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Mr Richard Leonard MSP
Chair of the Public Audit Committee
The Scottish Parliament
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Date 8 March 2022

Reference GF 1079 22

Email: publicaudit.committee@Parliament.Scot

Dear Mr Leonard,

ADMINISTRATION OF SCOTTISH INCOME TAX 2020-21

Thank you for the opportunity to give evidence to your Committee on 3 February 2022, I look forward to meeting with you and other members in person to discuss the outcome of my 2021-22 report in due course. During the hearing, I committed to providing you with some further information, which I have set out below.

HM Revenue & Custom's (HMRC's) management of tax debt

A copy of my report '*Managing tax debt through the pandemic*' is available [here](#). The Committee of Public Accounts met on 17 January 2022 to scrutinise HMRC's management of tax debt and is due to publish its own report shortly. In the meantime, a transcript of the hearing can be found [here](#), which may be of interest to the Committee.

Components of outturn in respect of Scottish income tax

The key components of HMRC's calculation of the final outturn for 2019-20 are described in the main body of my report, [Administration of Scottish Income tax 2020-21](#). In particular, Figure 3 on page 12 provides an overview of the four main components of the calculation, being: Self Assessment established liabilities; Pay As You Earn established liabilities; estimated further liabilities; and deductions from revenue. Paragraphs 1.5 to 1.16 provide further details on the approach taken by HMRC, the related values and any residual areas of estimation, which can be summarised as follows:

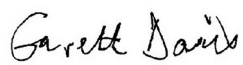
- **Self Assessment established liabilities:** The total Self-Assessment established liabilities of £5,049 million represents the calculation of all income tax attributable to Scotland from Scottish Self Assessment taxpayers in 2019-20. The calculation of Self Assessment liabilities is mainly based on the direct extraction of Scottish taxpayer data from HMRC's systems but with some apportionment of other balances (see paragraphs 1.8 and 1.9 of the report, page 13).
- **PAYE established liabilities:** The total PAYE established liabilities of £6,845 million represents the sum of all income tax attributable to Scotland from Scottish PAYE taxpayers in 2019-20. The majority of PAYE liabilities are based on extracting Scottish taxpayer data from HMRC's systems, although some apportionment of other smaller elements is required (see paragraphs 1.10 to 1.12 of the report, page 13).
- **Estimated further liabilities:** Most Self Assessment liabilities for 2019-20 are established prior to

calculating the outturn. But HMRC knows from past years that Self Assessment tax liabilities will continue to be established and collected for up to six years afterwards because HMRC continues to receive additional information from taxpayers and through its compliance activity. The estimated value is £307 million (see paragraph 1.13 of the report, page 14).

- **Deductions from revenue:** HMRC makes a series of deductions from the outturn revenue, recognising that not all taxpayer liabilities will be collected in practice. It uses historical information to calculate these deductions and apportions an amount for Scottish taxpayers. The value reported is £368 million (see paragraphs 1.14 to 1.16 of the report, page 14).

I hope you find this information helpful and that it addresses the questions posed by the Committee.

Yours sincerely

A handwritten signature in black ink that reads "Gareth Davies". The signature is written in a cursive style with a large initial 'G'.

Gareth Davies
Comptroller and Auditor General