Canada Life

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Scottish income tax

Briefing Note

From 6 April 2017, the Scottish Government were given powers to set a Scottish rate of income tax which applies to any non-savings, non-dividend income for those deemed to be Scottish taxpayers. These rates apply to an individual's earned income, pension and most other taxable income.

However for any savings income, including dividend income and bank savings, a Scottish taxpayer will use the same tax bands and allowances as the rest of the UK. These rates and bands will still be set by the UK Government, as are any other allowances or reliefs such as the personal savings allowance.

Additionally, it is the UK tax bands which are used to determine the rate of capital gains tax an individual pays on any taxable gains.

Definition of a Scottish taxpayer

From 6 April 2017, anyone who lives in Scotland during a tax year, and is resident in the UK for tax purposes, may be a Scottish taxpayer and pay Scottish income tax to the Scottish Government. This will apply to their entire tax year. There are no provisions for split year treatment.

If the number of days they spend in Scotland is the same as, or more than, the number of days spent elsewhere in the UK, they will be a Scottish taxpayer for that tax year.

Moving to or from Scotland

If someone moves to or from Scotland during the year, HMRC will class them as a Scottish taxpayer if they live there for more than half the tax year.

- *Example:* Moving to Scotland
  - Martin rented and lived in a house in Birmingham for a number of years.
  - On 30 June, he moved to a flat in Aberdeen and remained there for the rest of the tax year.
  - The time he spent in Scotland during the tax year (1 July to 5 April) was for more than six months.
  - He was therefore treated as a Scottish taxpayer for the whole tax year.
- *Example:* Moving from Scotland
  - Harold was living in Glasgow at the start of the tax year.
  - On 6 July he moved to Manchester, before moving to Bristol on 6 November.
  - He lived in Scotland for four months of the year, and in England for the remaining eight months.
  - He was therefore not treated as a Scottish taxpayer in that year.

If they do not live in Scotland, they will not be a Scottish taxpayer; even if they regard themselves as being Scottish, work in Scotland, are paid by a Scottish employer or pension provider, or travel to Scotland frequently.

More than one home

Where someone has more than one home, that is, one in Scotland and another elsewhere in the UK, their main home will usually be where they spend most of their time. It doesn't matter whether they own, rent, or live in it for free. Their main home may even be the home where they spend less time, which is particularly relevant for those who live away because of work; for example a lorry driver, an offshore worker, the armed forces etc., if that is where:

- most of their personal possessions are
- their family lives, if they are married or in a civil partnership
- they are registered for things like a bank account, GP, insurance and so on
- they are members of clubs or societies in that area

If in any doubt, the individual should speak with HMRC to confirm whether they will be treated as a Scottish taxpayer based on their situation.

Tax rates and bands

For 2020/21 Scottish income tax is paid on the amount of taxable non-savings, non-dividend income using the following bands and rates.

Whenever the income tax legislation refers to a ‘higher rate taxpayer’ or the ‘higher rate threshold’ for the purposes of determining most other aspects of tax, the UK threshold of £50,000 will apply.

<table>
<tr><th rowspan="2">Band</th><th colspan="3">Scottish income tax
Non-savings, non-dividend income only</th><th colspan="3">UK income tax
Including Scottish savings and dividend income</th></tr>
<tr><th colspan="2">Taxable income</th><th>Rate</th><th colspan="2">Taxable income</th><th>Rate</th></tr>
<tr><td>Personal Allowance</td><td colspan="2">Up to £12,500</td><td>0%</td><td colspan="2">Up to £12,500</td><td>0%</td></tr>
<tr><td>Starter rate</td><td>The next £2,085</td><td>£12,501 to £14,585</td><td>19%</td><td rowspan="3">The next £37,500</td><td rowspan="3">£12,501 to £50,000</td><td rowspan="3">20%</td></tr>
<tr><td>Basic rate</td><td>The next £10,573</td><td>£14,586 to £25,158</td><td>20%</td></tr>
<tr><td>Intermediate rate</td><td>The next £18,272</td><td>£25,159 to £43,430</td><td>21%</td></tr>
<tr><td>Higher rate</td><td>The next £106,570</td><td>£43,431 to £150,000</td><td>41%</td><td>The next £100,000</td><td>£50,001 to £150,000</td><td>40%</td></tr>
<tr><td>Top rate</td><td colspan="2">over £150,000</td><td>46%</td><td colspan="2">over £150,000</td><td>45%</td></tr>
</table>

- **The Personal Allowance**
  This is reduced by £1 for every £2 of income over £100,000 and applies to both UK and Scottish taxpayers.

- **Personal Savings Allowance (PSA)**
  The amount of PSA an individual is entitled to is dependent on their tax situation. It is:
  - £1,000 for a non-taxpayer and a basic rate taxpayer
  - £500 for a higher rate taxpayer
  - Nil for an additional rate taxpayer

  When determining the amount of PSA that applies for Scottish taxpayers, the UK higher rate threshold of £50,000 is used.

  It is therefore possible for someone to be a higher rate taxpayer for Scottish income tax purposes, but below the UK higher rate threshold for savings income. In that case, a higher rate Scottish income taxpayer may still be entitled to a PSA of £1,000.

Chargeable event gains on bonds

As the Scottish income tax does not apply to savings income, the Scottish tax rates and bands will not apply when calculating chargeable gains from investment bonds. Instead the UK tax rates and bands are used.

Example:
Joey pays Scottish income tax on his annual pension income of £50,000. This is calculated as:

Gross Income	£50,000
Personal Allowance	12,500

Starter Rate
£2,085.00 @ 19% = £396.15

Basic Rate
£10,573.00 @ 20% = £2,114.60

Intermediate Rate
£18,272.00 @ 21% = £3,837.12

Higher Rate
£6,570.00 @ 41% = 2,693.70

Total income tax : £9,041.57

A person residing in the UK would pay an equivalent of £7,500 in income tax.

In September 2020, Joey realises a chargeable gain on a UK investment bond of £24,000 he had held for 4 complete years. He needs to use the UK basic rate threshold of £37,500 to calculate the tax on his chargeable gain as follows:

- Joey's total income increases to £50,000 + £24,000 = £74,000.
  - His total income exceeds the UK basic rate band, therefore his personal savings allowance will be £500.
  - The bond is through a UK provider and therefore carries a basic rate tax credit.
  - As the gain has taken him into a new tax band, he would be able to use top slicing relief to reduce the tax on the gain.

1. **Calculate the total tax due on the gain across all tax bands.**

   £50,000 pension income = £9,041.57 income tax

   £24,000 gain :

   £500 PSA @ 0%

   £23,500 @ 40% = £9,400

   Total tax on gain = £9,400

2. **UK bond total liability is**

   £9,400 less 20% credit (£24,000 @ 20% = £4,800) = £4,600

3. **Calculate the annual equivalent, or top-slice, of the gain.**

   £24,000 / 4= £6,000

4. **Calculate the individual's liability to tax on the top-slice.**

   £500 PSA @ 0% = £0
   £5,500 @ 40% = £2,200
   = £2,200
   (Tax credit = £6,000 @ 20% = £1,200)

   Total relieved liability on top-slice: (£2,200 - £1,200) = £1,000 x 4 years = £4,000

5. **Calculate top-slice relief and total income tax due after top-slice relief applied.**

   Top-slice relief = £4,600 - £4,000 = £600

   Tax on pension income: £9,041.57

   + total tax on gain: £4,600

   Less top-slice relief: £600

   = £4,000 income tax on chargeable gain

Summary:
Scottish taxpayers suffer the same tax as the rest of the UK on dividends and savings interest, capital gains tax, chargeable gains on life policies and inheritance tax. However the introduction of Scottish income tax adds a layer of complication. A Scottish taxpayer who has both earned income, and taxable savings may have to consider both the UK and Scottish rates and thresholds, in order to calculate their total income tax liability.

It is important that advisers are aware of how this can impact the income a client receives from various sources and highlights the importance of working with the client's accountants.

Further information is available:
www.gov.uk/scottish-income-tax and
www.gov.scot/publications/scottish-income-tax-2020-2021/

This document is based on Canada Life's understanding of applicable UK tax legislation and current HM Revenue & Custom's practice, as at February 2020 and could be subject to change in the future. It is provided for professional advisers only. Any recommendations are the adviser's sole responsibility.

Technical Services: **www.canadalife.co.uk/ican**

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