

GMS Flash Alert

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United Kingdom – Scottish Parliament Passes Rate Resolution for 2019/20

On 19 February 2019, the Scottish parliament set the income tax rates and bands that will apply to relevant income of Scottish taxpayers for 2019/20.¹ The proposals set out in the Scottish Draft Budget in December 2018 have now been confirmed.²

There will be no changes to the Scottish rates of income tax for 2019/20.³ The thresholds at which the basic and intermediate rates of income tax apply will rise in line with inflation, but the higher- and top-rate thresholds will be frozen. As the higher-rate threshold will increase for other U.K. taxpayers, the differential between the higher-rate taxpayers in Scotland and those in the rest of the U.K. will increase.

Separately, minor changes were made to the criteria that determine Scottish taxpayer status in light of income tax rate setting powers for Welsh taxpayers being devolved to the National Assembly for Wales from 6 April 2019. These changes prevent an individual from being both a 'Scottish taxpayer' and a 'Welsh taxpayer' in the same U.K. tax year.

WHY THIS MATTERS

International assignment cost projections and budgeting should reflect the rates and bands that will apply to Scottish taxpayers where relevant – this includes international assignees to Scotland, subject to U.K. income tax based on the Scottish rates and bands, and U.K. assignees overseas who are equalised by reference to the Scottish rates and bands. Where appropriate, adjustments to gross-up packages and withholding taxes may need to be considered.

Her Majesty's Revenue and Customs (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 pay as you earn (PAYE) Settlement Agreement (to pay income tax on employees' behalf on minor or irregular benefits).

Rates and Bands

The tax bands and rates that apply to relevant income of Scottish taxpayers from 6 April 2019, are shown below.⁴ These assume that the taxpayer receives the standard U.K. Personal Allowance for 2019/20. Those with adjusted net income of more than £100,000 will have their Personal Allowance reduced by £1 for every £2 of income over £100,000.

Band	Range	Maximum taxable income	Rate
Starter	Above £12,500 to £14,549	£2,049	19%
Basic	Above £14,549 to £24,944	£10,395	20%
Intermediate	Above £24,944 to £43,430	£18,486	21%
Higher	Above £43,430 to £150,000	£106,570	41%
Top	Above £150,000	N/A	46%

Source: KPMG LLP, United Kingdom

Scottish Taxpayer Status – ‘Close Connection’ and Day Counting

In summary, an individual will be a ‘Scottish taxpayer’ for a particular U.K. tax year if he or she 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.

From 6 April 2019, 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 more days in Scotland than in each of England, Northern Ireland, and Wales, each considered separately. Prior to 6 April 2019, an individual will be a Scottish taxpayer under this ‘day counting test’ if he or she spends at least as many days in Scotland as in the rest of the U.K. combined.

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 make sure that their payroll systems are able to accommodate the new tax bands and rates from 6 April 2019, and that, where required, they are able to identify – amongst their international assignee and cross-border employee population – 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: 2019-2020' by clicking [here](#).
- 2 For KPMG in the U.K.'s coverage of the Scottish Draft Budget 2019/2, click [here](#).
- 3 For an earlier report on the taxation powers extended to the Scottish parliament, see GMS [Flash Alert 2015-032](#), 5 March 2015.
- 4 For last year's report on the setting by Scotland's parliament of income tax rates and bands that apply to relevant income of Scottish taxpayers for 2018/19, see GMS [Flash Alert 2018-035](#), 21 February 2018.

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