Response to the House of Lords Select Committee on Economic Affairs and its call for evidence on the economic implications for the United Kingdom of Scottish Independence.

Introductory Comments

ICAEW welcomes the opportunity to comment on this important and wide-ranging Select Committee inquiry.

Independence in Scotland is ultimately a political question on issues of national identity and future, and as such will be decided by the Scottish people. ICAEW is an apolitical organisation so this response focuses on possible economic implications and the technical challenges a separation of Scotland from the rest of the UK would create. These implications and challenges are not insurmountable but, as a professional organisation for accountants, ICAEW would like to see costs quantified and complexities simplified as much as possible.

Independence in itself does not affect the stock of labour and capital in either Scotland or the rest of the UK, and to that extent would not be expected to make a significant immediate economic difference. The overall fiscal stance might not be much affected by independence although the ability to alter tax rates could change the situation. In our response we outline some issues around altering tax rates in a newly independent Scotland.

In principle – although there are practical challenges – Scotland could adopt its own currency and monetary policy.

It is important to frame this debate in light of the current Eurozone crisis. There has been a sense that Scotland could leave the UK because it would remain in the wider union of the EU. However the future of the EU – and crucially the single market – has become less clear with no obvious resolution in sight.

(signed)

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SUMMARY

The issue of dividing assets and liabilities is complex, especially having to divide institutions and processes. With public sector employment in Scotland higher than the UK average this may make it more complex. We suggest a GDP based approach, and call on the ONS to produce pro forma national and government accounts for Scotland and the rest of the UK.
Paragraphs 7-13

These complex questions about division must address benefits entitlement with reference to current or previous residency/domicile. The issue of joint public services is key.
Paragraphs 14, 15

The experience of the independence of Ireland highlight the risks for Scotland in retaining sterling if the country has no influence on Bank of England monetary policy. We point out that Scotland already has three banknote issuers. Paragraphs 16-18

There is a need to explore robust and tested financial arrangements and regulatory regimes prior to separation. We consider the role of the three UK-based banking groups registered in Scotland and the difficulties in securing lender of last resort facilities. Constraints are likely to come from both EU and global regulation. Solvency support for banking must also be considered.
Paragraphs 19-23

Adopting the Euro would incur separation and transitional costs and create 'winners' and 'losers' when trading with Europe and the rest of the UK respectively. We are doubtful that Scotland would adopt the Euro given current conditions but may have to, making it difficult to then adopt any new Scottish currency. Paragraphs 24-27

It would be difficult but feasible for Scotland to have its own currency. We cite examples of Lithuania, Latvia and Ireland. Paragraphs 28-31

There is a lack of clear information on the current tax take in Scotland. Main concerns are around costs and complexity; taxing rights and double taxation issues. Paragraphs 32-35

The impact of different tax rates raises issues of complexity and administration/collection costs. We mention the taxpayers' actions to minimise tax and the danger of creating a 'race to the bottom', especially with regard to corporation tax. Paragraphs 36-43

Lessons should be learnt from the current European debt crisis. Robust fiscal rules must be developed and enforced. Cross-border migration should be considered. Paragraphs 44-49

There could be a divergence in the economies of an independent Scotland and the rest of the UK, and non-tariff trade barriers could emerge. Paragraphs 50,51

Our recent research shows no early indications that independence would affect UK business. 75% of respondents with sites in Scotland felt it important to stay. We consider headquartering decisions and financial regulation. Paragraphs 52-56

While Scotland is likely to be subject to the same economic challenges of the UK, ICAEW's business confidence research shows Scotland can recover from shocks relatively quickly.
Paragraphs 57-59

Lessons should be learnt from the current Eurozone crisis. We emphasise the need for a robust risk analysis and suggest examining the independence of Ireland and others in order to draw valuable lessons for separation. Paragraphs 60-61

Other issues have been raised by ICAEW members, principally the effects of uncertainty on the economy and around university funding in Scotland. Paragraphs 62-67

Two appendices are attached: The ICAEW ten tenets for a better tax system and a summary of recent research on the potential effects of Scottish independence on our members.

ABOUT ICAEW

1. ICAEW is an international body based in the UK and operates under a Royal Charter, working in the public interest. The regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council.
2. As a world-leading professional accountancy body, the ICAEW provides leadership and practical support to over 138,000 members in more than 160 countries. Strengthened by the expertise of our whole membership, particularly those in the UK/EU who are interacting with government and institutions on similar economic issues, ICAEW is working with governments, regulators and industry in order to ensure the highest standards are maintained.
3. 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.
4. ICAEW is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
5. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.
6. ICAEW Scotland serves over 1400 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.

Division of the UK's public assets, liabilities and expenditure

How should the UK's public assets and liabilities, from national debt and reserves to public pensions, North Sea oil and bank exposures be divided if Scotland becomes independent?

7. The division of assets will be subject to detailed negotiations by respective administrations. It will raise complex and contentious questions as each party will seek to obtain the best terms possible. The areas highlighted above are likely to be contentious and reaching an agreement that is satisfactory to both sides will require patient negotiation and a willingness for compromise.
8. While it may be straightforward to value and divide assets, this is not the end of the story. It is also necessary to divide institutions and their processes. This might mean creating new processes and IT systems. For example, how would HMRC be divided and how would it liaise with the revenue in Scotland? Currently HMRC offices and processes are not currently divided in any geographical sense. Would it be possible to separate Scottish taxpayers from existing computer systems and processes?
9. Proportionately more public sector activity is based in Scotland – partly due to UK government policy of locating public sector jobs in Scotland. Government statistics suggest the percentage of public sector workers to population is nearly 10% in Scotland as against 8.4% in the rest of the UK, meaning much higher relative costs for Scotland. If the ratio reduces and there are redundancies in the public sector before private sector investment could create more jobs, there could be additional transitional costs.
10. What transitional period would be needed and who would bear the conversion costs? The fragmentation of services is likely to increase costs and overheads for all, but the effect is likely to be proportionately greater in Scotland. However, this problem may be offset by how assets such as North Sea oil are divided. North Sea oil assets will need to take account of the impact of exploration and decommissioning costs and future tax revenues.
11. In 2010-11, the estimated current budget balance for the public sector in Scotland was a deficit of £14.3 billion (12.0 per cent of GDP) excluding North Sea revenue, a deficit of £13.6 billion (11.2 per cent of GDP) including a per capita share of North Sea revenue or a deficit of £6.4 billion (4.4 per cent of GDP) including an illustrative geographical share of North Sea revenue. In 2010-11, the UK as a whole ran a current budget deficit, including 100 per cent of North Sea revenue, of £97.8 billion (6.6 per cent of GDP). (source: GERS, Scottish Government, 7 March 2012).

12. While allocation could become highly complex, with different rules for different assets and liabilities, there would be merit in a simple approach that was, for example, related to shares of UK GDP.

13. ***As a starting point, ICAEW calls on the ONS to produce a pro forma set of both national accounts and government accounts for Scotland and the rest of the UK, with assumptions in these accounts made clear. This data is most likely already collected by the ONS.***

How would the UK's joint public expenditure flows, including social security, the Barnett formula transfers and defence spending be affected by Scottish independence?

14. These will be impacted by the policy decisions and negotiations around independence. Deliberations on social security spending, including state pensions, will need to address the entitlement to these benefits with reference to current or previous residency or domicile. The Barnett formula, which is to do with fiscal flows within the UK, would fall away.

15. Another issue is whether any public services would be delivered jointly between the rest of the UK and Scotland and how the costs would be divided – the obvious example being defence.

Currency, monetary policy and central banking

What are the implications of Scottish independence for the operation of the Bank of England? If sterling continues to be used in Scotland, would the Bank of England be required to take into account Scotland's economic conditions in setting monetary policy?

16. The experience of the independence of Ireland is instructive. Much will depend on whether Scotland keeps sterling at the time of independence. Ireland retained the link with sterling and it was not until 1978 that it established a completely independent currency. If Scotland retained sterling, it would be a proportionately larger part of the sterling area than Ireland was in the period from 1922 to 1978. Thus, the potential impact on the rest of the UK if Scotland retained sterling would be far greater. The rest of the UK might therefore insist that Scotland has to change its currency, though may be unable to compel it to change, (c.f. Montenegro and Kosovo unilaterally adopting the euro).

17. From Scotland's point of view, there are major risks inherent in retaining sterling if Scotland is unable to influence the Bank of England's monetary policy. This is clearly a matter for negotiation, but Scotland's position would appear to be extremely unsatisfactory if it retains sterling but has no say in the Bank's monetary policy. It is worth noting that central bank effectiveness partly depends on the clear backing of a 'parent' sovereign, and it would not be easy for the Bank of England to serve two countries.

18. However, it should be borne in mind that Scotland already has three banknote issuers, which are required to back these notes fully with Bank of England notes. That could form the basis for a Scottish pound (and would be what economists call a 'currency board'). However, there would be no Scottish influence over Bank of England monetary policy – but realistically the influence is limited even now because Scotland is a relatively small part of the total UK economy.

What would be the implications for the stability of the UK's financial system, and the financial system of Scotland, of Scotland becoming independent and retaining sterling as its currency? Would a Scottish monetary authority offer lender of last resort facilities and how would financial institutions respond? What would be the implications of possibly different regulatory regimes in an independent Scotland and rest of the UK?

19. Experience of the current problems in the euro zone demonstrate that proper and lasting arrangements need to be designed and 'stress tested' against a variety of financial situations. Design mistakes may not be apparent until much later, at which time the financial and economic consequences could be serious.

20. Currently, three UK based banking groups (Clydesdale Bank, Lloyds Banking Group and Royal Bank of Scotland) are registered in Scotland but the majority of their business is elsewhere in the UK. The separation of financial stability mechanisms, including the Financial Services Compensation Scheme and regulatory regimes is likely to influence their future organizational structures.

21. It would be difficult to offer lender of last resort facilities to the extent that the Bank of England would not be Scotland's central bank. However, where appropriate such operations are indemnified by the sovereign (HM Treasury at present), so the Bank of England might be willing to act on the basis of a Scottish government guarantee.

22. The scope for Scotland to operate a different regulatory regime would be constrained by the extent to which these arrangements are harmonised globally and especially in the EU.

23. Solvency, as opposed to liquidity support, must also be considered. The Scottish economy may not be large enough to take on the contingent liabilities associated with the Royal Bank of Scotland and Lloyds Banking Group. It may be possible to split off some or all of RBS's 'non-Scottish' business into an English domiciled entity. This could probably be achieved without legislation as the UK Government owns most of the economic interest in RBS.

24. **What would be the implications for Scotland and the rest of the UK if an independent Scotland switched to the euro?**

25. If Scotland adopted the euro, it would have important consequences for Scotland and the rest of the UK that would need to be managed in the short-term. It would create further separation and transitional costs. Given the two countries would remain closely linked, currency problems in either country would inevitably have some impact on the other.

26. The additional costs for businesses operating both in Scotland and in the rest of the UK would be significant: with a variety of 'foreign exchange' issues arising on a day-to-day basis and requiring significant administrative input.

27. Conversely, the many Scottish-based businesses trading predominantly with euro zone countries could be expected to benefit from cost savings to an equal extent: so there would be both 'winners' and 'losers' over this issue.

28. Ultimately, in present circumstances it seems doubtful that Scotland would adopt the Euro. However, analysis by Business for New Europe of the EU Treaty legalities around Scotland remaining in/joining the EU are such that it would at least notionally have to commit to joining the Euro. The practical significance is that it would be difficult for Scotland to adopt a completely new currency.

Could an independent Scotland have its own national currency? What would be the practical consequences if it did?

29. There are several reasons (one noted above) why it would be difficult for Scotland to have its own national currency.

30. The experience of Ireland breaking from the link to sterling from 1978 onwards would suggest that it would be feasible for Scotland to have its own currency so that development should be studied in detail. However, world economic and financial situations have changed considerably in the intervening 34 years and the present day dependence on IT based financial systems will result in significant sterling separation and conversion costs.

31. The costs for businesses operating both in Scotland and in the rest of the UK would again be significant, as noted above, but without any savings for Scottish businesses trading with Eurozone countries.

32. Eurozone members Lithuania and Latvia, which are smaller economically than Scotland, have their own currencies – but such currencies in practice are not widely convertible internationally. A separate Scottish currency would impede cross-border trade with the rest of the UK to some degree – though this has not been insurmountable between Eire and Northern Ireland, for example.

Fiscal policy and taxation

What would be the fiscal consequences for other parts of the UK of an independent Scotland?

33. This is a critically important question for both an independent Scotland and the other parts of the UK, the answer to which requires accurate data. However, according to the paper "Devolving Corporation Tax in the Scotland Bill" prepared by the Scottish Government in September 2011: *"There are no separately collected figures on the amount of corporation tax raised in Scotland. Figures compiled by HMRC are not disaggregated below the UK level."* Lack of information on the current tax take in Scotland would be a shaky foundation on which to base projections of future tax revenues north and south of the border. Similarly, can current expenditure on state pensions and benefits be accurately split between Scotland and the rest of the UK? In the absence of detailed information estimates can be made, but they would only be as good as the underlying data and assumptions.

34. Likely concerns surrounding fiscal independence would include the additional costs and complexity that would be incurred. The main issues would be around cross-border trading and the incidence of double taxation. This has not been an issue to date, although may become so after Scotland is able to set its own tax rates. It will be necessary to decide on taxing rights, for example for income tax by reference to residence and domicile of individuals and for companies by where they are incorporated or managed and controlled. Other taxes might be based on where assets are physically located.

35. The UK currently has in excess of one hundred Double Taxation Conventions with overseas taxing jurisdictions. These have been individually negotiated to avoid double taxation by allocating taxing rights and to provide mechanisms for resolving disputes. It seems likely that an independent Scotland with its own tax system could no longer be a party to these Conventions and would need to establish their own.

36. In order to minimise possible problems of double taxation in the UK, it would be necessary for Scotland and the rest of the UK to enter into a comprehensive double taxation agreements in line with international practice. The key issue would be clarity: it would be essential for both countries' taxing rights to be clearly understood by Government, the tax authorities, businesses and individuals.

What would be the effects on other parts of the UK and on Scotland of an independent Scotland introducing different tax rates? How would businesses and households respond? What are the implications for the UK's and an independent Scotland's tax base?

37. Existing Scotland Act provisions have already created a framework for differential tax rates between Scotland and the rest of the UK from 2016 onwards. Our principal concern is that such differential tax rates may create serious, expensive, complicated and unintended consequences for both Scotland and the rest of the UK. Given these issues already exist, an independent Scotland might be better placed to avoid such unintended consequences through a more flexible and adaptable approach to fiscal policy than that permitted under the Act.

38. ICAEW's Tax Faculty has developed Ten Tenets for a Better Tax System: details are attached as an appendix. Our core principles are that tax should be certain, simple, and easy to collect and calculate. We advocate simplicity in tax systems as a basic core element to aid understanding, compliance and avoid unnecessary costs.

39. When measured against these principles, we are concerned about more complexity within the UK infrastructure and this raises questions about how tax would be collected and administered in an independent Scotland as well as the quantification of the transitional and ongoing costs of collection from a smaller taxable population. These complexities need to be mitigated on both sides of the border. We note the Scottish Government's plans to establish Revenue Scotland by 2015 to collect devolved taxes.

40. Different tax rates will inevitably result in taxpayers seeking to ensure they minimise taxes where possible. The extent of this will depend upon a number of factors, not just the actual difference in rates, but also the compliance costs and the ease of moving (for example residence status) between the two countries. For SMEs it is only likely to be a problem in the areas closest to the border, e.g. the north of North of England and the Scottish Borders, for businesses that currently trade cross border.

41. However, most large UK companies will have operations on both sides of the border and considerable additional administration costs will be incurred in keeping separate accounting records so that trading profits and losses can be allocated to Scotland an the rest of the UK in accordance with the double tax treaty referred to above. Note that such costs will be incurred even if the rates are the same on both sides of the border but if different rates apply there will be an incentive to reduce the overall tax burden by either adopting favourable transfer pricing policies or else moving activities from one country to another. If businesses are moved to take advantage of lower tax rates then this could have considerable impact on employment.

42. With differing tax rates, Scotland and the rest of the UK will inevitably become competitors at an international level, with both countries seeking to attract businesses and skilled individuals through the manipulation of fiscal policy. Such competition could be healthy and could benefit either or both countries. On the other hand, there is a risk that a 'race to the bottom' for the lowest tax rates could damage both countries and produce no long-term benefit for either.

43. In this context, ICAEW would like to see some form of mechanism in place for mutual co-operation between the two former parts of the UK designed to ensure that future fiscal policy is implemented responsibly and does not lead to a mutually detrimental outcome through low tax rates alone.

44. From a Scottish perspective, independence would provide the opportunity for a more flexible approach to design a Scottish tax system tailored to the specific requirements of individuals living and businesses operating in Scotland. This would enable Scottish tax rates, allowances and reliefs to be better targeted at the needs of businesses operating in Scotland, providing the means to boost the Scottish economy without resorting to a mere crude manipulation of tax rates.

What would be the impact on the rest of the UK's debt if an independent Scotland issuing debt were to face a sovereign debt crisis? Would the spill-over between the rest of the UK and an independent Scotland require fiscal rules to limit risk exposure? Would they work?

45. Lessons should be learnt from the current debt crisis in Europe. Fiscal rules to limit risk exposure would appear to be necessary and agreements would need to be put in place at the outset for the sharing of risk around flexibility in national economies.
46. The UK as a whole needs to be clear about risks and exposures at the beginning of any process of UK break-up. The old saying 'good neighbours build high fences' might well apply.
47. Potential cross-border migration stimulated by a sovereign debt crisis would also be a risk to be considered early in the process.
48. The over-riding need will be to build a robust framework of fiscal rules to survive future shocks and minimise risks. For example, there are questions about whether Scotland would keep sterling or adopt another currency. However, this question also needs to be looked at from the other end of the telescope. Given the lessons to be learned from the economic and financial turmoil in the Eurozone, the rest of the UK would look to reduce potential risks of a Scottish sovereign debt crisis. The rest of the UK might therefore insist that, as part of the price for independence, Scotland either accepts some oversight of its fiscal plans or else it must adopt another currency. Conversely, Scotland's financial and economic future would be closely bound up with, and largely governed by, the economic and financial position of the rest of the UK over which it had little or no control.
49. If Scotland suffered a sovereign debt crisis the impact on the rest of the UK would broadly be the same whatever currency Scotland adopted. The impact would reflect the loss of trade and other economic factors arising, including any moral obligation on the rest of the UK to contribute to assisting Scotland (ie similar to the UK contribution to the Irish bail-out).
50. The issue of sovereign debt sustainability is important as markets are not entirely rational and – partly for historic reasons – are relatively tolerant of sometimes high UK public deficits and public debt levels. It is not obvious that this would extend to the debt of a newly independent Scotland.

Economic structures, cycles and flexibility

Would the economies of the rest of the UK and an independent Scotland be likely to diverge or remain similar? If diverge, how would this affect the rest of the UK? Would economic cycles converge or diverge and what would be the consequences?

51. Based on experience following the independence of Ireland, it is likely that the two economies will naturally diverge, but given the on-going close connections it seems likely that the economic cycles will have some correlation. Indeed, it could be argued that the purpose of independence would presumably be for Scotland to diverge socially and economically from the rest of the UK. However, to what extent that might be and how it might vary in the economic cycle we do not know and much will depend upon the economic and fiscal policies adopted by each country afterwards.

Would independence for Scotland affect its trade / current account balance with the rest of the UK? What would be the consequences? Could non-tariff trade barriers emerge over time?

52. These questions are largely outside our area of expertise. As for non-tariff trade barriers, the position would depend to some extent on whether Scotland and the rest of the UK remain part of the EU and are therefore bound by the EU treaty freedoms that prohibit discrimination. It is possible that non-tariff trade barriers could emerge in time, for example regulatory requirements might diverge and become more onerous in one country, thereby creating a barrier of sorts.

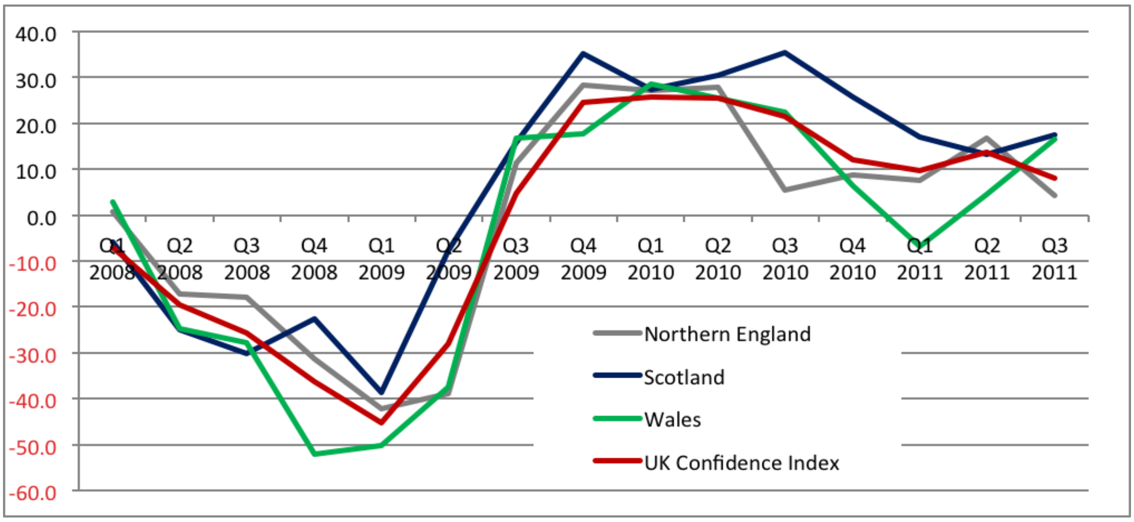
Would there be more movement of large company/financial institution headquarters from/to an independent Scotland and the rest of the UK? Would Scottish independence have any impact on labour markets across the UK?

53. Our most recent research (see Appendix II) on the potential effects on business of an independent Scotland shows no early indications that independence would affect UK businesses. However, three quarters of those asked with sites in Scotland think it important to keep their presence in the country for a range of reasons including brand credibility/history and the availability of local specialised skills (especially in oil and mining).
54. A range of factors affects multi-national organisations' decisions about where to base their headquarters. In general terms, these factors will include political and economic stability, a convenient location, currency, language, corporation tax rates and investment allowances and incentives, good infrastructure, and an accessible and educated labour force (as mentioned above). They will also value a cost-effective and efficient regulatory structure that is simple and certain and which enables them to plan and invest for the longer term.
55. Given the range of factors and no prior knowledge of what policies would be pursued by a Scottish Government, we cannot comment on whether an independent Scotland would, per se, be more or less attractive for large companies. However, it is inevitable that competition for foreign business and investment would become more overt.
56. In a previous consultation paper on corporation tax in Scotland, ICAEW Scotland discussed the dangers of focusing purely on a potential reduction in corporation tax rates as a way of attracting companies to the country (thus creating the potential 'race to the bottom' discussed above); while ICAEW Tax Faculty responded to the HM Treasury consultation document *Rebalancing the Northern Ireland Economy*. In our earlier response we set out some key issues including the need for simplicity, the implications of having more than one corporation tax system in the UK, the need for a detailed cost benefit analysis, and the implications for HMRC, as well as looking at alternative mechanisms and policy options that might work in Northern Ireland. The Committee may find it useful to read our previous documents, which are available on request.
57. No consideration appears to have yet been given to how Scottish Financial institutions would be regulated. Given this is a significant proportion of the Scottish economy, decisions would need to be taken well in advance of a referendum. Would the FSA (or successor organisations) – currently a UK organisation - remain as supervisor, or if a new regulator is to be established, how would it be funded, organised and would new rules be required? London is not a cheap and easy place to do business, yet it remains the primary financial centre in Europe. One reason for this is the strength of regulation. If Scotland were to start from scratch in terms of regulation, how long would it take to gain the trust of the business world?

What would be the impact on other parts of the UK if an independent Scotland were not flexible enough to respond to an economic shock? Does the rest of the UK adjust more or less rapidly to shocks than Scotland?

58. If Scotland kept sterling, the rest of the UK would be likely to require robust fiscal rules on risk exposure from the beginning of any new constitutional arrangements. Given current experience of the problems in the euro zone and its impact on the UK, it seems likely that an independent Scotland would be extremely vulnerable to economic problems in the UK, given that the rest of the UK is currently and will probably continue to be its largest trading partner, whereas the rest of the UK is likely to be less vulnerable if economic problems were confined to Scotland – especially if Scotland adopted a different currency.

59. Regarding the question of whether the rest of the UK adjusts more or less rapidly to shocks than Scotland, ICAEW can offer an insight from on-going research undertaken among ICAEW members in business throughout the UK, as follows:



ICAEW/Grant Thornton Business Confidence Monitor results Q1 2008 to Q3 2011

60. It is interesting to note the speed with which business confidence among Scottish businesses bounced back after the banking crisis that was so keenly felt in Scotland. The chart below picks out the confidence index for Scotland compared to the UK average. In 8 of the 10 quarters from Q4 2008 to Q1 2011, Scotland was the most confident geographical area of the UK. The implication is that Scotland has the capability to bounce back from large shocks, certainly carrying strong levels of confidence compared to the other country with devolved powers (Wales). However one must acknowledge that the banking crisis, while impacting on the Scotland 'brand', was then managed by the UK government and the Bank of England.

Lessons from other countries

Are there lessons from the experience of previous separations, such as Irish independence in 1922 and the break-up of Czechoslovakia in 1992, or where separation has been advocated, as in Spain and Canada?

61. In answering this question, we would point to current problems being experienced in the Eurozone, especially with Greece. In the light of this experience, a robust risk analysis would be required and steps taken to minimise them, bearing in mind that the risk may not be apparent until many years later, by which time the extent of the problems could have reached serious levels.

62. Evidence of partitions elsewhere may identify potential problem areas and how they were resolved. There should be a detailed study of the independence of Ireland and what lessons can be learned. Much would also depend upon what currency Scotland adopts. Further, the precise set of circumstances may be different – for example, Ireland stayed pegged to sterling for over 50 years after independence. More recent examples of partition include the Soviet Union, Czechoslovakia and Yugoslavia. All of these were undertaken in different circumstances but it may be possible to draw some useful lessons.

Other Comments

We would like take this opportunity to highlight some other comments and concerns received from our members in response to this consultation, which do not necessarily fit under the specific questions asked by the committee.

The effect of uncertainty

63. As many questions as possible should be explored in advance of a referendum, especially on apportionment of costs and income.

64. Whatever the outcome of the referendum, the uncertainty is likely to be a challenge, as well as an opportunity for business in Scotland. Potential and existing customers and partners will need to be reassured throughout the process.

65. Scenario planning on strategies should be encouraged by companies currently domiciled in Scotland. Key decisions would include where to locate head offices and this would impact on both the UK and Scottish Governments.

66. Evidence suggests that independence discussions are already creating uncertainty with businesses deferring or adjusting plans until certainty is secured. One example is the Feed-In tariff payments regime. One bank manager suggested that unless the loan could be repaid by 2016 they would not lend as they had no certainty the payments would be made by an (independent) Scottish Government.

Universities

67. Scottish Universities receive some £200m for research from the UK Research Councils. They also host major UK wide research facilities, e.g. the UK high Performance Computing facility hosted by the University of Edinburgh. Independence will raise questions about this and similar programmes. If this funding is lost and not replaced, research capacity in Scottish Universities will contract limiting the ability to attract leading researchers.

68. Independence will also change the status of English and Welsh students to those of EU students. This could result in reduced funding into undergraduate teaching in Scottish Universities and a possible reduction in numbers. The current Government estimate of fees from these students of more than £60m a year could be lost.

APPENDIX I

ICAEW TAX FACULTY

THE TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory**: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **Certain**: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. **Simple**: the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate**: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **Properly targeted**: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. **Constan**t: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. **Subject to proper consultation**: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. **Regularly reviewed**: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. **Fair and reasonable**: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. **Competitive**: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

APPENDIX II

Early attitudes to effects on businesses of “yes” vote in Scotland

Background

The Scottish referendum on whether to leave the UK is planned for autumn 2014, and the “Yes” campaign (pro-independence) was launched on 25 May 2012. In April/May 2012, ICAEW took a temperature check of early business sentiment among senior decision makers in 410 UK businesses with customers, suppliers or operations in Scotland. We looked at perceived impact on businesses of Scottish independence, or Scotland remaining in the UK but with greater control over its taxes and regulations (Devo Plus).

No early indications that independence would affect UK businesses

At this time (April/May 2012), 76% across the UK foresee no overall impact on their business of independence, with similar responses for Devo Plus (70%). This is largely because Scotland accounts for relatively little of their turnover, and/or they have the view that an independent Scotland would become just another export market.

Interestingly though, three quarters of those with sites in Scotland think it important to keep that physical presence. They cite a range of reasons;

- having invested in buildings there,
- brand credibility/history,
- the need to be physically close to customers, and
- some oil/mining companies have to be there, and they benefit from local availability of skills in their sector.

End.