Chartered Institute of Taxation.

Low Incomes Tax Reform Group.
A voice for the unrepresented

Pre-Budget Scrutiny 2027-28: the affordability and sustainability of Scotland's tax and spending plans
Response from the Chartered Institute of Taxation (CIOT) and its Low Incomes Tax Reform Group (LITRG)

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 20,000 members, and extensive volunteer network, in providing our response. 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.

1.2 We welcome the opportunity to respond to the Finance and Public Administration Committee's call for views on 'Pre-budget scrutiny 2027-28: the affordability and sustainability of Scotland's tax and spending plans'. Our comments are focussed on the tax aspect of this in questions five and seven.

1.3 Question five explores what actions the Scottish Government should take to grow the tax base, and increase productivity, labour market participation and economic growth.

1.4 Firstly, more evidence is needed to determine whether there are any behavioural impacts of current income tax divergence for existing Scottish taxpayers (is income tax divergence driving levels of tax planning activity that reduces tax revenues) and the attractiveness of Scotland to new top earners as a place to work or do business.

1.5 Taxpayer decisions on whether to work or do business in Scotland impact the Scottish Government's efforts to grow the tax base. Tax literacy and the perception of tax are therefore important. It is vital taxpayers understand the division of powers and how tax (and tax reliefs) work, to ensure taxpayers make informed decisions.

1.6 It is important to recognise that the very nature of the current fiscal framework means that the Scottish Government not only needs to tackle how to increase economic growth in Scotland, but how to do so relative to the rest of the UK, in addition to the complex interaction of UK and Scottish tax policy decisions via the block grant adjustment.

CHARTERED INSTITUTE OF TAXATION
30 Monck Street, Westminster, London, SW1P 2AP
REGISTERED AS A CHARITY NO 1037771
Tel: +44 (0)20 7340 0550
E-mail: technical@ciot.org.uk
Web: www.tax.org.uk

1.7 Question seven explores the main risks to devolved tax revenues in Scotland.

1.8 It is important that Ministers and the Scottish Government scrutinise the viability of devolved taxes, particularly new taxes that generate relatively lower levels of tax revenue.

1.9 Taxpayer trust is vital to voluntary compliance. We welcomed the recent LBTT review, which identified areas such as three yearly lease reviews that were burdensome and disproportionate for low value leases and small tenants. We urge the Scottish Government and Ministers to take this work forward to improve the tax system for Scottish taxpayers.

1.10 A key risk to devolved tax revenues and the credibility of Scottish taxes is the lack of a regular legislative mechanism for the maintenance of, and amendment to, devolved tax legislation. We remain of the view that a way forward is needed to enable the introduction of a legislative mechanism for Scottish taxes.

2 Question Five: What actions should the Scottish Government take to grow the tax base and increase labour market participation, productivity and Scotland's economic growth?

2.1 Growing Scottish businesses and making Scotland an attractive place to work requires an evaluation of the overall attractiveness of the country to those who wish to live, work or do business there. Our comments focus on tax, and the perception of tax, however we recognise that whilst tax is a key factor within this evaluation, it is certainly not the only factor.

2.2 Growing the tax base first requires a solid foundation. This includes being mindful of the behavioural impacts of current, and any potential further, income tax divergence. Behavioural changes could include choosing to work less, incorporating a business, or at its most extreme, choosing to relocate from Scotland, driven by the feeling that the Scottish tax liability has become too burdensome compared to the rest of the UK. The interaction of Scottish Government tax policy decisions and UK tax policy decisions, continue to result in anomalies in the marginal rates between £43,662 and £50,270 (different higher rate income tax thresholds interacting with National Insurance Contributions) and between £100,000 and £125,140 (with the phased reduction in the tax-free personal allowance[1]). The recent publication of the 2024 to 2025 Scottish Income Tax Outturn statistics[2] provided data that has generated external stakeholder analysis and sparked media coverage discussing the potential negative impact that levels of tax planning by Scotland's top earners could be having on tax revenues.

2.3 Once you have this solid foundation, growing the tax base could include attracting taxpayers to move to Scotland to work or set up business, encouraging Scottish business owners to grow their business and encouraging Scottish taxpayers to work more hours or strive for that next promotion because they

[1] The power to set the personal allowance, and the phased reduction of it, remains with the UK Government.
[2] Scottish Income Tax Outturn Statistics - 2024 to 2025 - GOV.UK

feel it is worthwhile. We continue to hear anecdotal feedback from our members around the challenges of income tax divergence, which could be making it harder for businesses to attract and retain staff. It is unclear where the tipping points are that would encourage taxpayers to make behavioural changes in response to tax policies.

2.4 The impact of divergence can only be determined by evaluating any relevant evidence. Gathering such evidence is complex – how do you gather evidence on decisions foregone? For example, those would be higher, advanced or top rate taxpayers who considered moving to Scotland to work or do business but decided against doing so due to the income tax burden and/or any other tax burden (for example higher rates of Land and Buildings Transaction Tax Additional Dwelling Supplement).

2.5 Despite the complexity, understanding the impact of income tax policy is of particular importance to Scotland, given the significance of Scottish income tax revenues to the Scottish budget. Current tax powers, borrowing powers and the fiscal framework mean that Scotland has more restricted levers, in comparison to those available to the UK Government, that Scotland can use to ensure fiscal stability.

2.6 We welcomed the commitment in the Tax Strategy[3] (published in December 2024) to assess the revenue and economic impacts of income tax policy. An evaluation of the 2018-19 tax year has been published (the year that saw the introduction of the five band income tax regime). However, we continue to await publication of evaluation work relating to the tax years of 2023-24 (where the higher and top rates of Scottish Income Tax were increased) and 2024-25 (where a sixth, 'advanced' rate was introduced bands and the top rate increased). The external stakeholder analysis on the potential behavioural change amongst top earners, discussed in point 2.2 above, has reinforced the need to evaluate the impact of income tax divergence. More public data is needed, something which is acknowledged within the recently published stakeholder analysis, to rule out alternative explanations.

2.7 For taxpayers on lower incomes, there are particular complexities with the interaction of Scottish income tax and the numerous thresholds within universal credit, which can make it difficult for them to work out what the net effect on their financial position could be if they wish to work more or grow a business, and impact on the viability of doing so. Whilst the UK Government retains control over universal credit, it is important that the Scottish Government bear these interactions in mind. We must stress here that these interactions are extremely complex and vary per taxpayer but nevertheless could have an impact if trying to increase productivity and labour market participation amongst lower income taxpayers.

2.8 To provide a simple example: A Scottish taxpayer is offered the chance to increase their net income (after income tax and NIC) from work by £50 a month. Because universal credit claims are calculated using net earned income, and there is a taper rate of 55%, the individual would see their overall net income increase only by £22.50, as their universal credit award would be reduced by £27.50. Someone not on universal credit in the same situation would benefit from the full increase of £50.

[3] Scotland's Tax Strategy: Building on our Tax Principles

CHARTERED INSTITUTE OF TAXATION
30 Monck Street, Westminster, London, SW1P 2AP
REGISTERED AS A CHARITY NO 1037771

Tel: +44 (0)20 7340 0550
E-mail: technical@ciot.org.uk
Web: www.tax.org.uk

2.9 Scottish taxpayer understanding of their own taxes is vital to inform their perception of tax in Scotland. Since 2018, when the new Scottish income tax regime was introduced, the CIOT has commissioned five surveys to determine the level of knowledge and understanding of Scottish taxpayers. Our 2026 survey[4] highlighted that there is still a significant gap in the public understanding of tax powers in Scotland. Key findings include:

- Only 21% of people correctly knew that income tax powers are shared between Scottish and UK Parliaments, 12% lower than when CIOT first asked this question in 2018. 47% believed income tax was set solely by the Scottish Parliament.
- 67% of respondents felt that their income tax had increased, a figure 28 percentage points higher than when the question was first asked in 2018.
- 70% said they were not aware that Scottish taxpayers could claim extra relief on their pension contributions and 64%, that Marriage Allowance could only be claimed if the higher-earning partner has income up to the Scottish higher rate threshold of £43,662 (compared with £50,270 in the rest of the UK).

2.10 Given that the decisions of taxpayers to work and do business in Scotland could impact the Scottish Government's efforts to grow the tax base, it is important that taxpayers fully understand the division of powers and the income tax reliefs that they are entitled to claim to help reduce their tax burden, to inform that decision making process. We would suggest that the Scottish Government focuses its attention on educating the Scottish public about the nature and extent of their tax powers in Scotland, and in particular, how Scottish income tax works.

2.11 In our view, there are three key elements to the fiscal package in Scotland – tax, spending and the fiscal framework. Whilst others are better placed than CIOT to discuss the fiscal framework in detail, it is important to acknowledge that funding adjustments based on relative growth with the rest of the UK affect income tax revenues in Scotland. The nature of the framework means that the Scottish Government is not only tackling how to increase economic growth in Scotland, but how to do so relative to the rest of the UK.

2.12 The Scottish Government also needs to navigate the complex interaction of UK tax policy decisions, Scottish tax policy decisions and the block grant adjustment. We have seen a dependency on UK measures needing to be known before the Scottish Budget can be set, and where they aren't, pre-budget uncertainty and more reactive tax decision-making. Following the UK 2025 Budget announcement to create property income tax rates, the then Minister for Public Finance, Ivan McKee, said 'there will be a financial pressure on a future Scottish Government to use the power [to vary property income tax rates] in order to offset the impact' on the block grant adjustment. To not do so, may have a 'detrimental impact on the Scottish budget'[5].

[4] 2026 research.
[5] OfficialReport

2.13 Such dependency increases the importance of collaborative working between the UK and Scottish Governments. The then Minister for Public Finance has confirmed that "there had been no prior consultation with the Scottish or Welsh Governments"[4] and that these measures were "not leaked in advance", which in turn left little time for consideration and the need for an expedited legislative timetable. We would hope that any potential tax plans that the new Prime Minister Andy Burnham may have does not spark similar uncertainty, speculation and reactive tax policy decision making.

2.14 Is a review of the fiscal framework needed? The Finance and Public Administration Committee's legacy report acknowledged that there was 'unanimity among the witnesses we heard from towards the end of [the] Parliamentary Session that the Fiscal Framework needs revisiting'[6] to negotiate greater fiscal flexibility. However, such a review would be significant and likely require complex discussion, with the potential for both pros and cons for Scotland.

2.15 Our discussion within this submission has largely focussed on Scottish income tax, but that is not to say that other local, devolved and UK taxes do not also affect the tax base, productivity and labour market participation in Scotland and need to be given careful consideration.

3 Question 7: What are the main risks to revenue from devolved taxes?

3.1 During the last parliamentary session we saw the introduction of Scottish Aggregates Tax, legislation laid for the Scottish Building Safety Levy and the announcement that the Scottish Government plan to proceed with the introduction of Air Departure Tax (alongside a Private Jet Supplement). In terms of local taxes, we have seen the introduction of the Scottish Visitor Levy and plans for two new council tax bands for higher value properties. We are strongly in favour of post-implementation evaluations of devolved and local taxes focussed not only on tax rates and legislative anomalies, but in terms of how much a tax has raised and cost to operate, and whether it has achieved its policy aims.

3.2 Scrutiny of the viability of new devolved taxes is particularly important to ensure that new taxes are not introduced that generate relatively low levels of income that outweigh the operational costs to Scottish taxpayers, Revenue Scotland and HMRC. We acknowledge that tax can be a lever to achieve other policy objectives of course and not simply raise revenue, for example an objective of the Scottish Building Safety Levy is to fund remediation work but transparency is still important where this has an impact on overall devolved tax revenues. It is important the outcome of any such scrutiny is transparent to stakeholders and Scottish taxpayers.

3.3 Trust in the tax system and tax authorities is vital to drive voluntary compliance. Having a tax system that is easy to interact and comply with is vital to taxpayer trust. The evaluation of Land and Buildings Transaction Tax[7] published March 2026, highlighted concerns that there was low awareness of the current three yearly lease review process, which is burdensome for small tenants and low-value leases,

[6] Legacy report of the Finance and Public Administration Committee, Session 6

[7] Land and Buildings Transaction Tax review: Scottish government policy evaluation 2025-2026 - gov.scot

CHARTERED INSTITUTE OF TAXATION
30 Monck Street, Westminster, London, SW1P 2AP
REGISTERED AS A CHARITY NO 1037771

Tel: +44 (0)20 7340 0550
E-mail: technical@ciot.org.uk
Web: www.tax.org.uk

and penalties being issued were not proportionate to the tax liabilities (in some cases, nil liabilities). This was just one key point from the LBTT review. It is important that the Scottish Government and Ministers do take the feedback from this review forward, and others like it in the future, to feed into their tax policy making decisions to iteratively improve the tax system for taxpayers.

3.4 The CIOT, and other stakeholders, have long made representations favouring the introduction of a regular legislative mechanism for the maintenance of, and amendment to, devolved tax legislation. Changes to devolved tax policy have largely been managed via secondary legislation but there are now several examples where primary legislation has been needed to progress legislative change. Some of these legislative changes have taken a considerable length of time to resolve, because of the lack of a primary legislative vehicle. We now have examples of past changes that were delayed, current issues that are to still to be resolved and there are potential challenges on the horizon (legislative anomalies that come to light from the introduction of new taxes, legislative change required as an outcome of the LBTT review and/or legislative change required as a result of ongoing tribunal cases). We see this as a risk to devolved tax revenues and the credibility of Scottish taxes. We would hope that the Finance and Public Administration Committee can revisit the outcomes of the Devolved Taxes Legislation Working Group, summarise the key challenges that are preventing this work moving forward and agree between Revenue Scotland, Scottish Government and Scottish Parliament how to move forward with the introduction of a regular legislative mechanism for Scottish taxes.

4 Acknowledgement of submission

4.1 We would be grateful if you could acknowledge safe receipt of this submission and ensure that the Chartered Institute of Taxation and its 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 its Low Incomes Tax Reform Group

14 August 2026

CHARTERED INSTITUTE OF TAXATION
30 Monck Street, Westminster, London, SW1P 2AP
REGISTERED AS A CHARITY NO 1037771

Tel: +44 (0)20 7340 0550
E-mail: technical@ciot.org.uk
Web: www.tax.org.uk

5 About Us

5.1 The Chartered Institute of Taxation (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. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

5.2 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.

5.3 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.

5.4 Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

5.5 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (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 who are least able to pay for professional advice. We also produce free information, primarily via our website www.litrg.org.uk, to help make a difference to people's understanding of the tax system.

5.6 LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

5.7 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.

CHARTERED INSTITUTE OF TAXATION
30 Monck Street, Westminster, London, SW1P 2AP
REGISTERED AS A CHARITY NO 1037771

Tel: +44 (0)20 7340 0550
E-mail: technical@ciot.org.uk
Web: www.tax.org.uk