

THE SCOTTISH BUDGET 2018



Finance Secretary Derek Mackay delivered the 2019/20 Scottish Draft Budget on Wednesday 12 December 2018, setting out the Scottish government’s tax and financial plans.

This factsheet highlights the Scottish government’s announcements regarding income tax, Land and Buildings Transaction Tax, Air Departure Tax and VAT.

SCOTTISH INCOME TAX

The Scottish government has devolved powers to set the rates and bands of income tax (other than those for savings and dividend income) which apply to Scottish resident taxpayers.

The Scottish Budget announced the following income tax rates and bands for 2019/20. These will be considered by the Scottish Parliament, and an agreed Scottish Rate Resolution will set the final Scottish income tax rates and bands for 2019/20. The current rates and bands for 2018/19 and the proposed rates and bands for 2019/20 on non-savings and non-dividend income are as follows:

Scottish Bands 2018/19	Scottish Bands 2019/20	Name of Band	Rate
Over £11,850* - £13,850	Over £12,500* - £14,549	Starter Rate	19%
Over £13,850 - £24,000	Over £14,549 - £24,944	Scottish Basic Rate	20%
Over £24,000 - £43,430	Over £24,944 - £43,430	Intermediate Rate	21%
Over £43,430 - £150,000**	Over £43,430 - £150,000**	Higher Rate	41%
Over £150,000**	Over £150,000	Top Rate	46%

* assuming the individual is entitled to a full UK personal allowance

** the personal allowance will be reduced if an individual’s adjusted net income is above £100,000. The allowance is reduced by £1 for every £2 of income over £100,000

The personal allowance is currently £11,850 for 2018/19. The personal allowance for 2019/20 will be £12,500.

The UK higher rate tax point for 2019/20 is set at £50,000 (for those entitled to the full UK personal allowance) and the tax rates for non-savings and non-dividend income have been maintained at 20%, 40% and 45% respectively. The additional rate of 45% is payable on income over £150,000.

For 2019/20 Scottish taxpayers with employment income of approximately £27,000 will pay the same amount of income tax as those with similar income in the rest of the UK. For higher earners, with pay of £150,000, a Scottish taxpayer will pay approximately an extra £2,670 of income tax than those on similar income in the rest of the UK.

SCOTTISH RESIDENCE

Following the introduction of separate Scottish income tax rates and bands, it has been necessary to define and identify a Scottish taxpayer. A Scottish taxpayer is someone who is UK resident for tax purposes and has one place of residence which is in Scotland.

Individuals who have more than one place of residence in the UK need to determine which of these has been their main place of residence for the longest period in a tax year. A series of tests exists in order to help determine taxpayer status in such cases.

Individuals who cannot identify a main place of residence will need to count the days they spend in Scotland and elsewhere in the UK. If they spend more days in Scotland, they will be a Scottish taxpayer.

Scottish taxpayer status is applicable for an entire tax year, and complications could arise where an individual’s residential situation is less straightforward. Please contact us for further assistance.

Employers

Employers should be aware that if an employee is classed as a Scottish taxpayer then a special PAYE code (S) will apply and this will be notified to employers and pension providers by HMRC where appropriate.

An employer does not have to make any assessments on taxpayer status. Employers should not change a tax code unless advised to do so by HMRC. Employers of Scottish taxpayers will need to ensure their payroll software has the capability to deal with S codes.

It is important that employers remind their employees of the importance of keeping HMRC informed of their correct address details, as this information is crucial in determining whether or not they are a Scottish taxpayer. Taxpayers can check and update their address details through their online Personal Tax Account. Those individuals who have not yet used an account can register at www.gov.uk/personal-tax-account.

LAND AND BUILDINGS TRANSACTION TAX CHANGES

The Scottish government's stated policy priority for residential Land and Buildings Transaction Tax (LBTT) remains to help first-time buyers and to assist people as they progress through the property market. Since its introduction, this policy has ensured that over 80% of taxpayers benefit from LBTT by paying either no tax or less tax than in England. The current rates and bands are as follows:

Residential property	Rate
£0 - £145,000	0%
£145,001 - £250,000	2%
£250,001 - £325,000	5%
£325,001 - £750,000	10%
£750,001 and over	12%

The rates apply to the portion of the total value which falls within each band.

First-time buyer relief

A relief applies for first-time buyers of properties up to £175,000. The relief effectively raises the zero tax threshold for first-time buyers from £145,000 to £175,000. First-time buyers purchasing a property above £175,000 also benefit from the relief on the portion of the price below the threshold.

Higher rates for additional residential properties

Higher rates of LBTT are charged on purchases of additional residential properties, such as buy-to-let properties and second homes. Although these are the main targets of the higher rates, some other purchasers may have to pay the higher rates.

The Additional Dwelling Supplement (ADS) potentially applies if, at the end of the day of the purchase transaction, the individual owns two or more residential properties. Care is needed if an individual already owns, or partly owns, a property and transacts to purchase another property without having disposed of the first property. An 18 month rule helps to remove some transactions from the additional rates (or allows a refund).

The Scottish government announced an increase in the ADS from 3% to 4%. If approved by the Scottish Parliament, the rate change will come into force from 25 January 2019, but will not



apply if the contract for a transaction was entered into prior to 12 December 2018. Existing arrangements allowing for the supplement to be reclaimed will continue.

Changes for non-residential rates and bands

The Scottish government will reduce the lower rate of non-residential LBTT from 3% to 1%, increase the upper rate from 4.5% to 5% and reduce the starting threshold of the upper rate from £350,000 to £250,000. These changes are expected to come into force from 25 January 2019, but will not apply if the contract for a transaction was entered into prior to 12 December 2018.

The proposed rates and band for non-residential LBTT transactions are as follows:

Non-residential transactions		Non-residential leases	
Purchase price	Rate	Net present value of rent payable	Rate
Up to £150,000	0%	Up to £150,000	0%
£150,001 - £250,000	1%	Over £150,000	1%
Over £250,000	5%		

DELAY TO THE INTRODUCTION OF AIR DEPARTURE TAX

It was confirmed in the Budget that the introduction of Air Departure Tax (ADT) will be deferred beyond April 2019. The Scottish government has stated that a resolution to the Highlands and Islands exemption issue must be found before ADT can be introduced in Scotland. Air Passenger Duty will continue to apply in Scotland in the interim.

The Scottish government remains committed to delivering a 50% reduction in the overall tax burden of ADT and to abolishing it altogether when resources allow.

VAT ASSIGNMENT

The first 10 pence of the standard rate of VAT, and 2.5 pence of the reduced rate of VAT will be assigned to the Scottish government. The draft model for calculating Scottish VAT receipts has been published and finalising the model will be discussed through the Joint Exchequer Committee in Spring 2019.

The Scottish government will continue to monitor the methodology in advance of a final agreement.

For further details on how the Scottish Budget could affect you, please contact us.