



# ICAEW SCOTLAND RESPONSE TO SCOTTISH PARLIAMENT FINANCE COMMITTEE INQUIRY INTO THE DEVOLUTION OF FURTHER FISCAL POWERS

14 NOVEMBER 2014

## INTRODUCTION

1. ICAEW welcomes the opportunity to provide a submission to the Scottish Parliament's Finance Committee's inquiry into the devolution of further fiscal powers.
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 144,000 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.
5. We believe in acting responsibly, in the best interests of our members and the general public. We act with integrity, creating effective partnerships with organisations and communities worldwide to ensure the highest technical, professional and ethical standards.
6. ICAEW is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
7. ICAEW Scotland serves 1,500 ICAEW members across the private and public sectors in Scotland and represents the views of ICAEW members who work in Scotland for local, national and international organisations.

## IMPLICATIONS OF DEVELOPING TAX POWERS TO SCOTLAND

8. ICAEW recently gave evidence to the UK 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 Scottish Parliament's Finance Committee's inquiry.
  - 8a. 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.
  - 8b. 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.
  - 8c. 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.

- 8d. It looks likely that VAT could not be devolved nor the imposition of another turnover based tax. Devolvment 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 devolvment to be compatible with EU law.
- 8e. 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.
- 8f. Devolution of National Insurance Contributions looks extremely problematic given its contributory nature and its interaction with the state pension and benefits system.

### The devolved tax scorecard

9. 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 Pet Rev 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?**

10. The taxes that are easiest to devolve are already being wholly or partly devolved.
11. As a general principle, the more taxes are devolved, the harder it will become to devolve them and the greater will be the associated administrative costs and burdens of doing so. There must be a point where the question has to be asked – is it worth devolving them? This should form the basis of the answer to the questions of what financial powers (specifically taxes) should and should not be devolved the Scottish Parliament.
12. Some taxes (notably VAT and National Insurance) are not suitable for devolution and need to remain at the UK level.

## **Implications of further financial powers for the role of Revenue Scotland**

13. Just as we are concerned about an increase in administrative burdens and costs on HMRC as a result of devolved taxes, Revenue Scotland will have a greater role to play if further taxes are devolved to Scotland. Revenue Scotland must be fit for purpose, efficient and well-resourced in terms of people and IT. There is a potentially large increase in the work Revenue Scotland will need to perform and administer in the wake of an increase in financial powers to the Scottish Parliament brought about by the recommendations of the Smith Commission.