

ICAS 



Chartered
Institute of
Taxation

Building a Better Tax System

Our priorities for the Scottish tax system in the 2021-2026 Scottish
Parliament

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About us



Chartered
Institute of
Taxation

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 Chartered Institute of Taxation to give a voice to the unrepresented. 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 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 22,000 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.

Foreword

Scotland's tax system has continued to evolve since the last Scottish Parliament elections in 2016.

Tax devolution has given the Scottish Parliament some flexibility to design a tax system more closely aligned to its political priorities.

Scotland now has income tax rates and thresholds that have diverged from the rest of the country, but remain dependent on interactions with the rest of the UK tax regime.

Taxes like Land and Buildings Transaction Tax and Scottish Landfill Tax have remained very similar in form and function to those they were designed to replace.

The last term of the Scottish Parliament also saw the country flirt with tax reform, in the form of modest changes to existing taxes, like Council Tax and Business Rates, and the pursuit of new local levies.

However, the onset of a global pandemic that few would have foreseen has led to questions about the long-term sustainability of our tax system in its present form.

The need for a long-term, structured approach to tax policy making and scrutiny has never been more important. While the structures of Parliament and Government are evolving in response, there is more to be done.

The CIOT and ICAS have worked together to produce this document. It is based on our engagement in the development of Scotland's devolved tax system since its inception.

The document addresses three areas of policy to help to deliver a devolved tax system that is sustainable, resilient and better understood by taxpayers.

Firstly, we propose actions to strengthen decision-making and accountability. Tax policymaking, which has more often than not been left to the mercy of last minute budget concessions, now needs to take a more prominent role in the Scottish political calendar.

Secondly, we detail the steps that should be considered when introducing or reforming taxes, with a view to creating a longer-term approach to tax policy making. It is an area that may take on greater significance as debates over how to pay for the cost of the pandemic increase in a post-coronavirus world.

Last, but not least, we call on the Scottish Parliament to consider how it can improve public awareness and understanding of the devolved tax regime.

Our polling suggests that awareness and understanding of the devolved taxes is low. The challenge is not unique, but in the early days of establishing a distinct regime, there is an opportunity for politicians to better involve the public in that journey. Scotland could take a lead on this important civic duty.

These are themes that will guide our engagement with Scotland's political parties in the months and years to come.



Alexander Garden
CIOT



Charlotte Barbour
ICAS

27

- the percentage of people who correctly identified that **Income Tax** is controlled by the Scottish and UK parliaments

(CIOT opinion poll by Diffley Partnership, March 2021)

Our recommendations for a better tax system

This document sets out recommendations from CIOT and ICAS for the next Scottish Parliament that we believe can help deliver a devolved tax system that is sustainable and fit for purpose.

1. Strengthening decision-making

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 of Scotland's taxes and strengthen decision-making, we recommend:

- **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 focus of the Committee exclusively to the scrutiny of tax and spending decisions, rather than Finance and Constitution as it was from 2016 until 2021.
- **Improved collaboration** between the institutions responsible for Scottish taxes and their interaction with the wider tax system, across Scotland and the UK. This needs to include a reset in relations between the UK Government and the devolved administrations to better recognise the continuing importance of UK tax decisions for devolved tax policy choices.

Our recommendations for a better tax system

2. Making the case for new taxes

Decisions to introduce new taxes should not be left to the mercy of last-minute Budget concessions.

A more strategic approach to the process of tax-policy making is in the best interests of the long-term health of the tax system.

The case for reforming existing taxes or introducing new taxes must be grounded in the following principles:

- **Identifying the purpose and locus of the tax.**
- **Consulting early and widely** on how the tax is to be designed and operated.
- **Ensuring the structures of parliament are fit for purpose** to facilitate better tax policy making.
- **Maintaining sight of existing tax powers.**
- **Ensuring collection and compliance are easy.**

3. Improving public understanding

Our polling suggests that awareness and understanding of the devolved taxes is low.

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.

We believe this can be helped by:

- **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 (see 'Strengthening decision-making').

Getting to know Scotland's taxes

With some taxes devolved to Scotland, there is now a three tier system of taxation in place: local taxes, Scottish taxes and UK taxes. Scottish taxes are designed with the intention of bringing greater accountability, but the overall package is complicated and constraining, leaving many taxpayers unsure of who pays for what. The rest of Scotland's funding comes from a block grant from the UK Government, and some limited borrowing powers.

Scotland's devolved tax powers

- **Scottish Income Tax** – the power to set rates and bands of non-savings, non-dividend income tax (i.e. tax on income from a job, self-employed profits, and income from pensions or from renting a property) for Scottish taxpayers. Other aspects of the income tax regime in Scotland continue to be set at a UK-wide level (see page 9).
- **Land and Buildings Transaction Tax (LBTT)** – a tax on the purchase of residential and commercial property.
- **Scottish Landfill Tax** – a tax on the disposal of waste to landfill.

The Scottish Parliament also sets the rules for local authorities (councils) to collect two local taxes: **Council Tax** and **Non-Domestic (Business) Rates**.

Other tax powers were due to be devolved: Air Departure Tax and Aggregates Levy. A portion of VAT revenues was also due to be assigned to the Scottish Budget. These have been delayed for a number of different reasons.

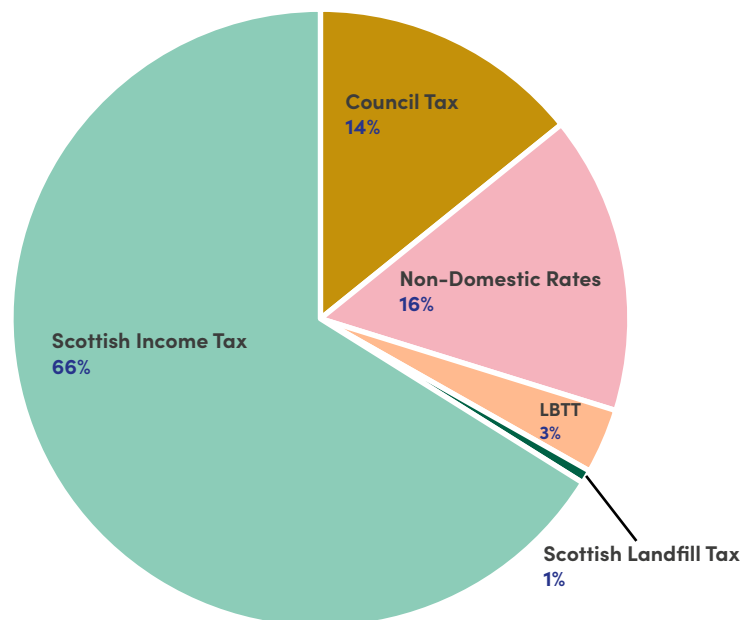
Air Departure Tax (the devolved replacement for Air Passenger Duty), has been delayed – despite being legislated for – because of state aid issues relating to the tax exemption for flights involving Highlands and Islands Airports.

A timeline for the devolution of Aggregates Levy has yet to be agreed because of a UK-wide review into the charge, which was only completed in July 2020.

The UK and Scottish governments have also agreed to defer the introduction of VAT assignment because of concerns relating to the calculations used to determine how much money would be allocated to the Scottish Budget¹.

The Scottish Government had also been in the process of introducing two new local taxes – the Workplace Parking Levy and the Transient Visitor (Tourist) Levy – but these have been put on hold because of the coronavirus pandemic.

In 2019/20, income tax accounted for two-thirds of devolved taxes raised in Scotland².



Getting to know Scotland's taxes

Scotland's taxes. Scotland's decisions?

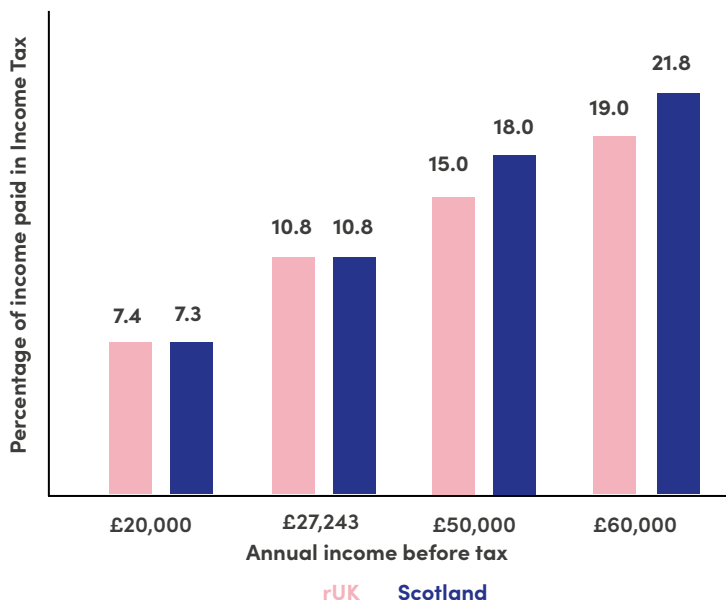
Tax devolution has given the Scottish Parliament the opportunity to choose a different approach to tax from the rest of the UK. The Scottish Government chose to adopt Adam Smith's principles of fairness, certainty, convenience and efficiency to underpin its tax policy decisions, along with a commitment to stakeholder engagement and a firm approach to tax avoidance.

This approach has led the Scottish Parliament to make some different tax choices to the UK Parliament. The highest profile of these has been the introduction, in 2018, of new rates and bands of income tax in Scotland.

But devolution doesn't always mean difference. There have been times where both parliaments have mirrored each other's tax changes. When Scotland introduced a more progressive system of LBTT, England followed suit with changes to its Stamp Duty Land Tax regime.

Similarly, when the UK Parliament chose to introduce an extra tax charge on second homes and tax relief for first-time house buyers, the Scottish tax regime followed suit.

Percentage of income tax paid (Scotland v rest of the UK, 2021/22)³



A closer look at Scottish Income Tax

The Scottish Parliament can only set rates and bands of income tax, and even then, only for some types of income. Other important aspects of the income tax regime remain the responsibility of the UK Parliament, meaning UK income tax decisions continue to have implications for Scotland.

Scottish Parliament Income Tax powers

- Rates and bands of income tax paid on income from employment, self-employed profits, pensions income and rental profits of Scottish taxpayers.

UK Income Tax powers that apply in Scotland

- Collecting income tax.
- The tax base (deciding what can be taxed).
- The definition of a Scottish taxpayer.
- The personal allowance (the amount of income that can be earned tax-free) and tax allowances⁴.
- Rates and bands of savings and dividend income tax.

Compared to the rest of the UK, Scotland's new income tax regime has resulted in taxpayers paying different amounts of income tax to colleagues earning the same salary in other parts of the country. In 2021/2022, Scottish taxpayers with income of more than £27,393 will pay more income tax than taxpayers in the rest of the UK and up to £21 a year less below this. A Scottish taxpayer earning £50,000 this year will pay £8,980 income tax. The taxpayer in the rest of the UK will pay £7,486 income tax.

Getting to know Scotland's taxes

Scottish Income Tax complications

Partial devolution of rates and bands has resulted in a number of complications that have created challenges for both taxpayers and policy makers.

Some of the more prominent issues to have emerged include:

The Scottish Parliament doesn't control the tax base

This means that it doesn't control the rules over who, and what, can be taxed. One example is the personal allowance (the amount you can earn each year free of income tax). This is set by the UK Parliament.

In 2021/22, the personal allowance is set at £12,570. Because 44.6 per cent of Scottish adults earn less than this, they don't pay any tax at all. Future increases to the personal allowance have the potential to take more taxpayers out of income tax altogether.

That might be good news for them individually, but it narrows the tax base and reduces the number of people that tax can be collected from.

Scottish Income Tax bands aren't aligned with National Insurance (NIC) thresholds

As a result, some taxpayers face paying up to 53 per cent of their income in tax and NIC on the portion of their income between £43,662 and £50,270 in the 2021/22 tax year⁵.

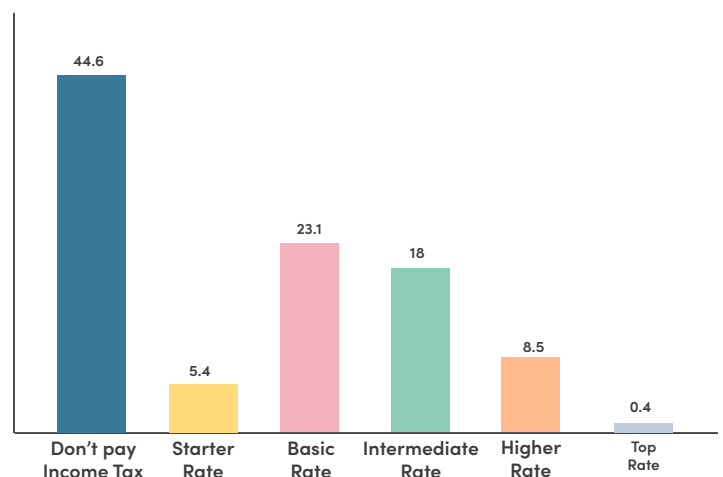
In the UK, the rate on this income band is 32 per cent. It happens because Scottish taxpayers start to pay the higher rate of tax at a lower level of income and still have to pay the 12 per cent rate of NIC at this level of income. The upper earnings limit, above which the rate of NIC is 2 per cent, is linked to the UK higher rate of income tax, which doesn't start until income reaches £50,270.

Tax reliefs may be different, and harder to claim

One example is the tax relief available to people who pay into a 'relief at source' pension. This is where people pay into a pension after their wages are taxed and the pension provider claims the tax relief to add to their pension pot⁶.

When a Scottish taxpayer pays the intermediate rate of Scottish income tax, they are entitled to receive extra tax relief. But the process isn't automatic and they have to go through a process to claim this extra money, which many may not be aware of.

Percentage of adults in Scotland by income tax rate (2021-2022)⁷



Getting to know Scotland's taxes

When taxes diverge, taxpayers may choose to legitimately lower their tax bills

This is because they may be eligible to pay lower tax rates available to them at a UK level.

A business owner might be more inclined to incorporate their business in order to pay lower rates of Corporation Tax or dividend tax if divergence between Scotland and rest of the UK makes this a more attractive proposition in the future.

Workers might choose to work fewer hours to avoid paying higher rates of income tax. They might also contribute more into their pensions to lower the amount of their income that is taxable.

These options are available to taxpayers across the UK but may be exacerbated by tax divergence.

While there is little evidence to show that this activity is currently being driven by income tax divergence, it is an area that politicians may want to keep under review.

Increased complexity has been an inevitable consequence of the decision to devolve some, but not all, tax raising powers to the Scottish Parliament. That is because both tax systems are intertwined with one another, meaning that the decisions of one government will impact the choices of the other.

This reinforces the need for strengthened oversight, increased accountability and greater public awareness, so that voters can understand the impact of tax changes that are being made on their behalf and know who is responsible for making these decisions.

Despite devolution, Scottish Income Tax remains misunderstood

Many Scots remain unaware that the Scottish Parliament controls parts of the income tax regime, according to the latest CIOT poll of public awareness of the devolved tax system.

In 2021, 27 per cent of those surveyed correctly identified that income tax powers are shared between the Scottish and UK parliaments.

This compares with 26 per cent in 2019 and 34 per cent in 2018, which was the first year that Scottish income tax rates and bands noticeably changed from the rest of the UK.

The Scottish taxpayer status (the rules that define who is eligible to pay Scottish Income Tax) also remains a mystery to many.

In 2018, the poll found that 52 per cent of respondents either knew nothing about it or were unaware of it, a figure that increased to 65 per cent in 2019.

This year (2021), the poll found that 60 per cent felt the same, a fall from 2019, but higher than the first survey in 2018.

Our poll in 2021 also asked respondents if they were aware that the Scottish Parliament had made changes to the tax system in Scotland, such as income and council tax.

46 per cent of respondents said they were, and that it had an impact on the amount of tax they pay (either more or less). 20 per cent said they were aware of the changes, but that it had no impact on them.

33 per cent of those surveyed said they were unaware that the Scottish Parliament had changed the tax system.

You can read more findings from our poll and recommendations to help improve public awareness on pages 21-24.

Strengthening decision-making

The structures of Scottish politics are evolving to adapt to increased tax devolution, especially within the Scottish Government. But there is a case for boosting parliamentary scrutiny, particularly if there is further tax devolution, divergence or reform.

The Scottish Government has responded well to the challenge of establishing its tax policy capacity.

At a ministerial level, the creation of a role with responsibility for devolved taxes, supporting the Cabinet Secretary for Finance, has been a welcome development. However, the role could be seen as a part-time one, given that its three occupants to date have had to juggle their tax portfolio with other, non-tax related responsibilities⁸.

The complexity of the devolved tax regime and its interaction with the rest of the UK tax regime mean that there is a case to be considered for making this a full-time role.

The importance of the Scottish tax regime and the way it interacts with the wider UK tax system will only increase in prominence if there is further tax devolution, divergence, or reform.

At the civil service level, the creation of a Tax Directorate has boosted the Scottish Government's tax policy capacity and capability.

This has fostered an open and collaborative approach to engagement with the tax profession and wider civic Scotland in the development of new tax policy proposals.

Legislative scrutiny

Early sight of legislative proposals can help to improve the quality of tax legislation.

It is also important that there is an effective system of checks and balances in place in the Scottish Parliament to enable improved post-legislative scrutiny and engagement, so that tax policy works as it is intended to, and any problems or concerns can be identified and addressed promptly.

Revenue Scotland is accountable to the Scottish Parliament and is responsible for managing and collecting the fully devolved taxes (LBTT and Scottish Landfill Tax). The policy making process has benefited from the tax authority's front-line experience of the devolved taxes.

The structures of the **Scottish Parliament** have not evolved as quickly as those of government. They should be a priority in the new parliament.

Some of the challenges encountered have included:

A lack of parliamentary time to talk tax

Tax scrutiny has not been helped by the decision to expand the remit of the Finance Committee to include constitutional matters, at a time when the latter have risen to the forefront of Scottish political debate.

This has limited the time available to the Committee to scrutinise the Scottish tax regime and came at a time when Scotland's tax powers were at their most extensive. One example of the limits on the committee's time has been the inquiry into the 'Scottish Approach to Taxation' which started work in 2016. It stopped taking evidence in April 2017, although it has been recommended that this work resumes in the new parliamentary term⁹.

"It would be nice to have a finance bill like the one at Westminster that is able to do a lot of tidying up when there might be unintended consequences and anomalies or when refinement might be required."

Former Finance Secretary Derek Mackay to the Finance and Constitution Committee – 7 February 2018

Strengthening decision-making

The legislative process is cumbersome and limits scrutiny

Tax changes can be required often, and at short notice, to introduce new taxes, correct anomalies and clarify rules. But the Scottish Parliament is short of time.

In any normal year, where a parliamentary bill is needed to make major changes to tax laws, this legislation needs to battle with other legislative priorities for a space in the parliamentary timetable, or be included as part of other, non-tax related legislation¹⁰. This means that some actions promised by Ministers have failed to materialise.

For example, a 2018 commitment to introduce legislation to clarify certain rules around LBTT has still to be enacted, despite a commitment to do so¹¹.

The alternative is to use designated powers and secondary legislation. Sixty-seven pieces of tax related legislation have been passed like this since 2014. While this ensures changes can be made, these aren't afforded the same level of scrutiny as main tax bills and in many cases, they go unnoticed by all but the keenest of observers. It can be complicated to keep track of – and scrutinise – changes that are made via secondary legislation.

In the next session of parliament, the challenge will be to find a solution that makes the best use of available parliamentary time to make the legislative changes needed to maintain the integrity and credibility of the tax system, while also maximising opportunities for scrutiny and instilling confidence in the tax regime.

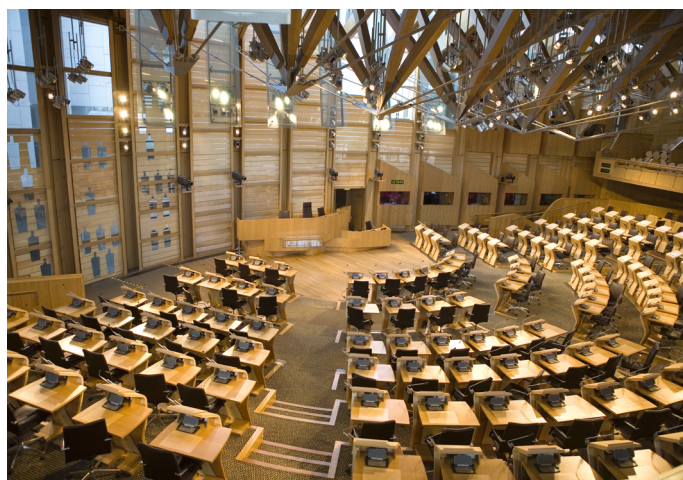
A Devolved Taxes Legislation Working Group was established to find solutions to this challenge. It is essential that this work is concluded, and its findings used to help set the tone for the new parliamentary term.

There needs to be better budget coordination between both governments

The decision to postpone the UK Budget in 2019 and again in 2020 added an extra layer of uncertainty to recent Scottish budgets.

Not only have budget delays left MSPs in the position of having to agree the Scottish Budget without the full detail of UK tax and spending plans (which impact the amount of money available to Scotland), they have limited the amount of time available to scrutinise proposals.

Delays to the UK Budget don't just cut across the devolution settlement, they also don't make for good tax policy making.



Strengthening decision-making

There are a number of steps that can be taken to improve the oversight of Scotland's taxes and strengthen decision-making and accountability in the next term of the Scottish Parliament.

Our recommendations

The new Scottish Government establishes a full-time Minister for Scottish Taxes

This position would establish full-time political responsibility for Scottish tax policy and its relationship with the wider UK tax regime.

Reporting to the Finance Secretary, the position should include responsibility for all aspects of Scottish tax policy, its interaction with the wider UK tax system and day-to-day taxation relations between the Scottish and UK governments.

The introduction of a Scottish Taxes Bill

This Bill would have a guaranteed slot in the Scottish Parliament timetable to enable the type of day-to-day legislative changes needed to maintain the integrity of the tax system.

Having a set-piece event in the timetable would also help to increase parliamentary scrutiny by, for example, providing opportunities for the Scottish Parliament to consult with subject-matter experts to help improve the quality of tax legislation and hold ministers to account.

A return to a dedicated Finance Committee

This would focus the work of the Committee in the 2021–26 parliament exclusively on the scrutiny of tax and spending matters and better allow members to quickly develop a strategic approach to tax scrutiny after the election.

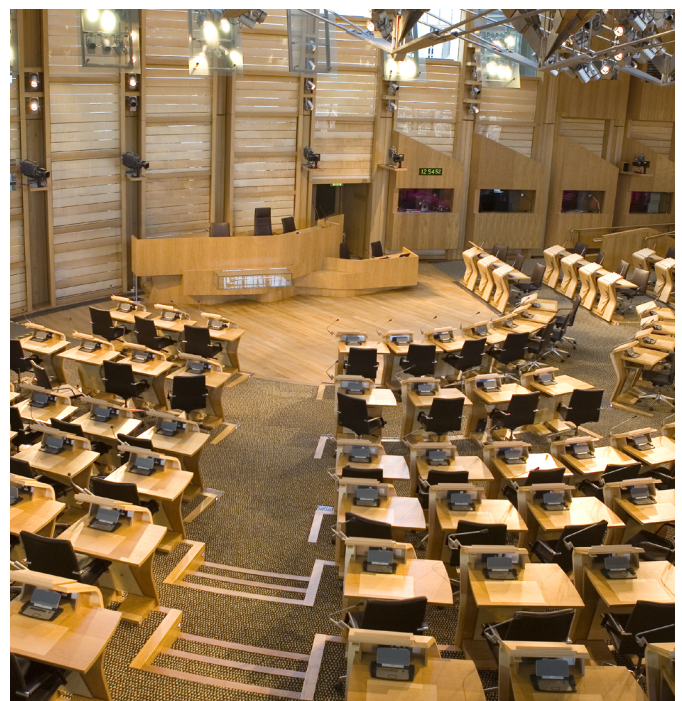
If appropriate, a sub-committee on taxation is an option that could offer MSPs the opportunity to develop subject matter expertise and help guide a Scottish Taxes Bill through the Scottish Parliament.

Improved collaboration between the bodies responsible for Scottish and UK tax policy

Across the UK, there needs to be a reset in relations between the UK Parliament and the devolved administrations in Scotland and Wales to better recognise the continuing importance of UK tax decisions for devolved tax policy choices.

One method would be to agree on a timetable for future budgets so that devolved governments have the time to fully prepare their own budgets and scrutiny of these proposals can be maximised.

Within Scotland, Revenue Scotland's 'on the ground' expertise and practical experiences of implementing devolved tax policy should be used to strengthen the policy-making process.



43

- the percentage of people who correctly identified that

Land and Buildings

Transaction Tax is

controlled by the

Scottish Parliament

(CIOT opinion poll by Diffley Partnership, March 2021)

Making the case for new taxes

The Scottish Parliament has the ability to introduce new taxes. This power is likely to come under the spotlight as the country recovers from the coronavirus pandemic. To what extent can – and should – these powers be used? Should MSPs focus on building a case for new taxes? Or could they make better use of the powers already at their disposal? These choices require proper debate, and a process for ensuring that tax changes work.

The Scottish Parliament's powers over taxation have grown extensively since 1999. But the social and economic challenges of a global pandemic have tested the limits of its tax and borrowing powers.

The consequences of this are likely to include tough debates around the need to raise revenue and support the economy, and the limits to what can be achieved under the devolution settlement.

This is likely to give rise to questions about whether the Scottish Parliament has the right balance of tax powers, or sufficient sources of revenue to support the economic recovery.

There are three main ways that the Scottish Parliament can introduce new taxes.

Local Taxes

The first option is to introduce or reform taxes collected by local authorities, such as Council Tax and the proposed taxes on car parking and tourism.

New Scotland-wide taxes

The second is to introduce new, Scotland-wide taxes. These can be introduced provided that they don't cover reserved policy areas.

These could offer Scotland the opportunity to take a more creative and imaginative approach to introducing new taxes. However, they will require the agreement of the UK Parliament in order to be introduced. The experience of the Welsh Government's attempts to introduce a Vacant Land Tax has exposed some tensions in this process, which may not make it an easy option¹².

Devolve existing UK powers

The third option is for powers over existing, UK-wide taxes to be devolved.

These are all political choices. In terms of the practicalities associated with their implementation, the option to create new taxes or devolve existing ones will take time and is unlikely to provide immediate solutions.

Agreements need to be reached on whether or not to devolve powers, legislation has to be drafted, scrutinised and approved, and arrangements put in place to ensure that these taxes can be collected.

Even when a power has been devolved, challenges may be encountered that hold up implementation. This has been seen in the cases of Air Departure Tax, Aggregates Levy and the proposal for VAT assignment.

Local taxes offer more flexibility, but reform won't be simple

Local taxes provide the Scottish Parliament with the greatest flexibility for reform, but the process for their introduction or reform isn't straightforward.

Prior to the pandemic, the Scottish Parliament was in the process of introducing legislation to give councils the power to introduce two new local taxes – the Transient Visitor Levy (or tourist tax) and Workplace Parking Levy. These plans are now on hold.

These two new taxes are unlikely to raise significant sums of money, and not all local authorities may choose to introduce them.

Making the case for new taxes

Is it time to look again at VAT assignment?

In 2014, the Smith Commission recommended that a proportion of VAT receipts raised in Scotland should be assigned to the Scottish Budget using a formula agreed by the UK and Scottish Governments.

These plans were postponed in 2019 because of concerns over the proposed methodology and the underlying data that would be used to calculate the amount of VAT to include in the Scottish Budget. The issue is expected to be included as part of the upcoming fiscal framework review.

We question whether VAT assignment is appropriate.

Assignment only arose as an option in 2014 because EU rules require a state wide VAT system. Assignment could expose Scotland to significant fiscal risks brought about not by democratic policy decisions, but statistical nuances. The challenge of finding a formula that works for all has shown the proposal to be complex and unworkable, and lacking in transparency and accountability.

The fiscal framework review provides an opportunity to pause and reflect on tax devolution, and to consider – through consultation and engagement – how to best define the role of VAT in the devolution debate.

Depending on how these are implemented, the money that is raised might be earmarked for specific purposes related to the scope of the tax (such as investment in transport and tourism-related infrastructure).

From a tax administration perspective, these taxes are also likely to place extra administrative and reporting burdens on businesses and local government. If each local authority is given the ability to adopt a different approach to setting and collecting the tax, the result could be a complicated and disjointed system.

Last minute tax concessions don't make for good tax policy

From a policy making perspective, the decision to introduce proposals for the Workplace Parking Levy and the Transient Visitor Levy was made in haste, the result of last-minute budget concessions needed to ensure that the Scottish Budget became law.

Such an approach does not lead to good tax-policy making because it can result in shortcomings in the tax regime that earlier and better consultation might have helped to avoid.

New taxes deserve full consideration and analysis before any decision is made to introduce them.

A formalised tax policy process, supported by reformed structures in the Scottish Parliament and the Scottish Government, could help provide a more strategic approach to evaluating and consulting on new tax proposals before they are introduced.

Making the case for new taxes

Council Tax. Is it finally time for reform?

One area of taxation that has been considered ripe for reform is Council Tax. While there have been some modest changes aimed at making the system fairer, attempts to fundamentally reform the system have foundered under successive administrations.

From the perspective of tax administration, Council Tax may offer the most straightforward option for reform. Other taxes within the control of the Scottish Parliament are either unlikely to raise significant sums of money or are more reliant on interactions with the wider UK tax system.

Council Tax is also an area fraught with political challenges, not least of which, in a potential parliament of minorities, would be the need to achieve cross-party support for reform.



The opportunities and challenges associated with reform of Council Tax may include:

Opportunities

- A local tax, tied to property, is an effective method of collecting tax.
- Updating property valuations – and committing to more frequent valuations – would ensure the tax better reflects property values.
- Reform offers an opportunity to develop policies that have stronger civic support and ensure greater political accountability.

Challenges

- There needs to be political acceptance that reform will create winners and losers.
- The ability to pay is not necessarily tied to ownership – many will be asset-rich, but cash poor. Measures to protect those who lose out the most may come with additional financial costs to government to compensate those whose income has not kept pace with the value of their residence.
- Local taxes may increase local democracy and accountability, but setting rates locally could result in an innately regressive system where the poorest areas lose the most.

The proposals put forward by the Scottish Land Commission¹³ suggest that debates on tax and land reform could be prominent in the next Scottish Parliament. Council Tax may therefore come under the spotlight once again.

Making the case for new taxes

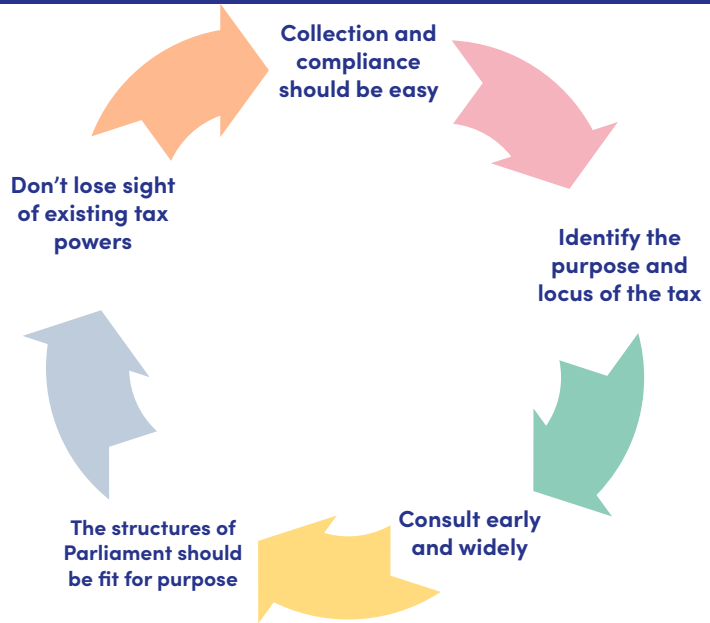
Reform of tax is never simple, but having the right processes in place can help to promote healthy debate and encourage the development of tax legislation that supports wider government and societal objectives.

Our recommendations

The role of Scotland's taxes should include collecting revenues to support public spending and support the economy.

Reform of tax is never simple, but a more formalised approach to Scottish tax policymaking can help this process, particularly as tax issues increase in prominence.

It should address the following criteria:



Identify the purpose and locus of the tax

Is the tax being designed to raise money, encourage behavioural change or to support a different policy aim? Does the tax support wider government objectives (and vice-versa)? Is it possible to easily identify how the tax base or person/transaction being taxed is Scottish or has ties to Scotland?

Consult early and widely

Ideally, plans for new taxes should be consulted on widely before legislation is introduced. Having a more structured process for introducing and amending tax legislation will also help in this regard.

The structures of parliament should be fit for purpose

There needs to be a clear process for managing the devolved taxes, from inception to introduction, to maximise scrutiny.

Don't lose sight of existing tax powers

It is important to consider how new taxes would sit alongside existing devolved taxes, how they interact with both devolved and reserved taxes, whether they are local or national in scope and if they are designed to replace, or complement, existing taxes.

Collection and compliance should be easy

If people are clear about what they are being asked to pay for, and why, it will help to maximise the revenues that are collected.



“Tax – a dreaded, feared word! Before today, tax for me was you open up your pay packet and you think, “Oh, do I have to pay that?” Today we learned about the bigger picture: UK tax, Scotland’s tax and other countries’ tax systems. That was a lot of information and, for me, very informative. I didn’t know half of that.”

Doing Politics Differently: The Report of the Citizens’ Assembly of Scotland final report
(January 2021)



Improving public understanding

Public understanding of the devolved tax regime is low. The issue of tax awareness is not unique to Scotland, but devolution offers an opportunity for the country to promote greater public awareness and understanding of the tax regime, how it operates and the benefits devolution can bring.

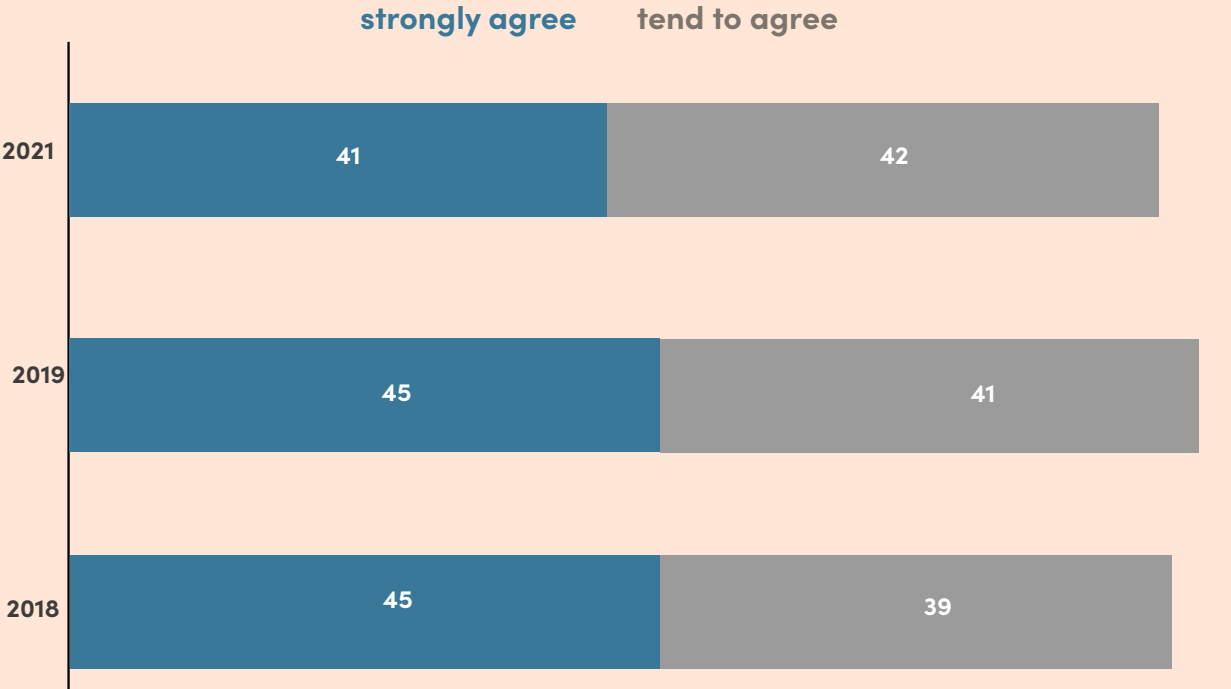
Since 2018, the CIOT has worked with The Diffley Partnership to undertake surveys of public awareness and understanding of the devolved tax system in Scotland.

The purpose of these has been to track, over time, changes in awareness and understanding of the devolved tax system among the Scottish public.

Our most recent poll was conducted in March 2021 and found that overall levels of awareness and understanding have remained steady since the first survey in 2018. Some highlights of the polls that have been conducted are shown in the following pages.

More than eight in ten Scots say they need better information about how taxes are decided in Scotland

Percentage of respondents who 'strongly agree' or 'tend to agree' they need better information (2018-2021)

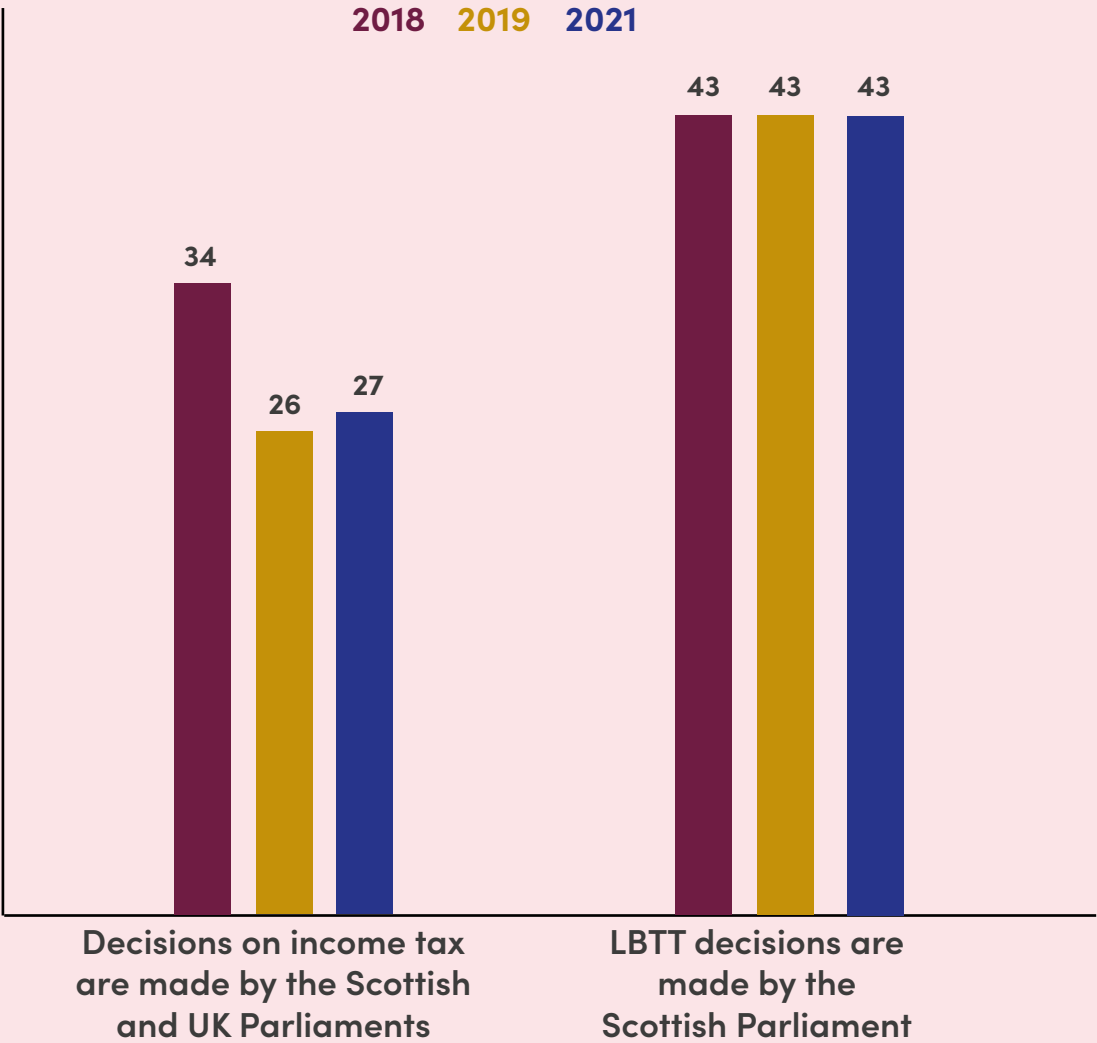


(CIOT opinion poll by Diffley Partnership, March 2021)

Improving public understanding

Awareness of the Scottish Parliament's tax responsibilities has remained broadly similar

Percentage of respondents who correctly identified that decisions on income tax are made by both the Scottish and UK parliaments, and decisions on Land and Buildings Transaction Tax (LBTT), by the Scottish Parliament (2018-21)



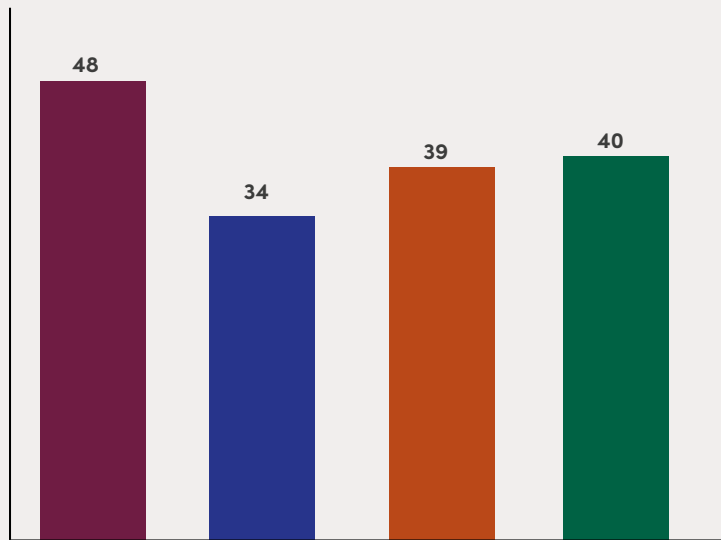
(CIOT opinion poll by Diffley Partnership, March 2021)

Improving public understanding

An average of four in ten respondents have been aware of the Scottish taxpayer status since 2018

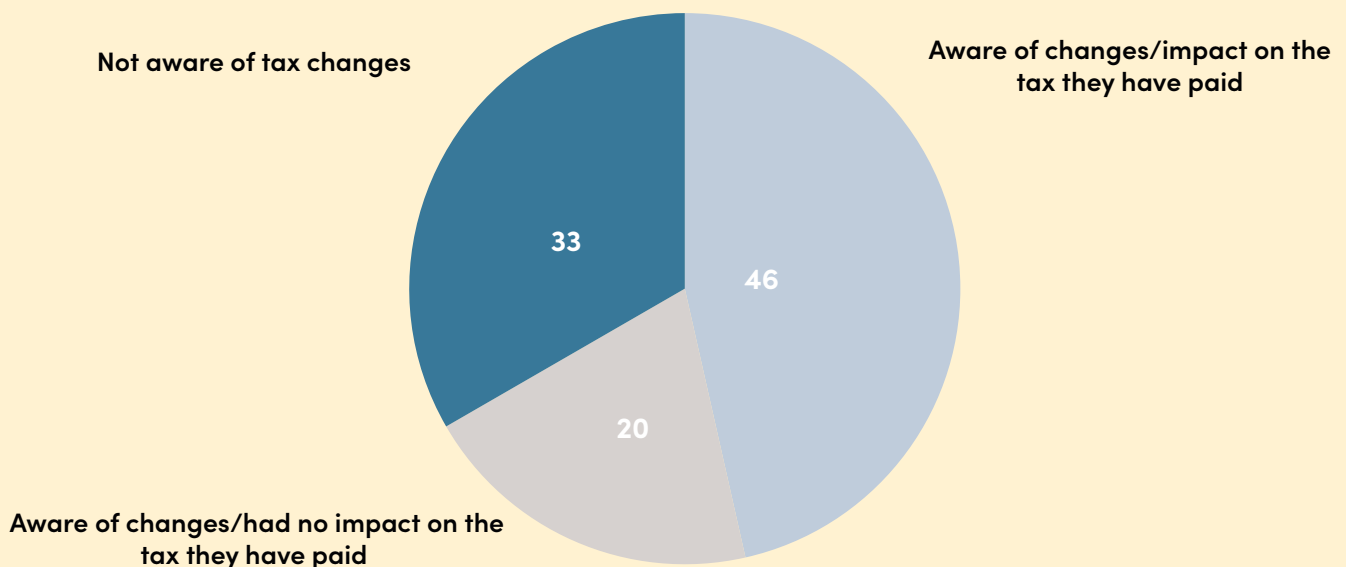
Percentage of respondents who are aware and understand a lot/a little

2018 2019 2021 Average



(CIOT opinion poll by Diffley Partnership, March 2021)

A third of respondents said they were unaware of the Scottish Parliament's tax changes since 2015, such as to income tax and council tax



(CIOT opinion poll by Diffley Partnership, March 2021)

Improving public understanding

The case for building better understanding

The issue of low public awareness of tax is not unique to Scotland.

A study conducted by Deloitte in 2019 found that, across the UK, a majority of people struggle to understand their tax affairs¹⁴.

The think-tank Demos recommended in 2020 that, across Britain, the education system should be used to help boost taxpayer awareness and engagement¹⁵.

A lack of public understanding of how the tax system works is a common theme in our work.

If people fail to understand how the tax system works, they are more likely to fail to comply with the rules and regulations. In the case of the devolved taxes, it also means that taxpayers may not know that the Scottish Parliament is now responsible for raising some of the taxes they pay.

Because taxes are now different in Scotland, there is arguably a stronger case to be made for articulating the responsibility of the Scottish Parliament for tax matters.

For all Scottish taxpayers, that means explaining the rationale for why Scottish taxes are different, how these taxes work and their relationship with the wider UK tax system, and what divergence delivers in terms of public spending.

For those thinking of moving to Scotland, particularly higher earners, differences in the tax regime may influence their decision. In the long-term, the ability of government to generate higher Scottish income tax receipts rests in growing the economy and the tax base, both in terms of the overall number of taxpayers, and those with higher incomes.

Accountants and tax advisers can present people with facts, explanation and context, governments need to provide strategic direction.

The Scottish Government had proposals for a communications strategy related to Scottish taxes, but this work was postponed as a result of the pandemic.

Will coronavirus increase worker mobility?

One of the effects of the coronavirus pandemic has been the rapid shift to home working, which may continue for some time to come.

People and businesses are now realising that many jobs can be performed without workers being in the same building, or even the same country.

Anecdotal evidence from our respective memberships suggests that there has been an increase in the number of people, normally based in the rest of the UK, who are now living and working in Scotland.

The rules of residency mean that, if they stay in Scotland for longer than six months in a tax year, they are likely to become liable for Scottish rates of income tax.

This presents challenges for the rules of the tax system, which may need updating to take account of this new way of working.

Tax bases will be put at risk if higher numbers of middle to high earners have the option of moving to another tax jurisdiction – such as from Scotland to England, or vice versa – while continuing in their present jobs.

Improving public understanding

There is a relationship between understanding the tax system, perceptions of fairness, and support and compliance with the regime. Devolution provides an opportunity for the Scottish Parliament to take the lead and promote a devolved tax regime that leads to a better-informed – and engaged – public.

Our recommendations

The next Scottish Government should reinstate its pre-pandemic work on a tax communications strategy

Providing the public with accurate, accessible and easily understandable information about Scottish taxes would help to communicate to taxpayers their rights and responsibilities within the tax system, and show how the money they are contributing is being used to support public services.

In the case of low-income families, the impact on accessibility to the benefits system will need to be considered.

This will require the support of all of the organisations of government concerned with taxation and benefits in Scotland (including the Scottish and UK governments, local authorities, HMRC, Revenue Scotland, the Department for Work and Pensions and Social Security Scotland).

The tax profession stands ready to support this work.

Promoting better understanding of the tax system in Scotland through the curriculum

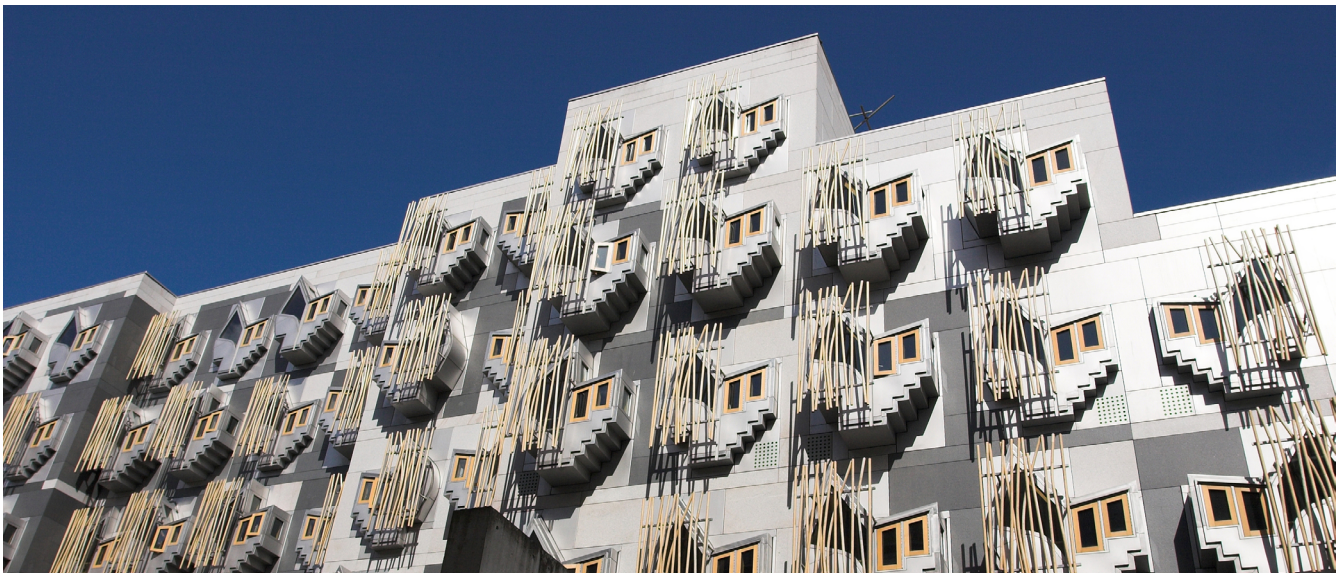
The Scottish curriculum has a role to play in improving levels of awareness and understanding of tax and wider fiscal literacy.

The tax system will never be clear to people if they lack even the most basic knowledge about it.

The Office for Tax Simplification report into people's experiences of the tax system may offer a starting point for this work¹⁶.

Improving the visibility of Scottish taxes in the Scottish political calendar

Enacting the proposals for strengthening decision-making and accountability that have been outlined in our recommendations on page 14 will assist in improving the visibility of taxes, which in turn should encourage greater awareness.



Endnotes

Getting to know Scotland's taxes

- 1 [Finance and Constitution Committee Official Report](#) (18 November 2020).
- 2 [Government Expenditure and Revenue Scotland \(GERS\) 2019–20](#) (26 August 2020).
- 3 CIOT analysis of UK and Scottish income tax liabilities for 2021/22.
- 4 When the structure of five rates and bands of Scottish Income Tax was introduced in April 2018, the UK Government had to introduce legislation to ensure Scottish taxpayers could continue to be eligible for Marriage Allowance. Legislation was also required to ensure the appropriate amount of pension tax relief could be collected.
- 5 The figures are slightly different for the self-employed. Here, the difference is between 50% (41% income tax/9% National Insurance) in Scotland, and 29% (20% income tax/9% NICs).
- 6 Intermediate rate taxpayers receive the basic 20% tax relief automatically, but need to make a claim for the other 1%.
- 7 [Income Tax Policy Proposal: Scottish Budget 2021–22](#) (Scottish Government)

Strengthening decision-making

- 8 Other ministerial responsibilities have been : Digital Economy (Kate Forbes), Migration (Ben Macpherson) and Trade and Innovation (Ivan McKee)
- 9 [Finance and Constitution Committee: Pre-budget scrutiny 2021–22](#) (7 December 2020)
- 10 Since 2013, there have been 11 Acts of the Scottish Parliament dealing largely with the establishment of the devolved taxes and related functions. Plans for the Workplace Parking Levy were included in the Transport (Scotland) Act 2019 and temporary LBTT changes in the Coronavirus (Scotland) (No.2) Act of 2020.
- 11 [Finance and Constitution Committee Official Report](#) (13 June 2018)
- 12 [Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework](#) (Welsh Parliament Finance Committee, February 2021)

Making the case for new taxes

- 13 [Land and Property taxation in Scotland: Initial Scoping of options for reform](#) (Alma Economics, December 2020)

Improving public understanding

- 14 [The tax education gap: Majority of the UK don't understand personal tax](#) (Deloitte press release, 24 September 2019)
- 15 [A People's Budget: How the public would raise taxes](#) (Demos, September 2020)
- 16 [OTS Life Events review: Simplifying tax for individuals](#) (OTS, 10 October 2019)

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