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Scotland gets ready for five income tax rates

The key announcement in the Scottish Draft Budget was the introduction of new income tax rates for Scottish taxpayers.

Finance Secretary Derek Mackay delivered the 2018/19 Scottish Draft Budget on Thursday 14 December 2017 setting out the Scottish Government's financial and tax plans.

A reminder - a Scottish taxpayer

Following devolution of some tax powers and the introduction of separate Scottish income tax bands (and rates) it has been necessary to define and identify a Scottish taxpayer. A Scottish taxpayer is someone who is UK resident for tax purposes and has one place of residence which is in Scotland.

Individuals who have more than one place of residence in the UK need to determine which of these has been their main place of residence for the longest period in a tax year. Individuals who cannot identify a main place of residence will need to count the days they spend in Scotland and elsewhere in the UK. If they spend more days in Scotland, they will be a Scottish taxpayer. Guidance on determining whether an individual is a Scottish resident can be found at **www.gov.uk/hmrc-internal-manuals/scottish-taxpayer-technical-guidance/sttg2000**

Scottish Income tax

Following devolution the Scottish Government has the power to set the rates and bands of income tax (other than those for savings and dividend income) which apply to Scottish resident taxpayers. Since 6 April 2016 the income tax rates and bands for Scottish taxpayers have been frozen at 20%, 40% and 45% respectively.

2017/18 comparison

For 2017/18 the higher rate threshold in Scotland is £43,000 whilst the threshold in the rest of the UK is £45,000. This means that a Scottish higher rate taxpayer will pay £400 more tax in 2017/18 than a UK higher rate taxpayer, being £2,000 at the marginal rate of 20%.

Rates and bands for 2018/19

In the 2018/19 Draft Budget the Finance Secretary announced two new income tax bands: a starter rate of 19% for the first £2,000 of income above the personal allowance and a 21% intermediate rate for income between £24,000 and the higher rate threshold. In addition, whilst the basic rate will be frozen at 20% the higher and additional (to be renamed 'top') rates of tax will increase by 1% to 41% and 46% respectively.

For 2018/19 the rates and tax bands applicable to Scottish taxpayers on non-savings income will be as follows:

Scottish Bands	Band name	Scottish Rates
Over £11,850* - £13,850	Starter	19%
Over £13,850 - £24,000	Basic	20%
Over £24,000 - £44,273	Intermediate	21%
Over £44,273 - £150,000**	Higher	41%
Over £150,000**	Top	46%

* assuming the individual is entitled to a full UK personal allowance

** the personal allowance will be reduced if an individual's adjusted net income is above £100,000. The allowance is reduced by £1 for every £2 of income over £100,000

The UK higher rate tax point for 2018/19 has been set at £46,350 (for those entitled to the full UK personal allowance) and the tax rates for non-savings and non-dividend income have been maintained at 20%, 40% and 45% respectively.

Better or worse off?

The introduction of the starter rate of 19% means scottish taxpayers on low pay will be better off than those in the rest of the UK by £20!

Scottish taxpayers with employment income of £26,000 will pay the same amount of income tax as those with the similar income in the rest of the UK. For higher earners, with pay of £150,000, a Scottish taxpayer will pay an extra £1,770 of income tax than those on similar income in the rest of the UK.

Employers of Scottish taxpayers

Remember employers should be aware that if an employee is classed as a Scottish taxpayer then a special PAYE code (S) will apply and should be notified to employers and pension providers by HMRC.

An employer does not have to make any assessments on taxpayer status. Employers should not change a tax code unless advised to do so by HMRC. Employers of Scottish taxpayers need to ensure their payroll software has the capability to deal with S codes

It is important that employers remind their employees of the importance of keeping HMRC informed of their correct address details as this information is crucial in determining whether or not they are a Scottish taxpayer. Remember employees can check and update their address details through their online Personal Tax Account. For those individuals who have not yet used their account they can register at **www.gov.uk/personal-tax-account.**

LBTT First-Time Buyer Relief proposal

Although the announcement of new income tax rates and bands made the headlines the Draft Budget also included an announcement for first time buyers and Land and Buildings Transaction Tax (LBTT). The Government announced proposals for LBTT relief for first-time buyers of properties up to £175,000. This relief will raise the zero tax threshold for first-time buyers from £145,000 to £175,000, and according to the Scottish Government 80% of first-time buyers in Scotland will pay no LBTT at all. First-time buyers buying a property above £175,000 will also benefit from the relief on the portion of the price below the threshold.

The Scottish Government announced that they will launch a consultation on the policy before introducing the first-time buyer relief in 2018/19. The relief for first-time buyers paying Stamp Duty Land Tax on first homes in the rest of the UK was introduced from 22 November 2017.

Devolution

With Wales set to introduce Land Transaction Tax in April 2018 and having devolved powers over income tax from April 2019 there are lots of changes to get to grips with. Details of the Welsh proposals can be found at **www.gov.wales/funding/fiscal-reform/welsh-taxes/land-transaction-tax**