

Finance and Public Administration Committee's Budget Scrutiny 2025-26

Written Evidence by the Chartered Institute of Taxation and its Low Incomes Tax Reform Group

1 Introduction

- 1.1 We welcome the opportunity to provide written evidence in advance of the Finance and Public Administration Committee's scrutiny of the Scottish Budget 2025-26. Our evidence focuses on the Tax Strategy and tax policy in Scotland. This evidence is provided by the Chartered Institute of Taxation (CIOT), with commentary from its Low Incomes Tax Reform Group (LITRG).
- 1.2 As this submission has been provided immediately following the Scottish Government's budget on 4 December, further time is required to digest all the Budget Day announcements and the final Tax Strategy. We would be pleased to provide further comment and evidence at a later date to the Committee if required.
- 1.3 Our evidence looks at taxation decisions only. We do not provide views on the required level of taxation, nor where the burden of taxation should fall. These are matters for politicians, who decide where and how taxation revenues are used.
- 1.4 The CIOT's 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 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.

- 1.5 LITRG's seven principles for the tax system, set out in its paper 'A better deal for the low-income taxpayer',¹ are that it should be:
1. Clear and up to date
 2. Simple
 3. Equitable
 4. Just
 5. Accessible and responsive
 6. Joined up
 7. Inclusive

2 Tax Strategy – Tax policy-making timetable and process

- 2.1 While it is helpful to have a published Tax Strategy to provide greater certainty and a clearer direction, we consider that the Tax Strategy misses an opportunity to refer to the tax policy-making timetable and process. In theory, these are covered in the 2021 Framework for Tax, but there remains a lack of much-needed consistency in the approach to developing tax policy.
- 2.2 Some policies follow lengthy and detailed consultation and engagement prior to the publication of legislation (for example, Part One of the Aggregates Tax and Devolved Taxes Administration (Scotland) Bill), while other tax policy changes have been announced without prior warning (such as last year's decision to pursue a council tax freeze) or consultation (such as Part Two of the Aggregates Tax Bill). Likewise, CIOT and LITRG welcomed the opportunity to contribute to the roundtables which took place during the drafting of the Tax Strategy. However it is unfortunate that various events prevented the sharing of the draft Tax Strategy with stakeholders before publication, as the availability of a draft document would have made it easier for stakeholders to assess the proposals, as well as offer constructive and practical feedback.
- 2.3 A process for designing tax policy should build in engagement with key stakeholders to inform the development of tax legislation, ensure it is fit for purpose and workable in practice, and avoid unintended consequences. It is important that there is adequate lead in time, and that consultation takes place throughout the process, and in particular when there is sufficient data available to inform discussions.
- 2.4 A process for designing tax policy should also give consideration to how Scottish taxes interact with the wider UK tax system. There can be complicated interactions with reserved tax policies and with welfare benefits (both devolved and reserved) that need to be considered so that any policy changes are effective in terms of their policy aims.
- 2.5 A clear process for making tax policy changes provides Scottish taxpayers and Scottish businesses with greater certainty and transparency, so that they know when and how changes are being made and how they can plan and navigate these.

¹ <https://www.litrg.org.uk/latest-news/reports/201204-better-deal-low-income-taxpayer>

3 Tax Strategy – Legislative process

- 3.1 We welcome the commitment to renew consideration of changes to improve the legislative process for devolved taxes in Scotland.
- 3.2 CIOT remains of the view that an annual Finance Bill, or similar legislative process by which the Scottish Parliament could make necessary changes to devolved taxes in a transparent way and subject to appropriate scrutiny, would be beneficial. This could include the re-establishment of the Devolved Taxes Legislation Working Group to take this work forward.

4 Tax Strategy – Improved taxpayer communications and taxpayer engagement with Scottish Taxes

- 4.1 The Tax Strategy includes a clear commitment to increasing public awareness and understanding of Scottish taxes. Better public awareness and discussion about tax helps people understand how the tax system works, helping to build trust and engagement with the tax system.
- 4.2 Part of improving taxpayer understanding, and indeed compliance, is ensuring that there is good guidance available. LITRG has called for improved guidance to help Scottish taxpayers ensure they are claiming the correct tax relief, for example on pension contributions, Gift Aid donations and marriage allowance. We are disappointed that there is no explicit commitment to improve guidance in the Tax Strategy. LITRG has worked with the Scottish Government over the past few months, and this has resulted in some positive changes to the mygov.scot website. We hope that despite not being explicitly mentioned in the Tax Strategy, that there will be a process of continual improvement of tax guidance with sufficient capacity and investment allocated to this work, accompanied by a willingness to take feedback on board from key stakeholders. LITRG and CIOT would both welcome the opportunity to continue working collaboratively with the Scottish Government to improve guidance.
- 4.3 We look forward to the publication of the tax literacy framework in Spring 2025, and we have welcomed the opportunity to work with the Scottish Government on this.

5 Tax Strategy – Effective and efficient tax administration

- 5.1 We welcome the commitment to improving various aspects of tax administration, including compliance and future digitalisation.

6 Tax Strategy – Evidence gathering for impact assessments and post-implementation evaluation

- 6.1 It is important that the Scottish Government is accountable for its tax policy decisions. This means there must be strong decision-making processes and robust procedures for scrutiny. This includes processes for undertaking and publishing impact assessments before a tax policy decision is made. It also includes gathering evidence and evaluation post implementation of a tax policy. The inclusion in the Tax Strategy of commitments to publish Areas of Research Interest and develop a systematic programme of evaluation are therefore welcome. We recommend that tax policy assessments should include assessment of any post-implementation impacts which might need to be dealt with via consequential amendments. Ongoing

evaluation of existing policy measures should consider whether they are still meeting their objectives. If not, consideration should be given as to whether the policy or the objectives need to change.

- 6.2 Greater information gathering helps inform decisions but we appreciate that there are challenges and time delays in gathering information. This is particularly the case when trying to understand the impact of income tax decisions. The data published to date suggests that income tax divergence is not having a material impact on migration from Scotland to the rest of the UK (although there have been some suggestions of a shift in behaviour among the very highest earners). Decisions on where a taxpayer chooses to locate are unlikely to be made on tax factors alone, but the impact of divergence is something that should continue to be monitored and fed into policy development, especially as the data relating to tax changes made in 2023/24 and 2024/25 starts to become available. We welcome the commitment to formally evaluate the impact of changes to Scottish income tax in 2023/24 and 2024/25. We welcome the inclusion of a commitment to explore how digitalisation of the Scottish tax system could help the Scottish Government gather data more promptly. Meanwhile we would also urge the Scottish Government to reach out more widely to Scottish businesses to try and understand whether income tax divergence is having a real impact, for example, on their ability to recruit and retain high earners which allow these businesses to grow and strengthen the Scottish income tax base?

7 Actioning the Tax Strategy

- 7.1 The 2021 Framework for Tax outlined the key principles of good tax policy making, but not all of these are reflected in practice. It is important that action is now taken to progress the key elements of the Tax Strategy, as well as to ensure the Scottish Government is delivering on the 2021 Framework for Tax. Some key recurring themes have emerged through the discussions on Tax Strategy – including the need for a Finance Bill (or other legislative mechanism to make changes to tax legislation) and a desire to explore changes to council tax. Stakeholders have been raising these points for several years and if the Tax Strategy helps to move them forward, then this would be very welcome.

8 The Scottish Budget

- 8.1 When considering changes to Scottish income tax, the Scottish Government needs to assess the benefits of this against other options such as using devolved social security powers or changes to council tax, in terms of their relative impacts on work incentives and the income and quality of life of the lowest paid. It is also necessary to consider the knock-on effects for and interactions with reserved income tax policies and welfare benefits policies (both devolved and reserved).
- 8.2 There have been few changes to council tax, despite several attempts to review and reform the system since the reestablishment of the Scottish Parliament in 1999. At the start of 2023, the CIOT commissioned a survey to look at attitudes to council tax reform in Scotland. Of those surveyed, the vast majority were in favour of an end to the present system. However, there has been and still is a lack of consensus about what should take its place. That being said, it is widely acknowledged that the current system is out of date, being based on property values from 1991. In the absence of wholesale reform, we continue to believe the right step is to move towards a full revaluation of all properties. Without this, the current system is inefficient, inequitable and not making full use of the tax's revenue potential. Proper reform, led by a full revaluation, could assist the Scottish Government with the achievement of its wider policy

priorities. While we welcome the announcement of work to build consensus on the way forward, this is not the first time reform has been promised, and what is needed now is action rather than warm words.

9 Acknowledgement of submission

9.1 We would be grateful if you could acknowledge safe receipt of this submission.

The Chartered Institute of Taxation

The Low Incomes Tax Reform Group

5 December 2024