



**House of Commons
Scottish Affairs Committee**

**The relationship between
the UK and Scottish Governments inquiry**

Call for evidence

28 November 2018

About ICAS

1. The following submission has been prepared by the ICAS Tax Board. The ICAS Tax Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community, which consists of Chartered Accountants and ICAS Tax Professionals working across the UK and beyond, and it does this with the active input and support of over 60 board and committee members.
2. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants and we represent over 21,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors.
3. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. From a public interest perspective, our role is to share insights from ICAS members in the many complex issues and decisions involved in tax and financial system design, and to point out operational practicalities.

General comments

4. ICAS is grateful for the opportunity to contribute its views to the call for evidence for 'The relationship between the UK and Scottish Governments inquiry', as requested by the Scottish Affairs Committee.
5. We have restricted our comments to general comments, rather than answering the specific questions in the inquiry, and to matters relating to taxation.
6. Our area of expertise is taxation and we wish to touch on a number of particular points where we believe there need to be strong intergovernmental relations in order to make the devolved tax powers work as effectively as possible.
7. We have been working with the Chartered Institute of Taxation, under the banner of 'The Scottish Taxes Policy Forum', and recently published a paper [Devolving Taxes across the UK: Learning from the Scottish Experience](#). In that paper, we made a number of recommendations that we believe need to be considered across the UK tax system, including:
 - A more logical and consistent strategic framework for the devolution of tax powers across the UK.
 - Further consideration of the UK income tax framework and how the process of devolution of the rates and bands for non-savings, non dividend income dovetails into it.
 - More effective and transparent collaboration between each of the devolved Governments and the UK Government around negotiations on taxation policy.
 - Development of better data than is currently available on Scottish taxpayers and the movements between jurisdictions.
 - A more realistic time frame between the UK and Scottish budgets.
 - Increased transparency from a public perspective as to how devolution and devolved taxes work from both Governments.
8. The paper, which includes a discussion of these recommendations, has been sent to you under separate cover by the Scottish Taxes Policy Forum¹.
9. In this response, we would like to expand upon some of the points made in that paper.

Effective and transparent collaboration

10. UK Budget measures now have varying consequences for Scottish funding – depending on how they are implemented. For example, if the Chancellor increases the amount of income tax levied, such an increase would be levied only in the rest of the UK because

¹ https://www.icas.com/data/assets/pdf_file/0012/388497/Devolving-taxes-across-the-UK.pdf

Scotland sets its own rates and bands; whereas if, say, National Insurance is increased, this would apply across the UK and a 'Scottish' proportion would be reflected in the Barnett Formula. It is therefore vital that there is close liaison from an early stage between the relevant Governments to implement any potential tax increases smoothly, having considered the potential effects. It is in no-one's interests to have surprises emerging.

11. In recent UK Budgets there have been several stamp duty land tax measures, each of which has subsequently been mirrored in land and buildings transaction tax – for example, the additional dwelling supplement and the first-time buyer relief. There have also been measures such as the apprenticeship levy, where the levy applies across the UK but the responsibility for training is devolved. This raises concerns about whether there has been adequate intergovernmental liaison in the design of measures and whether steps have been taken to ensure smooth implementation in both jurisdictions.

Budget timing

12. We welcome the timing of the UK budget this year in relation to the forthcoming Scottish budget – but believe the timing of the budgets in each jurisdiction should be governed by a more formal process that is designed to enable maximum collaboration between governments.

Better data

13. There have clearly been issues around aspects of the forecasting of Scottish income tax, as discussed in the recent Scottish Parliament's Finance and Constitution Committee report 'Pre-budget scrutiny report'². There seems to be a lack of sound data, as revealed by the differences between the forecast and actual numbers of higher and additional rate taxpayers in Scotland (paragraph 73).

Table 5. Number of Income Taxpayers, 2016/17

	Higher Rate	Additional Rate
SFC May Forecast	308,500	15,500
HMRC Outturn Figure	294,000	13,300

14. We would encourage the development of better data than is currently available. HMRC's identification of Scottish taxpayers is a basic example of an area where accurate and comprehensive information flow is essential to the Scottish government. Clearly, the information flow should be barrier-free and mutually recognised as beneficial, to ensure that tax revenues on both sides can be optimised and any potential loopholes identified and resolved expeditiously.

1. published 7 November 2018 <https://sp-bpr-en-prod-cdnep.azureedge.net/published/FCC/2018/11/7/Pre-budget-scrutiny-report-2/FCCS052018R12Rev.pdf>