

PAYSLP METHODOLOGY SERIES

Chapter 2 — Literature Review

Income Tax — Scotland

*A thematic synthesis of statutory, regulatory
and policy literature*

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Payslp Research — Independent Methodology Series

May 2026

Approx. 2,150 words

ABSTRACT

This literature review examines the constitutional, legislative and fiscal literature governing the calculation of Scottish income tax for 2026/27. Drawing principally on the Scotland Act 2016, the Scottish Government’s Scottish Budget 2026–27, the Scottish Parliament’s Scottish Rate Resolution of 19 February 2026, and professional commentary from the Chartered Institute of Taxation and the ICAEW Tax Faculty, the review identifies the six-band structure of Scottish rates and the consequential effective marginal rate of 67.5 percent in the Personal Allowance taper zone, the highest in the United Kingdom. The review traces the gradual constitutional shift from a wholly reserved tax to a fully devolved tax over rates and bands (whilst the Personal Allowance itself remains a matter of UK competence) and considers the political and administrative implications of policy divergence. The literature demonstrates a settled and broadly bipartisan acceptance among Scottish parliamentarians of the six-band model, evidenced by the 93–29 vote on the 2026/27 Rate Resolution. The chapter concludes with implementation implications for the scotTax calculator function.

Keywords: Scottish income tax, devolution, Scotland Act 2016, six-band, 2026/27

1. Introduction

The taxation of personal income arising to a Scottish taxpayer occupies a distinct position in the United Kingdom’s constitutional architecture. Following the Scotland Act 2016 (c. 11) and the Scottish Rate of Income Tax arrangements that preceded full devolution, the Scottish Parliament now exercises full competence over the rates and bands of income tax applied to non-savings, non-dividend income of Scottish taxpayers, whilst the Personal Allowance itself, the savings rates, and the dividend rates remain reserved to the United Kingdom Parliament. This bifurcated arrangement produces a tax system that diverges materially from that applied elsewhere in the United Kingdom and which demands separate calculation logic.

This chapter reviews the literature informing the 2026/27 Scottish income tax calculation as implemented in the scotTax function of the Payslp methodology. The review draws on six principal sources, three of which are primary governmental documents (the Scottish Budget, the Scottish Rate Resolution, and the Scotland Act 2016 itself) and three of which are professional commentary (the CIOT, ICAEW Tax Faculty, and the Scottish Government’s own rates and bands publication). The thematic structure addresses (i) the constitutional framework that produces Scottish income tax as a distinct fiscal instrument, (ii) the six-band rate structure adopted for 2026/27, (iii) the interaction with the reserved Personal Allowance taper, and (iv) the political-economy context of the 19 February 2026 Rate Resolution vote.

2. Scope and Methodological Approach

The review is confined to materials that bear directly upon the determination of income tax liability for a Scottish taxpayer in 2026/27. ‘Scottish taxpayer’ is a statutorily defined concept; the residence and connection tests by which an individual is classified as such are set out in section 25G of the Income Tax Act 2007 (as inserted by the Scotland Act 2012 (c. 11) and amended by the Scotland Act 2016). The review takes this definition as given and does not consider edge cases such as taxpayers who change residence within the year.

Methodologically, the review prioritises the legally operative documents. The Scottish Rate Resolution, which passes annually through the Scottish Parliament, is constitutionally distinctive: it is the instrument that actually sets the rates, by contrast with the Westminster process in which rates are typically given effect through Finance Acts. The Resolution carries motion-style status rather than being a Bill, reflecting the bespoke devolution framework. Where professional commentary is drawn upon (CIOT, ICAEW), it is used to corroborate or illuminate the primary materials rather than to advance independent argument.

3. Literature Review

3.1 The constitutional framework

The Scotland Act 1998 (c. 46) initially established the Scottish Parliament with no income tax-rating powers beyond the limited ‘Scottish Variable Rate’, which was never exercised. The Scotland Act 2012 (c. 11) introduced the Scottish Rate of Income Tax, partially devolving rate-setting power but retaining UK competence over band widths. Full devolution of rates and bands was achieved by the Scotland Act 2016 (c. 11), section 13 of which now provides the legal basis for the Scottish Parliament’s present income tax powers. Importantly, however, section 80B of the Scotland Act 1998 (as inserted by the 2012 Act) reserves the Personal Allowance to the United Kingdom Parliament: the Holyrood writ extends only to rates and bands as applied to income above the Allowance.

This constitutional bifurcation has a practical consequence that is widely under-appreciated outside specialist circles. Where the United Kingdom Parliament alters the Personal Allowance, or operates the £1-for-£2 taper above £100,000, those alterations apply equally to Scottish taxpayers, who then have their Holyrood-set rates and bands applied to the resulting taxable income. The Payslp calculator therefore implements a single Personal Allowance function and routes its output into either the UK or Scottish rate engine according to the taxpayer’s residence classification.

3.2 The six-band rate structure

The Scottish Government’s Scottish Budget 2026–27 (2026) maintains the six-band structure that has characterised Scottish income tax since 2018–19. The bands for 2026/27 are: Starter rate at 19 percent on the first slice above the Personal Allowance to £15,397; Basic rate at 20 percent to £27,491; Intermediate rate at 21 percent to £43,662; Higher rate at 42 percent to £75,000; Advanced rate at 45 percent to £125,140; and Top rate at 48 percent thereafter (Scottish Government, 2026). Compared with the three-band UK system, the Scottish structure is more granular at the lower end and more aggressive at the higher end.

The ICAEW Tax Faculty (2026) characterises the changes from 2025/26 to 2026/27 as comprising small uprating of the Starter and Basic band thresholds together with an expansion of the Higher rate band ceiling. The Chartered Institute of Taxation (2026) emphasises that the structure has now been stable for several years, suggesting a settled political consensus around progressivity at the cost of calculation complexity.

3.3 Interaction with the reserved Personal Allowance taper

Because the Personal Allowance remains UK-controlled, the £1-for-£2 taper above £100,000 applies identically to Scottish taxpayers. Compounded with the Scottish 45 percent Advanced rate, however, the marginal rate produced in the taper zone is materially higher than in the rest of the United Kingdom. Each additional pound of income above £100,000 attracts: 45 pence in tax at the Advanced rate plus 22.5 pence arising from the withdrawal of fifty pence of Personal Allowance taxed at the same rate, yielding

an effective 67.5 percent marginal rate. By comparison the equivalent UK figure is 60 percent. This Scotland-specific premium is not always presented in commentary on Scottish income tax, but it is now a settled feature of the system and one that calculator design must render explicit.

3.4 Political-economy context of the Rate Resolution

The 2026/27 Scottish Rate Resolution was passed by the Scottish Parliament on 19 February 2026 by 93 votes to 29 (Scottish Parliament, 2026). The size of this majority is noteworthy. Whilst Scottish Government legislation requires only a simple majority, the Rate Resolution's 93 votes represent more than three-quarters of seated MSPs, indicating substantial cross-party support for the six-band structure as it now stands. The Chartered Institute of Taxation (2026) interprets this as evidence that the 'divergence question'—whether to align Scottish rates with the rest of the UK or to maintain the current more progressive structure—is now politically settled in favour of divergence.

4. Synthesis and Implications for Calculator Implementation

The reviewed literature establishes three implementation requirements for a Scottish income tax calculator. First, the Personal Allowance must be computed identically to the rest of the United Kingdom, including the £100,000 taper, before being routed into the Scottish rate engine. Second, the Scottish rate engine must accommodate six bands rather than three, with the band edges expressed in terms of taxable income (as in the UK case, the published gross-income equivalents shift downward when the Personal Allowance is tapered). Third, the calculator should make the 67.5 percent effective marginal rate in the taper zone visible to users in that zone, in line with the calculator's broader principle of transparency about effective rather than merely headline rates.

The political-economy context is also relevant to calculator design in a subtler sense: the longstanding stability of the six-band structure, evidenced by the 93–29 vote, suggests that calculator architecture need not anticipate imminent simplification toward a UK-aligned structure. Implementation may proceed on the basis that the six-band model will persist.

5. Conclusion

Scottish income tax for 2026/27 is now a mature instrument of devolved fiscal policy, supported by primary legislation in the Scotland Act 2016, given annual effect by Rate Resolutions of the Scottish Parliament, and now characterised by a stable six-band structure that diverges materially from the United Kingdom three-band model. The literature is internally consistent on the rates and bands themselves but shows considerable variation in how it presents the interaction with the reserved Personal Allowance and the associated taper. Calculator implementation must follow the more rigorous treatment, integrating Personal Allowance computation into a unified function whose output is then routed into the Scottish rate engine. Doing so accurately captures the highest marginal rate in the United Kingdom—67.5 percent—which falls on the small population of Scottish taxpayers in the taper zone.

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