



THE SCOTTISH BUDGET 2020



Minister for Public Finance and Digital Economy, Kate Forbes, delivered the 2020/21 Scottish Draft Budget on Thursday 6 February 2020, 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 (LBTT) and Air Departure Tax (ADT).

The Budget outlined the government's spending plans in areas including climate change, health and policing. However, Ms Forbes also emphasised the uncertainty within the Scottish Budget, resulting from an absence of information on revenues and the block grant, due to the late UK Budget.

SPENDING

Announced in the Budget was £1.8 billion of capital investment in specific projects designed to reduce emissions, with additional funding for transport, agriculture, heat and energy to help tackle the 'global climate emergency'.

Spending on healthcare is set to increase to over £15 billion, with £117 million committed to mental health support. The government also pledged to maintain police officer numbers, with confirmation of £37 million in extra funding for policing resources.

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 2020/21. 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 2020/21. The current rates and bands for 2019/20 and the proposed rates and bands for 2020/21 on non-savings and non-dividend income are as follows:

| Scottish Bands 2019/20 | Scottish Bands 2020/21 | Band Name | Scottish Rates |
|------------------------|------------------------|----------------|----------------|
| £12,501* - £14,549 | £12,501* - £14,585 | Starter | 19% |
| £14,550 - £24,944 | £14,586 - £25,158 | Scottish Basic | 20% |
| £24,945 - £43,430 | £25,159 - £43,430 | Intermediate | 21% |
| £43,431 - £150,000** | £43,431 - £150,000** | Higher | 41% |
| Above £150,000** | Above £150,000** | Top | 46% |

* assumes individuals are in receipt of the Standard 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.

In the 2018 Autumn Budget, the UK government announced that the UK-wide Personal Allowance would be frozen at its current level of £12,500 in 2020/21. The UK higher rate tax point for 2020/21 is also expected to be frozen at the 2019/20 amount of £50,000 (for those entitled to the full UK Personal Allowance) and the tax rates for non-savings and non-dividend income are expected to be maintained at 20%, 40% and 45% respectively. The additional rate of 45% is payable on income over £150,000.



Scottish resident

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 a 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. 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.

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 correctly.

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. For those individuals who have not yet used their account they can register at www.gov.uk/personal-tax-account.

LAND AND BUILDINGS TRANSACTION TAX

The government's stated policy priority for residential LBTT remains to help first-time buyers and to assist people as they progress through the property market. 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 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. According to the government, this means that around 80% of first-time buyers in Scotland will pay no LBTT at all, while those buying a property for more than £175,000 will receive relief on the portion of the price below the threshold and benefit from savings of up to £600.

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 ADS is charged at 4%.

Change to non-residential rates and bands



The government announced the introduction of a new 2% band for non-residential leases which will come into effect for contracts entered into on or after 7 February 2020. The rates and bands 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 to £250,000 | 1% | £150,001 to £2 million | 1% |
| Over £250,000 | 5% | Over £2 million | 2% |

AIR DEPARTURE TAX

It was confirmed in the Budget that the introduction of ADT will be deferred beyond April 2020. The 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.

Looking forward

The Scottish government says it will continue to work with the UK government to ensure that future parliaments can decide on the best policy for Scotland's interests, in line with climate ambitions.

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