Call for Evidence: A Scottish Approach to Taxation
Response by the Chartered Institute of Taxation, the Low Incomes Tax Reform Group and the Association of Taxation Technicians

1 Introduction

1.1 This is a joint response by the Chartered Institute of Taxation (CIOT), the Low Incomes Tax Reform Group (LITRG) and the Association of Taxation Technicians (ATT) to the Finance Committee of the Scottish Parliament's call for evidence: A Scottish Approach to Taxation. We welcome the opportunity to offer our comments. We would be pleased to amplify our points orally or in writing.

1.2 Various tax powers have been and will be devolved to Scotland under the Scotland Act 2012 and 2016. This is likely to increase focus on the way in which tax revenues are raised and the principles on which the Scottish tax system should be based. In view of this, the Finance Committee wished to start a debate on the approach to adopt in developing a Scottish approach to taxation and opened an inquiry into a Scottish approach to taxation.

1.3 The Scottish Government has committed itself to a tax system that has regard to Adam Smith's four principles[1]: the burden proportionate to the ability to pay (equality); certainty; convenience; efficiency of collection (economy).[2] The CIOT, LITRG and ATT agree that these are important principles for a sound tax system.

1.4 The objectives which we identify for a good tax system include:

- A legislative process which translates policy intentions into statute accurately and effectively, without unintended consequences;

[1] *An Inquiry into the Nature and Causes of the Wealth of Nations* – Adam Smith – Book 5, Chapter II, Part 2 (1776).
[2] The Scottish Government's Approach to Taxation, Finance Secretary John Swinney's statement to the Scottish Parliament, 7 June 2012: http://www.gov.scot/News/Speeches/taxation07062012.

ARTILLERY HOUSE
11-19 ARTILLERY ROW
LONDON SW1P 1RT
REGISTERED AS A CHARITY NO 1037771

Tel: +44 (0)844 251 0830
Fax: +44 (0)844 579 6701
E-mail: technical@tax.org.uk
Web: www.tax.org.uk

UK REPRESENTATIVE BODY ON THE CONFEDERATION FISCALE EUROPEENNE

- 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.

1.5 In order to inform our response, we undertook a survey of CIOT and ATT members. This was aimed at members based in Scotland or those with an interest in the Scottish approach to taxation through business or personal connections to Scotland. We also made it available to all our members through our websites. We received 165 responses, the vast majority of which were from members based in Scotland. We understand that this is a high response rate for a survey – there are approximately 2,000 CIOT and ATT members in Scotland. We did not offer an incentive to members to participate, so this illustrates the willingness of our members to engage in consultation. Thanks to the high number of responses, we have been able to base our submission on the responses received. At Appendix 1 we attach a summary of the responses to the survey.[3]

1.6 The CIOT, LITRG and ATT would like to assist in ensuring that the tax system in Scotland is effective and efficient for taxpayers, agents and the tax authorities.

The CIOT is an educational charity concerned with promoting the education and study of the administration and practice of taxation. For more details see the statement about us at section 12 below.

The LITRG is an initiative of the CIOT to give a voice to the unrepresented taxpayer. For more details see the statement at section 13 below.

The primary charitable objective of the ATT is to promote education and the study of tax administration and practice with a strong emphasis on the practicalities of the tax system. For more details see the statement about us at section 14 below.

2 Executive summary

2.1 The CIOT, LITRG and ATT agree with the aim of having a tax system that pays regard to Adam Smith's principles. On balance, we think that the approach should be to apply the principles to the portfolio of taxes, thus allowing for some departures from one or more of the principles when considering an individual tax (or an aspect of a tax). Although the principles are something to be aimed for and to be guided by, they cannot be the only considerations. We think that the Scottish Government should take care to balance them, since in some cases they may conflict, both with each other and with other important considerations.

2.2 In terms of how best to achieve the principles, it should be noted that unless and until the principles form a permanent part of Scotland's approach to taxation, they are potentially at the mercy of the government of the day. To give permanence and an

[3] We have not included details of the written responses where members have provided further 'white space' comments in the summary. We do however refer to or quote certain 'white space' comments where relevant to this submission.

appropriate endorsement to them, one possibility would be to incorporate them in a written constitution. In terms of new legislation, a body such as the Scottish Fiscal Commission could be empowered to review new law to consider whether or not it aligns with the principles.

2.3 If we consider Scottish taxes as a whole, there is a reasonable degree of alignment with the principles. While some taxes score very highly in particular areas, there is clear room for improvement in certain areas. This illustrates the necessity of taking an holistic approach.

2.4 We think that there is scope for a different approach to taxation and also scope for Scotland to raise taxes on different transactions or activities. However, we think it is essential to bear in mind concerns raised about additional complexity, and ask the question as to what is the purpose of a particular approach. Thus, it should be clear that any difference is related to particular Scottish factors or objectives and that there is a benefit to Scotland in adopting a different approach.

2.5 Although we think that there is scope to ring-fence future taxes and tax changes, we would be concerned that this would limit the ability of the government of the day to respond to changes in economic conditions. In addition, it is likely to increase administrative costs and burdens, lessening the efficiency of the tax system.

2.6 In terms of behavioural responses, we think that the Scottish Government needs to be clear on the objective of each tax as that should influence its design. It is important that robust research and analysis is carried out to ensure that likely behavioural responses can be properly understood. It is also important to understand which taxpayers have the ability to alter or choose their behaviour in relation to a particular tax, as well as the impetus. We note though that tax alone is unlikely to be the sole determinant. There are often likely to be other factors involved, which may have more or less influence than tax.

2.7 We think that, currently, the most significant limitation in respect of income tax is the fact that only powers over the rates and bands for non-savings and non-dividend income are devolved, not the tax base or powers in respect of savings and dividend income. Unless and until the tax is fully devolved, separate administration of income tax in Scotland would result in unnecessary duplication of work.

2.8 We think that there are a number of potential limitations on the emergence of a Scottish tax system. We would emphasise in particular the limitations imposed by a lack of taxpayer understanding of not only the Scottish tax system, but also the UK tax system. The differences in degree of devolution and administration body are not clearly understood. Taxpayer education will be essential to ensure greater taxpayer understanding and engagement with the Scottish tax system. We would also highlight the limitations like cost and time burden for taxpayers. It is important to take into account concerns raised about ability to comply with burdens, to ensure the tax system is as efficient as possible for all.

2.9 There is an overarching call for simplicity from our members, with which we agree. There are different suggestions of how to reach that objective. We do not recommend a particular option, but we suggest that it might be worth taking a step back and considering the tax and the social security system as a whole in the Scottish context, with the aim of determining what approach is best for Scotland.

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

3.1 Prior to answering the specific question asked, we thought it important to gauge whether or not our members agree that the Scottish Government should indeed continue to aim for a tax system that adheres to Adam Smith's four principles (question one). The vast majority of respondents indicated that they agreed that tax policy should adhere to these principles (82% or more for each principle). There was some divergence, however, in respect of 'be proportionate to the ability to pay', where a number disagreed (7%) or were undecided (11%). Comments offered by members who replied to the survey suggest that this seemed often to be due to a concern that this might be viewed as simply taking account of income. We would argue that ability to pay does not just take account of income, it also takes into account other resources, such as wealth and necessary expenditure (which can be affected by factors such a family size and disability).[4]

3.2 Question two asked whether members thought a taxation system underpinned by Adam Smith's principles could be achieved. Only 24% viewed the principles as achievable. The largest percentage (41%) were undecided. The comments offered by members were indicative of the reasons for this relatively ambivalent view. For example, one member commented, 'A tax system operates across the full portfolio of taxes on income, wealth and consumption and a tax system should be judged on its aggregate impact. The Scottish government has full control over only a small part of the tax system and with income tax has control over rates and bands but not the tax base.' Another member commented on the issues of complexity, which arises if the Scottish Government adopts 'the UK system as its base', and inefficiency, 'if instead they try to create a completely new system'. Suggestions for how to achieve the four principles included 'simplification', improved legislative drafting, ensuring a consultative approach involving tax professionals, taking a holistic approach to taxation, and taking a fully holistic approach to taxation including social security and specific social needs.

3.3 As stated above, we agree with the principles. On balance, we think that the approach should be to apply the principles to the portfolio of taxes, thus allowing for some departures from one or more of the principles when considering an individual tax (or an aspect of a tax). That said, we think that the principles should always be borne in mind, so that policymakers are clear when they are sanctioning a departure.

3.4 At question three, almost half of respondents made suggestions for other principles that should be adhered to. Some of these underpin the Adam Smith principles. Simplicity, stability and transparency, which were mentioned frequently, underpin certainty. Fairness and neutrality were also cited; these underpin equality. Other suggestions included consistency of definitions in tax legislation, the use of clear statements of intention for legislation, ensuring a positive interaction with the welfare system and the UK taxation system, taking a long-term approach to taxation areas with long-term implications and competitiveness. A number of members also mentioned that it was important to encourage taxpayer understanding of the tax system, for example through school education, with the aim of enhancing accountability, which is one of the arguments in favour of devolution of tax powers. We think it would be helpful and appropriate for Parliament, when concluding this

[4] In addition, Adam Smith's principle refers to people making contributions in proportion to their respective abilities. This suggests that those with more wealth should pay more tax, but is not an argument in favour of high taxation of the wealthiest.

enquiry, to indicate that such principles as simplicity, stability and transparency are seen as underpinning the four main Adam Smith principles. As such, they should also be pursued.

3.5 Taking into account the responses to these three questions as a whole, and also the 'white space' comments offered by our members, it is clear that while the principles are something to be aimed for and to be guided by, they cannot be the only considerations. Alignment of Scottish taxation policy with these principles may be affected by and should be balanced by considerations of taxation policy and other policy objectives (which may override the Adam Smith principles at times), by views of the purpose of taxation in general or a particular tax (whether the aim is to raise revenues, aid redistribution or change behaviour, for example), by analysis of behavioural responses to taxation policy, and ultimately by pragmatic, economic demands. In line with a number of the comments from members, we think that the Scottish Government should stick with the four principles, but they should take care to balance them, since in some cases they may conflict, both with each other and with other important considerations.

3.6 In terms of how best to achieve the principles, it should be noted that unless and until the principles form a permanent part of Scotland's approach to taxation, they are potentially at the mercy of the government of the day. To give permanence and an appropriate endorsement to them, one possibility would be to incorporate them in a written constitution and ensure they could only be removed by a two-thirds majority for example. In terms of new legislation, a body such as the Scottish Fiscal Commission could be empowered to review new law to consider whether or not it aligns with the principles. As part of this, it should call for evidence from the tax authorities and the taxpaying public. New legislation would need to state the policy aim underpinning it, because it might be that it breaches the principles for good reason. It is also easier for stakeholders to assist in the development of solutions if they understand what the objectives are. A further aid would be to publish guidance on what each of the Adam Smith principles means; this should include the sub-principles that underpin each canon, as we have suggested above.

3.7 A concern that was raised by a number of respondents was that simply by having a different taxation system in Scotland, there is increased complexity, which creates uncertainty. Other concerns were the problems created by taking the UK system as a starting point, interactions with the UK system, and the fact that Scotland does not have control of all tax in Scotland. We think these are important concerns that need to be addressed.

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

4.1 We asked members about the alignment with the principles of each tax in turn (questions four to ten).[5] When considering equality (being proportionate to the ability to pay), it is apparent that this will not necessarily apply to each tax in isolation (see paragraph 3.1 above), since ability to pay should take into account all resources and necessary outgoings, and each individual tax is unable to do this. Instead, it is

[5] The survey covered council tax (CT), non-domestic rates (NDR), land and buildings transaction tax (LBTT), Scottish landfill tax (SLfT), Scottish rate of income tax (SRIT), Scottish income tax (power to set rates and bands from April 2017 onwards) (IT), and Scottish replacement for air passenger duty (APD). We use these abbreviations throughout this submission.

necessary to take an holistic approach and consider whether the system as a whole aligns. In addition, to take a fully holistic approach, it is necessary to take into account the UK tax system, which inevitably affects all taxpayers in Scotland and from which Scotland continues to derive a significant proportion of its funding, through the Block Grant. Due to the interaction of tax credits and welfare benefits with taxes in the UK and Scotland, any consideration of alignment with the principle of equality would also take those interactions into account.

4.2 We consider each principle in turn and give the percentage of respondents who think a tax aligns with each principle:[6]

	Equality	**Certainty**	**Convenience**	**Economy**
Council Tax (CT)	9%	82%	90%	53%
Non-domestic rates (NDR)	11%	55%	67%	40%
Land and Buildings Transaction Tax (LBTT)	47%	69%	69%	50%
Scottish Landfill Tax (SLfT)	22%	37%	38%	29%
Scottish Rate of Income Tax (SRIT)	63%	63%	80%	41%
Scottish Income Tax April 2017 onwards (IT)	49%	45%	72%	38%
Scottish replacement for Air Passenger Duty (APD)	22%	53%	64%	41%

4.3 The comments were instructive in explaining why members had indicated that certain devolved taxes were not aligned to the principles. For example, IT was marked down on certainty by some members due to the difficulty of determining Scottish taxpayer status in some cases. Although CT and NDR score well for certainty and convenience, they were marked down on equality, for example due to the complexity of the reliefs systems, as well as being based only on property value. It was also noted by one member that APD 'is not directly proportionate to ability to pay but indirectly through use'.

4.4 The responses show a fairly wide divergence of views, which also may reflect personal experiences of a particular tax. We make the following observations. If the table is taken as a whole, there is a reasonable degree of alignment with the principles – and we think this is a fair reflection of the position. While some taxes score very highly in particular areas, such as CT for certainty, there is clear room for

[6] In order to obtain percentages in this section, we have excluded respondents who selected 'no comment' as their response. This option was included for those members who felt they had insufficient knowledge to respond 'yes', 'no' or 'undecided' – the other three options.

improvement in certain areas, such as equality for CT and NDR, or economy for SLfT. This illustrates the necessity of looking at the overall picture presented by a table such as the one above, to see how the system as a whole fares against the principles. Both the CIOT and LITRG have looked at how CT might be made more progressive, (and potentially therefore more aligned with equality) in detail in our submissions to the Commission on Local Tax Reform.[7] This is the type of exercise it would be possible to perform for any tax (or a tax system) in respect of one or more principles.

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

5.1 We asked members (question 11) the degree of alignment with UK taxes they thought most advantageous for Scotland. 46% of respondents thought it would be more advantageous for Scottish taxes to align as closely as possible with their UK counterparts, 22% and 26% favoured drawing significantly on UK taxes but with specific Scottish characteristics, or varying in their distinctiveness from UK taxes, depending on the tax. Only 6% were in favour of a determinedly distinct approach.

5.2 Members submitted a number of comments in relation to question 11. Where members favoured close alignment with the UK system, reasons included that distinct taxes create 'additional compliance costs' and increase complexity, going on to note in some cases that both of these are bad for business. Although one member commented, 'Even if the systems are closely aligned, small differences will create complexity for taxpayers. The question to be asked is 'what is the value to Scotland and to the taxpaying population of creating that complexity?' Those in favour of greater differentiation noted that close alignment coupled with different rates and bands makes it too easy to compare the Scottish and UK taxes, as well as defeating the point of having devolved taxes. Equally, some members thought that there would be 'little benefit in being different for the sake of it', as this would increase cost, complexity and uncertainty. Rather, it depends on the tax and what it is trying to achieve. There were also members in favour of an efficient UK-wide system.

5.3 Following on from this, we also asked whether members thought there was scope for Scotland to raise taxes on different transactions or activities (question 12). 36% thought that there was scope, with 30% undecided or choosing not to comment. In relation to question 12, many members made comments indicating, that although they thought there was scope for Scotland to raise taxes on different transactions or activities, they did not think this should be done, as it would add to complexity. Other members gave examples of where charges (not taxes) have been introduced successfully, for example, in relation to single use carrier bags,[8] and suggested that other taxes might be appropriate to support particular policy objectives. A number of members suggested a reform of land-based taxes or the introduction of a land value tax, or the taxation of activities pertinent to Scotland, such as tourism.

5.4 On balance, we think that there is scope for a different approach to taxation and also scope for Scotland to raise taxes on different transactions or activities. However, we think it is essential to bear in mind the concerns raised about additional complexity, and ask the question as to what is the purpose of a particular approach. Thus, it

[7] The CIOT's submission is available at http://www.tax.org.uk/policy-technical/submissions/future-local-taxation-scotland-ciot-comments; LITRG's submission is available at http://www.litrg.org.uk/latest-news/submissions/150622-what%E2%80%99s-future-local-taxation-scotland.
[8] The Single Use Carrier Bags Charge (Scotland) Regulations 2014.

should be clear that a difference is related to particular Scottish factors or objectives and that there is a benefit to Scotland in adopting a different approach.

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

6.1 We asked members whether they thought there was scope for ring-fencing of taxes in a Scottish approach to taxation, such that the revenue from a particular tax is used to fund specifically defined expenditure (question 13). 43% thought that such scope existed, with 23% undecided. From the comments, it is clear that some of the members that indicated that there is scope of ring-fencing nevertheless do not believe that this approach should be adopted.

6.2 Some members made specific suggestions for ring-fencing, which generally involved 'a logical link between the source of the tax and the expenditure', for example, that LBTT receipts could be used to fund social housing, APD and SLfT could be used to promote environmentally sustainable projects. Others noted that transparency generally in terms of how taxes are spent, and for example how local authority spending is funded (both by local taxes and national taxes), is helpful for taxpayers.

6.3 One of the main arguments put forward by members opposed to ring-fencing is that it 'leads to inflexibility', since it might prevent tax revenues being used for a greater priority issue. It can also lead to a tax being viewed as a charge for use of a particular service. Other reasons included that it might lead to non-compliance if taxpayers disagree with the policy, think they should not have to pay as they are not using the particular service or feel the funded services are not functioning well. Concerns were also raised about administration costs and infrastructure to support ring-fencing.

6.4 Although we think that there is scope to ring-fence future taxes and tax changes, we would be concerned that this would limit the ability of the government of the day to respond to changes in economic conditions. In addition, it is likely to increase administrative costs and burdens, lessening the efficiency of the tax system. Although ring-fencing may be viewed as an encouragement to taxpayers to pay a specific tax, because they know it is going to be used for a particular service, in order for this approach to be entirely successful, the service in question would have to be universally popular. While we do not think that linking the revenues from specific taxes to particular services is necessarily the best approach, we think that it is important that taxpayers know what the taxes they pay are funding. This transparency increases accountability.

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

7.1 We asked members whether they thought potential behavioural responses limit options for changes in Scotland, for each tax in turn (question 14). Views varied, and for some taxes, there were a relatively high proportion of 'undecided' or 'no comment' responses. Overall, behavioural responses were viewed as placing some limitations on options for change in respect of all the taxes.

7.2 We give the percentage of respondents who think potential behavioural responses limit options for changes in Scotland, considering each tax in turn:[9]

- CT – 37%;
- NDR – 39%;
- LBTT – 66%;
- SLfT – 40%;
- SRIT – 46%;
- IT – 73%;
- APD – 46%.

7.3 It is striking that the percentage for IT is significantly higher than that for SRIT. This is perhaps partly due to the fact that the SRIT rate is known and also because the SRIT will cease to play a role from April 2017 onwards.

7.4 Members' comments also illustrated the reasons for their responses. In respect of APD, some members were not convinced that changes to APD would encourage people to use Scottish airports rather than those in the north of England. In respect of SLfT, it was noted that fly-tipping and illegal dumping may be driven by higher rates of tax, but better enforcement would possibly be a preferable solution than a tax reduction, given that the tax rates encourage a reduction in waste. So, while tax can drive behavioural responses, sometimes the solutions lie outside the tax arena. Our main conclusion is that the Scottish Government needs to be clear on the objective of the tax as that should influence its design: so, in the case of APD, is it there to raise revenue, to encourage air travel, to discourage air travel or something else?

7.5 In respect of IT, one member noted that, 'People often moan and threaten to leave if tax rates are changed, but very few actually do anything.' In that respect, it is important to ensure that robust research and analysis is carried out to ensure that likely behavioural responses can be properly understood.

7.6 Some behavioural responses take the form of not acting, particularly in situations where carrying out a transaction can be discretionary, for example, choosing not to move house, so as not to incur LBTT, or choosing not to fly abroad for a holiday but to stay instead in Scotland.

7.7 Another member notes that, 'I think it will largely depend on the amounts involved – for smaller amounts of tax there will be less incentive to change behaviour but with higher amounts – of income or property values – then there will be an incentive to change behaviour.' Following on from this point, it is also important to understand which taxpayers have the ability to alter or choose their behaviour in relation to a particular tax, as well as the impetus. So, for SRIT and IT, this might be those taxpayers who are high-earners and, perhaps due to their personal and/or work circumstances, are particularly mobile.

7.8 It should be noted though, that tax alone is unlikely to determine behaviour. There are often likely to be other factors involved, which may have more or less influence than tax. Inevitably, interactions with and ease of movement into the rest of the UK mean that it is necessary to consider Scottish taxes not only in a wider economic and social context, but also in the wider, UK context.

[9] In order to obtain percentages in this section, we have excluded respondents who selected 'no comment' as their response. This option was included for those members who felt they had insufficient knowledge to respond 'yes', 'no' or 'undecided' – the other three options.

8 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?

8.1 We asked members whether they thought the mechanisms for administering the SRIT and IT via HMRC limit the scope for a different tax system in Scotland to develop (question 15). 57% of respondents indicated that this was a limitation.

8.2 Prior to the introduction of the SRIT and during the first year of its operation, HMRC have been identifying Scottish taxpayers. A number of issues have arisen during this process, which we understand have now, on the whole, been resolved. We understand that HMRC's data was fairly accurate and up-to-date; there was however an error in the algorithms used to interrogate that data. Nevertheless, no doubt in part because of these issues, our members raised concerns about the ability of HMRC systems to cope with both the UK and the Scottish IT systems.

8.3 Another key brake on the scope for a different system in Scotland was referred to by several members: the fact that only powers over the rates and bands for non-savings and non-dividend income are devolved, not the tax base[10] or powers in respect of savings and dividend income. However, many members were not keen to see significant differentiation between the UK and Scottish systems.

8.4 Other members referred to the principle of efficiency, indicating that 'there is no need to build a Scottish administration if there are existing mechanisms which are efficient', noting that given the limited extent of devolved powers, it would be costly and inefficient for Revenue Scotland to administer IT.

8.5 Overall, we think that, currently, the more significant limitation in respect of IT is the fact that only powers over the rates and bands for non-savings and non-dividend income are devolved, not the tax base or powers in respect of savings and dividend income. Unless and until the tax is fully devolved, separate administration of IT in Scotland, by for example Revenue Scotland, would result in unnecessary duplication of work. Despite the issues encountered in relation to SRIT (see paragraph 8.2), HMRC's administration of IT (through Pay As You Earn) is largely efficient. We also understand that HMRC systems should be able to administer additional bands and different rates, in line with the powers devolved by the Scotland Act 2016.

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

9.1 We identified a number of possible limitations and asked members whether they thought they limited the scope for a different tax system in Scotland to develop (question 16).[11] In most cases, members indicated fairly clearly that they thought these considerations placed limitations on the scope (over 60%). The majority was less clear in the case of tax tribunals, EU and international law, information sharing and double taxation relief. There were also some comments on the items we had suggested. For example, members agreed with the possible limitations we had

[10] The tax base is the measure on which the tax liability is based. For income tax, this is taxable income – the UK Parliament determines what counts as taxable income and also sets allowances, exemptions and reliefs.
[11] The limitations we identified were: cost to Government compared to using the UK model; staff recruitment and training; cost to taxpayers; complexity for taxpayers; time burden for taxpayers; information collection; information sharing; tax tribunals; double taxation relief; tax competition with the rest of the UK; interaction with UK-wide benefits system; level of tax revenues from Scottish taxes; EU and international law.

identified, but were concerned that these might not be given as full consideration as they should when developing the tax system.

9.2 We also asked members to indicate other administrative limitations to the adoption of a wider Scottish tax system. Suggestions included human rights law, conflicting definitions of terms in legislation, the time required to put in place Scottish legislation, and infrastructure costs.

9.3 We think that all the potential limitations we and our members have identified should be given consideration. We would emphasise in particular the limitations imposed by a lack of taxpayer understanding of not only the Scottish tax system, but also the UK tax system. The differences in degree of devolution and administration body are not clearly understood.[12] This lack of understanding is almost encouraged by the nature of Pay As You Earn, which, although clearly visible through the issue of tax codes, which are shown on payslips, has always sent the message that it will get the tax calculation correct, so taxpayers do not need to concern themselves or engage with the tax system. Taxpayer education will therefore be essential to ensure greater taxpayer understanding and engagement with the Scottish tax system. We would also highlight the limitations like cost and time burden for taxpayers. Employers and businesses act as collectors of tax for both the UK Government in particular, with Pay As You Earn and VAT. It is important to take into account concerns raised about ability to comply with burdens, to ensure the tax system is as efficient as possible for all.

10 Other comments on a Scottish approach to taxation

10.1 We also asked our members for their thoughts on the design of Scottish taxation generally (question 17). Nearly 30 members contributed thoughts and some key themes emerged, which we explore here.

10.2 There was a strong call for simplicity, tying in with both the Adam Smith principles and our objectives for a good tax system (see paragraphs 1.3 and 1.4). For many respondents, their call for simplicity was linked to a call for close alignment with the UK system (for example the same structure and tax base but different rates and bands), or even having one united UK-wide tax system, on the basis that devolution of taxes and divergences between the UK and Scottish tax systems result in complexity and uncertainty for taxpayers, as well as inefficiencies. One member raised a concern that ‘Cross border issues and complexity will be difficult to manage …, if there are significant variations from UK.’

10.3 However, some members noted that, in order to keep the Scottish tax system simple, divergence from the UK system would be required, since the UK tax system itself is complex. They favoured a distinctively Scottish system, which would ideally be built from the ground up, rather than tax by tax, as is happening with devolution. In keeping with this, one member noted that ‘In order to be able to design a new tax system, full control over the taxes and spending would be required.’ There was some frustration expressed in relation to devolved taxes, such as LBTT, where it was felt that there was too much replication of Stamp Duty Land Tax, suggesting that in order

[12] There are a variety of types of devolved taxes, ranging from those which have always been Scottish, such as the local taxes CT and NDR, to the fully devolved taxes like SLfT, to the partially devolved taxes like IT and the assigned taxes like VAT. In addition, taxes are administered in Scotland by local councils, HMRC and Revenue Scotland.

to make devolution worthwhile, there should be clearer distinctions between Scottish and UK taxes.

10.4 In addition, members pointed out that the design of the tax system needs to be looked at holistically, taking into account the tax credits and welfare benefits systems (both reserved and devolved aspects), as the interactions affect funds available to taxpayers. It is also important to look carefully at how different spending is funded. For example, CT may appear extremely regressive in isolation, since it only takes account of the value of the property. However, if one takes into account that on average approximately 80% of local council spending is funded by the block grant, one can see that a substantial amount of local council spending is actually funded by taxes that are based on income (income tax and NIC).

10.5 From the comments discussed above, it can be seen that there is an overarching call for simplicity, with which we agree. There are different suggestions of how to reach that objective. We do not recommend a particular option, but we suggest that it might be worth taking a step back and considering the tax and the social security system as a whole in the Scottish context, with the aim of determining what approach is best for Scotland.

11 Acknowledgement of Submission

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

12 The Chartered Institute of Taxation

12.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. 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. 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.

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. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

The CIOT's 17,600 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

13 The Low Incomes Tax reform Group

13.1 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 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.

LITRG works extensively with HM Revenue & Customs 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.

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.

14 The Association of Taxation Technicians

14.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has over 8,000 members and Fellows together with over 5,700 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.

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

30 September 2016