



- (b) (apart from this section) income tax is chargeable in respect of any part of that individual's total income for the tax year at a Scottish rate<sup>(a)</sup>, and
  - (c) that rate is higher than the Scottish basic rate for that year,
- on the making of a claim, the Scottish basic rate limit, and any other Scottish rate limit for the tax year in the individual's case, are increased by the amount of the contribution.”.

**4.**—(1) Section 227(b) (annual allowance charge) is amended as follows.

(2) In subsection (4A)—

- (a) in paragraph (a) omit “or, in the case of a Scottish taxpayer, the Scottish basic rate”,
- (b) in paragraph (b) omit, “or, in the case a Scottish taxpayer, the Scottish higher rate”, and
- (c) in paragraph (c) omit, “or, in the case of a Scottish taxpayer, the Scottish additional rate”.

(3) At the end of subsection (4A) insert—

“But subsection (4AA) applies in the case of a Scottish taxpayer.”.

(4) After subsection (4A) insert—

“(4AA) The appropriate rate for a Scottish taxpayer is—

- (a) where the only Scottish rate is the Scottish basic rate (the “SBR”), that rate, or
- (b) where there is more than one Scottish rate—
  - (i) the SBR in relation to so much (if any) of the chargeable amount as, when added to the individual's reduced net income for the tax year, does not exceed the Scottish basic rate limit (“SBRL”) for the tax year,
  - (ii) the next highest rate after the SBR in relation to so much (if any) of the chargeable amount as, when so added, exceeds the SBRL for the tax year but does not exceed the rate limit for that rate for the tax year, and
  - (iii) where applicable, any other higher Scottish rate in relation to so much (if any) of the chargeable amount as, when so added, does not exceed the rate limit for that rate for the tax year.”.

(5) For subsection (4C) substitute—

“(4C) Where—

- (a) the basic rate limit,
- (b) the higher rate limit,
- (c) the Scottish basic rate limit, or
- (d) any other Scottish rate limit,

is (in accordance with section 192 of this Act or section 414 of ITA 2007) increased in the case of the individual, the references to the limit in subsections (4A) and (4AA) are to the limit as so increased.”.

**5.**—(1) Section 237B(c) (liability of scheme administrator) is amended as follows.

(2) In subsection (4)—

- (a) in paragraph (a) omit—
  - (i) “or the Scottish additional rate”, and
  - (ii) “or, in the case of a Scottish taxpayer, the Scottish additional rate”,
- (b) in paragraph (b) omit—
  - (i) “or the Scottish higher rate”, and

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(a) “Scottish rate” is defined for the purposes of the Income Tax Acts in section 989 of the Income Tax Act 2007.

(b) Section 227 was amended by paragraph 45 of Schedule 16 and paragraphs 1 and 3 of Schedule 17 to the Finance Act 2011 (c. 11), paragraph 63 of Schedule 1 to the Taxation of Pensions Act 2014 (c. 30) and S.I. 2015/1810.

(c) Section 237B was inserted by paragraph 15 of Schedule 17 to the Finance Act 2011 and amended by S.I. 2015/1810.

- (ii) “or, in the case of a Scottish taxpayer, the Scottish higher rate,” and
- (c) in paragraph (c) omit “or, in the case of a Scottish taxpayer, the Scottish basic rate”.
- (3) At the end of subsection (4) insert—
  - “But subsection (4A) applies in the case of a Scottish taxpayer.”.
- (4) After subsection (4) insert—
  - “(4A) In the case of a Scottish taxpayer, the “relevant rate” in subsection (3)(a) means—
    - (a) where the only Scottish rate is the Scottish basic rate, that rate;
    - (b) where there is more than one Scottish rate—
      - (i) the highest Scottish rate in relation to so much of the excess as does not exceed the amount (if any) on which tax is chargeable in the case of the individual at that rate by virtue of section 227(4AA)(b)(ii) or (iii),
      - (ii) the next highest Scottish rate in relation to so much of the excess as is not within sub-paragraph (i) and does not exceed the amount (if any) on which tax is so chargeable by virtue of section 227(4AA)(b)(i), (ii) or (iii),
      - (iii) if there is one, the next highest Scottish rate in relation to so much of the excess as is not within sub-paragraph (i) or (ii) and does not exceed the amount (if any) on which tax is so chargeable by virtue of section 227(4AA)(b)(i), (ii) or (iii),
  - and so on.”
- 6.** In section 279(1)(a) (other definitions) after the definition of “pensionable age” insert—
  - ““Scottish basic rate limit” means a rate limit set by the Scottish Parliament under section 80C(2A) of the Scotland Act 1998 for the purposes of determining the extent to which a Scottish taxpayer’s income is charged at the Scottish basic rate where a Scottish rate resolution under that Act has set more than one rate for the tax year.”.
- 7.** In section 280(2) (abbreviations and general index), omit the entries for “Scottish additional rate”, “Scottish basic rate” and “Scottish higher rate”.

**Amendments to the Income Tax (Trading and Other Income) Act 2005**

- 8.—**(1) The Income Tax (Trading and Other Income) Act 2005(b) is amended as follows.
- (2) In section 669(3)(c) (reduction in residuary income: inheritance tax on accrued income), in paragraph (a), for “additional rate or the higher rate” substitute “applicable rate”.
- (3) After section 669(3) insert—
  - “(3A) For the purposes of subsection (3), the “applicable rate” means—
    - (a) the additional rate,
    - (b) the higher rate, or
    - (c) in the case of a Scottish taxpayer, any Scottish rate above the Scottish basic rate.”.
- (4) In section 685A(3)(d) (settlor-interested settlements) for “the Scottish additional rate” substitute “the highest Scottish rate”.

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(a) Section 279 was amended by paragraph 21 of Schedule 17 to the Finance Act 2011.  
 (b) 2005 c. 5.  
 (c) Section 669(3) was amended by section 4(13) of the Finance Act 2016 (c. 24).  
 (d) Section 685A was inserted by paragraph 6 of Schedule 13 to the Finance Act 2006 (c. 25) and amended by paragraph 22 of Schedule 2 to the Finance Act 2009, paragraph 569 of Schedule 1 to the Income Tax Act 2007, section 67(1) of the Finance Act 2008 (c. 9) and S.I. 2015/1810.

### **Amendments to the Finance (No.2) Act 2005**

**9.**—(1) Section 7 of the Finance (No.2) Act 2005(a) (charge to income tax on social security pension lump sum) is amended as follows.

(2) In subsection (5)—

- (a) after the words “a charge under this section” insert “for a person who is not a Scottish taxpayer in the applicable year of assessment”,
- (b) in paragraph (c) omit “or, if P is a Scottish taxpayer, the Scottish basic rate”,
- (c) in paragraph (d) omit “or, if P is a Scottish taxpayer, the Scottish higher rate”, and
- (d) in paragraph (e) omit “or, if P is a Scottish taxpayer, the Scottish additional rate”.

(3) After subsection (5) insert—

“(5A) Where P is a Scottish taxpayer in the applicable year of assessment, a charge under this section is a charge in respect of the amount of the lump sum at the following rate—

- (a) if P’s Step 3 income for the applicable year of assessment is nil, 0%;
- (b) if P’s Step 3 income for that year of assessment is greater than nil but does not exceed the Scottish basic rate limit for that year, the Scottish basic rate for that year;
- (c) if P’s Step 3 income for that year of assessment exceeds the Scottish basic rate limit for that year, the highest Scottish rate for that tax year that is applicable to P.”

### **Amendments to the Income Tax Act 2007**

**10.**—(1) Section 414(2)(b) (relief for gifts for charity) of the Income Tax Act 2007 is amended as follows.

(2) In paragraph (b) after “(see section 10)” insert “and additionally, in the case of a Scottish taxpayer, the Scottish basic rate limit and any other Scottish rate limit,”.

	<i>Name</i>
	<i>Name</i>
Date	Two of the Lords Commissioners of Her Majesty’s Treasury

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(a) 2005 c. 22. Section 7 was amended by paragraphs 64 and 65 of Schedule 1 to the Finance Act 2008 (c. 9), paragraph 24 of Schedule 2 to the Finance Act 2009, paragraphs 134 and 135 of Schedule 46 to the Finance Act 2013 (c. 29), paragraph 604 of Schedule 1 to the Income Tax Act 2007 and by S.I. 2015/1810.

(b) Section 414 was amended by paragraph 20 of Schedule 1 to the Finance Act 2008, paragraph 6 of Schedule 2 to the Finance Act 2009 (c. 10) and S.I 2015/1810.

## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations make consequential changes to various provisions of income tax legislation following the introduction of the Scotland Act 2016 (c. 11) which devolved the power to set Scottish income tax rates and thresholds on non-savings employment income, to the Scottish Parliament for the tax year 2017-18 and subsequent tax years.

The Scottish Parliament may set a Scottish basic rate of income tax for each tax year and may in addition set other rates and thresholds for income tax which could vary in amount and name from those set by the UK Parliament. These Regulations make amendments in order to make the existing UK wide income tax legislation work in respect of Scottish taxpayers.

Regulations 2 to 7 deal with the taxation of pensions legislation contained in the Finance Act 2004 (c.12) (“FA 2004”). Regulation 3 amends section 192 of FA 2004 which deals with relief at source for contributions to registered pension schemes. Scottish taxpayers who pay income tax at a higher Scottish rate than the Scottish basic rate will (on the making of a claim) be entitled to have their Scottish basic rate limit and any other higher Scottish rate limits increased by the amount of the grossed up contribution.

Regulation 4 amends section 227 of FA 2004 which deals with the calculation of the annual allowance charge. A new subsection (4AA) is inserted which provides that Scottish rates of income tax should be used when making the calculation for a Scottish taxpayer.

Regulation 5 amends section 237B of FA 2004 which provides that a taxpayer may, in certain circumstances, issue a scheme administrator of a registered pension scheme with a notice requiring payment of an annual allowance charge relating to that scheme on behalf of that taxpayer. The section is amended so it refers to Scottish tax rates when calculating the maximum amount of the annual charge that can be specified in the notice by a Scottish taxpayer.

Regulations 6 and 7 make consequential changes to the definitions and abbreviations provisions contained in sections 279 and 280 of FA 2004.

Regulation 8 makes consequential changes to sections 669 and 685A of the Income Tax (Trading and Other Income Tax 2005 (c. 5). Section 669, which provides for a reduction in the residuary income of a deceased’s estate in certain circumstances, is amended to reflect the fact that the Scottish Parliament may now set Scottish rates of income tax that do not correspond to the rates that apply to the remainder of the UK. Section 685A which provides for a tax credit where a person other than the settlor receives an annual payment from a settlor-interested trust is amended so that the credit for a Scottish taxpayer is calculated at the highest Scottish rate rather than the Scottish additional rate which was applicable prior to the tax year 2017-18.

Regulation 9 amends section 7 of the Finance (No. 2) Act 2005 (c.22) which imposes a charge to income tax where a person becomes entitled to a social security lump sum. In the case of a Scottish taxpayer the charge is calculated by reference to the Scottish basic rate and any other higher Scottish rates that may be set.

Regulation 10 amends section 414 of the Income Tax 2007 (c. 3) which deals with relief for gifts to charity. In the case of a Scottish taxpayer who has made a qualifying donation, the Scottish rate limits will be increased by the grossed up amount of the gift in addition to the basic and additional rate limits applicable elsewhere in the UK.

An Impact Assessment covering this instrument was published on 28 May 2015 alongside the draft clauses and explanatory notes for the Scotland Bill and is available on the website at <http://www.parliament.uk/documents/impact-assessments/IA15-004.pdf>. It remains an accurate summary of the impacts that apply to this instrument.

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