Scotland: Pre-Budget scrutiny: the affordability and sustainability of Scotland’s tax and spending plans

General Features

October 2026

24 September 2026

The ATT, CIOT and LITRG have made submissions to the call for views published as part of the Finance and Public Administration Committee’s pre-Budget scrutiny for the Scottish Budget 2027-28.

Joint CIOT and LITRG response

The Finance and Public Administration Committee of the Scottish Parliament published a call for views as part of its pre-Budget scrutiny of the Scottish Budget 2027-28. The inquiry focused on five key areas. The joint CIOT and LITRG response concentrated on tax aspects only.

In response to the Committee’s invitation for views on actions to grow the tax base, we indicated that more evidence is needed to determine whether the current income tax divergence is causing any behavioural effects and, if so, the extent to which these may affect Scotland’s tax revenues over the longer term.

We also considered the complexities faced by taxpayers on lower incomes, due to the interaction of Scottish income tax and universal credit thresholds.

The call for views also requested thoughts on the main risks to devolved tax revenues in Scotland. Our submission noted that it is important that ministers and the Scottish government scrutinise the viability of devolved taxes, particularly new taxes that generate relatively low levels of tax revenue.

We highlighted the importance of trust in the tax system for maintaining voluntary compliance. We also took the opportunity to note the continuing absence of a regular legislative mechanism for the maintenance of devolved tax legislation. This poses a risk to revenues and the credibility of devolved taxes.

The full response is on the LITRG website at: www.litrg.org.uk/11269.

ATT response

The ATT submission drew attention to the need for effective council tax reform in Scotland and suggested that the Committee could play a part in achieving the political consensus needed to make this a reality. We felt that it was important for meaningful reform to take place, rather than simply introducing additional bands or making minor changes to the existing system without addressing the wider issues identified with council tax.

In respect of risks to devolved tax revenues, we drew attention to the impact of complexity in the tax legislation, with particular reference to the three-yearly review process for lease returns under the land and buildings transaction tax (LBTT) legislation. This is a unique feature of LBTT and can result in unintentional non-compliance. We suggested that the findings of the LBTT review working group, on which the ATT was represented, should be considered further.

We also drew attention to the need for greater understanding of the impact that income tax divergence from the rest of the UK may have on Scotland’s appeal as a place to live, work and do business.

Along with the CIOT and LITRG, we highlighted the importance of improving scrutiny of devolved taxes in Scotland. A regular Scottish Tax Bill could help to achieve this, but we also recommended that the Scottish government should consider setting up a successor to the Tax Advisory Group and reconvening the Devolved Taxes Legislation Working Group, which has not met for several years.

The full ATT response can be found on our website at: tinyurl.com/ye5txjxd.

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