



United Kingdom - Scottish Budget Proposes Income Tax Increases

The Scottish Budget for 2024/25 was presented to the Scottish Parliament in December 2023.¹ The Scottish government plans to introduce a new 45-percent rate of income tax on Scottish taxpayers' relevant taxable income (including employment income) between £75,000 and £125,140, and to increase the top rate of income tax to 48 percent.²

This article summarises key employment tax compliance considerations that these announcements raise for global organisations with employees based in Scotland.

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 who are 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. The higher rates on high earners will impact employers' international assignment costs.

The U.K. tax authorities (HMRC) will notify employers of the 'Scottish taxpayer' status of their employees for most payroll withholding purposes. However, employers that operate Appendix 6 modified payroll agreements in respect of tax-equalised expatriates must determine whether individuals included in a modified payroll scheme are 'Scottish taxpayers' based on the applicable statutory tests, relevant facts, and HMRC's published guidance on Scottish taxpayer status.³

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.

Scottish Budget 2024/25

Income Tax Announcements

The Starter (19 percent) and Basic (20 percent) rates of income tax on relevant income will remain unchanged, but the bands of income to which the Starter and Basic rates apply will each increase by the rate of inflation from 6 April 2024.

The Higher (42 percent) rate of income tax on relevant income will also remain unchanged, as will the threshold from which the Higher rate is payable, but a new Advanced (45 percent) rate of income tax will apply to relevant income above £75,000 up to the Top rate threshold.

The Top rate of income tax will continue to apply to relevant income above £125,140, but will increase from 47 percent to 48 percent from 6 April 2024.

Rates and Bands

The tax bands and rates that apply to relevant income of Scottish taxpayers from 6 April 2024, are shown below. These assume that the taxpayer receives the standard U.K. Personal Allowance for 2024/25. 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	Taxable relevant income	Rate
Starter	£12,571 - £14,876	19 percent
Basic	£14,877 - £26,561	20 percent
Intermediate	£26,562 - £43,662	21 percent
Higher	£43,663 - £75,000	42 percent
Advanced (new band and rate)	£75,001 - £125,140	45 percent
Top (increased rate)	Above £125,140	48 percent

Source: KPMG LLP in the United Kingdom

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Although it is a minority administration, the Scottish government’s shared policy programme with the Scottish Green Party means that the Budget is likely to pass in its current form. This should be confirmed when the Scottish Parliament passes the relevant income-tax-rate resolution, which is expected to happen before the end of February 2024.

How the Scottish Income Tax System Works

Devolved Income-Tax-Setting Powers

Income tax is partially devolved in the U.K., with certain powers exercised by the Scottish Parliament in relation to Scottish taxpayers (see below), and all other income-tax powers exercised by the U.K. Parliament in relation to all U.K.-resident individuals.⁴

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Scottish taxpayers are entitled to an income-tax-free Personal Allowance set by the U.K. Parliament (subject to their personal circumstances), and are subject to tax on savings income (i.e., interest) and dividends based on the same bands and rates as other individual U.K. taxpayers.

However, Scottish taxpayers are subject to income tax on non-savings and non-dividend income (e.g., employment income) based on rates and bands set by the Scottish Parliament.

Scottish Taxpayer Status – ‘Close Connection’ and Day Counting Tests

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 U.K. 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 more days in Scotland than in each of England, Northern Ireland, and Wales individually.

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

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Employers should make sure that their payroll systems are able to accommodate the new tax bands and rates from 6 April 2024, 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 and other parts of the United Kingdom).

FOOTNOTES:

- 1 For KPMG in the U.K.’s coverage of the Scottish and Welsh Budgets 2024/25, click [here](#).
- 2 For more details, see the Scottish government Web page ‘Scottish Income Tax 2024 to 2025: factsheet’ by clicking [here](#).
- 3 See the HMRC internal manual *Scottish Taxpayer Technical Guidance* by clicking [here](#).
- 4 For a comparison with the main U.K. income tax bands and rates see the *GMS Flash Alert* report on the Autumn Statement 2023 from KPMG LLP in the U.K. by clicking [here](#).

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Contact us

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