

Scottish Parliament Finance Committee
Scrutiny of Scottish Rate of Income Tax ('SRIT')
Submission from Institute of Directors

Evidence & Comments

Introduction

In principle, the IoD's Scottish members are supportive of the introduction of the SRIT but are understandably concerned that its introduction does not impose additional costs on business unless these costs are purely incidental and immaterial. This concern focuses upon the competitive position of Scottish businesses in comparison to businesses in other parts of the United Kingdom, Europe and, indeed, globally.

HMRC Readiness for Introduction of SRIT

We are, of course, aware that HMRC remain confident that the required implementational processes and IT changes required before April 2016 will be in place. We are sceptical, however, that additional implementational issues will not emerge over the next four months which necessitate further implementational changes. Should this occur, we trust that sufficient time will be provided to businesses to identify and prepare any information required.

A particular concern remains the necessary changes to the HMRC self-assessment system a significant minority of our members have incomes from more than one source, often including both consulting income and employment income.

Whilst we appreciate that employers are not required to identify whether an employee (or director) is a Scottish Taxpayer or not, we have concerns that, because of more pressing business issues and priorities faced, many employers may not have reviewed the information and guidance published by HMRC on Gov.UK to the extent that HMRC anticipate this will have occurred. Our recommendation is that all Scottish employers ought to have been contacted by HMRC by telephone to summarise the necessary actions required post April 2016.

We assume that HMRC still intending to write to all identified Scottish Taxpayers (and potential Scottish Taxpayers) in December to ensure that they are aware whether or not they will be treated as a Scottish Taxpayer.

We were surprised at the relatively low annual running costs for the introduction of that HMRC which have estimated by HMRC (around £2-2.5m if the SRIT is set at 10% and £5.5-6m if another rate is set). These estimates seem low to us and we trust that if these running costs were to be exceeded, the additional costs would not be passed on to Scottish businesses, thereby making them less competitive.

Anticipated Behavioural Responses to Changes in SRIT

Assuming that we are interpreting Professor Bell's evidence¹ correctly, the bottom 60% of Scottish Taxpayers pay only 10% of the tax take whereas the top 10% pay 52% of the total tax take and the top 1% pay 21% of the tax take. These figures are similar to the percentages for the UK as a whole but, from a Scottish business perspective, there must, in principle, be a higher risk that an increase in the SRIT above 10% leads to emigration from Scotland to other parts of the United Kingdom as this might be viewed as a less significant decision than emigrating outside the UK. Similarly, in principle, there ought to be a greater incentive for migration to Scotland if the SRIT were to be set below 10%.

Despite often misguided and exaggerated commentary in the media focus upon the significance of tax planning/tax avoidance motives of businesses, many executive directors will, understandably and rightly, take account of the impact of tax costs on a similar basis to the impact of employment, property and IT costs.

Recent UK experience on changes to tax rates, especially those paid by higher income groups, demonstrates the significant impact of forestalling arrangements (rather than tax avoidance) and there is no valid reason to suggest that this would not occur if it were to be announced that the SRIT were to be changed from 10%. By way of an example, bonuses paid by SMEs are influenced by many factors such as business profitability and growth, remuneration paid by competitors, achievement of targets, employment disruption and, of course, the availability of adequate finance to pay bonuses. We trust that any forestalling measures which might be introduced if SRIT were to be changed would not focus unduly upon the tax outcomes by, for example, applying simplistic metrics to assess the amount of forestalling which might have taken place.

More generally we concur with Professor Bell's summary that *"there is a strong case for moving cautiously when considering changes to the higher rates of income tax in Scotland"*²

Employment Income, Self Employment & Personal Service Companies

Whilst a many of our members in Scotland are paid remuneration which is taxable under PAYE, some members are either self-employed consultants or have personal services companies. The 2015 Summer Budget introduced a dividend tax which, broadly, increases the taxation liability which arises upon the total dividends received by an individual in a tax year exceeding £5,000. This new tax is likely to influence the choice of the business entity at the margin. We note that the SRIT does not apply to dividend income. We trust that HMRC will not deem the interface between the dividend tax and the SRIT to be grounds to challenge the taxation consequences of the choice made by an individual of their business entity. In practice, the tax treatment generally only represents one of the factors involved alongside the broader commercial, legal and other financial factors drivers.

¹ Professor David Bell (2015) [Evidence to the Scottish Finance Committee on SRIT](#)

² *ibid*

It would be helpful if HMRC were to issue such an assurance prior to the introduction of SRIT in April 2016.

Communication to Businesses & Individuals Prior to the Introduction of SRIT in April 2016

We concur with the comments made by other business and professional groups that the communications concerning the introduction of SRIT have, to date, achieved a woefully inadequate knowledge and understanding of either the broad principles or more detailed provisions of SRIT. We recommend that communication is undertaken in early 2016 on the basis that most SMEs and individual taxpayers currently have no knowledge whatsoever of the structure or implications of SRIT.

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