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The ICAS Guide to Scottish Taxes

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Chapter 1: Background to Scottish taxes

The Scotland Act 1998 established the Scottish Parliament and devolved various powers to it. At that time, tax powers were limited to two measures, one being local taxation - council tax and non-domestic rates - and the second being the power to vary the basic rate of income tax by up to plus or minus three pence in the pound, known as the Scottish Variable Rate. The Scottish Parliament never exercised its power to vary the basic rate of income tax.

1.1 Taxes raised in Scotland, for Scotland's benefit

In 2009, the Calman Commission, formally established as 'The Commission on Scottish Devolution' by the Scottish Parliament and the UK Government, recommended that a number of UK taxes should be devolved to Scotland to make the Scottish Parliament more accountable for its spending. These taxes were Stamp Duty Land Tax, Landfill Tax, Aggregates Levy and Air Passenger Duty. This led to the enactment of the Scotland Act 2012, which provided for taxes on two types of transactions to be wholly devolved; these have been in place since 1 April 2015. They are Land and Buildings Transaction Tax and Scottish Landfill Tax. It also provided for the Scottish Rate of Income Tax (SRIT), the replacement for the Scottish Variable Rate, which became operational on 6 April 2016.

Following the Scottish independence referendum in September 2014, the Smith Commission was set up to review the possibility of extending further devolved powers to Scotland. The Smith Commission reported in November 2014 and was supported by all the main political parties in Scotland. It recommended that UK/Scottish shared control of income tax should continue but that the Scottish Parliament should be able to set income tax rates and bands, to be applied to the non-savings, non-dividend income of Scottish taxpayers. It also recommended that all income tax levied from Scottish taxpayers on non-savings and non-dividend income should be received by Scotland.

The Smith Commission proposals made it clear that the UK Parliament would continue to define the base of income tax, impose the charge to income tax, set the personal allowance, and tax savings and dividend income. The block grant would be adjusted accordingly.

HMRC continues to administer income tax, effectively working for two administrations, and receiving payment from the Scottish Government in return for collecting Scottish income tax.

The Smith Commission led to the Scotland Act 2016, which paves the way for Air Passenger Duty and Aggregates Levy to be devolved, and for VAT to be partially assigned to Scotland (in the form of 50% of VAT revenue estimated to have arisen from Scottish transactions) and, again, with corresponding reductions in the block grant. The introduction of the Scottish equivalent of air passenger duty, under the name of Air Departure Tax, was originally expected to go live in April 2018 but has been deferred by the Scottish government until issues have been resolved regarding the tax exemption for flights departing Highlands and Islands airports. At the time of writing, in March 2021, Aggregates Levy has not yet been devolved, nor has 'Scottish' VAT been assigned.

The Scottish Government produced a helpful explainer video in 2022: [Raised in Scotland, Spent in Scotland](#).

1.2 Paying Scottish taxes

Who is a Scottish taxpayer or, more pertinently, who will pay Scottish taxes depends on the nature of the tax.

Scottish taxes that are fully devolved and are charged on transactions in Scotland, such as a land transaction, will be paid by anyone entering into such a transaction.

Scottish income tax is paid by 'Scottish taxpayers' which, in broad terms, means those who are resident in the UK and have their main place of residence in Scotland. For the majority who are employees or pensioners and receive their income after PAYE, it is the responsibility of HMRC (rather

than employers) to apply 'S' codes for PAYE where appropriate (see chapter 4.1 for further discussion).

Assigned VAT is currently estimated by HMRC with assistance from the Scottish Government, based on an allocation method that determines an amount deemed to be raised in Scotland. Individual taxpayers and businesses are not expected to be involved in the allocation. VAT assignment was intended to begin in April 2019, with a one-year transitional period to test the modelling, prior to going live from April 2020. However, it has been delayed indefinitely due to problems with the methodology.

1.3 What exactly are “Scottish taxes”?

The phrase 'Scottish taxes' is used to cover a number of different allocations of responsibilities and powers, or assignment, in relation to different taxes, including:

- **Full devolution**, where total responsibility for the tax is devolved to the Scottish Parliament, such as taxes on land transactions and landfill and, in the future, air passengers and aggregates.
- **Partial devolution**, which involves joint responsibilities split between the UK and Scottish Parliaments. The UK Parliament is responsible for the tax base, in other words for what is considered to be income and how it is measured. The Scottish Parliament is responsible for setting the rate(s). Under the Scotland Act 2012 this was a single rate, the Scottish Rate of Income Tax, which was in place in 2016/17. However, from April 2017, the Scottish Parliament has had its powers extended so that it is responsible for all income tax rates and the bands. In both cases, the Scottish income tax rates are applied to non-savings, non-dividend income.
- **Assignment of taxes**, where the tax remains a UK tax with full responsibility for legislation and administration sitting with the UK authorities but some of the tax is allocated to Scotland, for example, as proposed for VAT.

Other taxes are not devolved at all, such as capital gains tax and inheritance tax. These taxes remain applicable across the UK, based on UK legislation in the taxes acts, and are collected and administered by HMRC.

National Insurance Contributions (not technically a tax) are not a devolved matter; they continue to be legislated for by the UK parliament and collected by HMRC on a UK-wide basis.

1.4 Local taxes and new taxes

There are also local taxes, which are used to fund local authority expenditure. The legislative framework applies across Scotland, but collection sits with the local authorities. These taxes are:

- Council tax
- Non-domestic rates
- Workplace parking levy (passed in April 2022)
- Transient visitor levy (passed in May 2024)

The Scottish Parliament can introduce new taxes in two different ways.

It can introduce local taxes that can be collected by local authorities: the introduction of levies on car parking (workplace parking levy) and tourism (transient visitor levy) were passed in 2022 and 2024 respectively. Due to the coronavirus pandemic these were put on hold. In due course, it will rest with each local authority to decide whether to implement either, both, or neither of these taxes.

The second possibility is to introduce new, Scotland-wide devolved taxes, but they require the agreement of the UK Parliament. So far, only one such tax has been introduced in addition to land transactions and landfill – a tax on wild fisheries. Aggregates tax and building safety levy are currently in the pipeline.

Chapter 2: Public finances in Scotland

In 1998, when the Scottish Parliament was established, Scotland was largely financed by what is known as a block grant and formula system. Revenue was raised by way of taxation at a central (UK) level but some of it was spent at a devolved level, with the amounts allocated as a block grant. The Barnett formula determines how the block grant changes from one year to the next. The term 'Barnett' is derived from Lord Barnett, who devised the formula in 1978, whilst serving as Labour Chief Secretary to the Treasury under Prime Minister James Callaghan.

The Barnett formula has no legal status and is merely a convention or methodology used by the Treasury. When there is a change in funding for services in England, the Barnett formula aims to give each devolved administration the same pounds-per-person change in funding. When a change is made to a UK Government department's budget, the Barnett formula takes the budget change, considers how comparable the services provided by the department are to those provided by the devolved administration, and applies a population proportion. This calculation is carried out for all UK departments and the results are added to the devolved administrations' block grants.

2.1 Devolved fiscal powers

The Scotland Act 2012 served to give Scotland more fiscal powers and introduce greater volatility in terms of public funding. The Scotland Act 2016 took these features further with another two devolved taxes, greater devolution of powers over the rates and bands of income tax, and the proposal to assign a proportion of VAT. The purpose of devolving these tax powers is so that Scotland's political decisions and economic performance will influence the amount raised and the Scottish Government will bear the potential benefit or risk of the amounts raised being more or less than budgeted for. Greater devolution of taxes is also designed to make the Scottish Parliament accountable to the Scottish electorate.

2.2 The fiscal framework agreement

There is a fiscal framework agreement signed between the UK and Scottish Governments (first published 25 February 2016). The Fiscal Framework was reviewed and updated in August 2023.

The fiscal framework, within which Scottish taxes provide some of the funding for the Scottish Government, has evolved considerably in recent years, and continues to do so, with the introduction of intergovernmental machinery to agree how the block grant is amended to take account of both devolved taxes and devolved expenditure such as certain social security payments.

Scotland's funding comprises: (i) the Barnett block grant, with (ii) adjustments subtracted to reflect UK revenues forgone, (iii) adjustments added to reflect additional devolved spending responsibilities, and (iv) devolved taxes that are raised in Scotland.

The fiscal framework includes mechanisms to make 'block grant adjustments' to revise the amount of the block grant. ICAS produced its unique 'Public Finances Accountability Guide' in April 2022 to how the UK and Scottish governments are held to account for their decisions on public finances, where the money comes from, how it is spent and prioritised and the results of audits of public accounts.

2.3 Scottish public bodies

Public bodies have been set up in Scotland, including:

- Revenue Scotland - to collect and manage devolved taxes
- A tax chamber within the Scottish tribunals system - to hear appeals regarding devolved taxes
- The Scottish Fiscal Commission - with a duty to prepare forecasts and assessments to inform the Scottish Budget.

Chapter 3: Which tax authority is responsible for what tax?

HMRC is responsible for the administration of all income tax, including Scottish income tax, which is then paid over to the Scottish Government. The Scottish Parliament can set the rates and bands for Scottish income tax, but that is all. Much of the collection is undertaken by employers and pension providers, operating PAYE and paying it over to HMRC.

For those who are self-employed, Scottish income tax is collected via the UK system of self-assessment. Part of the rationale behind the model used for partly devolving income tax was to retain the UK administration and collection mechanisms to minimise disruption and costs to all parties – taxpayers, businesses and governments.

VAT also remains the responsibility of HMRC.

3.1 Revenue Scotland

Revenue Scotland is responsible for the collection and management of the fully devolved taxes - Land and Buildings Transaction Tax and Scottish Landfill Tax and, in due course, Air Departure Tax.

With the introduction of the wholly devolved taxes in Scotland there needed to be a means of collecting and administering them, and a policy decision was taken to establish a new tax authority in Scotland. As a result, Revenue Scotland was established. The legislative framework was provided by the Revenue Scotland and Tax Powers Act 2014 (RSTPA 2014). Revenue Scotland is a non-ministerial department accountable to the Scottish Parliament, with responsibility for the collection and management of the devolved taxes.

Revenue Scotland works with two other public bodies in relation to some operational aspects – with Registers of Scotland in relation to Land and Buildings Transaction Tax and with the Scottish Environment Protection Agency (SEPA) for Scottish Landfill Tax. Air Departure Tax will be administered and collected by Revenue Scotland.

The powers bestowed upon Revenue Scotland are broadly similar to those held by HMRC, but care needs to be taken as there are some subtle, as well as other, more obvious differences. Note that the authorities are not comparable in size or operational processes.

The relationship between the tax authority and taxpayers in Scotland, and the relevant powers, duties and rights are laid out in the [Revenue Scotland and Tax Powers Act 2014](#). The devolved taxes are self-assessed, there are standard set time limits applying for amending a self-assessment or for the tax authority to issue an assessment and there is a penalty regime to encourage compliance and to prevent non-compliance.

Further information can be found on the [Revenue Scotland](#) website.

3.2 The Scottish legislative framework

The Scottish Parliament has enacted the following legislation in order to create the new devolved taxes and the legislative framework to manage them:

- The Land and Buildings Transaction Tax (Scotland) Act 2013
- The Landfill Tax (Scotland) Act 2014
- The Revenue Scotland and Tax Powers Act 2014
- The Air Departure Tax (Scotland) Act 2017.

3.3 The Scottish General Anti-Avoidance Rule (SGAAR): setting the tone

The Revenue Scotland and Tax Powers Act 2014 (RSTPA 2014) contains a general anti-avoidance rule, which applies to the wholly devolved taxes. Its purpose is to 'counteract tax advantages arising from tax avoidance arrangements that are artificial' and, more generally, to set the tone for taxpayer compliance.

The Scottish GAAR is loosely based on the UK provisions, although in the UK it is a general anti-abuse rule. There are a number of differences between the two but, broadly, the Scottish Parliament sought to set out a strong message that tax avoidance would not be tolerated. There is guidance on this on the Revenue Scotland website.

This messaging was reinforced in the 2020 Coronavirus (Scotland) (No. 2) Act in which there is a restriction on giving grants to businesses connected to tax havens.

3.4 Penalties, appeals and tribunals

Given that the devolved taxes are self-assessed there needs to be a mechanism to ensure compliance. The RSTPA 2014 contains a penalty regime, the key elements for the majority of taxpayers being penalties to ensure returns are submitted, and taxes are paid, on time. These penalties can only be mitigated if the taxpayer has a 'reasonable excuse' or 'special circumstances', each of which have specific meanings that have been fine tuned in UK case law and are also relevant in devolved tax cases.

There are a number of ways in which a dispute over a tax matter can be resolved with Revenue Scotland. As income tax is partially devolved and administered by HMRC, any disputes, queries or other business relating to it are handled by HMRC and are not covered in this guide. The RSTPA 2014 sets out a structure for resolving disputes, providing for mechanisms within Revenue Scotland for internal review or for participation in mediation. A taxpayer may go through these processes and thereafter may take their case to the Tax Chamber in the Scottish Tribunals, or the taxpayer may go directly to the Tax Chamber in the Scottish Tribunals.

The Tax Chamber has its own website should further information be required. There is also an Upper Tribunal for Scotland, which hears tax disputes. Note that the Scottish Tribunals only deal with devolved taxes, i.e. land and buildings transaction tax and Scottish landfill tax and, in due course, air departure tax.

There is the possibility that in future the administration of UK tax appeals may be devolved to the Scottish Tribunals – see s39 Scotland Act 2016.

3.5 Complaints

Revenue Scotland has a separate and distinct complaints process which is to be used to address unfair handling of a case, poor communications or unsatisfactory administration. If a complaint is not handled to the satisfaction of the taxpayer, then it can be referred to the Scottish Public Services Ombudsman (the final arbiter).

Chapter 4: Scottish taxes in brief

This chapter gives a brief outline of each of the ‘Scottish taxes’. It is divided into “National” taxes and “Local” taxes with further commentary on other areas of interest. National taxes are legislated for by the Scottish Parliament and overseen by Scottish Government. Fully devolved national taxes are administered by Revenue Scotland whereas partially devolved national taxes are administered by HMRC. Local taxes are legislated for by the Scottish Parliament and administered by Local Government.

National Taxes

4.1 Scottish income tax

- *Key legislation is found in:*
 - *The Scotland Act 1998, as amended by the Scotland Acts 2012 and 2016 – defines who is a Scottish taxpayer for income tax purposes, and*
 - *The Income Taxes Act 2007 – states the rules for tax bands and separates out non-savings, non-dividend income.*
- *Scottish Income Tax is effective from 6 April 2017; before this an earlier version, the Scottish Rate of Income Tax (a single rate), was in place for one year, 2016/17.*
- *Scottish income tax is charged on non-savings, non-dividend income, in other words earnings from employment and self-employment, pension income and rentals.*
- *Administered by HMRC, mainly through PAYE for those who are employed or pensioners, and through self-assessment for the self-employed.*
- *Scottish income tax revenue forecasts for 2024/25 – £18,844m according to the Scottish Budget 2024/25 Scottish Fiscal Commission forecasts. According to GERS, estimated revenue raised in 2023/24 was £18,691m.*

Scottish income tax is probably the most interesting tax to observe thus far, due to the number of taxpayers affected and amounts of revenue raised by it. From 2017/18, all income tax rates and bands for non-savings, non-dividend income are set by the Scottish Parliament.

Income Tax Bands	2024-25* £
Starter Rate – 19%	12,571--14,876
Basic Rate – 20%	14,877 – 26,561
Intermediate rate – 21%	26,562 – 43,662
Higher Rate – 42%	43,663 – 75,000
Advanced Rate - 45%	75,001 – 125,140**
Top Rate – 48%	Over £150,000**

*Where an individual is entitled to the standard UK Personal Allowance.

**As with the rest of the UK, those with earnings exceeding £100,000 will suffer a Personal Allowance reduction of £1 for every £2 earned over £100,000. Therefore, when income reaches £125,140 the personal allowance is fully withdrawn.

The Scottish Parliament needs to pass a ‘Scottish rate resolution’ to set the rate designated as the Scottish basic rate and any other rates of income tax to be paid by Scottish taxpayers on their non-savings, non-dividend income, for a particular tax year. To be effective, such a resolution must be made within 12 months before the start of the tax year to which it applies.

The Scottish taxpayer's personal tax computation has become more complicated. This is because income is split into that which is liable to Scottish income tax (SIT), and savings and dividends income, to ensure each part is being taxed according to whether it is devolved or reserved. This means that when dealing with a Scottish taxpayer's computation, parallel income tax computations may be required, applying the SIT bands first to non-savings, non-dividend income and then reassessing the available bands and rates when dealing with savings and dividend income.

Capital gains tax rates are reserved to Westminster and thus, based on the UK income tax computation.

HMRC prepared three technical notes on the interaction of Scottish income tax and the wider income tax regime, notably in relation to gift aid, pensions and trusts in [May 2012](#), [December 2014](#) and [November 2016](#). There is a further pensions newsletter issued in [February 2018](#).

The relationship between Scottish income tax and National Insurance contributions (NICs)

National Insurance rates and bands are applicable across the UK and remain reserved to Westminster. Therefore, when the higher rate income tax threshold in Scotland diverged from that in the rest of the UK, it ceased to be aligned with the NICs upper earnings threshold.

In comparative terms, this is held to be unfair by some commentators. Not only is higher rate tax in 2024/25 payable between £43,663 and £75,000 at 42%, but so is Class 1 NICs at 8% up to income of £50,270, i.e. an overall (effective) rate of 50% on earnings falling between £43,663 and £50,270.

The NICs and Scottish income tax thresholds are therefore misaligned; tax is devolved - but NIC is reserved.

Who is a Scottish taxpayer?

The Scotland Act 2012 gave the definition of a 'Scottish taxpayer' – this being a UK taxpayer who, in broad terms, has their main place of residence in Scotland. The Scotland Act 2012 inserted new sections 80D-80F into the Scotland Act 1998, defining who is a Scottish taxpayer for the purposes of income tax; this is applicable for both the Scottish Rate of Income Tax (in 2016/17) and Scottish income tax for 2017/18 onwards.

A Scottish taxpayer must be UK resident for tax purposes – an individual who is not UK tax resident cannot be a Scottish taxpayer. There are a number of tests to determine Scottish taxpayer status. If in the course of a tax year an individual is UK resident for tax purposes, they will be a Scottish taxpayer for that tax year, if they satisfy any of three tests:

- a) They are a Scottish Parliamentarian (Member of the Scottish Parliament (MSP)).
- b) They have a 'close connection' to Scotland through either:
 - o having only a single 'place of residence', which is in Scotland; or
 - o where they have more than one 'place of residence', having their 'main place of residence' in Scotland for at least as much of the tax year as it has been in any one other part of the UK.
- c) Where no 'close connection' to Scotland or any other part of the UK exists (either through it not being possible to identify any place of residence or a main residence) - through day counting.

Place of residence (something usually established by considering various factors, for example, where daily post is received, where pets are cared for, where doctors and dentists are located and where the individual is registered to vote) is key to establishing whether an individual is a Scottish taxpayer. There is [detailed guidance](#) provided by HMRC.

A Scottish taxpayer can update their own status with HMRC via their Personal Tax Account. Employed Scottish taxpayers should be in receipt of a coding notice from HMRC with a designatory 'S' prefix – which indicates that they have been deemed to be a Scottish taxpayer by HMRC. The National Audit Office estimates that around 80,000 people in the UK move into or out of Scotland each year, which generates work for HMRC and payroll departments: HMRC is responsible for

identifying who is a 'S' taxpayer and the payroll department must change the tax code when it receives a notification from HMRC.

4.2 Land and buildings transaction tax (LBTT)

Land and Buildings Transaction Tax (Scotland) Act 2013

- *Effective since 1 April 2015*
- *Administered by Revenue Scotland and Registers of Scotland*
- *LBTT revenue forecasts for 2024/25 are £730m (of which £209m from non-residential transactions, and £361m residential property plus £160m net Additional Dwelling Supplement) according to the Scottish Budget 2024-25.*

The Land and Buildings Transaction Tax (Scotland) Act 2013 provides the charge to tax. It is a tax applied to residential and commercial land and buildings transactions (including commercial purchases and commercial leases) where a chargeable interest is acquired.

No land and buildings transaction tax is payable on a domestic property worth less than £145,000¹ or a commercial property worth less than £150,000 because these fall into the nil rate band. However, all transactions over £40,000 are reportable to Revenue Scotland unless they are exempt. A first-time buyer relief was introduced in 2018 for properties with a value of up to £175,000 – the relief tapers away above that value.

With effect from 1 April 2016, Additional Dwelling Supplement (ADS) of 3% applied to the purchase of additional dwellings in Scotland (e.g. buy-to-let or second homes). This increased to 4% from 25 January 2019 and again on 16 December 2022 to 6% – the relevant legislation has been inserted into Part 3 and schedule 2A to the Land and Buildings Transaction Tax (Scotland) Act 2013.

A review of the purely operational aspects of ADS took place in 2022/23, including a call for evidence and views. The review did not consider whether the ADS should continue, its overall impact or the specific rate at which it should be charged. From 1 April 2024, a suite of important changes to LBTT ADS were introduced following extensive consultation, affecting:

- ADS replacement window on replacement of main residence – from 18 to 36 months;
- Exemption of “small ownership” shares of less than £40,000;
- Divorce or separation relief where an interest is required to be retained by way of a court order or similar agreement;
- A joint buyers’ relief in certain circumstances;
- A ‘single economic unit’ relief in certain circumstances;
- An inherited dwelling relief in certain circumstances;
- A relief for Local Authority purchases where the purchase is funded under s2 of the Housing (Scotland) Act 1988.

Tables of all LBTT the rates and bands for 2024/25 can be found on the Scottish Government’s website: Budget 2024/25 pages.

Note that both the tax return and the payment of the land and buildings transaction tax are required before the title to a property is registered by Registers of Scotland.

For further information see the Revenue Scotland website.

¹ As a result of Covid-19, Scotland’s Finance Minister announced that the Scottish Government would temporarily raise the nil rate threshold for Scottish domestic property transactions to £250,000 for the period 15 July 2020 – 31 March 2021

4.3 Scottish landfill tax

Landfill Tax (Scotland) Act 2014

- *The Scottish Landfill Tax (Administration) Regulations 2015 (SSI 2015/3)*
- *Effective since 1 April 2015*
- *Administered by Revenue Scotland and the Scottish Environment Protection Agency*
- *SLfT forecast for 2024/25 is £58m according to the Scottish Budget 2024-25.*

The Landfill Tax (Scotland) Act 2014 replaced the UK tax charge on disposals to landfill from 1 April 2015. The key features of the tax are that it is charged on a taxable disposal, which is a disposal of material as waste by way of landfill and at a landfill site.

The tax is levied by weight on the basis of two rates – a standard rate, and a lower rate for certain qualifying materials that are deemed to be less environmentally damaging. There are also a number of activities and materials that are exempt.

From 1 April 2024 the standard rate of Scottish landfill tax is £103.70 per tonne and the lower rate is £3.30 per tonne.

Permit or authorisation holders for all Scottish landfill sites, including in-house sites where producers of waste dispose of it themselves, are liable to pay Scottish landfill tax on taxable disposals. The tax is self-assessed but in its compliance activities Revenue Scotland is supported by the Scottish Environment Protection Agency (SEPA). For further information see the Revenue Scotland website.

4.4 Air departure tax

Air Departure Tax (Scotland) Act 2017

- *Originally expected to be effective from 1 April 2018, but now delayed*
- *To be administered by Revenue Scotland*
- *Estimated Scottish share of revenue income from APD in 2023/24 is around £250m pa according to GERS*

UK air passenger duty was expected to be replaced with air departure tax from 1 April 2018, but it has been deferred by the Scottish Government until issues related to state aid and the Highlands and Islands exemption have been resolved. The intention had been that air passenger duty (APD) would be 'switched off' in Scotland on 1 April 2018, with air departure tax (ADT) taking effect from that date. Indeed, the Air Departure Tax (Scotland) Act 2017 received Royal Assent in July 2017.

The UK Government has maintained the application of air passenger duty in Scotland in the interim, and the current air passenger duty rates continue to apply in Scotland.

As the name suggests, ADT is based on a charge on any aircraft operator or qualifying private jet that departs any Scottish airport, with some exemptions. The Scottish Parliament is responsible for policy and legislation as well as the rates and bands.

4.5 Scottish Aggregates Tax

- *The Scotland Act 2016 gives the Scottish Parliament the power to introduce a devolved levy on aggregates obtained in Scotland.*
- *Date of commencement: 1 April 2026*
- *Anticipated Scottish revenue income around £58m pa based on the Scottish Fiscal Commission's 2023 illustrative forecasts*
- *There are some FAQs on the tax on Revenue Scotland's website.*

The [Scottish Aggregates Tax and Devolved Taxes Administration \(Scotland\) Bill](#) was introduced to the Scottish Parliament in November 2023, and was approved by the Scottish Parliament on 1 October 2024. It received [Royal Assent](#) on 12 November 2024.

When it commences, the tax will increase the proportion of Scotland's budget raised from Scottish taxes.

The UK Aggregates Levy will continue to apply until the Scottish Aggregates Tax legislation commences.

4.6 VAT assignment

- *Key legislation is in the Scotland Act 2016*
- *Administered by HMRC on a UK-wide basis*
- *Estimated Scottish share of revenue income for 2022 is 4.54% or £7,053m in accordance with [Scottish VAT assignment 2022 - Official Statistics in Development - GOV.UK](#) as released on 14 November 2024.*

VAT assignment was intended to begin in April 2019, with a one-year transitional period to test the modelling, prior to going live from April 2020. However, it has been delayed indefinitely due to problems with the methodology.

The Smith Commission recommended that: 'The receipts raised in Scotland by the first 10 percentage points of the standard rate of Value Added Tax (VAT) will be assigned to the Scottish Government's budget. These receipts should be calculated on a verified basis, to be agreed between the UK and Scottish Governments, with a corresponding adjustment to the block grant received from the UK Government.'

The Scotland Act 2016 also provided for the first 2.5p of the reduced rate of VAT to be assigned. At the time of writing, there has been no change to the current position and there is nothing in the pipeline.

4.7 Scottish Building Safety Levy

The UK Government introduced a Building Safety Levy following the Grenfell Inquiry and in 2023, agreed to devolve powers to the Scottish Government to allow it to levy taxes to put specifically towards (i.e. hypothecate) Scotland's cladding remediation programme for Scottish residential buildings which need to be remediated where dangerous cladding or materials are found to be present.

Surveys of the quantity of buildings in Scotland together with the anticipated cost of remediation are being prepared at the time of writing. The levy funding will be raised from developers of new-build residential properties, equivalent to the [UK Government's Building Safety Levy for England](#).

It is anticipated that a Bill will be laid before the Scottish Parliament in May 2025 containing draft provisions for proposed legislation. The Scottish Government has estimated that around £30m of taxes will be raised by the measure.

Currently a series of consultations and round tables are taking place with stakeholders (including ICAS). Further information can be found on the [Scottish Government](#) website.

Local Taxes

4.8 Council Tax and Non-Domestic (Business) Rates

In 2020-21, the total amount of Council Tax billed (after Council Tax Reduction) was £2.675 billion, of which 94.8%, had been collected by 31 March 2021 according to the [Scottish Government's Council Tax Collection Statistics publication](#) of 22 June 2021.

The Non-Domestic Rates forecast for 2022/23 is £2,809m, according to [Scottish Budget 2022/23](#)

Council tax and business rates (also known as non-domestic rates) are levied locally by Scottish local authorities to fund the provision of local public services.

Council tax and non-domestic rates are areas where the Scottish Government has much more autonomy and policy has been less fettered by interaction with other UK taxes. With non-domestic rates, recommendations made following the Barclay Review of 2017 have been and are in the

The Transport (Scotland) Act 2019 (Part 7) introduced a discretionary Workplace Parking Licensing (WPL) power which is available to all Scottish local authorities under the banner of National Transport Strategy (NTS2). This has links to Scotland's stated commitment to reach net-zero by 2045. Royal Assent was received on 19 November 2019 but the measure was not brought in until 2022 due to covid lockdown restrictions.

- *The Act is supported by SSI2022/4 – The Workplace Parking Licensing (Scotland) Regulations 2022 which came into force on 4 March 2022*
- *Transport Scotland published guidance for local authorities on 30 June 2022*
- *The anticipated annual revenue for local authorities will be dependent on the size of the authority and the charges it wishes to levy on employers.*

process of being implemented, but there has been very little change to council tax over the years. However, following a freeze on Council Tax, for the first time since 2007, Scottish Councils will have complete flexibility to set their council tax rates going forward in 2022/23.

N.B. During the period of Covid-19, a number of initiatives were brought in by the Scottish Government to help businesses in the form of rates reliefs and grants.

4.9 Workplace Parking Licensing (WPL)

Sections 70-89, Part 7 of the Transport (Scotland) Act 2019 concern themselves with the Workplace Parking Levy, which is a discretionary power available to local authorities. It for each local authority to decide if they wish to utilise the power, and they can decide how to structure the charges.

The legislative provisions include the requirement to undertake consultation and impact assessments prior to implementation. Incoming revenues are ring-fenced and may be used to support local transport strategy measures.

Exemptions to the WPL are provided for in the legislation. Blue Badge holders, healthcare workers at NHS premises and parking places at hospices all qualify.

Where a local authority chooses to introduce a scheme, employers with car parking facilities (possibly with more than a set number of spaces – again this is at the Council's discretion) would be charged a licence fee based on a set fee per car parking space per annum. The Council can set the tariffs for the licence fees. The employer must pay the licence fee in full but can then choose whether to pass this on to employees or even visitors who use the car park.

The anticipated annual revenue for local authorities will be dependent on the size of the authority and the charges it wishes to raise. As an example, Glasgow City Council issued its 2022 Glasgow Transport Strategy plan which set out its intention to undertake a WPL feasibility study.

Further information is available on the Transport Scotland website.

4.10 Transient Visitor Levy (TVL) or 'Tourist Tax'

A Transient Visitor Levy (TVL) or 'Tourist Tax' is a charge levied on short-term visitors to a country or region.

As with the WPL, the TVL is a discretionary power which is anticipated to be available to all Scottish local authorities, and it is for each local authority to decide if they wish to utilise the power, and they can decide how to structure the charges.

The Visitor Levy (Scotland) Act 2024 was passed on 28 May 2024 and received Royal Assent on 5 July 2024. .

In September 2019, a consultation was issued by the Scottish Government that outlined the proposals for the introduction of a local discretionary Transient Visitor Levy (TVL). A response to the consultation was published by the Scottish Government in March 2020; however, any plans to proceed were put aside due to the pandemic.

Following inevitable delays due to COVID, in the announcements on 9 December 2021, the Scottish Budget documents confirmed that the Scottish Government would resume work on the Transient Visitor Levy proposal. National and local governments are expected to work together to formulate and agree a fiscal framework for collecting, administering and distribution of the receipts. The tourist tax is to be hypothecated – that is, specifically set aside and reserved to spend on tourism related matters.

The legislative provisions were passed by the Scottish Parliament on 28 May 2024, and work is ongoing with Local Authorities to establish the administrative frameworks to enable those Authorities who wish to raise it to collect the funding. The relevant commencement dates and further information relating to charges, exemptions and payment should be available on each local authority's website.

4.11 A note on single-use plastics in Scotland – A reserved tax with Scottish enforcement powers to ban their use under Scottish legislation

While Plastic Packaging Tax (PPT), which was introduced in the UK from 1 April 2022 is not a devolved matter, the Scottish Government has devolved powers over the environment, and they wished to place a ban on the use of all "problematic single use plastics" subject to certain medical exemptions for single use plastic straws, from 1 June 2022, following COP26 in October 2021. This required them to secure an exemption from the UK Internal Market Act 2020, which clashed with the Scotland Act 2016 in this regard.

Having secured the exemption albeit with a short delay, the ban will be most likely to affect caterers across Scotland as well as other sectors and is subject to enforcement by local authorities across Scotland. However, to avoid confusion, this is not a taxation matter – merely an enforcement power.

The Environmental Protection (Single-use Plastic Products) (Scotland) Regulations 2021 came into force on 1 June 2022. For further information, please see the Scottish Government website announcements.

4.12 Green freeports

Two green freeports were established in Scotland during 2024.

These are:

- Inverness & Cromarty Firth;
- Forth

According to the Scottish Government, "...the green freeports will be supported by up to £52 million in start-up funding and will benefit from tax reliefs and other incentives through a combination of devolved and reserved powers.

Applicants to become a green freeport in Scotland were required to demonstrate how they would contribute towards a just transition to net zero emissions by 2045 and create new, green jobs. They were also required to set out how they would support high-quality employment opportunities with fair work conditions at their core.

Further information can be found on the [Scottish Government's website](#), as well as the websites of each of the green freeports at [Inverness and Cromarty Firth](#), and [Forth](#).

A useful collection of guidance information on the green freeports set up phase can also be found at [GOV.UK](#) detailing numerous taxation aspects from seed funding to LBTT and non-domestic rates.

The ICAS Role

The Institute of Chartered Accountants of Scotland (“ICAS”) is the oldest professional body of accountants. We represent over 23,000 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.

ICAS has a public interest remit – a duty to act not only for its members but for the wider public good. Our technical experts work in a positive and constructive manner to advise policy makers on legislation and to raise issues of importance to our members, individual taxpayers and business alike.

Taxation is one such area of importance and ICAS has contributed, and will continue to contribute, to tax policy in Scotland, the UK and beyond.

This guide is designed to provide an overview of Scottish taxes. It is based on the legislation in place in October 2024. It includes the income tax rates and bands for 2024/25.

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This guide is prepared by ICAS Tax and endorsed by the ICAS Tax Board.

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Further reading

[The 2022 ICAS Accountability Map – UK and Scottish Public Finances](#)

[Government Expenditure and Revenue Scotland 2023/24](#)

[Scottish Budget 2024/25](#) on the Scottish Government website

Contacts:

Justine Riccomini – Head of Tax (Employment & Devolved Taxes), ICAS

Sharon Blain – Convener of the ICAS Devolved Taxes Committee

Alan Turner – Convener of the ICAS Tax Board



CA House, 21 Haymarket Yards, Edinburgh, UK, EH12 5BH
+44 (0) 131 347 0100
connect@icas.com
icas.com

 @ICASaccounting

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