 2024, one year after the previous exercise, and in 2025, making up three consecutive years to more closely track any impact from increasing divergence in tax policy.

2.27 For the 2025 third-party data assurance exercise, 5.6 million Scottish taxpayer address records held by HMRC were compared with third-party data. Of these:

- 4.04 million records (72.2% of records analysed, up from 71.7% in 2024) were successfully matched to third-party data with a Scottish address;
- 3,611 (0.06% of records analysed) were identified as having an address elsewhere in the UK by the third-party data (down from 0.08% in 2024); and
- the residency status of taxpayers for 1.55 million records (27.7% of records analysed) could not be corroborated by comparison with the third-party data (down from 28.2% in 2024).

14 HMRC defines a large business as having 250 and more employees.
15 HMRC defines a Scottish lower rate taxpayer as an individual with taxable income of £42,999 and under.
16 HMRC defines no net liability taxpayers as those individuals not notably liable to pay tax.
17 The National Insurance and PAYE Service (NPS) is the main system used by HMRC to manage individual tax records. Country codes (for example, 'Scotland') are assigned by HMRC, usually based on the individual's address, not by employers.

2.28 HMRC subsequently reviewed unmatched records against internal data sources.[18]

- It successfully matched 1.16 million records (81.56% of the previously unmatched records, excluding duplicates, the deceased individuals, those under 18 and overseas cases).[19]
- Overall, HMRC successfully corroborated 5.21 million records, or 95.12% of records analysed (excluding ineligible cases), to a Scottish address using third-party data or internal data sources. The proportion in 2024 was 94.96%.
- It also reported that, based on the comparison with third-party data or internal data sources, 13,972 (0.26%) were identified as having an address elsewhere in the UK, while 253,006 (4.62%) cases were not matched to either source so residency status could not be corroborated.[20]

2.29 HMRC and the Scottish Government have agreed criteria to guide decisions about the frequency of future third-party data exercises (which cover addresses across the UK, in addition to Scottish ones). If there are 15,000 or more mismatches between Scottish and rest-of-the-UK addresses, the exercise will continue annually; otherwise, it will revert to a biennial schedule. In 2025, the third-party data exercise showed that only 3,611 Scottish records belonged to rest-of-the-UK residents, down from 4,287 in 2024. The total number mismatched, 5,800, is currently below the 15,000 threshold and has stayed under this limit for the past four exercises, steadily decreasing since 2023 (2023: 8,540; 2024: 7,017; 2025: 5,800). Although the 2025 number mismatched is below the agreed threshold, the schedule for the next data assurance exercise is not yet confirmed. HMRC and the Scottish Government will decide in February 2026 whether to commission an additional annual exercise in 2026 or revert to the biennial timing with the next exercise in 2027.

2.30 HMRC sent letters to the 5,800 individuals whose residency, based on HMRC records, did not match that indicated by third-party data, asking them to update their addresses. In 2024, HMRC followed up a sample of 100 unmatched cases that it had contacted, and found that 37 customers had updated their address, 20 of which were compatible with HMRC-held information. HMRC can only contact individuals using the addresses it already holds; it cannot write to third-party addresses due to data restrictions. As HMRC has no legal authority to enforce taxpayers to update their details, it cannot correct a mismatched address unless an individual notifies it. HMRC is working with the third-party data provider to explore ways to access third-party addresses and potentially correct more mismatched records.

18 The internal data sources were Self Assessment taxpayer records, Real Time Information (the system for employers to submit payroll information), and the National Insurance and PAYE service.
19 Approximately 125,000 records were discounted from the analysis as the individuals concerned were under the age of 18, deceased, or indicated as living abroad, or they had duplicate records.
20 HMRC's analysis indicates that the majority of the 253,006 cases had temporary reference numbers, which are allocated when a National Insurance number cannot be found. It suggested that this would include historic cases that were no longer active or where a National Insurance number has subsequently been allocated.

Scottish taxpayers with one or more properties outside Scotland

2.31 HMRC identifies Scottish taxpayers who have one or more properties outside of Scotland but within the UK. HMRC assesses whether the residency status of any of these individuals has changed as a result of a reported change of address to any of their other properties. Where this is the case, HMRC checks against other data sources to ensure the reported change of address can be corroborated. In 2023-24, HMRC identified 20,000 addresses where it could not confirm a change of address from Scotland to the rest of the UK. HMRC reported that it was too early to draw any conclusions. It reported that activity in 2024-25 was limited because the available data were insufficient.

2.32 In April 2025, the compliance working group agreed to adopt a new methodology to strengthen the assessment. HMRC reported that the group would complete the new analysis in 2025-26, after which it would review the findings and recommend to the Scottish Government what further analysis and work is needed. As part of the new methodology, HMRC is considering developing an equivalent assessment for taxpayers in the rest of the UK who own multiple properties across Scotland and the rest of the UK.

Compliance risk assessment and planning

2.33 HMRC applies the same risk-based compliance approach to collect income tax in Scotland as it does in the rest of the UK. This approach involves:

- **promoting** compliance by designing processes to encourage and help customers get things right first time;
- **preventing** non-compliance through process design and customer insight, and providing an opportunity to correct mistakes; and
- **responding** to, investigating and correcting compliance risks using tailored activity when intervention is needed.

2.34 As part of its Service Level Agreement with the Scottish Government, HMRC produces an annual Strategic Picture of Risk (SPR) for Scottish income tax to assess and plan for compliance risks applicable to Scotland. This draws from HMRC's assessment of key compliance risks at the overall UK level. For the Scottish SPR, it applies a value to represent the Scottish proportion of these risks, calculating these in line with Scotland's share of UK income tax, as reported in the Scottish Income Tax Outturn Statistics. As in previous years, HMRC has not identified any significant risks specific to Scotland and considers the main risks to Scottish income tax to be the same as those affecting the whole of the UK.[21]

21 Overall risks that HMRC identifies at the UK level include the following: evasion (where individuals or businesses deliberately omit, conceal or misrepresent information to reduce their tax liabilities); the hidden economy (where taxable income is not declared or where declared income is deliberately understated); and tax avoidance (where tax rules are exploited to gain a tax advantage that Parliament never intended).

2.35 HMRC told us that it continues to monitor risks specific to Scottish income tax and would include these in future SPRs if appropriate. Its current assessment is that the risk of address manipulation is still low despite the level of divergence between Scottish income tax policy and the rest of the UK. Through the data HMRC monitors it has not identified any significant or widespread instances of taxpayers falsifying their address to obtain a tax advantage.

2.36 HMRC has several sources of information to monitor the risk of address manipulation, including the following.

- The number of compliance cases it has identified as relating to the residency status as a Scottish taxpayer: Given when HMRC requires taxpayers to submit tax returns, compliance activity typically applies to tax liabilities from two years previously, therefore any compliance risk from the further divergence in tax policy between Scotland and the rest of the UK from 2024-25 is unlikely to be apparent through compliance cases until at least 2026-27.

- The number of discrepancies from its third-party data exercise and the number of incorrect 'S' codes applied by employers for Scottish residents (see paragraphs 2.22 to 2.30).

- Cross-border changes of address to identify potential instances of taxpayers changing their address to obtain a tax advantage: HMRC told us that it previously had an established process for corroborating reported moves from Scotland to England using the land and property data. However, for 2022-23 and 2023-24 we reported that HMRC encountered difficulties with importing these data into its systems for analysis. In April 2025, the compliance working group agreed a new process to resolve these issues, using the land and property data along with other data sources. HMRC expects to complete this analysis in 2025-26, and it was not available for this report. It told us that the compliance working group is overseeing this work.

2.37 In August 2024, HMRC and the Scottish Government agreed on a long-term plan to evaluate how well the Scottish income tax compliance approach worked in 2024-25 and the future. The first three phases of the evaluation plan aimed to assess how effective the current approach is; understand how well it would perform if the risk of non-compliance increased; and identify any weaknesses in the current approach and possible improvements for the future. In 2024-25, both organisations decided to prioritise the possibility of producing a Scottish income tax gap (see paragraph 2.39), shifting focus away from progressing the evaluation plan. HMRC told us that the evaluation remains ongoing, with a focus on reviewing and strengthening its data and methods to detect potential compliance risks. In 2025-26 the Scottish Income Tax Board continues to oversee the plan and may revisit further evaluation of the compliance approach in the future.

2.38 HMRC told us that it continues to assess whether its current compliance approach in Scotland remains sufficient as income tax policy diverges further from the rest of the UK. So far, HMRC states that it has not found any significant evidence of non-compliance with Scottish income tax in 2024-25. The joint HMRC and Scottish Government compliance working group, which held its first meeting in May 2024, helps to monitor compliance risk. In June 2024, the group carried out an analysis to assess whether there was any visible change in online discussion of Scottish income tax evasion or avoidance, following the tax changes in 2024-25. The analysis found some discussion about legal ways to reduce liability, with limited comments about tax evasion, and no evidence of organised services enabling this. The compliance working group considered the analysis as a useful baseline for future comparisons that it could monitor going forward.

Tax gap

2.39 HMRC could quantify risks affecting Scottish income tax more precisely through a Scotland-specific tax gap. This would estimate the difference between the amount of tax that should be paid by Scottish taxpayers and what is actually paid. HMRC and the Scottish Government do not currently calculate a Scotland-specific tax gap but are discussing the possibility of HMRC producing one and options for potential methods. HMRC estimates that calculating the Scottish tax gap using a random enquiry approach would incur resource costs of around £5 million annually.[22] This does not include other costs arising from, for example, IT changes needed to identify Scottish taxpayers and the opportunity cost of redeploying compliance staff from yield-bearing work.

Wealthy taxpayers

2.40 HMRC told us it engages with wealthy Scottish taxpayers through its existing customer compliance manager model and other regular interactions to raise awareness, educate customers about their obligations, and assess any risk of misrepresenting Scottish taxpayer status. An income tax specialist within the wealthy taxpayer unit oversees this work, with residence status in Scotland forming part of the risk assessment process for wealthy individuals. If an individual customer review identifies a specific risk related to Scottish income tax, this would be covered by the individual's case worker.

22 The random enquiry programme is used to estimate the tax gap and can take up to two to three years from the initial sampling to produce sufficient compliance check results to robustly estimate the tax gap.

2.41 HMRC's view is that its engagement with wealthy individuals supports the identification of any compliance risks linked to Scottish income tax. Any insights into possible non-compliance are reported to the Scottish income tax compliance working group. HMRC reported that, overall, no Scottish income tax compliance risks specific to wealthy taxpayers were identified in 2024-25, and that there was no evidence of increased non-compliance. HMRC told us it continues to engage with wealthy Scottish taxpayers and will share any future insights with the Scottish income tax compliance working group.

Intra-migration and behaviour change

2.42 In April 2024, HMRC published its initial analysis of intra-UK migration to help inform devolved income tax policy. This examined trends in incomes and location of UK taxpayers over the period 2009-10 to 2021-22, which covered the introduction of the five-band Scottish income tax system in 2018-19. The analysis showed a gradual increase in net migration to Scotland from the rest of the UK from 2016-17 onwards, with this increase accelerating in 2020-21 and 2021-22, the years of the COVID-19 pandemic. Net migration to Scotland increased in the years following the introduction of the five-band Scottish income tax system in 2018-19. Net migration increased among basic rate taxpayers, additional/top rate taxpayers and those with income under the personal allowance threshold, though the trend was primarily driven by basic rate taxpayers.[23] However, HMRC could not draw conclusions about whether income tax policy affected migration trends as it did not know what level of migration would have been expected without any divergence in those policies.[24] HMRC plans for future work include sharing its updated analysis in 2025-26; compiling a Scottish dataset up to 2022-23; and scoping an evaluation of Scottish income tax changes.

2.43 In April 2024, HMRC also published analysis of changes in Scottish taxpayer behaviour up to 2020-21 in response to the Scottish income tax changes introduced in 2018-19, including the new five-band system. Its analysis showed no evidence of a change in labour market participation. For net migration to Scotland, the analysis showed a short-term decrease in net migration by Scottish taxpayers above the higher rate income tax threshold in the first year of the policy change, which did not persist to the second year.[25] HMRC could not assess the extent to which any reported decline in migration reflected an increase in address manipulation. HMRC and the Scottish Government are discussing the possibilities of conducting social research and associated benefits and costs, to understand behavioural trends of Scottish taxpayers in response to recent income tax changes. The research could help inform HMRC's approach to Scottish income tax non-compliance.

23 HMRC grouped the starter rate, basic rate, and intermediate rate together and labelled these individuals as 'basic rate' for Scottish taxpayers.
24 HM Revenue & Customs, *Intra-UK migration of individuals: movements in numbers and income*, April 2024.
25 HM Revenue & Customs, *Impacts of 2018 to 2019 Scottish Income Tax changes on intra-UK migration and labour market participation*, April 2024.

HMRC's compliance activity and debt management

Compliance activity

2.44 Across the UK, HMRC opened 333,000 compliance cases in 2024-25 (2023-24: 311,000) and closed 316,000 (2023-24: 320,000). HMRC has limited information on how much of this compliance activity is undertaken in Scotland. Its compliance system enables HMRC to raise a flag where potential manipulation of residency status has been identified. We understand that there are currently no such flags on the compliance system. HMRC told us that information about numbers of active compliance cases relating to Scottish taxpayers for reasons not related to their status as a Scottish taxpayer requires interrogation of separate information systems. Unlike the income tax system, which can flag Scottish residents, HMRC's compliance management information system cannot readily identify people living in Scotland, and information must be compared with other data to provide numbers on the total extent of Scottish non-compliance. HMRC told us it had discussed the possibility of adding Scottish identifiers to the compliance system, but it had not progressed this as it did not identify a clear benefit.

2.45 HMRC measures the effectiveness of its enforcement and compliance activities through compliance yield, its estimate of the additional revenues it considers it has generated, and the losses it has prevented. HMRC's yield from its tax compliance activities for the whole of the UK was £48.0 billion in 2024-25, up 14.9% compared with 2023-24 (in cash terms). Compliance yield in 2024-25 exceeded HMRC's target of £45.4 billion.

2.46 HMRC estimates a compliance yield of £630 million in 2023-24 for Scotland's share of the risks in the SPR. HMRC also estimates that Scotland's share of net losses from the risks in the SPR was £1.2 billion in 2022-23. These data are the most recent available. 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 variation between Scotland and the rest of the UK when assessing compliance risk or the relative success of compliance activity.

Debt management

2.47 HMRC's management of tax debt affects how much income tax that is initially unpaid is subsequently collected across the UK, including in Scotland. HMRC's debt balance is affected by external factors that have an impact on taxpayers' ability to pay their tax liabilities, including current inflationary pressures and increases in the cost of living. At 31 March 2025, total tax debt for the UK was £42.8 billion, 0.5% (£0.2 billion) lower than the debt reported at 31 March 2024. Despite the decrease in tax debt compared with the £68.5 billion reported at the height of the pandemic, it remains higher than in the five years leading up to the pandemic, when tax debt was typically around £15 billion. In April 2025, HMRC produced a Scotland-specific estimate of tax debt. It estimated the total tax debt in respect of Scottish taxpayers to be £2.4 billion, around 6% of UK tax debt. This is lower than Scotland's 7% share of the total UK income tax revenue estimated for 2024-25.

2.48 Having completed our additional work on devolved tax issues, we are satisfied that HMRC has adequate rules and procedures in place to assess and collect Scottish income tax, and that these are being complied with. However, the introduction of the advanced tax rate band makes it more important that HMRC takes the opportunity to review its strategy and has a coherent, well-planned approach in place which 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. 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.

Part Three

Costs

3.1 This part considers the administrative costs invoiced to the Scottish Government from HM Revenue & Customs (HMRC) for Scottish income tax, and whether they are reasonable.

3.2 Under the Service Level Agreement between HMRC and the Scottish Government, the Scottish Government must reimburse HMRC for 'net additional' costs incurred through administering Scottish income tax powers.

3.3 The Service Level Agreement sets out the administrative cost framework through which HMRC re-charges the Scottish Government for the operation of Scottish income tax. Costs must be 'net additional', that is, incurred solely because of administering devolved Scottish income tax powers, and not costs of administering the overall income tax system in Scotland. The framework identifies major cost drivers, such as customer contact, or system and IT maintenance. HMRC passes on the total cost of Scottish income-tax-related activities to the Scottish Government, with monthly, quarterly and annual financial reporting.

Costs incurred in 2024-25

3.4 HMRC invoiced the Scottish Government for £1.2 million of 'net additional' costs relating to the implementation and administration of Scottish income tax in 2024-25. Of this amount, £0.5 million related to running costs, which is £0.1 million less compared with 2023-24. Running costs incurred in 2024-25 were £0.2 million below the budget of £0.7 million. HMRC told us that the underspend reflects lower staff time on Scottish income tax activities, reduced change request costs due to internal delivery of some projects, and additional savings associated with the Self Assessment calculator. The remaining £0.7 million related to the implementation of the advanced rate of Scottish income tax. HMRC told us that there have been no other significant changes to the re-charging process in 2024-25.

3.5 To implement the new advanced rate tax band which came into force from April 2024, HMRC had to phase in operational updates to existing systems, in particular the Pay As You Earn (PAYE) and Self Assessment systems. HMRC told us that it monitored customer calls relating to the Scottish advance rate, and that no particular issues had been identified. HMRC covered the costs of this customer service activity in 2024-25. For 2025-26, HMRC expects to re-charge the Scottish Government an amount of £0.1 million to complete the operational changes required, which include system updates related to the PAYE settlement agreements, Annual Tax summaries, and compliance system integration.

3.6 From next year, HMRC plans to charge the Scottish Government an additional £0.3 million for the administration of the system changes and broader IT support and maintenance costs. All changes were supported by a project board and agreed with the Scottish Government.

3.7 We examined HMRC's method for estimating the costs to collect and administer Scottish income tax for the year ended 31 March 2025. Based on our audit work, we 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.

Appendix One

Our evidence base

1 Section 80HA of the Scotland Act 1998, as amended by the Finance Act 2014, requires the UK 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 attributable to a Scottish rate resolution; and
- the accuracy and fairness of the amounts that are reimbursed to HMRC as administrative expenses.

2 To reach the conclusions of this report relating to the rules and procedures operated by HMRC, we drew directly from our statutory audit work on HMRC's Annual Report and Accounts, including the UK C&AG's report on HMRC's controls for the proper assessment, collection and allocation of tax under Section 2 of the Exchequer and Audit Departments Act 1921. We also completed specific audit procedures over controls relevant to administering devolved taxes.

3 Our fieldwork for this report took place between April and November 2025.

Financial audit

4 We audited the data, methodologies, assumptions and mechanics of the calculation for the revenue outturn for 2023-24 and the revenue estimate for 2024-25, which are described in this report. For the estimate, and where appropriate for the outturn, we applied 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.

5 In relation to administration costs, we based our conclusion on the accuracy and fairness of the costs HMRC charged to the Scottish Government upon evaluating costs against the details of the Service Level Agreement and supporting framework for costs agreed between both parties. HMRC estimated some of the incurred costs from available data on customer contacts and staff time. During the audit, we saw evidence that both parties regularly discuss and review cost budgets and forecasts, and agree any amounts to be invoiced and paid.

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

Document review

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

Interviews with departmental officials

8 We carried out four interviews with officials from HMRC, selected to participate because of their job role and their relevance to the audit. This included staff responsible for, or involved in, devolved tax policy and compliance.

9 We also spoke to the Scottish Government and Audit Scotland to inform our risk assessment and planning for this report.

10 We carried out interviews online. They typically lasted one hour, and we took notes.

Quantitative analysis

11 We analysed financial data from HMRC on Scottish income tax revenue, HMRC's estimate of Scottish income tax revenue and the administrative costs of Scottish income tax.

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