Tax devolution trade-offs in the spotlight

Briefings

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Tax devolution creates opportunities for policy innovation and accountability, but it also brings complexity, fiscal risk and difficult trade-offs between autonomy and redistribution. Those tensions were at the heart of the first CIOT/IFS debate of 2026, held online on Monday 23 March, which asked what has worked, what has not, and what should come next for Scotland, Wales and England.

Former CIOT President Charlotte Barbour, a member of the Scottish government's Tax Advisory Group, said the effective use of Scotland's tax powers could be counted a success, though she noted that views differ on whether the increase in the number of income tax bands was a benefit. She said the challenges of tax devolution often stem from split responsibilities. With income tax only partially devolved and national insurance fully reserved, Scotland lacks control over a key set of linked labour market levers.

Looking ahead, Charlotte said she would like to see a regular Scottish ‘tax bill’ to provide predictable windows for change and to improve transparency. Better public and political understanding of how Scotland’s finances work, and stronger evaluation of the impact of existing taxes, especially the effects of income tax divergence, were also priorities.

Dr Edward Thomas Jones of Bangor University, an adviser to the Welsh government, questioned how far devolving taxes translates into meaningful control over economic outcomes. Wales now has land transaction tax, landfill disposals tax and partial income tax devolution, but he argued that the ability to shape growth still depends heavily on factors outside devolved competence.

Drawing on recent work for the Welsh government, he said there is no single ‘best’ model for evolving Welsh income tax powers. Instead, designs inevitably trade greater policy control against greater fiscal risk. He closed with three lessons from Wales: holding a tax power is not the same as having the economic base to use it effectively; devolved choices are bounded by the structure of the local economy; and tax policy is only one part of a wider system of levers.

David Phillips of the Institute for Fiscal Studies (IFS) observed that Scotland and Wales have been both ‘tax leaders’ and ‘tax followers’ within the UK. Scotland’s replacement of stamp duty land tax’s ‘slab’ structure when introducing land and buildings transaction tax was quickly mirrored in England. Wales’ use of council tax ‘second home premiums’ has since been replicated elsewhere, and both nations have moved toward enabling councils to levy tourist taxes – an idea now being explored for England. In that sense, he said, devolution has expanded the scope for policy innovation and learning.

But he also saw a less positive dynamic: devolved governments can end up copying Westminster even when policies are questionable. He pointed to examples including Scotland following England on additional property levies for higher-value homes and second properties, and Wales repeatedly extending ‘temporary’ business rates reliefs for the retail, hospitality and leisure sector. Politics, he suggested, makes Westminster a powerful reference point, particularly when divergence is controversial.

Anthony Breach of the Centre for Cities argued that tax policy in the UK is unusually centralised by international standards. Other countries, he noted, tend to combine property taxes with local sales taxes or local income taxes – tools that can provide more buoyant and diversified funding.

Anthony set out five principles: aim for buoyant taxes so councils can keep pace with rising costs; strengthen the link between what people pay and their ability to pay (bringing income into the mix can help); recognise that less national redistribution may require more deliberate local redistribution; separate grant funding for statutory duties from funding for equalisation; and look for ways to combine national tax sharing with meaningful local autonomy.

In questions from the online audience, the panel returned repeatedly to the tension between consistency and divergence. On whether the UK should align tax powers more evenly, speakers noted a balance between certainty and lower compliance costs on the one hand, and the ability to make different choices on the other. Devolution, they suggested, is partly about enabling managed divergence, but that only works well when taxpayers and policymakers can clearly see how the system fits together.

Asked why tax devolution seems harder in the UK than elsewhere, speakers pointed to institutional history and to how responsibilities have shifted over time. As demands on local government expanded without a broader local tax base, the UK responded largely through further centralisation, rather than granting more tax-raising powers.

In closing, panellists called for a more UK-wide conversation about how tax, funding and growth strategies interact. Suggestions ranged from strengthening scrutiny of devolved budgets, to accepting that different places may choose different tax-and-spend mixes, to exploring local income tax alongside national tax sharing. A final note was a plea for clarity on the government’s direction for England: whether mayors will get a share of the revenue raised in their specific area, or just a share of the national tax revenue pot – because the answer would determine how significant the next phase of fiscal devolution really is.

You can watch the debate here: www.presenta.co.uk/CIOT/IFS/230326/index.html