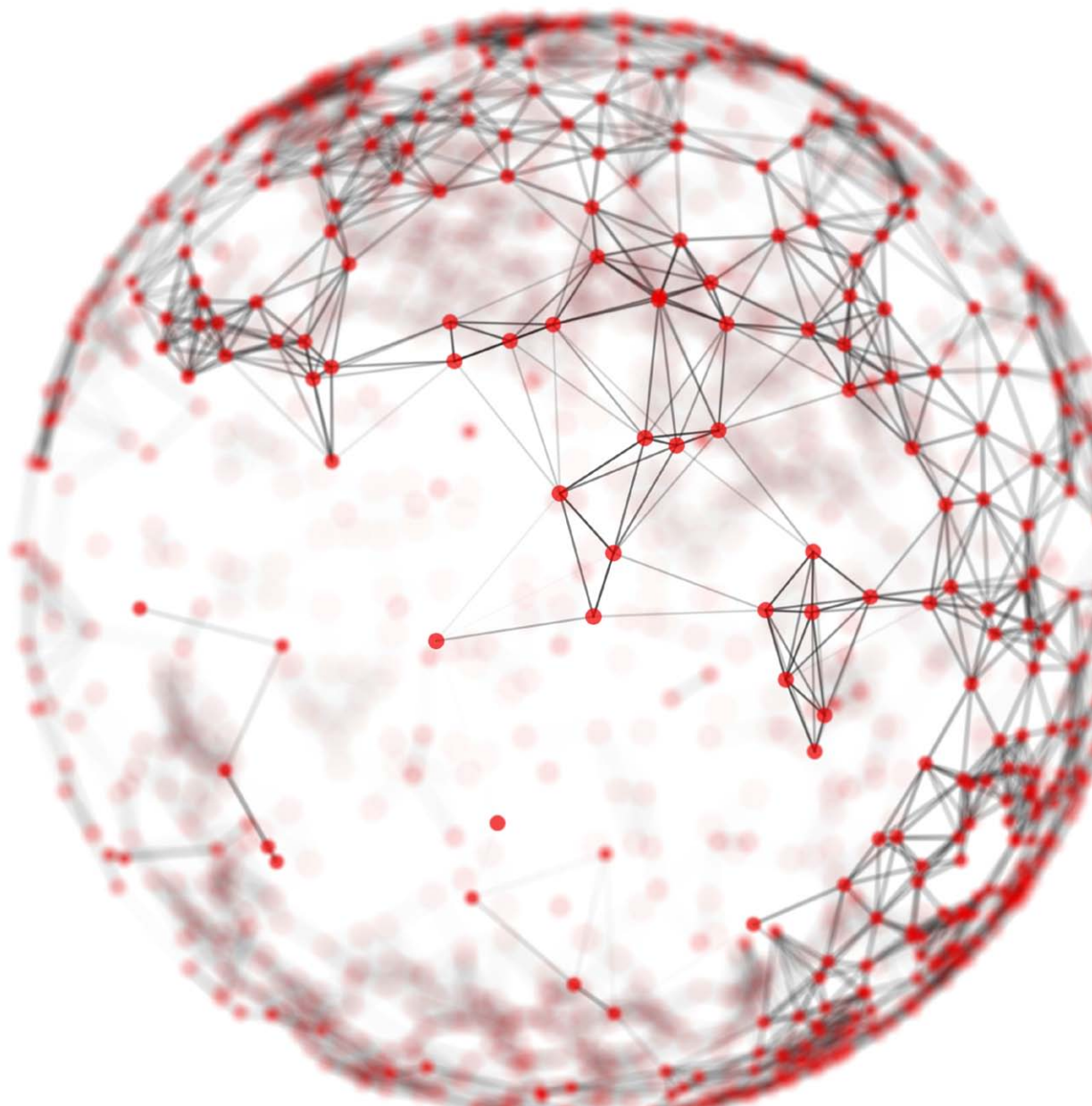


Your World First



Inform

Tax - February 2014



Tax



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Background

"Changes included in the Scotland Act 2012, due to come into effect over the next one to two years, will give the Scottish Parliament control over two additional taxes which together raise about £400 million per year, and some limited control over a proportion of income tax. These changes will still only give Scotland responsibility for 15 per cent of Scottish receipts."¹

"We will work in partnership with the rest of the UK to share the pound for our mutual benefit, but we will pursue a Scottish tax and economic policy to boost jobs, growth and social justice."²

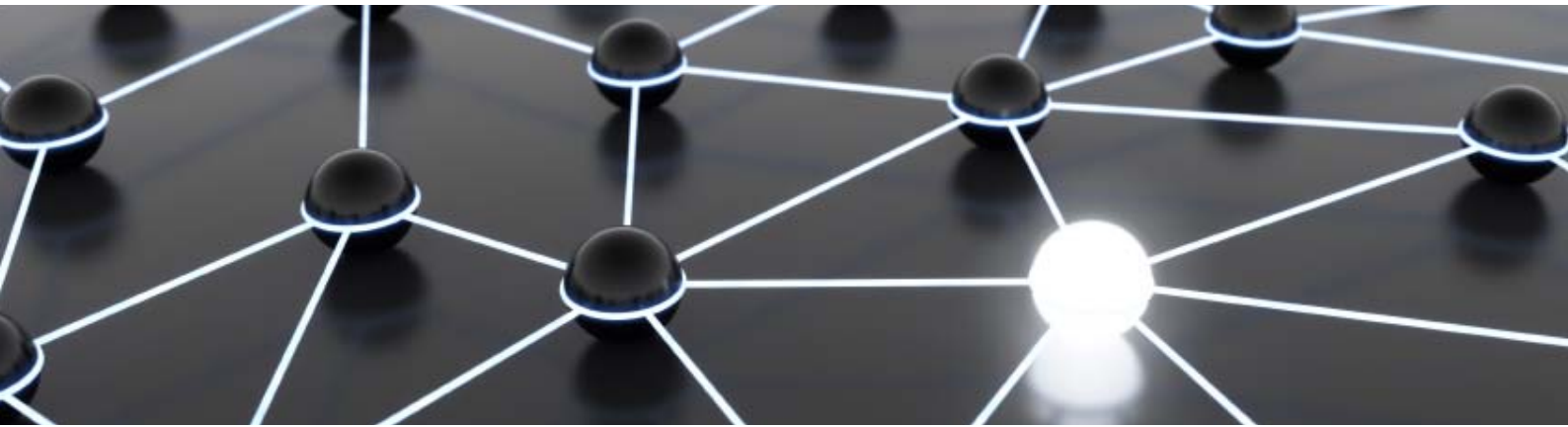
"Over each of the last 32 years, estimates show Scotland has contributed more tax per head of population than the UK as whole. Total Scottish tax receipts in 2011/12 (the latest year for which figures are available) were equivalent to £10,700 per head. This compares to a figure of £9,000 per head in the UK as a whole."³

It is important to bear in mind that while the White Paper "talks down" the impact of the Scotland Act 2012, the introduction of Land and Buildings Transaction Tax, the setting up of a new tax authority and the coming into force of a wide-ranging (and rather vague) general anti-avoidance rule, are all significant changes which will take place regardless of the outcome of the independence referendum. Obviously, the comment on plans to "share the pound" must be read in the light of recent policy announcements from the UK political parties other than the SNP.

¹ Taken from page 73 of the White Paper – The Facts

² Taken from page 18 of the White Paper – Preface

³ Taken from page 28 of the White Paper – Scotland's national finances



High level policy

“We plan to develop a new tax system for Scotland to better meet key policy objectives, based on the design principles of a modern and efficient system set out by the Fiscal Commission:

- simplicity - tax rules and obligations are well known, easily understood and liability is clear
- neutrality - the negative or unintended effects of taxation should be minimised and decisions on taxes should be made on merit
- stability - of both tax revenue stream and tax rules and procedures, allowing predictability and certainty in the decision making and planning of individuals, businesses and government
- flexibility - to respond to change, particularly in a dynamic and constantly evolving global economy”⁴

“Simplification of the tax system to reduce compliance costs, streamline reliefs and help to reduce tax avoidance, with a target revenue gain of £250 million a year by the end of the first term.”⁵

“Preparations will be required for Scotland to inherit the bilateral treaty obligations to which it is currently party as part of the UK. Relevant treaties will be continued on independence (for example on extradition, double taxation and mutual aid).”⁶

“Following a vote for independence, the Scottish Government will seek a double taxation agreement with the Westminster Government.”⁷

As a high level policy, the goals of simplicity, neutrality, stability and flexibility are clearly laudable. To a certain extent, the administrative structures designed for Scottish Landfill Tax and Land and Buildings Transaction Tax, show that creative ideas such as delegating some tax administration to other bodies like the Scottish Environmental Protection Agency and Registers of Scotland, could result in cost savings. However, the example of the rather ambiguous proposed general anti-avoidance rule, makes one wonder if the ideals of making tax “easily understood and...clear” and “allowing predictability and certainty” will be so easily realised. To attain their stated goals and sustain investment into Scotland, the Scottish Government will have to provide simple, rather than simplistic, tax rules.

An independent Scotland would indeed require an international tax treaty network and while it would not technically “fall heir” to the UK’s network, it is likely that the UK’s network of tax treaties would be adopted without too much practical difficulty, at least in the short to medium term. A new tax treaty would have to be negotiated with the Westminster Government. It should be borne in mind that even if it was initially very similar, the tax system of an independent Scotland would be wholly distinct from the system used in the rest of the UK. Cross-border businesses would have to plan for the impact of having losses, capital allowances and other tax reliefs isolated on one or other side of the border.

⁴ Taken from page 113 of the White Paper – Our tax system

⁵ Taken from page 21 of the White Paper – Gains from independence

⁶ Taken from page 280 of the White Paper – Agreements and negotiations

⁷ Taken from page 309 of the White Paper – How we will become independent



Detailed proposals

"A timetable for reducing the rate of corporation tax by up to three percentage points to counter the gravitational business pull of London."⁸

"We will also examine an increase in the National Insurance Employment Allowance to help small businesses, and will commence negotiations to return Royal Mail in Scotland to public ownership."⁹

"Our Fair Work Commission will guarantee that the minimum wage rises - at the very least - in line with inflation to ensure that work is a route out of poverty."¹⁰

"...ensuring that basic rate tax allowances and tax credits rise at least in line with inflation, and ending of the married couples tax allowance and abolishing the Shares for Rights scheme."¹¹

"Continue to support tax-free savings, through products like savings and investment ISAs."¹²

"Reduction in Air Passenger Duty by 50 per cent, with a view to abolishing it when public finances allow."¹³

"We have no plans to increase the overall tax burden on the [oil and gas] industry on independence, and are clear that no changes will be made to the fiscal regime without consultation."¹⁴

"The Scottish Government is committed to providing certainty and stability on the long-term treatment of decommissioning tax relief. It will continue to engage with the industry on future reforms."¹⁵

Perhaps understandably, the "detailed proposals" in the White Paper are not very detailed. Tax cuts in certain areas and increased spending are mentioned, without a clear indication of how additional tax will be raised to support this. In addition, with the UK's main rate of corporate taxation set at a historic low of 21% for 2014, plans for a 3% differential in Scotland would have to take account of EU and OECD guidelines on tax competition.

⁸ Taken from page 21 of the White Paper – Gains from independence

⁹ Taken from page 81 of the White Paper – Early priorities for action within sound public finances

¹⁰ Taken from page 87 of the White Paper – Finance and the economy

¹¹ Taken from page 21 of the White paper – Gains from independence

¹² Taken from page 131 of the White paper – Occupational and personal pensions

¹³ Taken from page 21 of the White Paper – Gains from independence

¹⁴ Taken from page 248 of the White paper – Oil and gas

¹⁵ Taken from page 247 of the White paper – Decommissioning

A bulletin from a series designed to inform our clients' analysis of the Scottish Independence Referendum debate. Each bulletin covers an industry sector or other area of interest to our clients. As any analysis has to be driven by the prospects for, and differences that would result from the proposals of the Scottish Government (who are the advocates for change), each bulletin contains our views on the implications and issues in that sector or area.

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