

2017/18 Self-assessment tax calculation: Scottish Taxpayers taxed on the remittance basis

Management of taxes

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There is an error in HMRC's 2017/18 self-assessment (SA) tax calculation in respect of Scottish taxpayers who are taxable on the remittance basis, so that the main UK tax rates, rather than the Scottish rate of income tax (SRIT), is applied in the 2017/18 SA tax calculation, for any remittance basis Scottish taxpayers. The result is that the tax on income subject to the SRIT is being understated. The error has been recognised by HMRC and an SA online filing exclusion created.

We understand that HMRC has made a mistake with the 2017/18 Self-assessment (SA) tax calculation in respect of Scottish taxpayers who are taxable on the remittance basis, so that the main UK tax rates, rather than Scottish Rate of Income Tax (SRIT), is applied in the 2017/18 SA tax calculation, for any remittance basis Scottish taxpayers.

This issue was first identified by a member of the CIOT's Employment Taxes Sub-Committee and HMRC has confirmed that all Scottish status customers that tick SA return box NRD28 are being taxed as if they had a UK resident, rather than Scottish resident, status (even where they are not subject to the Remittance Basis Charge (RBC)).

Scottish taxpayers (who by definition have to be UK tax resident) should be paying the SRIT on all the income (for example employment income, income from property) to which SRIT can apply, regardless of whether they pay tax on the arising or the remittance basis. The RBC is then calculated at the main UK tax rates, rather than SRIT, as required by ITA 2007 s 809(3A). However, our understanding is that the RBC of £30,000/£60,000 is not actually based on any level of assumed income in the SA

tax calculation. Rather, the figure required is simply entered in HMRC's computation as a levy, which should be the correct amount, without any additional adjustment to the applicable tax rate being needed. Consequently, as the 2017/18 SA tax calculation currently stands, it will understate the income tax liability of any Scottish taxpayer who pays tax on the remittance basis.

The following example illustrates the issue: a remittance basis claimant, who is resident in Scotland, has taxable income of £32,000 of salary in 2017/18. He should be liable to SRIT on his salary (£31,500 at 20% and £500 at 40%). If he elects for the remittance basis and is also subject to a £30,000 RBC, this should have no effect on the taxation of his salary (that is £500 remains taxable at Scottish higher rate). However, the SA tax calculation will, because the remittance basis applies, incorrectly charge the whole of the salary at 20%, by allocating UK rather than Scottish tax bandings.

In this example, the tax difference is low (£100, as £500 would be charged at 20% rather than 40%), but it could be considerably higher. For 2017/18 the 20% basic rate banding applied to £2,000 less income in Scotland than in the rest of the UK, so that up to £400 could be undercharged by the SA tax calculation.

We understand that no amendment will be made to HMRC's computation in this regard this year but that HMRC has created an SA filing exclusion for this error and members should be aware of this when filing SA returns for Scottish taxpayers.