

Finance Committee

The Scottish Rate of Income Tax

Submission from the Institute of Chartered Accountants of Scotland

About ICAS

1. The Institute of Chartered Accountants of Scotland (“ICAS”) is the oldest professional body of accountants. We represent around 20,000 members who advise and lead businesses. Around half our members are based in Scotland, the other half work in the rest of the UK and in almost 100 countries around the world. Nearly two thirds of our members work in business, whilst a third work in accountancy practices. ICAS members play leading roles in around 80% of FTSE 100 companies.
2. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. Evidence provided by ICAS aims to inform in a positive and constructive manner. ICAS is apolitical and will not take a stand for or against a particular political position. 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. Our representatives also contribute based on the collective experience of decades of work which ICAS members and staff have undertaken with both the UK and Scottish Parliaments and tax authorities on the shared agenda of a better outcome for all stakeholders.

General comments

3. ICAS welcomes the opportunity to give evidence to the Finance Committee regarding the Scottish Rate of Income Tax (SRIT), as requested in the call for evidence issued in May 2015. As a matter of policy, ICAS does not comment on the quantum of tax that may be raised by governments so our evidence is restricted to question 4 regarding the introduction of SRIT and whether it has been sufficiently well publicised.
4. However, when considering the setting of the rate for SRIT there needs to be recognition that the different components in the UK tax system are intricately intertwined; income tax and capital gains tax provisions for example are often designed to be complementary. Secondly, tax outcomes are subject to the behavioural response of taxpayers. As a result, the impact of tax changes, and the amounts to be collected, can be difficult to assess in isolation, and require sophisticated and informed scenario analysis.

Specific questions

- I. **What should the rate be for SRIT and why?**
 - II. **If SRIT should be above 10% how the additional funding should be allocated?**
 - III. **If SRIT should be below 10% how the reduction should be funded from existing expenditure?**
5. As noted above, we are unable to contribute to questions 1 - 3 because, as a matter of policy, ICAS does not comment on the quantum of income tax that may be raised by governments and whether this is sufficient or otherwise, or on whether to broaden the tax base or change the tax rates. These are political choices and for our elected representatives to decide.
 6. However, in setting a rate for SRIT there will always be a balance to be struck between the desire for taxes that are specifically designed for Scottish circumstances and local accountability, and taxes that provide ease of administration for taxpayers, businesses that collect taxes on behalf of the state, and the tax authorities. Ease of administration tends to come from uniformity and certainty.
 7. The cost/benefit analysis for taxpayers is also a key component of this decision. It would be possible to reduce or increase income tax but this could come with an operational cost disproportionate to the tax revenue generated.
- I. **Has the introduction of SRIT been sufficiently well publicised to employers and taxpayers.**
8. The SRIT is a rate that will be applied to, and collected as, part of UK income tax and it will be administered by HMRC. Interaction with Scottish taxpayers who are liable to pay the SRIT, including the provision of information, notices of coding, collection, compliance and pursuit of tax due, are matters for HMRC. For the majority, SRIT will be collected via payroll procedures under PAYE.
 9. Publicity and communications around SRIT is being undertaken by HMRC and ICAS has been pleased to attend a number of consultation meetings in relation to this. We understand that the main roll-out is to be in the autumn of 2015. It will always be difficult to judge the best timing for a publicity campaign; too soon and it may cause confusion or be ignored and therefore be wasteful of resources; too late and there will be a lack of awareness when it is required. HMRC is, however, well placed to judge this given the recent implementation of other payroll changes such as real time information. The publicity and communications strategy also requires different strands for different audiences of taxpayers, tax professionals, and payroll specialists.

Taxpayers

10. Anecdotal evidence suggests that there is a lack of awareness amongst the general public of the forthcoming Scottish Rate of Income Tax (SRIT) and its part in the overall package of taxes that are being devolved. In public usage the phrases 'Scottish taxes' or 'devolved taxes' tend to be used indiscriminately and there is great scope for confusion. To encourage accountability and an understanding of the devolution of tax powers it would be helpful if there was a wider awareness that:
- The Scottish Rate of Income Tax is simply a rate that will be applied to income tax, which will be levied on a UK based measure of income and remain the collection responsibility of HMRC and those who operate payroll taxes,
 - Further powers to devolve the setting of rates and bands are proposed in the Scotland Bill, and
 - More widely, the way in which the different devolved taxes work.
11. There is as yet, very little detailed information for taxpayers about the SRIT. HMRC has put considerable efforts into preparing materials for taxpayers who are employees and pensioners, who are paid through PAYE. Timing of the release of a public awareness campaign by HMRC is always difficult to judge and can be open to criticism for being too early or too late. And not all taxpayers take heed of messaging from HMRC.
12. It should also be recognised that PAYE is designed to withhold tax at source and 'to pluck the goose with as little hissing as possible': it is not designed to highlight the amounts of tax that a taxpayer is contributing, nor to separate out elements of the tax that have been withheld into Scottish and UK elements. Establishing procedures to do the latter may be burdensome and we understand that a decision has been made not to do so for all PAYE processes.
13. A wider public awareness campaign would be helpful so that there can be greater understanding and accountability, particularly if this was fronted by both the Scottish Government and the UK Government and it may be that the best time to do this is around the time of setting the rate of SRIT. The public should also be in a position where it is easy to find out SRIT. It would also be helpful to know how to contact HMRC where there are questions and uncertainties.
14. SRIT will be charged on non-savings income, in other words it is defined by what it does not apply to, and there is as yet no succinct term being used to say what is chargeable to SRIT, which does not assist in public messaging.
15. The impact of the SRIT on savings and dividends income of Scottish taxpayers should be outlined in the public information campaign. Scottish taxpayers may need to be aware of the possible differences in the rates of tax payable on their general income and on their savings and dividend income. In the UK Spring Budget it was announced that a new Personal Savings Allowance is to be introduced with effect from 6 April 2016. This

will apply across the UK and is estimated by HMRC to remove 95% of taxpayers from the charge to income tax on savings. Alongside the announcement in the Summer Budget about dividend income, this should ease the administration of tax for those higher rate Scottish taxpayers who receive savings and/or dividend income and would otherwise have had to account for further UK income tax through a tax return. Scottish taxpayers with significant levels of savings and/or dividend income will, however, have the additional complication and expense of reporting these to the UK tax authorities and ensuring that the right rates of tax are applied to their income.

16. For those taxpayers who are more mobile and where there may be questions regarding their status as a Scottish taxpayer, there should be early publicity that they may wish to keep day count records, and a diary, from the outset.

Employers and pension providers

17. A number of our members, in their capacities as agents and as employers, have expressed concerns about their role in the collection of SRIT and the lack of operational information about SRIT collections. It would be helpful if the materials that have been prepared for them by HMRC were issued as soon as possible. It is our understanding that employers are not liable for identifying Scottish taxpayers, because this rests with HMRC, but this needs to be made known to employers.
18. There also appears to be a lack of awareness amongst employers outwith Scotland that they may need to operate 'S' tax codes if they employ Scottish taxpayers. Communications, awareness raising and publicity across the UK will be important to ensure the smooth introduction and operation of the SRIT.
19. Employers have a collection role, with the need to operate PAYE, but it is not their responsibility to identify Scottish taxpayers or to provide information to employees about SRIT. Nevertheless, in practice, employers will have a role at the front line of collection because with the closure of HMRC offices, and the difficulties at times with HMRC call centres, employers are inevitably the first port of call for PAYE queries. HMRC is preparing supporting materials but, again, it would be useful to have these available as soon as possible.

HMRC guidance

20. HMRC has consulted about draft guidance on Scottish Taxpayer Status, which has been prepared for the use of HMRC and the external tax advisory and business community. ICAS members have a number of concerns about this draft guidance, which we have commented on, and we trust the guidance will be revised and reissued shortly.
21. We understand that further guidance is to be prepared in relation to service personnel and in what circumstances they will be considered to be a Scottish taxpayer, which is welcome.

22. The ICAS evidence on draft HMRC technical guidance on Scottish taxpayer status, July 2015, can be accessed at:
https://www.icas.com/_data/assets/pdf_file/0005/160196/20150724-Submission-SRIT-Technical-Guidance-on-Scottish-Taxpayer-Status-FINAL.pdf