Minister for Public Finance, Planning and Community Wealth
Tom Arthur MSP

T: 0300 244 4000
E: scottish.ministers@gov.scot

Scottish Government
Riaghaltas na h-Alba
gov.scot

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1SP

07 July 2022

Dear Kenneth

HMRC has today published statistics on 2020-21 outturn for Scottish Income Tax, as well as the equivalent UK Government revenues.

The publication indicates that £11,948 million of Scottish Income Tax was collected in 2020-21, an increase of £123 million (1.0%) from 2019-20. As a result, Scotland raised an additional £96 million over and above the corresponding Block Grant Adjustment (BGA) in 2020-21.

Based on the figures in the 07 July 2022 outturn publication and as required under the Fiscal Framework, the 'reconciliation' for 2020-21 Scottish Income Tax has been calculated and agreed with the UK Government as +£50 million. This reconciliation will be applied to the 2023-24 Scottish Budget. The relevant calculations are set out in the annex to this letter. Reconciliations are a regular feature of the operation of the Fiscal Framework, required to address forecast error in relation to revenues and BGAs. Reconciliations – whether positive or negative - should not be confused with how Income Tax revenues are performing.

Both the net position and reconciliation compare favourably with the most recent forecasts available prior to publication, set out in the Medium Term Financial Strategy [May 2022]. The figures published today provide a clear demonstration of the benefits that tax devolution has brought Scotland, with our Income Tax policy raising vital additional revenue for the Scottish Budget while protecting low- and middle-income earners. Despite this positive position, the data also indicates that high earnings growth in London and the South East continues to disproportionately impact the Scottish Budget. We have been clear that this must be addressed in the upcoming FF review.

However, despite this positive position, the data also indicates that Scottish revenues grew marginally slower than revenues in the rest of the UK (1.0% vs 2.0%). The Medium Term Financial Strategy set out new analysis showing the impact that slowdown in the oil and gas sector, combined with high earnings growth in London and the southeast financial sector, has had on the growth of Scottish income tax revenues since 2016-17.

It is vital that increased fiscal flexibilities are considered as part of the upcoming Fiscal Framework Review, to allow us to properly respond to any Scottish-specific risks to income tax revenue and smooth the impact of any forecast volatility on our Budget.

A statement, jointly agreed with HM Treasury (HMT), outlining the Scottish Income Tax reconciliation process has been made available, and can be found at the link below and will also be available on the HM Treasury website. This follows the approach taken for previous outturn publications, after heeding the advice taken from the Finance and Constitution's Pre-Budget Scrutiny report for 2020-21. This joint statement delivers on the Committee's recommendation that HMT and the Scottish Government should jointly set out the Income Tax reconciliation process and shows our continued commitment to ensuring full transparency around the Fiscal Framework and specifically the reconciliation process.

www.gov.scot/publications/income-tax-outturn-reconciliation-2020-2021-joint-statement-with-hm-treasury

I look forward to speaking to the Committee about these matters as part of its pre-budget scrutiny.

TOM ARTHUR

ANNEX: Final Reconciliation for 2020-21 Income Tax which will impact the 2023-24 Budget

2020-21 Income Tax			
	Revenues (£m)	**BGA (£m)**	**Net Budget Position (£m)**
Forecast at Budget 2020-21	12,365	-12,319	+46
Outturn 2020-21	11,948	-11,852	+96
Final Reconciliation (Change)	-417	+468	+50