

**Scottish Rate of Income Tax – Call for Evidence
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 LITRG welcomes the opportunity to respond to the Finance Committee of the Scottish Parliament’s call for evidence on the Scottish Rate of Income Tax (SRIT) in respect of their scrutiny of the Draft Budget 2016-17. LITRG is an initiative of the Chartered Institute of Taxation (CIOT); we support the CIOT’s separate submission. Our response focuses on points of concern for the low income individual.
- 1.2 We do not generally comment on the levels and rates of taxation – these are matters for elected representatives. Our response focuses on the fourth and final question of the call for evidence concerning publicity surrounding the SRIT. In particular, we emphasise the importance of good communications to ensure that messages reach all affected taxpayers.
- 1.3 Although we have not carried out a formal survey, we have the impression that there is currently little awareness of the SRIT among the general public. Effective publicity and communications will be key to ensuring the smooth introduction and operation of the SRIT.
- 1.4 We are extremely disappointed that HM Revenue & Customs (HMRC) and the Scottish Government have jointly agreed that it is not necessary to show the SRIT separately on form P60 – the form provided to employees showing their gross salary and income tax paid during the tax year. This decision will significantly reduce transparency surrounding the SRIT for taxpayers, and will not assist them in understanding what tax they are paying and to whom. We would strongly urge a reconsideration of this aspect so as to retain the trust of the citizen in a better understanding of their tax affairs.
- 1.5 HMRC appear to have a detailed timetable for publicity surrounding the SRIT. This takes the sensible approach of raising awareness of the SRIT among employers first and then the general public. While there is a risk of creating confusion in having too much publicity at too early a stage, we think it might have been beneficial to commence the publicity cycle a

month or two earlier and also to have a general awareness raising campaign prior to the major publicity campaign and launch of guidance.

2 About Us

- 2.1 LITRG is an initiative of the CIOT to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HMRC and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 In recent years LITRG has engaged with the Scottish Government concerning the setting up of Revenue Scotland, including the development of the Revenue Scotland website, and has responded to consultations on the Revenue Scotland and Tax Powers Act 2014. We have been involved in discussions on issues relating to the Scottish Rate of Income Tax and have given evidence to the Finance Committee of the Scottish Parliament on tax management issues relating to low income individuals.
- 2.4 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 What should the rate be for SRIT and why?

- 3.1 As noted above (paragraph 1.2), LITRG does not generally comment on the setting of rates of tax. We offer some general thoughts below.
- 3.2 The decision as to what the rate for SRIT should be must take into account the policies of the Scottish Government. There must also be an awareness of the likely direct and indirect impact of either an increase above 10% or reduction below 10% – in terms of the effect on taxpayer behaviour, the impact on tax revenues and what it means for government spending.
- 3.3 In terms of the effect on taxpayers, it is important not to consider income tax in isolation; in particular, interactions with tax credits and benefits can have a significant impact on the living standards of low income individuals.
- 3.4 For example, a reduction in the rate of income tax may not be the most effective way of helping people on very low incomes because of the interaction with means-tested benefits that are based on net income, as they will not benefit from their increased net earnings level to the same extent as someone not in receipt of a means-tested benefit. Indeed, when considered alongside additional 'passported' benefits, the combination of increased net pay and reduced means-tested benefits could lift an individual outside the entitlement threshold which passports them to these additional aspects of support. Universal credit (UC), for

example, will be reduced if after-tax income (net income) increases. This may mean that a reduction in income tax rates is not to the advantage of the individual claimant/taxpayer or Scotland, as disposable income and therefore consumption does not increase as expected.

- 3.5 An increase in income tax rates would possibly lead to an increase in tax revenues; individuals might find they have to pay more tax, but they would in theory be compensated at least partially by an increase in benefits, if those benefits are related to after-tax income.
- 3.6 In future, it may also be necessary to consider the interaction of SRIT with local taxes, depending on any reform to local taxation in Scotland, following the work of the Commission on Local Tax Reform.¹ This Commission, set up by the Scottish Government is currently exploring alternative forms of local taxation to Council Tax. LITRG has contributed to this work in a number of ways, including by making a written submission² and participating in an oral evidence session.³

4 If SRIT should be above 10%, how should the additional funding be allocated?

If SRIT should be below 10%, how should the reduction be funded from existing expenditure?

- 4.1 These questions are a matter of political preference and we offer no comment.

5 Has the introduction of SRIT been sufficiently well publicised to employers and taxpayers?

General Comments

- 5.1 The SRIT will apply from 6 April 2016. It will be administered by HMRC and its scope determined by the UK Parliament: it is therefore not a devolved tax. The SRIT will affect all individual taxpayers resident in Scotland,⁴ many of whom will be unrepresented. It will also affect employers and pension providers throughout the UK. Communications, awareness-raising and publicity are therefore key to the smooth introduction and operation of the SRIT.
- 5.2 We think that the timing of publicity is key. A communications campaign launched at too early a stage (both in terms of considering tax years and taking into account the availability of supporting guidance and information) could have been detrimental to the introduction of the SRIT. Generating publicity among the general public too early could have created confusion, especially since people are used to changes to the tax system coming in quite quickly following an announcement, due to the UK Budget process. In particular, if communications and publicity had commenced prior to 6 April 2015, people might have

¹ <http://localtaxcommission.scot/>

² <http://www.litrg.org.uk/submissions/2015/150622-LITRG-future-local-tax-scot>

³ <http://localtaxcommission.scot/tell-us-what-you-think/oral-evidence-sessions/welfarerights/>

⁴ Those who meet the Scottish taxpayer test as set out in Scotland Act 1998 ss. 80D – 80F.

expected the SRIT to apply sooner than it does – so it was important to wait until after 6 April 2015, to limit opportunities for confusion.

- 5.3 In addition, it is necessary to raise awareness among employers and pension providers first before launching a publicity campaign for the general public,⁵ to ensure they are able to cope with the likely queries they will receive from employees, pension savers and pensioners.
- 5.4 It is also key to bear in mind what the expectations of the general public would be from a publicity campaign. Most taxpayers will want to know what the rate of the SRIT is, whether or not they are a Scottish taxpayer, what their responsibilities are as taxpayers, what the SRIT means for them and how it affects them in financial terms – this means that they would probably expect to be told what the rate of the SRIT is when they are provided with other information about the SRIT. Therefore significant publicity without details of the actual rate might be ignored. A lot of publicity when detailed guidance is not available is also likely to be unsuccessful, since guidance enables people to interpret the legislation correctly, for example concerning Scottish taxpayer status. Nevertheless, it might have been helpful to commence a lower profile, general awareness raising campaign at an earlier stage in the 2015/16 tax year.
- 5.5 The general public seems to have limited awareness of the SRIT. This lack of understanding has been compounded by the work of the Smith Commission following the independence referendum, which has drawn attention away from the SRIT. The recommendations of the Commission have, quite naturally, received a lot of publicity. Since arguably the most significant tax recommendation appertains to income tax, the devolution of greater powers over income tax at some point in the future under Smith has tended to mean that the general public is simply unaware of the SRIT.

Comments on HMRC Publicity

- 5.6 Publicity for the introduction of the SRIT has, in our view, yet to start in earnest. In addition, it is starting from a low base of understanding; there are also misconceptions that need to be overcome. We are aware that HMRC are undertaking a significant amount of work in the area of communications surrounding the SRIT; they appear to have a detailed plan and timetable that they are following. HMRC have been engaging with stakeholders and have taken on board comments from interested parties. In the paragraphs that follow, we discuss some of this work of which we are aware, and offer comment where we think improvements might be made.

Prioritisation

- 5.7 We understand that HMRC's plan involves raising awareness first with employers and pension providers, before publicising the SRIT among the general public. We think that this is a sensible decision, as many Scottish taxpayers will be employees, pension savers or pensioners. These individuals are as likely (if not more so) to approach their employer or pension provider if they have a query concerning the SRIT as they are to approach HMRC,

⁵ We understand that this is HMRC's plan (see paragraph 5.7).

whether it concerns the rate, their tax code⁶ or their status as a Scottish taxpayer. It is therefore essential that advisers, agents, employers and pension providers are in a position of knowledge concerning the SRIT, hence the need for careful planning regarding the timing of awareness raising and publicity.

- 5.8 HMRC are using their Employer Bulletin to raise awareness among employers about the SRIT and how it affects both employers and employees. The June 2015 issue contains basic information about the SRIT, before going on to discuss several areas of concern for employers in detail.⁷ There are other possible means of communicating with employers about the SRIT, for example HMRC could produce a YouTube video for employers, which could assist them in dealing with queries from employees.⁸

Transparency

- 5.9 We are extremely disappointed that, as mentioned in Employer Bulletin 54 (June 2015), HMRC and the Scottish Government have jointly agreed that it is not necessary to show the SRIT separately on form P60 – the form provided to employees showing their gross salary and income tax paid during the tax year. LITRG had called for details about the SRIT to be shown on the form P60 as a minimum.⁹ The decision not to mandate the inclusion of details of the SRIT on form P60 will significantly reduce transparency surrounding the SRIT for taxpayers, and will not assist them in understanding what tax they are paying and to whom. While we acknowledge the concerns about cost and complexity for employers and in particular small employers, we call on HMRC and the Scottish Government to reconsider on this point, as transparency is essential to having a workable tax system.¹⁰ It is also important in retaining the trust of the citizen in a better understanding of their tax affairs.

Guidance

- 5.10 Part of publicising the SRIT involves producing clear, accurate and comprehensive guidance for different groups. HMRC published draft technical guidance in June 2015 for comment;

⁶ Scottish PAYE taxpayers will be identified by HMRC; self assessment taxpayers must determine their own Scottish taxpayer status.

⁷ The June 2015 issue is available on GOV.UK:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/436169/Employer_Bulletin_June_2015.pdf

⁸ HMRC have a YouTube channel on which they post informative videos, some of which are aimed at employers: <https://www.youtube.com/user/HMRCgovuk>.

⁹ LITRG raised these concerns about transparency at a number of meetings of the SRIT Technical Group – a stakeholder group established by HMRC – during 2011.

¹⁰ We accept that any decision to mandate the inclusion of details of the SRIT on form P60 would have to allow sufficient time for employers, payroll operators and payroll software producers to adopt the required changes.

this is aimed at HMRC officials, tax professionals and the business community.¹¹ HMRC also indicated at that time that they were working on a range of guidance and products for the general public (unrepresented taxpayers) and specialist guidance for services personnel (jointly with the Ministry of Defence). HMRC organised meetings with stakeholders, like LITRG, to discuss the draft technical guidance.

- 5.11 We understand that HMRC will publish guidance for the general public in the late autumn. In addition, HMRC will start to notify taxpayers of their Scottish taxpayer status by letter and issue “s” tax codes. It is essential that this guidance is accurate and comprehensive, and that it provides answers to the key questions that individuals will have (see paragraph 5.4). In particular, it is important that the guidance includes details of taxpayers’ responsibilities, such as what they should do when they receive a notification letter or coding notice indicating that they are a Scottish taxpayer, or what they should do if they think they are a Scottish taxpayer and do not receive such a notice.
- 5.12 While we think that it is sensible for the main publicity campaign and publication of guidance for the general public to coincide roughly with the announcements of the Scottish Government’s proposed rate for SRIT, we think it would have been helpful to have some lower level awareness raising before then, as this information and news will come as a surprise to many people. For most individuals with uncomplicated tax affairs, the proposed timing will allow them to acquire sufficient knowledge about the SRIT prior to 6 April 2016, but for those with more complex affairs, which could include individuals on low incomes, there may be insufficient time to allow them to get to grips with what the SRIT will mean for them. Undoubtedly, however, ensuring the main publicity campaign and notification letters coincide with the announcement of the proposed rate for the SRIT will maximise the impact of the publicity, since there will be press focus on the Scottish budget 2016-17 and the SRIT announcement: the HMRC guidance and communications can benefit from this.

Awareness of Responsible Tax Authority

- 5.13 We have a concern about the lack of awareness of which tax authority is responsible for the SRIT. Several communications by individuals with some awareness of the SRIT indicate a belief that Revenue Scotland will be responsible for administering and collecting the SRIT. We believe that it is essential that the publicity surrounding the SRIT makes it abundantly clear that SRIT will be administered and collected by HMRC.

LITRG
21 August 2015

¹¹ <https://www.gov.uk/government/publications/scottish-rate-of-income-tax-technical-guidance-on-scottish-taxpayer-status>. LITRG comments on the draft guidance are available on the LITRG website: <http://www.litrg.org.uk/submissions/2015/150729-LITRG-SRIT-scot-taxpayer-status>