

Public Audit Committee consideration of the audit arrangements for the Scottish rate of income tax powers arising from the Scotland Act 2012

SUBMISSION FROM HM REVENUE AND CUSTOMS

The role of HM Revenue and Customs (HMRC) in the Scottish Rate of Income Tax

HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act 2005, following the merger of the Inland Revenue and HM Customs and Excise to form a new Department. It is responsible for collecting and administering taxes, including income tax, across the UK. The Department reports to Parliament through Treasury Ministers – David Gauke MP, Exchequer Secretary to the Treasury, is the Minister with responsibility for oversight of HMRC.

Around 13% of HMRC's 72,770 staff are employed in Scotland providing a service to HMRC customers both within Scotland and across the UK.

UK tax policy is developed under a partnership arrangement between HM Treasury and HMRC. HM Treasury leads on strategic tax policy and policy development, while HMRC leads on policy maintenance and implementation. In the context of the Scotland Act 2012 (which introduced the Scottish rate of income tax), this means that HMRC is responsible for the detail of legislation which will ensure that the implications of the Scottish rate of income tax are taken into account in all relevant areas of tax legislation, as well as planning for the implementation of the new rules.

The Scottish rate of income tax

The Scottish rate of income tax will be part of the UK income tax system and is expected to be introduced in April 2016. The Scottish Parliament will determine each year the rate of income tax to apply to non-savings income of Scottish taxpayers. The revenue from the Scottish element of income tax will be collected by HMRC through the PAYE and Self Assessment systems and this will go to fund expenditure by the Scottish Government. Other than the Scottish rate, the rest of the income tax structure will remain a reserved matter and decisions on the shape of income tax will continue to be made by the UK Government.

The Scottish Government, Scottish Parliament and HMRC.

In accordance with devolution principles the Scottish Government will pay the costs of implementing and administering Scottish taxes. The cost of implementing the Scottish rate of income tax is estimated at £45 million with an annual operating cost of about £4.2m a year.

A memorandum of understanding is being agreed between the Scottish Government and HMRC which sets out the detail of the relationship, including responsibilities and processes to ensure that the Scottish Government can be

satisfied that the costs represent value for money. The memorandum will be approved by Ministers from both Governments.

HMRC publishes annually a Resource Account which includes HMRC's costs such as the cost of collecting income tax, and a Trust Statement which sets out the amount of tax collected. Costs associated with the collection of the Scottish rate of income tax will be shown in the Resource Account and the amount of tax collected under the Scottish rate will be shown in the Trust Statement. Both will be subject to the annual audit by the National Audit Office which issues a report on HMRC's performance.

An HMRC Additional Accounting Officer will be specifically accountable for the collection of the Scottish rate of income tax.

A copy of HMRC's last published accounts can be found through this link: <http://www.hmrc.gov.uk/about/annual-report-accounts-1112.pdf>