Scottish Parliament pre-Budget scrutiny 2026-27: responding to long-term fiscal pressure

General Features



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CIOT have responded to the Finance and Public Administration Committee's call for views as part of their pre-Budget 2026-27 scrutiny, highlighting important areas of tax policy that should be considered.

Pre-Budget scrutiny normally takes place in the months leading up to the Scottish Budget and aims to influence how the Budget is prepared, improve transparency, increase public awareness, consider the Scottish government's response to wider fiscal and policy challenges and lead to better results and outcomes (when compared to Scottish government targets and goals).

The areas of focus for 2026-27 scrutiny included, but were not limited to:

- steps the Scottish government is taking in response to fiscal pressures arising from population trends highlighted in the Scottish Fiscal Commission's latest Fiscal Sustainability Report;
- the Scottish government's approach to increasing productivity and economic activity;
- steps the Scottish government is taking to support growth sectors in Scotland with a view to increasing economic performance and tax revenues; and
- key financial documents published by the Scottish government during this year's pre-Budget scrutiny period, including its Medium-Term Financial Strategy and Fiscal Sustainability Delivery Plan.

Although the scrutiny was largely focused on Scotland's economic performance and longer-term financial planning, the CIOT thought it important to highlight key areas of tax, and the perception of tax in Scotland, which we think the Finance and Public Administration Committee should consider as part of its pre-Budget scrutiny.

Pillar Two of the Medium-Term Financial Strategy sets out the Scottish government's objective to 'grow Scotland's economy [and] expand and broaden the tax base to fund public services'. Whilst we acknowledged that the evaluation of whether to do business or work in Scotland is not solely driven by tax, or the perception of tax, they do remain key factors. We highlighted that 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 and living wages. The position is complex with the tipping point unclear. This is why a long-term strategic picture of the direction of tax policy may help, combined with robust evaluation of evidence to inform future decision making on divergence.

We welcomed the Scottish government's commitment within the Tax Strategy to consider the changes to Scottish income tax in 2023-25 and 2024-25 but encouraged the Scottish government to go further. 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, particularly where there is, or will be, a decision which creates divergence.

Within our submission, we also discussed the importance of undertaking cost/benefit analysis as part of any assessment of the effectiveness of tax policy, before and

after implementation. This cost/benefit analysis should weigh the revenues raised with the financial and administrative costs incurred by the taxpayer, Revenue Scotland and HMRC. We highlight the example of the complicated cross-border taxation policy for Scottish aggregates tax, which is discussed in the article below.

Finally, we highlighted our continuing concern around the lack of an appropriate legislative vehicle for making tax policy changes in an effective and efficient manner. We are of the view that tax law in Scotland should be set out in primary legislation with secondary legislation reserved for operational and administrative matters in respect of tax law. We highlight this in our submission examples, showing why an annual Finance Bill or similar legislative process is important for coherent, timely delivery and maintenance of tax legislation to help deliver plans to address fiscal and wider policy challenges in a transparent manner.

The full CIOT submission can be found here: www.tax.org.uk/ref1546

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