

Scottish taxpayers' income tax examples

(Lecture P1087 – 9.25 minutes)

Here are 4 numerical illustrations to show how the new Scottish rates will work.

Illustration 1

Kirsty is a Scottish Taxpayer. In 2018/19 she received the following income:

	£
Salary from job in Dundee	42,000
Rental profit from flat in England	2,500
Interest from Bank of Scotland	1,250
Dividends on UK share portfolio	8,000

Kirsty's income tax liability for 2018/19 is:

	Non-savings £	Interest £	Dividends £
Earnings	42,000		
Rental profit (N1)	2,500		
Interest		1,250	
Dividends			<u>8,000</u>
Total income	44,500	1,250	8,000
Less: Personal Allowance	<u>(11,850)</u>		
	<u>32,650</u>	<u>1,250</u>	<u>8,000</u>
Tax:			
2,000 @ 19%			380
<u>10,150</u> @ 20%			2,030
12,150			
<u>19,430</u> @ 21%			4,080
31,580			
<u>1,070</u> @ 41%			439
32,650			
500 @ Nil			0
750 @ 20%			150
<u>600</u> @ Nil			
34,500 (N2)			
1,400 @ Nil			0
<u>6,000</u> @ 32.5			<u>1,950</u>
<u>41,900</u> Tax liability			<u>9,029</u>

Note:

N1: Even though the rental profits arise from the letting of land outside Scotland, Scottish rates still apply as this is non-savings income received by a Scottish Taxpayer.

N2: When calculating tax on savings and dividend income, we use the UK basic rate threshold of £34,500. Therefore even though the non-savings income is above the Scottish higher rate threshold (leaving Kirsty liable to Scottish higher rate tax), she still has some of her UK basic rate band remaining to use against her savings income.

Illustration 2

Assume in Illustration 1 above that Kirsty makes personal pension contributions of £300 per month (net) in 2018/19.

Pension contributions are made net of basic rate tax (20%) so the gross contributions in 2018/19 will be $£300 \times 12 \times 100/80 = £4,500$.

Higher rate relief for pension contributions is given by extending the relevant Scottish bands as follows:

	Basic rate £	Intermediate rate £
Scottish limit	12,150	31,580
Add: Gross pension contribution	4,500	4,500
Revised limit	16,650	36,080

The UK basic rate band will also need to be extended for the purpose of taxing savings and dividend income (where Scottish rates do not apply):

	£
UK basic rate threshold	34,500
Add: Gross pension contribution	4,500
Revised limit	39,000

Kirsty's tax liability is therefore:

	Non-savings £	Interest £	Dividends £
Total income	44,500	1,250	8,000
Less: Personal Allowance	<u>(11,850)</u>	<u> </u>	<u> </u>
Taxable income	32,650	1,250	8,000
2,000	@ 19%		380
<u>14,650</u>	@ 20%		2,930
16,650			
<u>16,000</u>	@ 21%		3,360
32,650			
500	@ Nil		0
750	@ 20%		150
2,000	@ Nil		0
<u>3,100</u>	@ 7.5%		232
39,000			
<u>2,900</u>	@ 32.5%		<u>942</u>
<u>41,900</u>		Tax liability	<u>7,994</u>

Illustration 3

Robert is a Scottish Taxpayer. In 2018/19 he received the following income / gains:

	£	
Self-employed profits	35,000	
Rental profits	1,000	
Interest on RBS Account	1,250	
Capital gain on sale of buy-to-let property	25,000	
Robert's tax liability is therefore:		
	Non-savings	Interest
	£	£
Self-employed profits	35,000	1,250
Rental profits	<u>1,000</u>	
Total income	36,000	
Less: Personal Allowance	<u>(11,850)</u>	
Taxable income	24,150	1,250
2,000 @ 19%		380
<u>10,150</u> @ 20%		2,030
<u>0</u>		
12,150		
<u>0</u>		
<u>12,000</u> @ 21%		2,520
<u>0</u>		
24,150		
<u>0</u>		
1,000 @ Nil		0
<u>250</u> @ 20%		<u>50</u>
<u>25,400</u> Income tax		<u>4,980</u>
<u>0</u>		
Capital gain	25,000	
Less: Annual exemption	<u>(11,700)</u>	
Taxable gain	<u>13,300</u>	
(34,500 – 25,400) = 9,100 @ 18%	1,638	
(13,300 – 9,100) = 4,200 @ 28%	<u>1,176</u>	
CGT due		<u>2,814</u>
TOTAL TAX LIABILITY		<u>7,794</u>

Note: UK basic rate threshold of £34,500 is used to calculate the basic rate band remaining for CGT.

Illustration 4

Shirley (aged 50) is a partner in a livery business. The practice is based in Castle Heaton in Northumberland but Shirley and her family live on a farm near Kelso in Scotland and Shirley commutes daily. Shirley's allocated partnership profits for 2018/19 were £13,650. She had taken out a loan to buy into the partnership and interest of £500 was paid on the loan in 2018/19.

Shirley's father died in March 2017 and the estate was finally administered in September 2018 at which point Shirley received an income distribution of £26,500 certified as follows:

R185 (Estate Income):	Net £	Tax £
Interest income	8,000	2,000
Dividend income	18,500	1,500
	26,500	3,500

Shirley's only other income is £2,400 of interest on a joint bank account with her husband Duncan.

Shirley is a Scottish Taxpayer as she lives in Scotland. She will only be liable to the Scottish rate of income tax on her partnership profits as this is her only source of non-savings income.

Her tax liability for 2018/19 will therefore be as follows:

	Non-savings £	Interest £	Dividends £
Partnership profits	13,650		
Building society interest (x 50%)		1,200	
Estate interest (8,000 x 100/80)		10,000	
Estate dividends (18,500 x 100/92.5)			<u>20,000</u>
	13,650	11,200	20,000
Less: Loan interest (S.398 ITA 2007)	<u>(500)</u>		
Total income	13,150	11,200	20,000
Less: Personal Allowance	<u>(11,850)</u>		
Taxable income	<u>1,300</u>	<u>11,200</u>	<u>20,000</u>

Tax:	Notes:	
1,300 @ 19%		247
3,700 @ 0% N1		0
1,000 @ 0% N2		0
6,500 @ 20%		1,300
2,000 @ Nil N3		0
<u>18,000 @ 7.5%</u>		<u>1,350</u>
<u>32,500</u>	Income Tax liability	2,897
	Class 4 NIC: (13,650 – 8,164) @ 9%	<u>494</u>
	Total tax & NIC liability	3,391
	Less: Tax credits on estate income	<u>(3,500)</u>
	Repayment due	<u>(109)</u>

Notes:

N1: A 0% starting rate applies where taxable non-savings income is less than £5,000. In this case £3,700 of the starting rate band is available against the interest income. Note here that by allocating the loan interest payment and the personal allowance fully against the non-savings income, we are increasing the amount of the 0% starting rate band which can then be released against the interest income and which would otherwise be taxed at 20%.

This gives a better result than allocating some of the loan interest payment or the PA against savings income. [Again, programming these idiosyncrasies into a software package is likely to be difficult!].

N2: The savings nil band is £1,000 as Shirley does not pay tax at the UK higher rate. Note here that we use the UK higher rate threshold (£34,500) to determine whether Shirley pays at the higher rate, not the Scottish higher rate threshold of £31,580.

N3: The dividend nil band is available as Shirley is treated as receiving dividend income from the estate (which is transparent for tax purposes).

Contributed by Steve Sanders