

Call for Evidence: Scottish Government block grant adjustments for tax and welfare devolution

Response by the Chartered Institute of Taxation and its Low Incomes Tax Reform Group

1 Executive summary

- 1.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 19,000 members, and extensive volunteer network, in providing our response. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party political organisation.
- 1.2 In terms of this call for evidence, we are only in a position to put forward a response to question e) within the survey, due to our remit being limited to taxation. There are a number of different stakeholders – not all of whom require the same level of understanding of block grant adjustments. The same strategy is not appropriate for all. Our view is that improving the understanding of the mechanism of the block grant among all stakeholders is less important than ensuring a wider understanding of devolved taxes. This lack of awareness amongst the general population of both Scotland and the wider UK is somewhat concerning; we would like to take this opportunity to urge greater effort to be directed towards educating Scottish taxpayers on Holyrood’s powers.

2 About us

2.1 *CIOT*

The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities.

- 2.2 The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 2.3 The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.
- 2.4 Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

2.5 **LITRG**

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.

- 2.6 LITRG works extensively with HM Revenue & Customs (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.

3 **Introduction**

- 3.1 We welcome the opportunity to contribute to the Scottish and UK governments' call for evidence on block grant adjustments. However, given the economic nature of the block grant and the methodology behind it, and our remit being purely one of taxation, our contribution will be limited to only one of the five questions (question e). These views include those of our LITRG. We would be pleased to provide further detail if required.

- 3.2 Our stated objectives for the tax system include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

- 3.3 LITRG's seven principles for the tax system, set out in its paper 'A better deal for the low-income taxpayer',¹ are that it should be:

1. Clear and up to date

¹ <https://www.litrg.org.uk/latest-news/reports/201204-better-deal-low-income-taxpayer>

2. Simple
3. Equitable
4. Just
5. Accessible and responsive
6. Joined up
7. Inclusive

4 Question e): do you have any suggestions for how understanding of block grant adjustments amongst stakeholders can be improved?

- 4.1 There are a number of different stakeholders with varying degrees of interest in block grant adjustments. It is likely that those stakeholders who require a comprehensive understanding of block grant adjustments already have that, for example, forecasters and economists. However, there are undoubtedly other stakeholders, such as tax advisers, accountants and the general public whose awareness and understanding of block grant adjustments is more limited. We could perhaps pose our own question at this point, as to how great an awareness and understanding of block grant adjustments is required by different groups of stakeholders? It is surely appropriate to adjust the strategy to suit each group of stakeholders.
- 4.2 For the general public, our view is that an understanding of block grant adjustments, including the mechanics and calculations behind them, is of lesser importance than an understanding of the wider picture of devolved taxes in Scotland. The average Scottish taxpayer, is unlikely to be concerned with the methodology behind the calculation of block grant adjustments and which basis is used. Receipt of the block grant from the UK Government is simply too far removed from most taxpayers' concerns and their daily lives. It is the tax they are paying each week/month which is more relevant.
- 4.3 Professional bodies and those members working in tax/public policy, on the other hand, would likely benefit from understanding how the block grant adjustments works to inform discussions with government and HMRC/Revenue Scotland. As well as their own professional bodies, accountants/tax advisers usually engage the services of third party training providers for the purposes of Continued Professional Development, so ensuring these professionals are aware of the working behind the block grant would be a useful move.
- 4.4 In relation to improving Scottish taxpayers' understanding of their own taxes, LITRG publishes guidance on its website.² This sets out what Scottish taxpayers pay Scottish income tax on and how to work out if they are a Scottish taxpayer. It also explains how Scottish income tax works in relation to the interactions with UK income tax and the complexities that arise because of the partially devolved nature of the tax. LITRG has encouraged HMRC and the Scottish Government to raise awareness of Scottish income tax by taking advantage of the positive messages they could use. For example, Scottish income taxpayers who pay pension contributions under relief at source pension schemes need to contact HMRC to claim their extra tax relief if they are intermediate, higher or top rate taxpayers. A positive message about the ability to claim extra tax relief would be a useful hook to engage taxpayers. It is then possible to drive them towards explanations of the division in powers over income tax between the UK and Scottish parliaments. So, from raising awareness about tax relief and how to claim it, it is possible to build understanding of the split of powers. This in turns increases transparency and accountability in relation to devolved powers.

² <https://www.litrg.org.uk/tax-guides/tax-basics/what-scottish-income-tax>

4.5 This is an important aim, because we have a concern that Scottish taxpayers are still very much in the dark about the Scottish Parliament's role in their income tax liabilities. The CIOT has commissioned research over a number of years to determine the level of knowledge and understanding of Scottish taxpayers. Since 2018, when the new Scottish income tax regime was introduced, the CIOT has commissioned three polls³ of Scottish adults to gauge whether awareness has increased or otherwise. The understanding of the split of powers over income tax between the UK and Scottish parliaments has actually worsened - the percentage of taxpayers responding correctly to this question has fallen from 34% in 2018 to 27% in 2021.

The 2021 poll⁴ also found that:

- 33% were not aware that the Scottish Parliament has made changes to the tax system since 2015
- 26% were not aware of the Scottish Parliament's powers concerning income tax rates
- 83% thought they needed better information about how taxes are decided in Scotland
- Only 39% knew either 'a lot' or 'a little' about the Scottish taxpayer status (ie what makes someone subject to Scottish income tax)

4.6 The surveys show that Scottish taxpayers continue to lack awareness and understanding of devolved taxes, despite increased powers for the Scottish parliament. Given that devolved taxes now account for a significant amount of the money that the Scottish parliament spends, it is important that taxpayers understand more about the division of tax powers. Only if there is greater taxpayer understanding will it be possible to hold the Scottish parliament to account for the changes that it makes to the tax system in Scotland.

4.7 We would therefore suggest that rather than expending time and effort on improving understanding among the general public of block grant adjustments, both the Scottish and UK governments should focus their attention on educating the Scottish public about the nature and extent of devolved taxes.

4.8 It would be sensible to take advantage of the publicity surrounding key events in the tax calendar to engage with the general public. For example, the delivery of the UK and Scottish budgets, the Self Assessment filing deadlines or the start of the new tax year – these are times when the media is particularly interested in tax and as a result, the general public has a heightened awareness and interest in tax issues. This could be to raise awareness of particular changes in the tax system, guidance that is available on GOV.UK and the Scottish Government's website as well as key bits of information that are useful for taxpayers, such as the tax reliefs available to them and how to claim.

4.9 We have previously called for the introduction of an annual Finance or Tax Bill for Scotland. Not only would this enable the Scottish Government and parliament to maintain the integrity of the devolved tax system, but it would also help to raise awareness of the Scottish parliament's tax powers. This is because tax policy would become more visible in the Scottish political calendar – not only among politicians but among the media and the general public. It would hopefully help to ensure greater parliamentary scrutiny of tax policy, as if there were an annual Bill, there would be a stronger case for a parliamentary committee dedicated to considering tax matters.

³ <https://www.tax.org.uk/210407holyrood>; <https://www.tax.org.uk/news-press-release-poll-scots-still-failing-to-understand-devolved-taxes-but-support-new-levies>; <https://www.icas.com/landing/tax/new-poll-discovers-more-than-four-fifths-of-scots-lack-an-understanding-of-devolved-taxes>

⁴ Outlined in the joint CIOT/ICAS paper 'Building a Better Tax System'. 1,098 adults in Scotland were questioned in March 2021 as part of a poll commissioned by the CIOT

5 Acknowledgement of submission

- 5.1 We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation and the Low Incomes Tax Reform Group are included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation and the Low Incomes Tax Reform Group

14 September 2022