

## Pre-Budget Scrutiny 2026-27: Responding to Long-Term Fiscal Pressures

### 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.
- 1.2. There are a range of factors that contribute to the attractiveness of Scotland as a place to live, work and/or do business. Tax is one of these, and there is growing anecdotal evidence that income tax divergence, together with the increase in the UK wide Employer's National Insurance, is for some a disincentive to work or do business in Scotland. It will be difficult to drive economic growth in Scotland, if tax is negatively affecting the decision to work or do business in Scotland.
- 1.3. Whilst being mindful that it is not always within the Scottish Government's control, we would encourage the Scottish Government to also be mindful of tax simplification and continue to work with HMRC to make continual improvements. Making it easier to deal with tax affairs, will contribute towards a more attractive package when weighing up the pros and cons or where to locate for work and/or do business.
- 1.4. We welcome the Scottish Government's commitment to post-implementation evaluation of income tax policy, and more widely, a commitment to gathering evidence and research of the overall suite of Scottish taxes to inform Budget 2026-27 and future change. Bringing this evidence up to date is a welcomed step in the right direction, and we would like to see this foundation built on further.
- 1.5. Nearly a decade on from the devolution and enactment of Scotland's distinct income tax regime, we would encourage the Scottish Government to strive towards a future where targeted evidence is gathered to inform pre-budget scrutiny and budget decision making in a more timely basis, in particular where a policy of divergence is being used.

- 1.6. We also recommend that the Scottish Government go further in terms of cost/benefit analysis, when developing and introducing new devolved taxes. Will the revenues raise exceed the implementation costs and ongoing administrative costs/burden of operating the tax for all taxpayers?
- 1.7. Of continuing concern to CIOT is the lack of an appropriate legislative vehicle to implement tax policy changes in an effective and efficient manner. It is for this reason, that the CIOT continue to call on the Scottish Parliament and the Scottish Government to consider the need for a Finance Bill, or similar legislative process, by which necessary changes could be made to devolved taxes in a transparent way and subject to appropriate scrutiny.

## **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 (LITRG), 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', to represent the leading tax qualification.
- 2.5. The CIOT's stated objective for the tax systems 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.

## **3. Introduction**

- 3.1. The CIOT welcome the opportunity to contribute to the Finance and Public Administration Committee's 2026-27 Pre-Budget Scrutiny. The CIOT has made several submissions to the Committee, and via Scottish Government consultations over the last ten years, and there is much to be welcomed in the Scottish Government's plans, as documented by the Medium Term Financial Strategy (MTFS) and the Fiscal Sustainability Delivery Plan (FSDP), which the CIOT has previously asked for, including:

- a commitment to gather up to date evidence on impact of changes to income tax in 2023-24 and 2024-25;
- more widely, a commitment to gathering and publishing more evidence on the operation of the overall suite of Scottish taxes;
- review of the operation of existing taxes including the ten year LBTT review and Council Tax long term reform;
- increased programmes of consultation for the development of new devolved taxes and
- although not specifically mentioned in the MTFS or the FSDP, the future publication of the Scottish Government's Tax Literacy Framework.

**3.2.** Although the inquiry is largely focussed on Scotland's economic performance and longer-term financial planning, we would like to highlight several areas of tax policy which we think the committee should consider as part of its pre-budget scrutiny for 2026-27.

#### **4. Tax and economic growth**

- 4.1. Pillar Two of the MTFS sets out the Scottish Government's objective to "grow Scotland's economy [and] expand and broaden the tax base to fund public services". Whilst our comments focus on tax, and the perception of tax, we recognise that growing Scottish businesses and making Scotland an attractive place to work requires an evaluation of the overall attractiveness of the country to those who wish to live, work or do business here.
- 4.2. Nevertheless, tax, and the perception of tax, remain key factors. We welcome the commitment in the Tax Strategy to assess the links between income tax policy and the economy, which we hope will provide much needed empirical evidence on the impact of tax divergence. We continue to receive anecdotal feedback from our members around the challenges of income tax divergence, which could be making it harder for businesses to attract and retain staff. Scottish businesses, will have also felt the impact of the recent UK-wide increases to Employer's National Insurance and increases to National Minimum Living Wage. It will be difficult to drive economic growth in Scotland, if tax is indeed affecting the decision to work, to hire staff or do business in Scotland.
- 4.3. The position is complex, and it is unclear what the tipping points are at which different groups of taxpayers make behavioural changes in response to tax policies. That is why having a long-term, strategic picture of the direction of tax policy may help. The impact of divergence can only be determined by evaluating evidence and using these insights that are generated to inform future tax policy decision making.
- 4.4. Our members have raised concerns with us over the increasing level of complexity in the tax system, complexities which are exacerbated as a Scottish taxpayer. Does this impact the perception of tax in Scotland, and impact the decision to work or do business in Scotland? We don't have the evidence to know the answer to this question. Whilst many complexities also apply across the UK, and not all necessarily within the control of Scottish Government, we would ask the Scottish Government to be mindful of this. That is not to say that the Scottish Government shouldn't choose to diverge, but where they do, to continue to work closely with HMRC to fix problems that cause frustration to Scottish taxpayers as a matter of priority. Specifically, we continue to hear current difficulties around the issue of tax codes for Scottish taxpayers and incorrect recalculation of self-assessment liabilities for Scottish taxpayers.

## **5. The importance of evidence**

- 5.1. We welcome the Scottish Government's commitment to establishing an academic network, increased data gathering and research across the suite of Scottish taxes, and in particular the commitment in the Tax Strategy to consider the impact of the changes that were made to Scottish income tax in 2023-24 and 2024-25. This is a step in the right direction, but there is further to go.
- 5.2. After nearly a decade of income tax divergence, we would have hoped for more targeted and timely information on Scottish taxpayers, to inform pre-budget scrutiny and the Scottish budget decision making. Whilst we welcome the MTFs and FSDP objectives to bring current available evidence up to date, the longer-term objective should be to explore how to build timely evidence evaluation into the budget process, particularly where there is a policy decision made in Scotland which creates divergence.

## **6. Cost/Benefit of tax policy making and tax administration**

- 6.1. A priority for the Scottish Government within the MTFs is to complete the devolution of remaining taxes, broadening the tax base and increasing the number of taxes collected and managed in Scotland. Currently, the Scottish Government is progressing through the development and introduction of several new devolved taxes. A cost/benefit analysis should be a key part of any assessment of effectiveness, before and after implementation. This should weigh up the revenues raised by any new devolved tax with the financial and administrative costs incurred by the taxpayer, Revenue Scotland and HMRC.
- 6.2. The Scottish Aggregates Tax is one example. Taxpayers within the sector, Revenue Scotland and HMRC are currently trying to navigate the complexities of cross border transactions (the sale of aggregate to/from Scotland from the rest of the UK). Using the UK Aggregates Levy rate of £2.08 per tonne, the current estimate of revenues to be raised by imports of aggregate into Scotland (from the rest of the UK) is only £166,400<sup>1</sup>. There is a consultation ongoing looking at the complexities of administering the Scottish Aggregates Tax on imports, but will the revenues raised outweigh the costs to taxpayers, Revenue Scotland and HMRC? It is also important to remember that whilst there may be a small number of taxpayers affected, Scotland's Framework for Tax applies equally to all Scottish taxpayers.

## **7. Finance Act, or similar legislative process**

- 7.1. Of continuing concern to CIOT is the lack of an appropriate legislative vehicle for making changes to tax policy in an effective and efficient manner. Tax law in Scotland, should be set out in primary legislation with secondary legislation in Scotland reserved for operation and administrative matters in respect of tax law. Due to the lack of a regular legislative mechanism, changes to devolved tax policy have been largely managed via secondary legislation. There are times when primary legislation has been needed and therefore there have been several instances where such changes have taken a considerable length of time to resolve, sometimes years.
- 7.2. A recent example that highlights the need for improved processes are the changes to the Land and Buildings Transaction Tax (Scotland) Act 2013 and The Revenue Scotland and Tax Powers Act 2014, which should ordinarily be dealt with in standalone legislation but which were managed via Part 2 of the Aggregates Tax and

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<sup>1</sup> [\\*Scottish Aggregates Tax - Proposed Approaches To Cross-Border Taxation](#)

Devolved Taxes Administration (Scotland) Act 2024 (SAT Act 2024). The need for the specific Land and Buildings Transaction Tax amendments contained in the Act were first raised by stakeholders, including CIOT, in 2017. Because these changes required primary legislation, and because the SAT Act 2024 was the first piece of devolved tax primary legislation to pass through the Scottish Parliament since the Land and Buildings Transaction Tax (Relief from Additional Amount) (Scotland) Act 2018 part 2 of Act was used to address these legislative issues.

- 7.3. These sorts of examples highlight why an annual Finance Bill, or similar legislative process, would remove the need for MSPs to have to wait for the opportunity of using other (sometimes unrelated) tax legislation to bolt on wider tax policy changes which require primary legislation. Coherent, timely delivery and maintenance of tax legislation would help deliver plans to address fiscal and wider policy challenges in a transparent manner. While we were disappointed that the work of the Devolved Taxes Legislation Working Group did not resume after the pandemic, we have been encouraged by the committee's recent support of calls to "renew the consideration of the case for introducing changes to the legislative processes for the fully devolved taxes"<sup>2</sup>. We would encourage the committee (and its successor in the next parliament) to consider this work a priority.

## **8. Acknowledgement of submission**

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

The Chartered Institute of Taxation

12 August 2025

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<sup>2</sup> [Report on the Scottish Budget process in practice](#), Page 9.