GMS Flash Alert

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United Kingdom - Scottish Parliament Passes Rate Resolution for 2018/19

On 20 February 2018, the Scottish Parliament (the devolved legislature for Scotland) set the income tax rates and bands that will apply to relevant income of Scottish taxpayers for 2018/19.[1]

It was also announced that the U.K. government will resolve potential issues in respect of the interaction between the new Scottish rates and bands and other parts of the U.K. tax system. Full details of these proposed changes have yet to be published.[2]

The new bands and rates will apply to relevant income of Scottish taxpayers from 6 April 2018.

WHY THIS MATTERS

The changes represent a significant divergence between the tax positions of Scottish and other U.K. taxpayers.

HMRC will notify employers of the "Scottish taxpayer" status of their employees for most payroll withholding purposes. However, employers will be required to determine whether individuals included on a Modified Payroll scheme are Scottish taxpayers. Employers will also need to take account of Scottish rates of income tax when calculating the tax due under a PAYE Settlement Agreement (to pay income tax on employees' behalf on minor or irregular benefits).

International assignment cost projections and budgeting should reflect the changes to the rates and bands that will apply to Scottish taxpayers once they come into effect. Where appropriate, adjustments to gross-up packages and withholding taxes may need to be considered.

Key Changes

The tax bands and rates that will apply to the relevant income of Scottish taxpayers for 2018/19 are as shown below:

	Rate (percent)	Band
Starter rate	19	£11,850* - £13,850
Basic rate	20	£13,851 - £24,000
Intermediate rate	21	£24,001 - £43,430
Higher rate	41	£43,431 - £150,000**
Top rate	46	Above £150,000**

Interest and dividend income of Scottish taxpayers remains subject to tax based on the main U.K. rates and bands.

* Assumes individuals receive the standard U.K. Personal Allowance for 2018/19.
** Those with adjusted net income of more than £100,000 will see their Personal Allowance reduced by £1 for every £2 of income over £100,000.

Close Connection, Scottish Taxpayer

In summary, an individual will be a Scottish taxpayer for a particular U.K. tax year if that individual is U.K. tax resident and has a "close connection" with Scotland based on the location of his or her place of residence. U.K.-source income received by non-U.K. tax residents will be subject to U.K. income tax based on the main U.K. rates and bands, regardless of whether or not that income might be regarded as originating in Scotland.

An individual who cannot establish a close connection with any part of the U.K. (i.e., England, Northern Ireland, Scotland, or Wales) based on his or her place of residence will be a Scottish taxpayer if he or she spends at least as many days in Scotland as in the rest of the U.K. combined in that tax year.

It might therefore be necessary to count days spent in Scotland during a U.K. tax year in order to establish whether or not an individual is a Scottish taxpayer.

KPMG NOTE

Employers should determine that their payroll systems are able to accommodate the new tax bands and rates from 6 April 2018, and that, where required, they are able to identify Scottish taxpayers correctly (including implementing arrangements to record days spent in Scotland).

FOOTNOTES:

1 For more details, see the Scottish government Web page "Scottish income tax 2018/19" by clicking here.

2 The U.K. tax authorities' announcement of 21 February 2018 on income tax relief at source for Scottish taxpayers during 2018/19 can be found by clicking here.

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For full coverage of the Scottish Rate Resolution 2018/19, please see "Scottish Parliament Passes a Scottish Rate Resolution for 2018/2019," a publication of the KPMG International member firm in the United Kingdom.

Contact us

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