

THE SCOTTISH BUDGET 2021



Finance Secretary, Kate Forbes delivered the 2021/22 Scottish Draft Budget on Thursday 28 January 2021, setting out the Scottish government's financial and tax plans. This summary highlights the government's announcements regarding spending plans, income tax, Land and Buildings Transaction Tax and Air Departure Tax.

The Budget outlined the government's spending plans in areas including support for businesses during the pandemic, greener jobs and digital connectivity. However, Kate 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 the release of £500 million to support businesses, public services and health during the coronavirus (COVID-19) pandemic. This money is being allocated from what is expected to come to Scotland from the UK's £21 billion COVID-19 reserve.

The budget prioritised a green recovery with a £100 million jobs fund, a commitment to establish a Green Jobs Workforce Academy and an additional £150 million allocated for woodland and forestry. In addition, over £100 million has been set aside for improvements in digital connectivity, to ensure more businesses and people have access to 4G and 5G broadband coverage.

NON-DOMESTIC RATES RELIEF

The Scottish Budget has committed to extending the current 100% non-domestic rates relief available to properties in the retail, hospitality, leisure and aviation sectors for at least the first three months of the financial year. This support is worth an estimated £185 million and delivers on a key priority for the business community. Should the UK government bring forward an extension to their equivalent relief in the March Budget, generating consequential funding, the Scottish government will match the extension period as part of a tailored package of business support measures.

SCOTTISH INCOME TAX

The 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 2021/22. 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 2021/22.

The current rates and bands for 2020/21 and the proposed rates and bands for 2021/22 on non-savings and non-dividend income are as follows:

Scottish Bands 2020/21	Scottish Bands 2021/22	Band name	Scottish Rates
£12,501* - £14,585	£12,570* - £14,667	Starter	19%
£14,586 - £25,158	£14,668 - £25,296	Scottish Basic	20%
£25,159 - £43,430	£25,297 - £43,662	Intermediate	21%
£43,431 - £150,000**	£43,663 - £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 UK Spending Review in November 2020, the UK government announced that the UK wide Personal Allowance and the UK higher rate threshold would be updated by CPI inflation of 0.5% for the tax year 2021/22 (to £12,570 and £50,270 respectively). All other policy decisions about UK rates and bands will be announced at the UK Budget on 3 March 2021.

The Personal Allowance is £12,500 for 2020/21. Across the rest of the UK the basic rate of income tax is 20%. In 2020/21 the band of income taxable at this rate is £37,500 so the threshold at which the 40% band applies is £50,000 for those entitled to the full personal allowance. UK taxpayers pay 45% tax on their 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. More details on the rules are set out in the Appendix.

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 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 Land and Buildings Transaction Tax (LBTT) remains to help first-time buyers and to assist people as they progress through the property market. The current rates and bands which apply until 31 March 2021 are as follows:

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

For transactions with an effective date on or after 1 April 2021 the rate bands will return to:

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

First-time buyer relief

The relief for first-time buyers of properties up to £175,000 will resume its effect by increasing the residential 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, 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.

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%

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%.

No change to non-residential rates and bands

The rates and bands for non-residential LBTT transactions are to remain unchanged, as follows:

Non-residential transactions	Rate	Non-residential leases	Rate
Purchase price		Net present value of rent payable	
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 Air Departure Tax (ADT) will be deferred until a solution to the Highlands and Islands exemption has been found. The Scottish government will engage with the UK government on their planned consultation on Air Passenger Duty. Air Passenger Duty will continue to apply in Scotland in the interim.



If you would like further details on how the Scottish Budget will affect you please contact us.