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Rt Hon Alex Salmond MSP
First Minister
Scottish Government
St Andrew's House
Regent Road
Edinburgh
EH1 3DG

Our Ref: SO/PG

18th November 2010

Dear Alex,

I noted that John Swinney MSP made the following remarks in the Scottish Parliament yesterday:

'Within the Parliament's existing revenue powers, we have explored options for maximising our income. We have been mindful of the need to consider the effect of the significant tax rises that the UK Government has announced before we act. I therefore confirm that we will not raise the Scottish variable rate of income tax.'

I was about to write to you and others on the Scottish variable rate (SVR) to make it absolutely clear that this is a power which cannot, at this time, be exercised by the Scottish Parliament. Indeed, for the reasons I explain below, it could not now be used until 2013-14 at the earliest.

You will be aware that the arrangements between HM Revenue and Customs (HMRC) and the then Scottish Executive, put in place at the commencement of devolution and intended to ensure the SVR of income tax could be invoked within 10 months, lapsed in 2007.

Section 80 of the Scotland Act 1998 allows for any administrative costs incurred by HMRC in relation to the Scottish Parliament's tax varying power to be met by Scottish Ministers. It is an established principle that the costs of devolution should be met from the Scottish Budget.

I am not privy to the dialogue which took place between your Administration and the previous UK Government in the past three years. However I do know that the Scottish Government confirmed in August this year that it was not able to commit the necessary resources to enable HMRC to proceed with work on PAYE systems to allow the SVR to be available in the first tax year after the 2011 election.

As the system has not been funded and maintained to allow for delivery within the ten month time frame under the original arrangements, HMRC would, in fact, now need two years' notice in order to invoke the SVR. This would mean that a new Scottish Parliament, elected at the May 2011 elections, would not be able to invoke the SVR until at least the 2013-14 tax year.

It is not yet publicly known whether the Scottish political parties will propose using the SVR in their programmes for the 2011-15 Parliament. I do believe that they must be advised well in advance of next year's elections that the SVR, in practical terms, cannot be invoked until the penultimate year of the next Parliament. For that reason, I am copying this letter to Annabel Goldie MSP, Iain Gray MSP, Margo MacDonald MSP, Tavish Scott MSP and Patrick Harvie MSP as well as to David Gauke MP, the Exchequer Secretary to the Treasury.

*Yours sincerely,
Michael*

**Rt Hon MICHAEL MOORE MP
SECRETARY OF STATE FOR SCOTLAND**