



A SCOTTISH APPROACH TO TAXATION CALL FOR EVIDENCE

ICAEW welcomes the opportunity to provide a submission to the Scottish Parliament's Finance Committee call for evidence on a Scottish approach to taxation.

ICAEW Scotland has over 1,500 members who live and work in Scotland. ICAEW Scotland represents the views of ICAEW members who work in Scotland for local, national and international organisations across the private and public sectors.

We would be happy to discuss any aspect of our comments and to participate in further consultations on this topic.

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RESPONSES TO SPECIFIC QUESTIONS

How can the Scottish Government's four principles to underpin Scottish taxation policy best be achieved?

1. **Proportionate to the ability to pay** – tax should only be levied on income and realised gains. Other forms of tax, e.g. a wealth tax based on the value of assets, take no account of ability to pay. Wealth does not necessarily equate to liquid assets, the obvious example being landed estates.
2. **Provide convenience/ease of payment** –
 - (a) Legislation should recognise that there is a significant number of taxpayers that cannot use computers, be it through lack of education, age, infirmity or absence of reliable broadband. There should be no compulsion for online communication/payment.
 - (b) Following on from (a), call centres should be adequately staffed by knowledgeable individuals, with a call wait of less than five minutes.
3. **Provide certainty** –
 - (a) Legislation should be clearly drafted and subject to full and genuine consultation with interested parties.
 - (b) Taxpayers should be able to obtain a binding ruling from Revenue Scotland when the application of legislation to a planned transaction is uncertain.
4. **Efficient** – Revenue Scotland should be sufficiently resourced to ensure the above principles are met. Sensible performance standards and measurement methods should be used to balance effectiveness within resource levels available. For efficiency legislation must, as mentioned above, have clarity and certainty. In this context, see 6 below.

How does the current taxation regime and proposals for newly devolved taxes align against these four principles?

5. **Certainty** – the general anti-avoidance rule in part 5 of the Revenue Scotland and Tax Powers Act denies certainty. Concerns were expressed when the Bill was under discussion that the scope of the rule, and the discretion given to Revenue Scotland in its application, are too wide.
6. **Efficient** – we already have an example of inefficient legislation in the Scottish Rate of Income Tax. The Scottish Government has chosen to not enact for non-savings income the increases in personal allowances and the higher rate threshold introduced in the last Budget. This means that some taxpayers with sufficiently high savings and non-savings income will have two separate calculations in what has hitherto been a straightforward situation.

Is there scope for a fundamentally different approach to taxation in Scotland?

7. In our view, not within the four principles. Direct taxes should be levied on income/realised gains and can be designed to be proportionate to the ability to pay. Indirect taxes are by their nature regressive and bear heaviest on those least able to afford them.

Should future tax changes be ring-fenced and if so, how? If not, why?

8. We could not identify reasons why tax changes should be ring fenced. Tax payers have long stopped believing that, for example, National Insurance contributions are anything but a general government tax going into general coffers. Possibly only when delivering changes in Scottish Parliament might a proposed change to taxes raised be attributed to saved or increased government expenditure.

To what extent do potential behavioural responses limit options for tax changes in Scotland?

9. Most people who are tax resident in Scotland have little opportunity to alter their behaviour in response to tax changes. However, wealthier individuals may have a property in Scotland and another in rUK and would be able to choose where to be tax resident.
10. Corporation tax is not yet devolved but, assuming that “management and control” and place of company incorporation are the criteria for tax residence, it would be relatively easy for companies to initially establish tax residence in the country that suited them.
11. Life is made more difficult for the Scottish government as it does not control all taxes and the rUK will be competing for the tax take. For instance, there may be an opportunity to convert income potentially liable to SRIT to capital gains, which would benefit rUK at the expense of Scotland. Partnership profits are subject to income tax, and a partnership could incorporate as a limited company whence profits would be subject to corporation tax.

To what extent do the mechanisms for administering the Scottish income tax system via HMRC limit the scope for a different tax system in Scotland to develop?

12. This is a problem of extra funding to pay HMRC enough to fully fund the administration of an efficient Scottish income tax system. Otherwise there is no reason to believe that the administrative service for a different tax system in Scotland would be any better than for rUK.
13. HMRC has published six consultation papers on Making Tax Digital. Revenue Scotland should be working closely with HMRC to see how the proposals would affect the development of a different tax system in Scotland or whether it is now time to separate the systems.

Are there any other administrative limitations to the emergence of a Scottish tax system?

14. Geographical remoteness of some areas of Scotland, coupled with poor fast broadband coverage, will likely continue to cause limitations.
15. The cost of administering a tax service is largely fixed in nature, as opposed to variable, which means that the cost per £ of tax raised falls as yield increases. The more taxes are devolved the greater the attraction of a separate administration, but the reverse is also true.
16. If the SNP government remains in power the prospect of independence will remain on the agenda. In the event of independence, a Scottish tax system administered by Revenue Scotland would become a necessity. The longer we have a system integrated with HMRC the more difficult it will be to separate unless this possibility is designed in as and when taxes are devolved.