



## National Audit Office reporting requirements to the Scottish Parliament

---

### Who is likely to be affected?

The National Audit Office (NAO), the Scottish Parliament and HM Revenue & Customs (HMRC).

### General description of the measure

The measure will require the NAO to make annual reports direct to the Scottish Parliament on HMRC's administration of the Scottish rate of income tax.

### Policy objective

The measure will provide annual assurance to the Scottish Parliament on HMRC's calculation and collection of the Scottish rate of income tax and that the Scottish Government are getting value for money for their payments to HMRC for its work in administering the Scottish rate.

### Background to the measure

This measure was announced at Budget 2013.

## Detailed proposal

### Operative date

This measure will have effect in relation to the financial year ending on 31 March 2015 and subsequent financial years.

### Current law

There are a number of separate pieces of legislation that govern the functions and work of the Comptroller and Auditor General (C&AG) and the NAO in reporting to the UK Parliament on Departments' performance.

The Exchequer and Audit Departments Act 1921 requires the C&AG to examine HMRC's trust accounts and make a report to the House of Commons, alongside a report on the Department's resource accounts.

The National Audit Act 1983 allows the C&AG to carry out an examination into the 'economy, efficiency and effectiveness' with which departments have used their resources in discharging their functions.

The Government Resources and Accounts Act 2000 requires the C&AG to examine the resource accounts of Government departments, and report to HM Treasury or UK Parliament, with a view to being satisfied that the accounts present a true and fair view; money provided by Parliament has been properly expended; resources have been used for the purposes authorised by Parliament and the department's financial transactions are in accordance with any relevant authority.

The Scotland Act 2012 legislated for the Scottish rate of income tax by introducing new sections 80C-80H of the Scotland Act 1998 and amending the Income Tax Act 2007.

## Proposed revisions

Legislation will be introduced in Finance Bill 2014 to require the NAO to report direct to the Scottish Parliament on:

- the amounts identified by HMRC as expenditure on the Scottish rate reimbursed by the Scottish Government;
- the amounts identified as collected in respect of the Scottish rate; and,
- the adequacy of processes for operating the Scottish rate.

It also allows the NAO to undertake discretionary value for money audits on aspects of HMRC's expenditure on implementing or operating the Scottish rate.

The legislation will be inserted as a new section 80HA in the Scotland Act 1998.

## Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.					
<b>Economic impact</b>	The measure is not expected to have any economic impacts. This is an administrative measure to require the NAO to make reports on HMRC's role in administering the Scottish rate of income tax.					
<b>Impact on individuals and households</b>	This measure will have no impact on individuals and households. It is an administrative measure to require the NAO to make reports on HMRC's role in administering the Scottish rate of income tax.					
<b>Equalities impacts</b>	This measure will have no impact on people with protected characteristics. It is an administrative measure to require the NAO to make reports on HMRC's role in administering the Scottish rate of income tax.					
<b>Impact on business including civil society organisations</b>	This measure will have no impact on business. It is an administrative measure to require the NAO to make reports on HMRC's role in administering the Scottish rate of income tax.					
<b>Operational impact (£m) (HMRC or other)</b>	This measure will have no operational impact. It is an administrative measure to require the NAO to make reports on HMRC's role in administering the Scottish rate of income tax.					
<b>Other impacts</b>	Other impacts have been considered and none have been identified.					

## Monitoring and evaluation

The measure will be monitored through engagement with the NAO, Scottish Government and Scottish Parliament.

## Further advice

If you have any questions about this change, please contact Doug Stoneham on 03000 586858 (email: douglas.stoneham@hmrc.gsi.gov.uk) or contact Ian Sainsbury on 03000 586739 (email: ian.sainsbury@hmrc.gsi.gov.uk).

## 1 Report on administration of the Scottish rate of income tax

- (1) In Chapter 2 of Part 4A of the Scotland Act 1998, after section 80H insert –

### “80HA Report by the Comptroller and Auditor General

- (1) The Comptroller and Auditor General must for each financial year prepare a report on the matters set out in subsection (2).
  - (2) Those matters are –
    - (a) the adequacy of any of HMRC’s rules and procedures put in place, in consequence of the Scottish rate provisions, for the purpose of ensuring the proper assessment and collection of income tax charged at rates determined under those provisions,
    - (b) whether the rules and procedures described in paragraph (a) are being complied with,
    - (c) the correctness of the sums brought to account by HMRC which relate to income tax which is attributable to a Scottish rate resolution, and
    - (d) the accuracy and fairness of the amounts which are reimbursed to HMRC under section 80H (having been identified by it as administrative expenses incurred as a result of the charging of income tax as mentioned in paragraph (a)).
  - (3) The “Scottish rate provisions” are –
    - (a) this Chapter, and
    - (b) the amendments made by section 26 of the Scotland Act 2012.
  - (4) A report under this section may also include an assessment of the economy, efficiency and effectiveness with which HMRC has used its resources in carrying out relevant functions.
  - (5) “Relevant functions” are functions of HMRC in the performance of which HMRC incurs administrative expenses which are reimbursed to HMRC under section 80H (having been identified by it as administrative expenses incurred as a result of the charging of income tax as mentioned in subsection (2)(a)).
  - (6) HMRC must give the Comptroller and Auditor General such information as the Comptroller and Auditor General may reasonably require for the purposes of preparing a report under this section.
  - (7) A report prepared under this section must be laid before the Scottish Parliament not later than 31 January of the financial year following that to which the report relates.
  - (8) In this section “HMRC” means Her Majesty’s Revenue and Customs.”
- (2) The amendment made by this section has effect in relation to the financial year ending on 31 March 2015 and subsequent financial years.

**EXPLANATORY NOTE**

**REPORT ON ADMINISTRATION OF THE SCOTTISH RATE OF INCOME TAX**

**SUMMARY**

1. Clause [X] amends the Scotland Act 1998 to require the Comptroller and Auditor General (C&AG) to make an annual report direct to the Scottish Parliament on HMRC's administration of the Scottish rate of income tax.

**DETAILS OF THE CLAUSE**

*Part 1*

2. Subsection (1) inserts the requirement to produce the report as new section 80HA in Chapter 2 of Part 4A of the Scotland Act 1998.

3. New section 80HA(2) sets out the scope of the annual report to be laid before the Scottish Parliament. The C&AG will report on the adequacy of the additional rules (which has the same meaning as "regulations" in section 2(1) of the Exchequer and Audit Departments Act 1921) and processes which HMRC have put in place to administer and collect the Scottish rate. The C&AG will also report on HMRC's calculation of the amount of Scottish rate income tax to be paid over to the Scottish Government and on the accuracy and fairness of costs reimbursed to HMRC by the Scottish Government for the administration of the Scottish rate.

4. New section 80HA(3) explains that the "Scottish rate provisions" are those set out in Chapter 2 of the Scotland Act 1998 and other amendments made elsewhere in the Taxes Act by section 26 of the Scotland Act 2012.

5. New section 80HA(4)-(5) provides that the C&AG has the discretion to include in the report an analysis of whether HMRC is using its resources in administering the Scottish rate in an effective, efficient and economic manner.

6. New section 80HA(6) requires that HMRC provide the C&AG with information necessary to complete the annual report.

7. Subsection (2) of the clause brings the measure into effect for the financial year ending 31/03/15. As a result of new section 80HA(7), the first report will therefore need to be produced before 31 January 2016.

**BACKGROUND NOTE**

8. The Scotland Act 2012 amended the Scotland Act 1998 to introduce the Scottish rate of income tax, which is expected to commence in April 2016.

9. The Scottish rate will be set each year by the Scottish Parliament and will be operated by HMRC as part of the UK income tax system; HMRC's costs in implementing and administering the Scottish rate will be reimbursed by the Scottish Government.

10. The Command Paper, "Strengthening Scotland's Future", published alongside the Scotland Bill in November 2010 set out that The Comptroller and Auditor General would, as head of the National Audit Office (NAO), be invited to prepare a report to the Scottish Parliament on HMRC's administration of the Scottish rate of income tax as part of the NAO's annual report on HMRC's overall performance".

11. This clause clarifies the legal basis for this by requiring the C&AG to prepare a report covering these matters and lay it before the Scottish Parliament on an annual basis.

12. If you have any questions about this change, or comments on the legislation, please contact Doug Stoneham on 03000 586858 (email: [douglas.stoneham@hmrc.gsi.gov.uk](mailto:douglas.stoneham@hmrc.gsi.gov.uk)) or Ian Sainsbury on 03000 586739 (email: [ian.sainsbury@hmrc.gsi.gov.uk](mailto:ian.sainsbury@hmrc.gsi.gov.uk)).