

Managing Scotland's Public Finances: A Strategic Approach

Response by the Chartered Institute of Taxation

1 Executive summary

- 1.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 20,000 members, and extensive volunteer network, in providing our response and our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party political organisation.
- 1.2 We welcome the opportunity to respond to the call for evidence published by the Finance and Public Administration Committee (FPAC) of the Scottish Parliament as part its pre-Budget scrutiny. Whilst we await the publication of the Scottish Government's Tax Strategy, we have outlined some key features of a good tax strategy. Similarly, we encourage clarity around interaction of devolved tax matters with the rest of the UK (rUK) and potential adverse behavioural consequences, and remain of the view that an annual Finance Bill would provide a stronger vehicle for legislation of tax changes, giving more opportunity for specialist scrutiny and greater levels of accountability and transparency. We would also welcome consideration being given to data, measurement and evaluation in the strategy.

2 About us

- 2.1 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. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.
- 2.2 The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group, the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 2.3 The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most

effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

- 2.4 Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA' and 'CTA(Fellow)', to represent the leading tax qualification.

3 Introduction

- 3.1 Our stated objectives for the tax system include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

We have limited our comments and observations to questions 7 to 9 as these focus on taxation, which is our area of expertise.

We also fully endorse the response from the CIOT Low Incomes Tax Reform Group (LITRG).

- 4 **The questions refer to a statement from the Scottish Government which says: *'We want to build a tax system that works for everyone in Scotland, while allowing us to continue to deliver high-quality public services and keep our finances on a sustainable footing'***

- 4.1 ***Question 7. What elements should a new draft tax strategy include to achieve such a tax system?***

- 4.2 We note that the Scottish Government's tax strategy has not yet been published, and would encourage consideration of the process to give more opportunity for pre-Budget scrutiny. We therefore offer more generalised comments on the types of features that would contribute to a 'good' tax strategy. In summary these are:

1. Simplicity within the tax system
2. Education and raising public awareness of tax rules and obligations
3. Coherence with the rUK tax system
4. A clear process for making tax rules – including consultation, transparency and scrutiny

Taking these in turn:

Simplicity within the tax system

We would welcome a clear plan for ensuring simplicity within the tax system – this is important for both the UK tax system as whole and Scottish devolved taxes – and how the two interact as having multiple tax systems brings with it an inherent risk of increased complexity.

To a certain extent a consequence of devolution is greater complexity as the exercise of devolved powers is likely to bring more and differing rules but the strategy should consider how to mitigate this.

An example of greater complexity in practice is income tax for Scottish taxpayers. They must navigate new rates and bands of tax, which are not aligned as between the Scottish and rUK higher rate income tax thresholds and the upper earnings limit for National Insurance contributions as well as the rules around Gift Aid donations, pension contributions and eligibility for Marriage Allowance. Secondly, Scottish income taxpayers must also remain aware of rules which remain UK wide, for example, the setting of the tax-free personal allowance, the setting of savings and dividend income tax, national insurance and capital gains tax rates and bands.

Critical to mitigation is public awareness and education.

Education and raising public awareness of tax rules and obligations

Given the potential added complexity and divergence of rules, as well as the general volume and complexity of the wider UK tax system, a key component of the strategy will be how to ensure taxpayers are aware of the rules and able to comply.

We would therefore welcome within the strategy a plan to increase public awareness of the Scottish Parliament's tax raising powers. CIOT has commented on this previously¹.

We have commissioned polls of awareness and understanding of the tax system among Scots and in our most recent poll (2023) found that only one in five respondents could correctly identify that income tax powers were shared between the Scottish and UK governments and that over half thought that Holyrood had complete control over the income tax regime. At the time, we said that *'a lack of understanding of how the tax system works is not a uniquely Scottish issue, but increasing divergence between the Scottish and UK income tax regimes means it will be important to ensure taxpayers can more easily understand where responsibility and accountability lies'*².

We would encourage consideration of how best to reach taxpayers – for example, could this be through an education policy so that children at school and young people at college/university are given the opportunity to have a basic awareness of the tax system before they enter the world of work? How could the different populations of taxpayers be reached given how many focus on social media for information? How would the public awareness and education need to vary for different demographics of taxpayers?

Coherence with the rUK tax system

The strategy should also include thinking about how devolved taxes and authorities interact with those in rUK as far as possible – and it would be useful to set out some criteria to ensure this is met during the implementation of tax policy.

¹ For example in 2019: <https://www.tax.org.uk/news-press-release-poll-scots-still-failing-to-understand-devolved-taxes-but-support-new-levies>

² <https://www.tax.org.uk/poll-suggests-growing-confusion-over-scottish-taxes>

The recent passage of the Scottish Aggregates Tax (SAT) through Parliament illustrated some of the potential challenges – one of which is how the import/export of aggregate to/from rUK will be assessed and how it interacts with the existing UK levy. We appreciate that the SAT is constrained by the terms of the Scotland Act 2016, which has required a great deal of thought by members of Scottish Government and Revenue Scotland (we welcomed the level of engagement undertaken and formation of the expert advisory group). However, the inter-UK import/export issue highlights the importance of considering the bigger picture with devolved taxes, especially when it interacts with the other nations within the UK.

A clear process for making tax rules – including consultation, transparency and scrutiny

CIOT has welcomed a number of good examples of meaningful and effective consultation around changes to the Scottish tax system, such as the 2017 consultation on the role of income tax in Scotland's budget (in advance of the introduction of Scotland's distinct income tax regime) and, more recently, around proposals for the SAT and Land & Building Transaction Tax (LBTT) Additional Dwelling Supplement (ADS).

However, we also note that this has not been universal and committing to a clear consultation framework could be helpful; provide certainty and ensure scrutiny.

In addition to the need for consistent consultation, CIOT remains of the view that an annual Finance Bill or similar process by which Scottish Parliament could make regular changes to the devolved taxes, in a transparent way and subject to appropriate scrutiny, would be beneficial. CIOT would like to see the Scottish Government and Scottish Parliament revive the work that had been undertaken by the Devolved Taxes Legislation Working Group prior to the coronavirus pandemic.

4.3 *Question 8. How should a new draft tax strategy address potential impacts of behavioural change on individuals, businesses, and the overall tax take?*

4.4 The best way that adverse behavioural impacts can be mitigated and factored into decision making is for there to be wide consultations amongst stakeholders on the potential implications of future tax changes. As mentioned above, the consultations for SAT and LBTT ADS were thorough and should be the model for public consultation. Forming expert advisory groups who can meet, discuss and exchange ideas (as was done for SAT) is an efficient way of feeding into the decision-making process. Doing this early should enable principal concerns about potential behavioural changes to be taken onboard.

The tax strategy will also need to consider how it will assess and evaluate the impact of divergences from the rUK, both those driven by Scottish changes to devolved taxes and policy changes by the UK government which change the position in relation to Scotland. A clear data strategy and learning from past changes or devolution elsewhere may be useful indicators.

4.5 *Question 9. What actions should the Scottish Government take to grow the tax base and increase labour market participation, productivity, and Scotland's economic growth?*

4.6 There will be many economic considerations outside of CIOT's focus of expertise but there are also some basic good practices in tax administration which can support growth and productivity – broadly, making it easy for people to pay the right amount of tax at the right time, and hard for people to avoid paying tax or make mistakes. Understanding issues that are driving the tax gap in Scotland (ie the difference between what revenues the Scottish government theoretically expects to collect and what it does in fact collect) will help target the strategy towards bringing in greater receipts.

Simple rules and easy to use systems, combined with education and guidance will enable taxpayers to spend less time and money on doing their taxes as well as helping ensure the right amount of receipts are collected through minimising error.

As stated under Question 8, there will also be behavioural considerations for Scottish tax policy makers, and ensuring an effective use of data analysis and evaluation, and a clear and transparent assessment of impacts, would support evidence based decision making.

4.7 **Acknowledgement of submission**

- 4.8 We would be grateful if you could acknowledge safe receipt of this submission and ensure that the CIOT is included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation

12 August 2024