A call for evidence on a Scottish approach to taxation

General Features

01 November 2016

The CIOT, ATT and LITRG made a joint submission in response to a call for evidence issued by the Finance Committee of the Scottish Parliament. The Committee issued the call for evidence to assist their inquiry on a Scottish approach to taxation. The CIOT, ATT and LITRG response drew largely on the responses to a survey of CIOT and ATT members.

The Finance Committee of the Scottish Parliament issued a call for evidence at the end of June 2016 to assist their inquiry on a Scottish approach to taxation (tinyurl.com/hdpnxa3). This follows the devolution of taxation powers via the Scotland Acts 2012 and 2016, which means a greater focus on revenue-raising. As a result, the committee wished to start a debate in developing a Scottish approach to taxation.

The committee made reference to the four principles of Adam Smith which, the Scottish Government has repeatedly stated, underpin its approach to taxation policy. These principles are that taxes:

- should be proportionate to the ability to pay (equality),
- provide certainty to the taxpayer,
- provide convenience and ease of payment,
- and be efficient (economy).

The Committee sought views on how best to achieve the four principles and on the extent to which the current devolved taxes and proposals for new devolved taxes align with these principles. In addition, they wished to consider whether there is scope for a fundamentally different approach to taxation in Scotland, the issue of behavioural responses and the way in which administrative systems limit the scope for a different tax system.

In order to inform our response, we created a survey. This was sent to all CIOT and ATT members in Scotland, but was also made generally available on the CIOT and ATT websites, so that any member with an interest in taxation in Scotland could complete the survey. We received 165 responses (an excellent response rate in the context of there being around 2,000 active members in Scotland), which assisted greatly in putting together the submission; we are very grateful to all those who responded.

Adam Smith's Principles

We set out our overall agreement with the aim of having a tax system that pays regard to Adam Smith's principles. We concluded that the approach should be to apply the principles to the portfolio of taxes, thus allowing for some departures from one or more of the principles when considering an individual tax (or an aspect of a tax). We also pointed out that the principles cannot be the only considerations. We think that the Scottish Government should take care to balance them, since in some cases they may conflict, both with each other and with other important considerations.

In terms of how best to achieve the principles, we noted that unless and until they form a permanent part of Scotland's approach to taxation, they are potentially at the mercy of the government of the day. In order to address this vulnerability, we suggested giving them permanence, perhaps by incorporating them in a written constitution. We also thought it would be helpful if a body such as the Scottish Fiscal Commission could be empowered to review new law to consider whether or not it aligns with the principles.

We looked at the alignment of Scottish taxes against the principles. Taking a holistic approach, there is a reasonable degree of alignment currently. While some taxes score very highly in particular areas, there is clear room for improvement for certain taxes with regard to particular principles.

Scope for a different approach in Scotland

Although we think that there is scope for a different approach to taxation in Scotland and also scope for Scotland to raise taxes on different transactions or activities, we noted that it is essential to bear in mind concerns raised about the additional

complexity this could create. So, the purpose of a particular approach should be questioned and it should be clear that a difference is related to particular Scottish factors or objectives and that there is a benefit to Scotland in adopting a different approach.

In terms of ring-fencing future taxes and tax changes, while acknowledging that there might be scope for this, we highlighted our concerns that this could limit the ability of a government to respond to changes in economic conditions. In addition, it would likely increase administrative costs and burdens, lessening the efficiency of the tax system.

Limitations on a different approach

The Committee wished to consider behavioural responses. We pointed out the need to carry out robust research and analysis both to understand likely behavioural responses and which taxpayers have the ability to alter or choose their behaviour in relation to a particular tax, as well as the impetus. We noted though, that tax alone is unlikely to be the sole determinant. There are often likely to be other factors involved, which may have more or less influence than tax.

Further possible limitations considered related to Scottish income tax and its administration by HMRC. We pointed out that, currently, the more significant limitation in respect of income tax is the fact that only powers over the rates and bands for non-savings and non-dividend income are devolved, not the tax base or powers in respect of savings and dividend income. Unless and until the tax is fully devolved separate administration of income tax in Scotland would result in unnecessary duplication of work.

We also suggested a number of other potential limitations on the emergence of a Scottish tax system. We emphasised in particular the limitations imposed by a lack of taxpayer understanding of not only the Scottish tax system, but also the UK tax system, and limitations like cost and time burden for taxpayers.

General comments

At the end of our survey, we asked for general comments on a Scottish approach to taxation. There was an overarching call for simplicity from respondents, with which

we agree and which we highlighted in the submission. We presented a few different suggestions of how to achieve simplicity, without recommending a particular option. Rather, we suggested that it might be worth taking a step back and considering the tax and the social security system as a whole in the Scottish context, with the aim of determining what approach is best for Scotland.

The joint CIOT, ATT and LITRG response is available on the CIOT website, the ATT website, and the LITRG website.