



National Audit Office

Comptroller and Auditor General
Sir Amyas Morse KCB

Jenny Marra MSP
Public Audit and Post-legislative Scrutiny Committee
Room T 3.60
The Scottish Parliament
EDINBURGH
EH99 1SP

Helping the nation spend wisely

Telephone +44 (0)20 7798 7777
Facsimile +44 (0)20 7798 7990
Email amyas.morse@nao.gsi.gov.uk

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Dear Ms Marra,

SCOTTISH RATE OF INCOME TAX 2016-17

Thank you for your letter of 2 February asking for further information on two issues following my evidence to your Committee in January.

The number of people in Scotland who may be classified as 'Scottish taxpayers' but who do not actually pay any tax (see column 28 of the Official Report)

HMRC defines a 'Scottish taxpayer' as someone with a tax liability whose main place of residence in a given year is Scotland. HMRC estimates there were 2.6 million Scottish taxpayers in 2016-17.

There are individuals who live in Scotland, and can be identified by a Scottish 'indicator flag' on their HMRC record, but who do not have an income tax liability. This is because their income does not exceed the Personal Allowance or they are eligible for further allowances, exemptions or reliefs which reduce their taxable income to nil. This means they are not liable to pay any income tax. Such individuals do not fall within HMRC's definition of a Scottish taxpayer. The National Audit Office did not audit this population nor estimate its size as part of work on my report on the 2016-17 financial year. To obtain further information about the estimated number of people who reside in Scotland, but do not pay any tax, I recommend contacting HMRC.

How the Comptroller & Auditor General and the National Audit Office audit HMRC's IT systems to ensure that they are fit for purpose

Tax collected through PAYE and Self-Assessment is processed by different IT systems, although these systems have many shared processes. The following principles apply to both. The ability of HMRC's systems to process income tax successfully and achieve the correct outcome for the taxpayer depends on the accuracy and completeness of the input data.

Taxpayer information is submitted to HMRC through several channels. The submissions processing system involves validation checks (to confirm that the data is in an acceptable format) then routes the information to the appropriate tax processing system. A matching function identifies the relevant taxpayer record and either stores the new data, or updates the existing information.



The tax processing system consolidates all of the data into a total income figure for each taxpayer, and calculates the associated income tax liability. The calculation process is updated annually to reflect changes to UK and Scottish income tax policy.

Income tax liabilities are stored on taxpayer records and used to update tax codes for the forthcoming tax year, if necessary. The relevant transaction data is transferred and posted into the financial reporting system.

For the key business outputs, such as the calculation of tax liabilities and updating tax codes, HMRC carries out assurance testing, before starting the live process, and during the event. This testing is designed to provide HMRC with assurance that the key outputs have been calculated accurately. Selected taxpayer records are checked by re-performing the calculations, to verify the output.

The NAO engages specialist IT auditors to provide an assessment of how the system functions throughout the process described above, and to confirm that the automated controls are configured appropriately. We also re-performed a sample of HMRC's controls tests to confirm that the systems have calculated the key outputs accurately. From our previous and continuing audit work, we are satisfied that HMRC's systems for processing income tax are designed appropriately and operate effectively.

I hope that this response is helpful.



AMYAS C E MORSE