Buried away in a technical annex to its 2017/18 Annual Accounts, HMRC last week published Non-Savings, Non-Dividend (NSND) income tax outturn data for Scotland in 2016/17.

This is the first published outturn data for Scottish NSND income tax since the Scotland Act 2016 transferred responsibility for setting the rates and bands of NSND income tax to the Scottish Parliament. It is also the first outturn data published on the basis of HMRC's Scottish taxpayer codes.

So what does the data say?

HMRC estimates Scottish NSND outturn revenues at **£10.7bn** in 2016/17.

How does this compare to the latest forecasts?

- In March this year, OBR was forecasting Scottish NSND income tax revenues for 2016/17 at **£11.415bn**. The outturn figure is £715m (6.3%) lower than this forecast.
- In May this year, the Scottish Fiscal Commission was forecasting Scottish income tax revenues for 2016/17 at **£11.267bn**. The outturn figure is £567m (5%) lower than the forecast.

Why is the outturn figure so much lower than forecasts that were being made just a few months ago?

It is not yet clear, and we will probably need to wait until the SFC's Forecast Evaluation Report, due to be published on 5 September, before we have a clearer idea.

Unfortunately, HMRC has published no contextual or supporting information alongside the headline figure of £10.7bn. No information is provided on the number of Scottish taxpayers, let alone the breakdown of Scottish taxpayers by tax band. And no comparator figures (i.e. for NSND income tax specifically) are provided either for the UK as a whole, or the rest of the UK (rUK) excluding Scotland.

Diagnostics are therefore impossible at this stage, not only for the general public, but also for the SFC, who will need HMRC to be more forthcoming with data if they are to fulfil the standards expected of them in their Forecast Evaluation Report.

Does this matter for the Scottish budget?

Does the fact that the outturn data for 2016/17 underperforms the forecasts have any effect on the Scottish budget? In a word, no.

The income tax powers transferred to the Scottish Parliament are operational from 2017/18 onwards. The 2016/17 outturn data determines what is known as the initial deduction, in effect the baseline against which future tax revenue growth is assessed.

From 2017/18 onwards, the Scottish budget is determined by two elements: the revenues raised from taxes transferred to Scotland; and the 'block grant adjustments' (BGAs). The BGAs are measures of the revenues foregone by the UK Government from having transferred each tax to Scotland, and are deducted from the Scottish block grant.

From 2017/18 onwards, the BGA for income tax will be calculated by assuming that, if income tax had not been transferred to the Scottish Parliament, income tax revenues in Scotland would have grown at the same per capita rate in Scotland as they have done in the rest of the UK (rUK). If actual Scottish income tax revenues grow at a faster per capita rate, then Scottish income tax revenues will be higher than the BGA, and the Scottish budget will be better off.

But in 2016/17, Scottish income tax revenues and the BGA are effectively one and the same thing – the lower the revenues, the lower the 'initial deduction'.

Of course, the fact that the 2016/17 outturn figure is lower than had been forecast will cause both the SFC and OBR to revise down their forecasts of Scottish income tax revenues in 2017/18 and beyond when they issue their next round of forecasts. But, by being based on a lower baseline, the forecasts for the income tax BGAs will be revised down too.

In effect therefore, the below forecast outturn data has no immediate impact on the Scottish budget. *The key driver of the Scottish budget in 2017/18 and beyond is the extent to which Scottish income tax revenues per capita grow faster or slower than the corresponding income tax revenues in rUK – not the size of the initial baseline**.

Summary

Publication of the first official Scottish NSND income tax revenue data last week went largely unnoticed by the media. This is understandable, given that it was tucked away in a larger HMRC report, and given that it in itself has no impact on the Scottish budget in 2016/17 or subsequent years.

Nonetheless, whilst the 2016/17 outturn data has no direct impact on the Scottish (or UK) budgets, the fact that the outturn figures were markedly different from forecast will provide food for thought for forecasters.

There is a pressing need however for HMRC to consider the way in which it publishes this information in future years. In future years, outturn Scottish income tax figures *will* have a direct effect on the Scottish budget.

It is therefore imperative that, as well as publishing a headline 'number', HMRC also makes available some of the key elements underlying this number, including for example taxpayers and revenues by band. Comparative data for rUK is also critical, as it is the interaction of Scottish revenues with the block grant adjustment that ultimately determines the Scottish budget.

What's next? The SFC's Forecast Evaluation Report at the beginning of September will set out more about what drives differences between its forecast and HMRC's outturn, whilst the Scottish Government's Outturn Report at the end of September will consider any broader implications for the budget.

* (In its report, HMRC has also provides provisional estimate for Scottish income tax revenues in 2017/18. This would be very interesting, if it was based on provisional outturn data. Confusingly however, it is unclear to what extent it takes account of the 2016/17 outturn data. Its estimate of Scottish revenues in 2017/18 of £11.9bn implies revenue growth of 11% which would be unprecedented, even if we take account of the tax-raising measures – the freeze in the Higher Rate threshold – announced by the Scottish Government that year).