



# ICAEW SUBMISSION TO SMITH COMMISSION

## INTRODUCTION

1. ICAEW welcomes the opportunity to provide a submission to the Smith Commission on further powers for the Scottish Parliament.
2. We would be happy to discuss any aspect of our comments and to take part in all further consultations on this area.

## WHO WE ARE

3. ICAEW is a professional membership organisation, supporting over 142,000 chartered accountants around the world. Through our technical knowledge, skills and expertise, we provide insight and leadership to the global accountancy and finance profession.
4. Our members provide financial knowledge and guidance based on the highest professional, technical and ethical standards, to over 1.5 million businesses. 83% of FTSE 100 companies have an ICAEW member on their board.

## IMPLICATIONS OF DEVELOPING TAX POWERS TO SCOTLAND

ICAEW recently gave evidence to the Treasury Select Committee on Scottish Devolution specifically on tax powers. Below is a short summary of our main points which we believe may be of use to the Commission.

- The Smith Commission should build on the work of the Calman commission and the Scotland Act 2012 which will implement some measures relating to tax powers.
- ICAEW is concerned that any devolved powers will increase the admin burdens and costs on HMRC at a time when it faces reduced resources and staff headcounts. It is important that any potential costs from changes to HMRC are properly factored in to budgets.
- If Scotland has the ability to vary rates and raise new taxes there will inevitably be arbitrage issues as individuals and businesses seek to minimise tax burdens within the law.
- It looks likely that VAT could not be devolved nor the imposition of another turnover based tax. Devolvement of powers needs to be done within the wider context of EU laws on state aid. While tax systems are for the member state, EU case (in particular the Azores case) law has set out some principles that must be followed for a devolvement to be compatible with EU law.
- Some taxes will be easier to devolve than others and there is likely to be a point where the costs of devolving a tax outweigh any overall benefit received. At that stage, it is probably best to leave it at the UK level but consider whether any alternative approaches might address the problem.
- Devolvement of National Insurance Contributions looks extremely problematic given its contributory nature and its interaction with the state pension and benefits system.

## APPENDIX

### The devolved tax scorecard

Putting all this together, it is possible to highlight the relative ease with which taxes might be devolved, in increasing order of difficulty, using a simple ‘traffic light’ system. To illustrate the idea, which would need further work, we have prepared an indicative scorecard as follows.

Tax	How easy to identify and collect?	How easy will it be legally?	How easy will it be operationally?	Score
Business rates	Green	Green	Green	Green
Landfill tax	Green	Green	Green	Green
Air Passenger Duty	Green	Green	Green	Green
SDLT	Green	Green	Yellow	Yellow
Inheritance tax	Green	Green	Yellow	Yellow
Bank Levy	Yellow	Yellow	Green	Yellow
CGT	Yellow	Green	Yellow	Yellow
Insurance premium tax	Yellow	Yellow	Green	Yellow
Corporation tax	Yellow	Yellow	Yellow	Yellow
Oil taxes and Petroleum Revenue tax	Yellow	Yellow	Yellow	Yellow
Excise taxes	Yellow	Yellow	Yellow	Yellow
Income tax	Yellow	Green	Red	Yellow
VAT	Yellow	Red	Red	Red
NICs	Yellow	Red	Red	Red
New levies				

#### What does it show?

The taxes that are easiest to devolve are already being wholly or partly devolved.

The more taxes are devolved, the harder it will become to devolve them and the greater will be the associated admin costs and burdens of doing so. There must be a point where the questions has to be asked – is it worth devolving them?

Some taxes are not suitable for devolvement and need to remain at the UK level.