Managing Scotland’s public finances: a strategic approach: CIOT and LITRG’s responses

General Features



21 August 2024

The CIOT and LITRG submitted a response to the Scottish Parliament’s call for evidence published as part of the Finance and Public Administration Committee’s pre-budget scrutiny for the Scottish Budget 2025-26.

The Finance and Public Administration Committee of the Scottish Parliament are carrying out their pre-budget scrutiny in respect of the Scottish Budget 2025-26. They published their call for evidence, ‘Managing Scotland’s public finances: a strategic approach on the website of the Scottish Parliament. See tinyurl.com/2crsgghg. Their inquiry focuses on three key areas. The LITRG response concentrates on the second of these, which relates to the Scottish government’s approach to taxation. One of the stated aims of the inquiry is to influence development of the Scottish government’s tax strategy.

The call for evidence consisted of 11questions covering: public service reform, climate emergency, capital expenditure and taxation. The call for evidence also notes that it had been the intention of the Scottish government to publish a draft tax strategy for consultation. However, due to the change in First Minister and the UK general election, this will not happen. Instead, the final strategy will be published alongside the Scottish Budget 2025-26.

CIOT response

CIOT's response addressed the three taxation questions which revolved around the Scottish government's plan to publish a draft tax strategy and what should be included in it (notwithstanding that publication will be delayed). The call for evidence quotes the government's aim that: '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.' The questions ask:

- What should the tax strategy include?
- How should the strategy address potential impacts of behavioral change?
- What actions should the government take to grow the tax base in Scotland?

For the first of those two questions, CIOT's response reminded the committee of the need for greater levels of public awareness of the devolved tax system and misalignments with the UK rates and bands. We pointed out that any strategy should include greater joined-up thinking with wider UK taxes being borne in mind, along with the roles of respective tax authorities. We cited the new Scottish aggregates tax (SAT) as an example where this type of thinking is crucial. This devolved tax will affect businesses across the UK and the cross-border transactions (exports from Scotland in particular) will necessitate consideration of the SAT and existing UK levy.

Another matter CIOT commented on was a longstanding concern surrounding the lack of an annual Finance Bill to make amendments to Scottish legislation. Part two of the SAT legislation contained numerous administrative changes that had nothing to do with the new tax and it contained minor amendments that could have been dealt with as part of a dedicated piece of primary legislation. Alongside this, and the reinstatement of the Devolved Taxes Legislation Working Group, we suggested that the remit of the committee itself should have greater emphasis on scrutiny of taxation. This would enhance Parliament's scrutiny of the tax system and its

effectiveness, as well as providing greater legitimacy and transparency.

To address the matter of increasing the tax base, we pointed out that attracting more taxpayers into Scotland is the simplest way. In 2023/24, 39% of Scottish adults paid no tax at all and less than 12% did so at the higher or additional rates. A better understanding of the devolved tax system may play a small part in that, as would effective use of existing devolved tax-raising powers such as council tax and business rates, as well as the visitor levy coming into force in 2026.

LITRG response

The call for evidence considers the four priorities set out in May 2024 by the First Minister. In terms of making progress against these priorities, in response to the inquiry, LITRG comments that the two taxes that might offer most scope are Scottish income tax and council tax. These could assist with raising additional revenue for funding policy actions, and/or assist with redistribution.

LITRG also commented on the questions about the elements that a tax strategy should include and how it might address potential impacts of behavioural change. In particular, LITRG highlights:

- provision for clear guidance and public awareness-raising measures;
- a plan for evidence-gathering (including consultation) to support policy proposals;
- a clear process and timetable for tax policy changes;
- a timeframe and process for consideration of interactions, for example with reserved policies;
- a process and timeframe for ensuring there is effective and efficient administration in place;
- requirements for impact assessments and post-implementation evaluation; and
- a clear legislative process.

In respect of the Committee's question on addressing concerns about behavioural change in response to tax policies, we suggest that improving public understanding and wide consultation may be of assistance.

The full responses are on our websites at: www.tax.org.uk/ref1339 and: www.litrg.org.uk/10949 .

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