The ICAS role

ICAS has a public interest remit – a duty to act not only for its members but for the wider public good. Our technical experts work in a positive and constructive manner to advise policy makers on legislation and to raise issues of importance to our members, taxpayers and business alike.

Taxation is one of those areas and the ICAS contribution to the development of devolved tax powers for Scotland has been significant.

This paper, which has been prepared by the ICAS Tax Committee, sets out the information and issues we believe should be key in the forthcoming Scottish Parliamentary Elections.

This poll will be historic because it is the first time in more than 300 years that a Scottish Parliament has had such a high degree of control over taxation and with that increased responsibility should come greater accountability.

In the following pages we identify opportunities that maximise the benefits of the new tax powers without adding undue complexity for taxpayers and businesses.
The Scotland Act 2012 provides for the single Scottish Rate of **Income Tax**, applying from 6 April 2016, at 10p. The Scotland Bill 2015/16 provides the power to set all **income tax rates** and bands from April 2017.
The proportion of taxes that the Scottish Parliament has responsibility over.

Scotland Act 2012: 17%
Scotland Bill 2015-16: 31%

Scotland’s share of taxes 2014-15
A tax vision for the Scottish economy

Implement devolved taxes in a way that minimises complexity and burdens on business

Simplicity
A balance between simplicity and fairness in devolved taxes: further devolution of taxes should not add to the complexity of doing business in Scotland and must not put Scottish business at a competitive disadvantage

Clarity
Clarity and accountability for taxpayers: accountability can only come with transparency and public understanding of tax. ICAS believes that the complexity of the current system works against the interests of Government, business and individuals. The next Scottish Government should work with Westminster and on its own account to tackle this issue.

Consistency
VAT, the Scottish economy and public services: work with the UK Government to remove VAT inconsistencies for public sector bodies and other bodies delivering public services.
A balance between simplicity and fairness in devolved taxes: further devolution of taxes should not add to the complexity of doing business in Scotland and must not put Scottish business at a competitive disadvantage.

Burdens on business fall most heavily on small and medium enterprises (SMEs) that often struggle to collect taxes on behalf of government.

<table>
<thead>
<tr>
<th>Employee Category</th>
<th>Number of Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 49 employees</td>
<td>355,180</td>
</tr>
<tr>
<td>Between 50 and 249 employees</td>
<td>3,870</td>
</tr>
<tr>
<td>Over 250 employees</td>
<td>2,295</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>361,345 businesses</strong></td>
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The SME sector is vital to the Scottish economy.

The sector faces an escalating compliance burden for taxes as HMRC transforms itself into a digital tax authority and increases its requirement for businesses to administer and collect taxes in real time. This is already the position for VAT, PAYE and NIC.

The challenges for SMEs in tax collection include:

- Complexity
- Change
- Obligations and penalties
- Dealing with the tax authorities
- Mandatory digitalisation

Addressing these challenges and keeping matters simple means recognising that:

- Administrative ease is all-important
- Frequent changes add to complexity
- Using tax reliefs to incentivise behaviour may lead to lengthy, difficult legislation
- Working closely with the UK authorities is vital to ensure that tax is kept as streamlined as possible whilst implementing the devolved tax powers
ICAS believes that a five-year roadmap to set out the objectives of Scottish tax policy is vital: this should set out policy objectives and provide clarity of purpose.

The introduction of the Scottish Rate of Income Tax on 6 April 2016 should not unduly affect employers as HMRC is responsible for identifying and determining who is a Scottish taxpayer. However, given the service problems with HMRC helplines and HMRC’s policy of discouraging contact from Scottish taxpayers, employees are likely to regard their employer as the initial source of information if they have queries.

The approach by the UK Government over the last decade has been to make businesses more directly responsible for collecting taxes – building on the VAT and PAYE systems which have operated so successfully in the UK for many years. The changes have included the introduction of Real Time Information (RTI) for PAYE, the administration of the national minimum wage, pensions auto-enrolment, and changes to VAT place-of-supply rules. The public finances are heavily dependent on this work by businesses as unpaid tax collectors. Care is required not to overburden businesses.

Dates of implementation are:

- 1 April 2015 for Land and Buildings Transaction Tax and Scottish Landfill Tax
- 6 April 2016 for Scottish Rate of Income Tax
- 6 April 2017 is the expected implementation date for the new Scotland Bill 2015-16 powers over the income tax rates and bands;
- 1 April 2018 for Air Passenger Duty
- At a date yet to be agreed for Aggregates Levy; and
- From 2019-20 for the assignment of VAT.
Clarity and accountability for taxpayers

Accountability can only come with transparency and public understanding of tax. ICAS believes that the complexity of the current system works against the interests of Government, business and individuals. The next Scottish Government should work with Westminster and on its own account to tackle this issue.

We call for clear explanations to taxpayers of existing and forthcoming devolved tax powers, and of the principles determining how the devolved powers are used.

‘Scottish taxes’ or ‘devolved taxes’ encompass different types of devolution and varying responsibilities. The terms lack precision. For example the devolved powers over income tax are fundamentally different from the devolved powers over Land and Buildings Transaction Tax. There is great scope for confusion.

There are three types of tax devolution:

1. Fully devolved taxes
   Land and Buildings Transaction Tax, Scottish Landfill Tax, Aggregates Levy and Air Passenger Duty

   These taxes are (or will be) the outright political responsibility of the Scottish Parliament and the administrative duties rest with the new tax authority, Revenue Scotland. The nature of the taxes, the legislation, and the associated collection and management duties are or will be fully devolved and solely the responsibility of those in Scotland.

   Where the Scottish Parliament has power to design a fully devolved tax, ICAS believes it should seek to adopt a radical approach, introducing better, simpler taxes with clearly targeted objectives rather than cutting and pasting from the notoriously over-complicated UK tax regime. For example, SDLT was criticised by Mirrlees for “leading to potential inflexibilities in the labour market and encouraging people to live (and businesses to operate) in properties of a size and in a location that they may well not otherwise have chosen”, and yet these same apparent deficiencies have been re-created within LBTT.
2. Partially devolved taxes
Scottish Rate of Income Tax 2016-17, and income tax rates and bands from April 2017 onwards
Partially devolved taxes involve joint responsibilities. Political responsibility is split between the UK and Scottish Parliaments.

The UK Parliament is responsible for the tax base, i.e., what is considered to be income, and how it is measured. The Scottish Parliament is currently responsible for SRIT as provided for in the Scotland Act 2012. In future following the Scotland Bill 2015-16/Smith recommendations, the Scottish Parliament will also be responsible for the rates and the bands, allowing it to exert much greater control over how much is assessed for collection and from which taxpayers.

Administrative responsibility remains with HMRC but the Scottish Government will pay any additional costs of collection.

The Scottish income tax rate(s) will be applied to earned income, pensions and rental income, but not to savings income and dividend income (to ease administrative pressures and avoid distortions of the UK savings market).

If income tax rates and thresholds in Scotland diverge from those elsewhere in the UK from April 2017 onwards, clear explanations and guidance will be needed to reassure taxpayers, provide transparency and certainty, and discourage unintended behaviours.

3. Assignment
VAT receipts
VAT remains the responsibility of the EU (in terms of defining the tax base), and the UK Parliament (in setting the tax rates), with administration and collection by HMRC. Receipts in Scotland from the first 10p of the standard rate of VAT and the first 2.5p of the reduced rate of VAT will be assigned to the Scottish Government.

How accountability to the Scottish Parliament is arrived at through assignment has yet to be agreed in future negotiations. However, considerable analytical and statistical work will be required to ensure that assignment truly reflects the VAT attributable to Scotland and takes proper account of any future changes in the Scottish economy.
Work with the UK Government to remove VAT inconsistencies for public sector bodies and other bodies delivering public services.

VAT is a tax on goods and services across the economy. The purpose of the assignment of VAT is to align tax income with the economy, but if this is so, it may be that VAT receipts could become a measure of the Scottish economy. This in turn might influence the Scottish Government’s economic support programmes with support targeted at areas that would grow the economy, in other words, the assigned VAT becomes a measure. Such targeting could be at the expense of VAT exempt businesses (such as financial institutions) or zero rated businesses (such as the food industry) which form a significant part of the Scottish economy.

VAT costs in funding public services
ICAS calls upon Holyrood to work with Westminster on a review of the VAT and public sector rules to ensure a level playing field, particularly in the light of the integration of health and social care.

Changes to the way public services are delivered have brought the rules on VAT and the public sector into sharper focus. If services delivered by local authorities and central governments are transferred to other organisations, the VAT recovery shelter may not transfer along with the services.
ICAS is a global professional body of more than 20,000 Chartered Accountants.

ICAS has called for a clearer, long term strategy for the tax system and that the debate on tax burdens, tax avoidance and tax evasion should be an informed and serious one, focussing on effective solutions for both the UK and Scotland. This requires that:

• The law must work properly
• High standards of behaviour are required all round
• Better information is needed
• Tax policy needs clarity
• Businesses need to be transparent
• Criminal tax evasion needs greater focus

ICAS members support tax compliance and compliant taxpayer behaviour, making complex tax systems workable for businesses and reducing the risk of disproportionate tax costs for all taxpayers.

We look forward to continuing to work closely with our political leaders to introduce sound tax legislation that delivers its policy aims.
Contact us

If you’d like to discuss these policy suggestions in more detail, please contact the Tax Team

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