

Scotland's Budget: 2019 Annual Briefing

Taxation – Growing divergence?

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The key questions

Only a few years in from the Scotland Act 2016, there is growing divergence between Scottish and UK income tax policies – but will this continue?

Will UK tax measures, and the potential for radical ‘Brexit’ tax proposals, cast a shadow over the forthcoming Scottish budget?

Can a Scottish budget be fully considered if the UK budget proposals are not yet known?

What taxes are in scope?

Partially devolved – income tax

- Scottish income tax – but still a UK tax
- So... rates and bands - need a Scottish Rate Resolution
- On Non Savings, Non Dividend income

Fully devolved taxes

- Business rates and council tax
- Land and Buildings Transaction Tax (LBTT)
- Scottish Landfill Tax
- Air Departure Tax – but on hold due to state aid issues
- For the future.... Aggregates Levy

Assigned – VAT

- A proportion of ‘Scottish’ VAT receipts...but not yet agreed

Where are we now?

Since the implementing of measures in the Scotland Act 2016....

- Divergence – yes, in income tax, with 5 bands and more progressive rates (from 19 - 46%)
- LBTT – at the outset some divergence in policy but, recently, less so, with the main divergence now seen in the combination of thresholds and rates
- Flip side of divergence – differences – is that there may be tax competition, also complexity

Scottish income tax: taxpayer behaviour

Tend to compare (adversely) with the neighbours

Consequences of unfavourable divergence in rates may be:

- Tax planning - incorporation?
 - May be counteracted, in part, by IR35 (UK policy measures)
 - Impact on mobile workers

Interaction between SIT and NIC....53% for some

- Work less?
- Reduce taxable income – eg pension contributions

Scottish income tax: factors SG may consider

UK tax measures and in particular:

- The personal allowance, which affects the size of the tax base and how many will pay SIT
- The higher rate threshold, which may affect NIC/SIT interaction
- Other post election/Brexit measures??

Any impact of changes to Scottish income tax:

- Productivity
- Attracting inward migration
- Political support

Messaging.....

It is important that existing Scottish taxpayers understand and support their contribution to public finances.

It is equally important that those who may wish to move to Scotland understand:

- the purpose of Scottish taxation policy,
- the relationship between tax and public spending, and
- the benefit that Scottish taxpayers enjoy from that public spending and different policies.

Over all....

There is a distinctive Scottish tax regime, but it is one which is intertwined with the UK tax system.

There are considerable constraints on the SG which are in part due to:

- the politics that any government faces, and
- the intertwining of the Scottish and UK tax systems so that Scotland only has access to some of the fiscal levers.

It is not yet clear how measures in the next UK Budget may affect the ability to maintain, or increase, the divergence of Scottish taxation in the next Scottish Budget.

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