Chartered Institute of Taxation.

Building a Better Tax System

Progress report

December 2023

Contents

Acknowledgements

Although this report and its recommendations represent the views of CIOT and ICAS, we would like to thank the following people who gave their time and expertise to form a Steering Group to discuss our original report and help shape this paper.

Charlotte Barbour (Deputy President, CIOT); Sharon Blain (Convener, ICAS Devolved Taxes Committee); Eric Brown (CIOT Scottish Technical Committee); Sean Cockburn (Chair, CIOT Scottish Technical Committee); Isobel d'Inverno (Convener, Tax Law Sub-Committee, Law Society of Scotland); Bill Dodwell (former Tax Director, Office of Tax Simplification); Dr Amy Lawton (Senior Lecturer in Tax Law, University of Edinburgh); Justine Riccomini (Head of Tax (Employment and Devolved), ICAS); Jim Robertson (ICAS Council member and Steering Group Chair); Chris Thorpe (CIOT Technical Officer); Alan Turner (Convener, ICAS Tax Board); Joanne Walker (Technical Officer, Low Incomes Tax Reform Group (LITRG)), Chris Young (Senior External Relations Manager, CIOT and Steering Group secretariat).

The Chartered Institute of Taxation

The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation.

One of our key aims is to work for a better, more efficient tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives. We are a non-party political organisation.

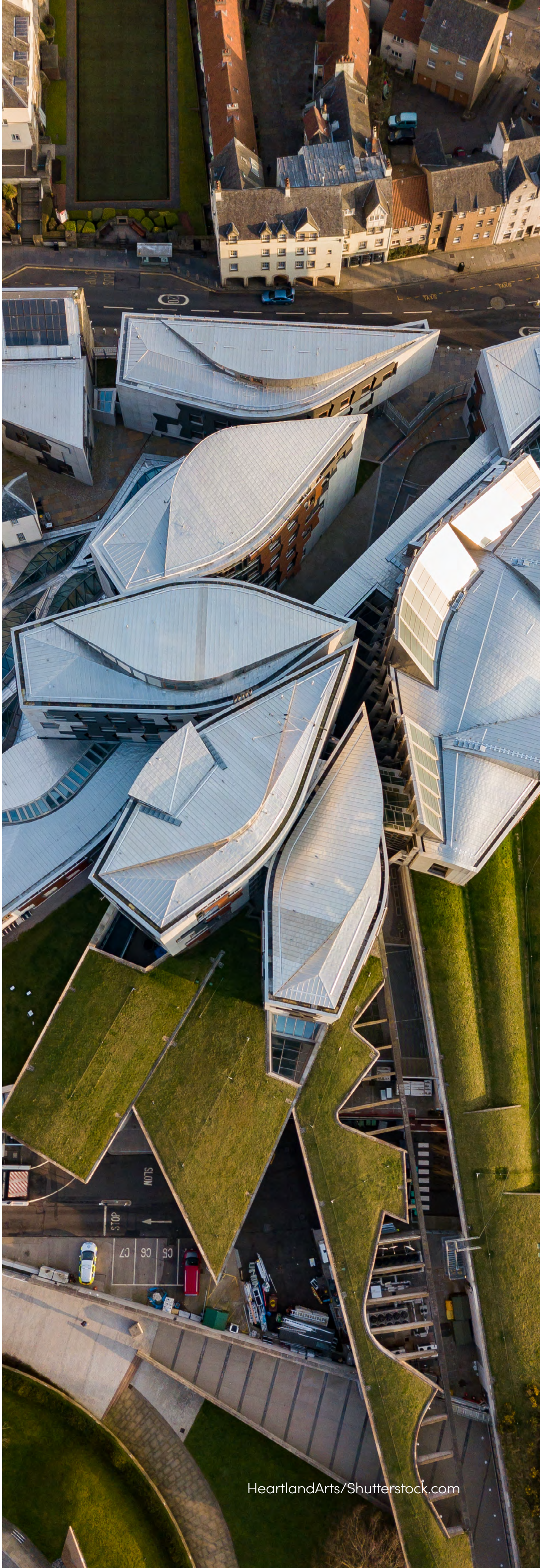
The Low Incomes Tax Reform Group (LITRG) is an initiative of the CIOT to give a voice to unrepresented taxpayers. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated systems for those who cannot afford to pay for tax advice.

The CIOT's more than 19,500 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

ICAS (The Institute of Chartered Accountants of Scotland)

ICAS (The Institute of Chartered Accountants of Scotland) is the world's oldest professional body of accountants, representing over 23,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good.

From a public interest perspective, our role is to share insights from ICAS members into the many complex issues and decisions involved in tax and financial system design, and to point out operational practicalities.



HeartlandArts/Shutterstock.com

Introduction and recommendations

In April 2021, CIOT and ICAS published Building a Better Tax System, in which our organisations set out our priorities for the devolved taxes in the 2021-26 Scottish Parliament session. Our priorities were focused around three themes:

- Strengthening decision-making.
- Developing a more structured approach to introducing and reforming taxes.
- Improving awareness and understanding of the Scottish Parliament's tax powers.

In this review, we have considered our original recommendations against developments in tax policy since 2021. We find good progress in some areas and others that would benefit from further work.

Our recommendations for the remainder of the parliamentary session are:

1. Strengthening decision-making

- The Scottish Parliament and Scottish Government should work together to review whether the current processes for scrutinising tax legislation are as good as they can be. This should include consideration of the merits of a Scottish Finance Bill. The goal of this work should be to ensure that devolved tax legislation can be appropriately considered, and that technical changes and anomalies can be identified and addressed in a timely manner, ideally through primary rather than secondary legislation. In our first report we called for the reconvening of the Devolved Taxes Legislation Working Group to assist in this work. This recommendation remains outstanding. The issues that the group was set up to consider, such as a lack of parliamentary time for tax scrutiny, the need for legislation to be regularly reviewed and kept up to date, and the ability to consult with outside experts, remain.

2. Making the case for new taxes

- There should be a consistent approach to tax policy making, with all proposals subject to consultation and engagement with relevant stakeholders. This can help to ensure that tax policy is developed in a consistent and strategic manner, taking into consideration interactions with the wider Scottish and UK tax systems. Effective stakeholder engagement will also help to ensure that taxes operate as intended, with any operational issues identified and addressed.
- The Scottish and UK governments should use the tenth anniversary of the Smith Commission in 2024 to review the package of powers delivered to Holyrood. In particular, efforts to overcome the challenges that have prevented the introduction of some of these taxes should be intensified. If the difficulties cannot be resolved for good reasons a statement to that effect should be made to provide certainty and transparency to decision makers.

3. Improving public understanding

- More effort is needed to raise awareness of how Scotland's tax system works, and the Scottish Government should think about how it can better explain the tax decisions it takes using targeted media channels. Taxpayers need to be able to understand their rights and responsibilities and this is especially true for low-income taxpayers, who may be unable to afford to pay for advice.
- The Scottish Government and HMRC should review existing guidance so taxpayers can better understand what income tax divergence means for their tax liabilities and access to reliefs.
- Tax should be part of the secondary and tertiary education curriculum. HMRC's 'Tax Facts' campaign offers a good example of how teachers and the profession can support better understanding.
- Government, the tax profession and charities/third sector should consider how they can support the scaling up of existing tax charities and programmes that can provide access to tax help for low-income taxpayers. There are international examples showing how government and the profession can work together to increase this access.

1. Strengthening decision-making

2021 recommendations

Tax decisions in the Scottish Parliament should be more visible. They are the bridge between policy aspirations and policy delivery. Voters need to have the opportunity to see more clearly how tax decisions are being made. To improve parliamentary oversight, we recommended:

Establishing a full-time Minister for Scottish Taxes with political accountability for Scottish tax policy and its relationship to the wider UK tax regime.

A Scottish Taxes Bill that, like the Budget Bill, has a guaranteed slot in the parliamentary timetable to make the legislative changes needed to maintain the integrity of the tax system.

A dedicated Finance Committee returning the committee's focus to the scrutiny of tax and spending decisions (between 2016 and 2021 the committee also scrutinised issues related to the constitution).

Improved collaboration between the institutions responsible for Scottish taxes and their interaction with the wider tax system.

Scottish Government

The ministerial split that existed prior to the 2021 election remains, with overall responsibility for devolved tax policy sitting with the Cabinet Secretary for Finance, supported by the Minister for Community Wealth and Public Finance[1]. Both ministerial portfolios have additional policy responsibilities beyond tax, and it is unlikely that at this stage of the parliamentary session, our ambition for a dedicated 'Minister for Scottish Taxes', with responsibility solely for tax policy, will be realised.

There have been several welcome tax developments within the Scottish Government, such as the publication of the Framework for Tax[2], setting out the government's strategic approach to tax policymaking, and the establishment of the Tax Advisory Group[3] to provide advice to ministers on the longer-term development of the Scottish tax system.

Both initiatives take forward a culture of collaboration, consultation and engagement that has benefited the devolved tax policy making process.

However, the handling of the recent council tax freeze announcement[4], reached with no prior stakeholder consultation, was a disappointing example of policy making which disregarded the principles of engagement and collaboration. There have been other examples where consultation and engagement has been less than satisfactory, such as the recently published Part 2 of the Aggregates Tax & Devolved Taxes Administration Bill, which makes administrative changes to the Revenue Scotland and Tax Powers Act and was published with little prior engagement. The consultation that does take place should be real, with feedback given to those providing input. There needs to be greater consistency in the approaches taken to tax policy making across all levels of government, together with a process of evaluation once policies have been implemented. This will allow for broader perspectives to be considered as policy is being developed, evaluated and reviewed.

Citizens' Assemblies have been identified as a forum for council tax reform[5]. They can allow for a cross-section of views to be considered in policy development but are not a substitute for government leadership and consideration of technical tax matters. Recent experience suggests they require time and effort for outcomes that are not necessarily representative or a firm platform for policy making.

The updated Fiscal Framework agreement between the Scottish and UK governments has also been welcome and demonstrates the value of effective cooperation between the Scottish and UK governments. However, the timing of the UK budget and its impact on Scotland's devolved budget preparations, remains a concern.

Scottish Parliament

The Finance Committee may have lost the 'Constitution' responsibilities of the 2016-2021 session, but it has gained a new 'Public Administration' function, meaning finance matters are not its only responsibility. This had been the case for its predecessor committees between 1999 and 2016.

It is disappointing that there is not a committee of parliament focusing exclusively on finance and tax. The committee has held several tax-related inquiries and evidence sessions since 2021, but there are wider activities and aspects of tax policy that it could consider if it had more time to do so, such as holding regular evidence sessions with HMRC and Revenue Scotland[6].

The committee should consider whether the Scottish Parliament's oversight of tax legislation is delivering the necessary level of scrutiny and is an effective and agile vehicle for the delivery of tax policy. It remains the case that the majority of tax legislation considered by parliament is done so via secondary legislation, which can limit opportunities for scrutiny and amendment.

Primary legislation would increase the visibility of tax legislation in the parliamentary calendar However, we appreciate that tax bills need to compete with wider legislative priorities for a place in the parliamentary calendar and as such, time can be difficult to find.

The Legacy Expert Panel[7], established by the Finance and Constitution Committee before the last election, concluded that consideration of a Scottish Finance Bill should be 'an early priority' for the 2021-26 parliament.

The Devolved Taxes Legislation Working Group (DTLWG) had been established in 2019 to consider alternative processes for tax legislation, following the recommendations of the Budget Process Review Group[8]. It brought together the Scottish Parliament, Scottish Government and outside experts[9] but its work was paused due to the pandemic. Although the government had indicated that it wanted work to resume[10], the Finance and Public Administration Committee has ended its participation, citing wider workload pressures and a perceived lack of interest in the DTLWG from 'a broader range of stakeholders'[11].

However, the issues that the DTLWG was set up to consider, such as a lack of parliamentary time for tax scrutiny, the need for legislation to be regularly reviewed and kept up to date, and the ability to consult with outside experts, remain. A dedicated parliamentary bill such as a Finance Bill suggested by the legacy panel, is one option that could be considered, as this would provide the Scottish Parliament with a set piece in the parliamentary calendar and a piece of primary legislation focused on tax scrutiny.

Our recommendation

The Scottish Parliament and Scottish Government should work together to review whether the current processes for scrutinising tax legislation are as good as they can be. This should include consideration of the merits of a Scottish Finance Bill.

The goal of this work should be to ensure that devolved tax legislation can be appropriately considered, and that technical changes and anomalies can be identified and addressed in a timely manner, ideally through primary rather than secondary legislation.

In our first report we called for the reconvening of the Devolved Taxes Legislation Working Group to assist in this work. This recommendation remains outstanding. The issues that the group was set up to consider, such as a lack of parliamentary time for tax scrutiny, the need for legislation to be regularly reviewed and kept up to date, and the ability to consult with outside experts, remain.

2. Making the case for new taxes

2021 recommendations

Decisions to introduce new taxes should not be left to the mercy of last-minute Budget concessions. A more strategic approach to the tax policy making process is in the best interests of the long-term health of the tax system. We recommended that if reforming or introducing new taxes they should be grounded in the following principles:

Identifying the purpose and locus of the tax.

Consulting early and widely.

Ensuring the structures of parliament are fit for purpose.

Maintaining sight of existing powers.

The debate on new and existing taxes has largely focused on the implementation of tax powers devolved through the Scotland Act 2016, consideration of new local taxes, and the prospect of new Scotland-wide taxes.

The principles upon which any tax is designed or reformed should be adhered to, in order to ensure they can be operational. Whether tax policy is set at a UK, Scottish or local level, decisions need to be considered in the round as part of a sustainable and strategic tax policy framework. Interactions between taxes need to be considered thoughtfully and collaboratively and policies analysed so that their impact can be assessed, evaluated and amended if needed.

Consultation and engagement are key to the development of good tax legislation, but experience has been mixed. Plans for a Workplace Parking Levy were introduced as legislation was already being considered by the Scottish Parliament, allowing little time for scrutiny. By contrast, the proposals for a tax on tourists (the Transient Visitor Levy) was the subject of significant and ongoing consultation and engagement as proposals were being developed. While the introduction of legislation for the Scottish Aggregates Tax was preceded by proactive stakeholder engagement, Part 2 of the Bill modifying the Revenue Scotland and Tax Powers Act 2014 has not been consulted on, although it has been discussed with Revenue Scotland.

Scotland Act taxes

2024 will be the tenth anniversary of the Smith Commission, which laid the groundwork for today's devolved tax regime[12].

The Scotland Act of 2016 that followed established Scotland's distinct income tax system, but the remaining tax powers delivered by the Act – the devolution of UK Air Passenger Duty and Aggregates Levy– have yet to become fully operational, and the assignment of a proportion of VAT revenues to the Scottish budget has proved problematic. Each has encountered challenges that has made implementation tricky to deliver.

Scottish Income Tax

Scottish Income Tax[13] continues to diverge from the rest of the UK, most recently in the form of increases to the higher and top rates of tax (to 42p and 47p respectively). Other differences include a lower starter rate of tax (19p), an intermediate rate (21p), and a lower threshold for the higher rate[14].

Divergence has created an income tax system in Scotland that is more complicated and harder to understand. Notionally, the adoption of a starter rate of tax means that Scottish taxpayers with income below £27,850 pay slightly less income tax than those in other parts of the UK with the same earned income. The maximum impact of this difference is minimal - £21.62 per year, or 41p per week.

Some examples of complications include the application of certain tax reliefs, such as those associated with pension and Gift Aid contributions. One of the most striking differences relates to the National Insurance treatment of Scots with earnings between the Scottish and UK higher rate income tax thresholds[15].

The use of bands based on single pounds, rather than rounded to the nearest £10 makes it impossible to appreciate easily when different tax rates apply. The fact that income tax rates and bands for savings income and dividends remains reserved to the UK Parliament means a disjointed approach for Scottish residents. These complexities mean it is more difficult for Scottish taxpayers to easily understand their tax affairs where different sources of income are taxed differently. They also lead to additional costs for HMRC in administering the system and these are borne by the Scottish Government.

Aggregates Levy, Air Departure Tax and VAT assignment

The challenges preventing the introduction of Air Departure Tax and the assignment of VAT revenues persist, despite the best efforts of those involved[16].

Legislation to introduce a Scottish Aggregates Tax was published in November 2023, with the tax expected to be introduced from 1 April 2026. The Bill proposes that the tax will be charged on aggregate quarried and commercially exploited in Scotland, as well as on imports into the country. The tax will not be charged on exports, whether to the UK or elsewhere. Figures indicate that Scotland imports 16,000 tonnes of aggregates and exports over 5.5 million tonnes[17]. If aggregate exported to the rest of the UK is not liable to the new tax, there will be far less paid directly to the Scottish Exchequer than is currently paid under the UK levy. Such a shortfall will require to be addressed via a block grant adjustment. In any event, the total revenue raised from the new tax is unlikely to be significant in terms of the overall Scottish budget.

Local taxes

Local taxes provide the greatest flexibility for reforming and introducing new taxes because legislative changes do not require prior UK Government approval.

The debate around council tax reform persists. Plans to increase charges on the most expensive homes were being considered prior to the council tax freeze announcement, while regulations allowing councils to double the rate paid by owners of second homes have recently been introduced[18].

The government has argued that the changes it has proposed to the existing council tax regime are aimed at making the system 'fairer'[19]. However, until such time as a full revaluation of homes is considered, the fundamental challenges associated with the current regime will persist. Substantive reform is an issue that has challenged successive Scottish governments. Despite cross-party consensus on the need for change, no single alternative has been identified and reform by the end of this parliament remains unlikely[20]. The work of the Commission on Local Tax Reform, which concluded in 2015, set out a series of alternative policy options for consideration based on property, land and income[21].

Research suggests that significant numbers of properties in Scotland are in the wrong council tax bands[22], meaning that reforms to the existing regime could fail to catch those they intend to, and others they should not. Revaluation would help bring property values up to date. It would also create winners and losers and would require adjustments to the way councils are funded by central government.

Other local taxation proposals, such as the Workplace Parking Levy and Transient Visitor (Tourist) Tax, are unlikely to be adopted across the country, and while there have been recent discussions around the prospect of a local inheritance tax, this may be complex to deliver[23].

New Scotland-wide taxes

Holyrood would require UK agreement to introduce new national (Scotland-wide) taxes. This is not a given, as was shown in Wales, when Senedd proposals for a Wales-wide vacant land tax were rejected by the UK Government. If this is a precedent, then it suggests that new national taxes would be slow and difficult to pursue, if they can be pursued at all[23]. The outcome of the recent Fiscal Framework negotiations between the Scottish and UK governments did not include consideration of proposals for further tax devolution.

Our recommendations

- There should be a consistent approach to tax policy making, with all proposals subject to consultation and engagement with relevant stakeholders. This can help to ensure that tax policy is developed in a consistent and strategic manner, taking into consideration interactions with the wider Scottish and UK tax systems. Effective stakeholder engagement will also help to ensure that taxes operate as intended, with any operational issues identified and addressed.
- The Scottish and UK governments should use the tenth anniversary of the Smith Commission in 2024 to review the package of powers delivered to Holyrood. In particular, efforts to overcome the challenges that have prevented the introduction of some of these taxes should be intensified. If the difficulties cannot be resolved for good reasons a statement to that effect should be made to provide certainty and transparency to decision makers.

3. Improving public understanding

2021 recommendations

Voters should have access to information that helps them to better understand the Scottish Parliament's tax powers so that they can hold their representatives accountable. Devolution provides an opportunity for Scotland to take the lead and promote a devolved tax regime that creates a better informed and engaged public. To assist in this, we recommended:

Reinstating the Scottish Government's pre-pandemic work on a tax communications strategy to show taxpayers how the tax system works, the responsibilities that the UK and Scottish governments have over the tax system and the contribution that the devolved taxes make to public services.

Promoting better understanding of the tax system by considering the role that Scotland's education system can play in boosting public awareness and understanding of how the tax system works.

Greater visibility for the devolved taxes in the Scottish political calendar.

Public understanding and education are important to a well-functioning tax system. They are factors that can help taxpayers understand how the system works and how they can comply with their obligations. Understanding and education can also improve the overall quality of public debate by demonstrating how taxes support public spending. By extension, this puts taxpayers in a better position to hold their political leaders to account.

Lack of understanding is not a uniquely Scottish issue, but divergence strengthens the case for better understanding of the different layers of responsibility and accountability for tax decisions. We have seen little evidence to suggest that any notable improvements have been made since 2021. While this is a situation that is neither simple or straightforward to solve, our organisations can facilitate and support policy makers.

Since 2018, CIOT has worked with the Diffley Partnership to undertake polls of levels of public awareness and understanding of the Scottish Parliament's tax powers. The most recent findings (in January 2023) suggest levels have fallen to their lowest since the first poll was conducted in 2018[24].

In the case of income tax:

- Only 1 in 5 respondents (20%) correctly identified that income tax powers are shared between the Scottish and UK parliaments, the lowest figure recorded since the first survey in 2018.
- More than half (52%) incorrectly thought the Scottish Parliament alone was responsible for setting income tax, the highest figure recorded in response to this question.

There has been little evidence of a sustained and coordinated approach to increasing awareness and understanding of the Scottish Parliament's tax raising powers. An animated video showing the link between taxes and public spending was published in 2022, as part of a communications campaign, but viewing has been limited (c1,500)[25]. The pre-pandemic work being undertaken in this area has stalled and would add value to the devolved tax debate if it was resumed, possibly as part of a coordinated approach with the other institutions across the UK responsible for setting Scottish taxes.

Understanding how the tax system works is also important for those who do not pay tax. According to Scottish Government figures, there are 38 per cent of Scots (1.8 million) who do not pay tax[26].

These people could find themselves liable to tax in the future if their earnings exceed the tax-free personal allowance, a situation exacerbated by the freezing of tax thresholds and wage growth driven by high inflation. It has implications too for those in receipt of Universal Credit because this benefit is linked to income and can be reduced as earnings increase[27].

Low-income taxpayers may have also been disproportionately impacted by the decline in HMRC service levels and the temporary closure of their self assessment helpline[28].

These taxpayers can often have complicated financial tax affairs, for example, if they have collected small pensions from different employments, interest and dividends on savings and each source is liable to small amounts of Scottish and/or UK income tax. In these situations, they may be unable to afford professional tax advice.

Research suggests that taxpayers with vulnerabilities are more likely to lack understanding of how the tax system works and therefore require extra support[29]. Governments should consider how they can provide support to help taxpayers in this situation better understand their liabilities and responsibilities.

The Scottish Tax Clinic at the University of Edinburgh is operated by law students under the guidance of practicing tax professionals to offer residents help with a variety of tax concerns. This programme is unique to Scotland, although its work mirrors similar clinics that operate elsewhere in the world.

Two examples are the National Tax Clinic[30] programme in Australia and Low Income Taxpayer Clinics[31] in the USA. These operate at a larger scale and with government support. The Australian example is particularly relevant to the University of Edinburgh programme, given that both are focused on providing support to taxpayers through university-based tax clinics.

Better tax education in schools should also be an aspiration. Aside from some general financial education about how to open a bank account or use an ATM, an understanding of how the tax system works is lacking. Colleges and universities may also have a role to play too, as students prepare to enter full-time employment. There is little evidence to suggest that awareness and understanding of taxation in Scotland has improved. We acknowledge that this is neither simple or straightforward, but our organisations are willing to support this objective.

Our recommendations

- More effort is needed to raise awareness of how Scotland's tax system works, and the Scottish Government should think about how it can better explain the tax decisions it takes using targeted media channels. Taxpayers need to be able to understand their rights and responsibilities and this is especially true for low-income taxpayers, who may be unable to afford to pay for advice.
- The Scottish Government and HMRC should review existing guidance so taxpayers can better understand what income tax divergence means for their tax liabilities and access to reliefs.
- Tax should be part of the secondary and tertiary education curriculum. HMRC's 'Tax Facts' campaign offers a good example of how teachers and the profession can support better understanding.
- Government, the tax profession and charities/third sector should consider how they can support the scaling up of existing tax charities and programmes that can provide access to tax help for low-income taxpayers. There are international examples showing how government and the profession can work together to increase this access.

References:

1. Strengthening decision-making

1. Shona Robison MSP (Deputy First Minister and Cabinet Secretary for Finance, and Tom Arthur MSP (Minister for Community Wealth and Public Finance.

2. Framework for Tax (Scottish Government, 2021).

3. Advisory group on tax strategy (Scottish Government news release, 29 June 2023).

4. Council tax frozen (Scottish Government news release, 17 October 2023).

5. Scottish Government and Scottish Green Party Draft Shared Policy Programme: Working together to build a greener, fairer, independent Scotland (2021)

6. Tax related enquiries have included pre and post Budget Scrutiny, Independent Report and Review of the Fiscal Framework, Medium-Term Financial Strategy, Land and Buildings Transaction Tax (LBTT) (Green Freeports Relief), the Scottish Government's Framework for Tax, and scrutiny of secondary legislation related to Scottish Landfill Tax and LBTT. HMRC is invited to give evidence to the Scottish Parliament's Public Audit Committee.

7. Legacy Expert Panel: Report to the Finance and Constitution Committee (12 February 2021). The Finance and Constitution Committee accepted these recommendations in a letter to the Scottish Parliament's Presiding Officer on 23 February 2021.

8. The Budget Process Review Group was established in 2016 by the Finance and Constitution Committee to undertake a 'fundamental review' of the Scottish Parliament's budget process following the devolution of additional powers as part of the Scotland Acts 2012 and 2016. The group had recommended that alternative legislative processes for devolved tax legislation be considered and that this should include 'the need for a Finance Bill'.

9. Devolved Taxes Legislation Working Group (Scottish Government website). Both CIOT and ICAS were represented on this group.

10. Letter from Tom Arthur MSP to Kenneth Gibson MSP, Convener of the Finance and Public Administration Committee (5 September 2022).

11. Letter from Kenneth Gibson MSP to John Swinney MSP, Deputy First Minister and Cabinet Secretary for COVID Recovery (20 January 2023) The reasons given for the committee's decision to end its participation were given as follows: "In our response to the Minister's letter, dated 7 October 2022, the Committee stated, "given this, and in view of the Committee's current workload", it would be prudent to establish whether a broader range of stakeholders at the conference held by the Committee on 21 November 2022 considered this should be a priority area of work. While raised in passing, this issue was not a key theme arising from the conference workshops. It is, therefore, the Committee's preferred approach, in light of the priorities raised by attendees at its recent conference, to not be represented at the Working Group. The Committee would, of course, wish to scrutinise any proposals emerging from the Group or developed separately by the Scottish Government."

2. Making the case for new taxes

12. The power to introduce Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax was included in the Scotland Act (2012). That act also included a 'Scottish Rate of Income Tax', which was implemented for the 2016/17 tax year. This was subsequently replaced by the income tax powers in the 2016 Scotland Act.

13. The Scottish Parliament sets rates and bands for non-savings, non-dividend income tax, accounting for around 94 per cent of Scottish taxpayers who pay income tax. The UK Parliament sets other aspects of the income tax regime in Scotland, such as the personal allowance and income tax on savings and dividends. Wales has the power to set Welsh rates of income tax but unlike Scotland, does not have the power to set income tax bands. It has kept its tax rates in line with England and Northern Ireland.

14. Higher and additional rate taxpayers in the rest of the UK pay rates of 40% and 45% respectively. In Scotland (where the 'additional' rate is called the 'top' rate), taxpayers currently pay 42% and 47% on these slices of income. The threshold for the higher rate of income tax in Scotland is set at £43,662 and in the rest of the UK, £50,270.

15. From January 2024, Scottish taxpayers with income between £43,663 and £50,270 will pay a marginal rate of 52% on this slice of income (42% tax / 10% National Insurance). In the rest of the UK, the rate is 30% (20% tax / 10% National Insurance). This is because lower rates of National Insurance paid by higher rate taxpayers are tied to UK income tax, where the threshold is higher.

16. Air Departure Tax has been legislated for is on hold due to concerns with the exemption for the Highlands and Islands. VAT assignment was paused in 2019 due to concerns over how Scotland's share of UK VAT receipts would be estimated. The recent Fiscal Framework Review states a methodology will be agreed by HMRC and the Scottish Government.

17. Evidence Review and Illustrative Policy Options for a Scottish Aggregates Levy: Final Report (Scottish Government, August 2020)

18. Council Tax premium on second homes (Scottish Government news release, 8 November 2023).

19. For example, its summer consultation on proposals to increase the amount of council tax paid by homes in the most expensive properties was titled 'Consultation on a Fairer Council Tax'.

20. Asked about the prospect of substantial council tax reform in evidence to the Finance and Public Administration Committee in March 2022, Tom Arthur said that the process of legislating and implementing a replacement for council tax 'would go beyond the lifetime of this session of Parliament' (Finance and Public Administration Committee. Official Report. 22 March 2022).

21. The Commission's website is no longer available. A report on its final report can be found here: Commission says council tax in Scotland 'must end' (BBC News, 14 December 2015).

22. Tweaking around the edges of Council Tax does not fix its fundamental flaws (Fraser of Allander Institute, 13 July 2023).

23. For example, the Poverty and Inequality Commission's tax working group recommended that plans for a wealth tax be considered as part of future tax policy making. A national tax would need the agreement of the UK Government.

3. Improving public understanding

24. Poll suggests growing confusion over Scottish taxes (CIOT press release, 9 February 2023).

25. 'Raised in Scotland. Spent in Scotland' (Scottish Government video, accessed the via gov.scot website).

26. Income Tax: Impacts on Income Levels and Inequality (Scottish Government, Office of the Chief Economic Adviser) (2022).

27. The 'taper rate' reduces the amount of benefit that a claimant receives if they are working and earn more than their work allowance (the amount they can earn before their benefit is affected). Above this, the amount of Universal Credit is reduced by 55p for every additional £1 earned.

28. The self assessment helpline closed temporarily for 12 weeks between June and September 2023. It meant all self assessment taxpayers (not just those on low incomes) were unable to phone to speak to an adviser about self assessment issues during this time.

29. Examples of research include: Brett Freudenberg et al., 'Tax literacy of Australian Small Businesses' (2017) 18 Journal of Australian Tax 21 - Page 24; Toni Chardon, Brett Freudenberg and Mark Brimble, 'Tax literacy in Australia: not knowing your deduction from your offset' (2016) 31 Australian Tax Forum 321 – page 327 and; Ann Kayis-Kumar, Gordon Mackenzie, and Michael Walpole, 'Interprofessional collaborative practice in pro bono clinics: a case study approach' (2020) 22 Journal of Australian Taxation 49 – pages 57-58.

30. National Tax Clinic program (Australian Taxation Office)

31. Low Income Taxpayer Clinics (Internal Revenue Service)

Chartered Institute
of Taxation
30 Monck Street
London
SW1P 2AP
www.tax.org.uk

Registered Charity
Number 1037771

Chartered Institute of Taxation.