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The Scottish Parliament
Edinburgh
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Dear Kenneth

Thank you for your response of 12 December setting out the views of your Committee on the draft Memorandum of Understanding (MoU) between the Scottish Government and HMRC concerning the Scottish Rate of Income Tax (SRIT) which I sent to the Committee on 15 November 2012. We both recognise the importance in achieving value for money in implementing the SRIT, and ensuring that we have a system in place that is fit for purpose. I welcome the time that your Committee has given to consider the draft MoU and I hope this response will address the points made.

Dispute Resolution

Your Committee asked for further information about how the independent audit process for the consideration of IT costs in the implementation project is expected to work. Officials are in contact with HMRC and will provide an update as soon as possible.

Reporting Requirements

A question was asked about how the Finance Committee would be kept updated on actual tax receipts. I expect that this data would be provided in the annual report to be published by HMRC setting out the SRIT accounts which would be shared with the Scottish Parliament. I further expect that this report and accounts would be audited and the audit report would also be available to the Parliament.

Monitoring Costs

The Committee will be aware that under the Public Service Reform Act 2010 there is a requirement to publish any expenditure incurred in excess of £25,000, and the Scottish Government publishes this information monthly. In addition to this I would be happy to share a summary of costs incurred on the implementation project with the Committee. I suggest this might be done quarterly. The Committee also asked whether the costs set out in paragraph 4.2 of the MoU were exhaustive. The list at paragraph 4.2 covers anticipated

costs, however, there is a dispute resolution mechanism in place should there be any questions over costs that cannot be resolved at official level.

Identifying individuals liable for, and setting the rate of the Scottish Rate of Income Tax

The Committee raised points about how Scottish taxpayers will be identified and how the rate will be set. The definition of taxpayers is set out in the Scotland Act, and HMRC are currently developing an approach to identifying Scottish tax payers in practice. We will be monitoring this particularly closely, and also arrangements for providing assurance around compliance. We will wish to be satisfied that arrangements are robust, effective and efficient and identify all Scottish taxpayers.

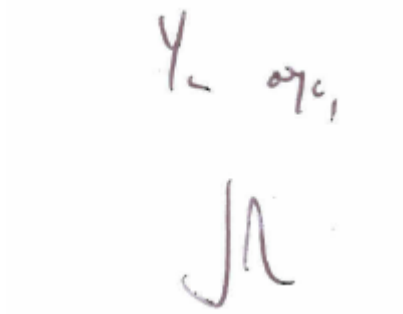
As regards to setting the rate, I wish to ensure that there is adequate Parliamentary involvement in, and accounting of, the Scottish Parliament's proposals for the rate to be set each year. The legislative requirement is for the Parliament to set the rate before the beginning of each tax year in early April. HMRC will prepare tax tables to be sent to employers on the basis of HMRC's understanding of the position at the end of November. In practice, HMRC are likely to undertake this work on the basis of the rate in place for the current year; however, if for example the Scottish Government makes clear before 30 November that they intend to propose a different rate for the next year, it would be appropriate for HMRC to produce tax tables on that basis. If the rate eventually agreed by the Scottish Government differs from that assumed by HMRC in sending out the tax tables, fresh calculations would be undertaken as soon as possible as the rate was set. This is the same process that would apply in respect of UK income tax. I look to officials, working jointly with Finance Committee clerks, to provide advice on options in regards to how arrangements for setting the rate should fit with the annual process for scrutinising and setting the Budget.

Forecasting of SRIT receipts

The Committee asked about forecasting of receipts and the role of the Office for Budget Responsibility (OBR). I see the role of the OBR as a very important one in ensuring that the SRIT works as intended with minimum volatility and requirement for reconciliation and adjustment. I welcome the fact that the Committee has taken evidence from the OBR, giving opportunity for scrutiny of its work. I support the Committee's interest in these issues and believe that on-going scrutiny is valuable.

I hope that my further comments are helpful to the Committee. I take the issues of value for money and accountability with regards to the SRIT very seriously. Finally, I and Scottish Government officials will continue to track progress with the SRIT programme closely and I will keep under review the provisions of the MoU to ensure they remain fit for purpose. I will be ready to suggest further adjustments in future if justified.

I am also writing to the Convenor of the Public Audit Committee responding to the recommendations that his Committee made regarding the draft MoU.

A photograph of a handwritten signature in blue ink on a white background. The signature consists of the letters 'Y', 'L', '2', '7', 'C', and '1' arranged in a horizontal line, followed by a large, stylized 'JN' below it.

JOHN SWINNEY