Scottish Parliament

Finance & Public Administration Committee
Scotland’s public finances in 2023/24: the impact of the cost of living and public service reform

ICAS response

By 19 August 2022

About ICAS

1. The following submission has been prepared by the ICAS Tax Board.

2. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants and we represent over 23,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors.

3. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. 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.

Background comments

4. ICAS is grateful for the opportunity to contribute its views on this consultation, entitled "Scotland's public finances in 2023/24: the impact of the cost of living and public service reform".

General Comments

5. The current leadership campaign for a new UK Prime Minister is revealing that the remaining candidates have very different views on taxation and public funding. Scotland will need to be ready to manage the effects of potential major UK tax changes which might affect the Block Grant allocation or subsequent Barnett consequentials.

6. It is in times like these when importance must be placed on providing clarity, stability and transparency for Scottish citizens so that they are not placed at an unfair disadvantage when Budget announcements are delivered and public funding decisions set.

7. Five years ago, we saw Scotland's innovative and collaborative approach being showcased in 2017 when the Scottish Government issued its paper, 'The role of Income tax In Scotland's Budget', just prior to the Scottish draft Budget announcements of the same year. It would be helpful for all tax measures to benefit from this approach to policymaking.

8. Although we do not wish to comment on the Fiscal Framework in any detail, it has an impact on Scottish taxation and the inward revenue streams which enable public spending. The delays to the Fiscal Framework review have been unfortunate, and we trust that every effort will be made to ensure that this agreement is revised, updated and the highlights communicated to the wider public as soon as possible – thereby connecting the wider framework with tax policy considerations. This will add clarity and certainty and help Scottish citizens to understand where the various public funding sources are located.

9. In addition to providing specific responses to questions below, we would direct you to our 26 October 2021 response to the Framework for Tax consultation which contains further detailed commentary on our policy positions covering the issues raised in this call for evidence as they relate to taxation and which we consider to be relevant to it.

10. We have not responded to the questions posed in relation to spending priorities as this is outside our remit. We have instead chosen to concentrate on the questions relating directly to taxation matters.

Specific Responses to Questions

Q1.The Scottish Government's Resource Spending Review assumes that the current taxation policies are maintained while funding for health and social care and social security is prioritised. Are these the right priorities and approach for the Scottish Budget 2023-24 and until 2026-27?

11. In terms of the current taxation policies, ICAS has previously stated at the Citizens Assembly that we would like to see the Scottish Parliament/Government continuing to evolve from being mainly spending institutions to those in which equal weight and deliberation is given to levying the taxes necessary to fund public spending. The Framework for Tax is a pillar of stability and good policymaking and ICAS would encourage that to be followed to avoid unintended tax consequences.

12. The currently available Scottish tax powers are limited in scope and so it is reasonable to consider that some further thought might be given between 2023/24 and 2026/27 to Scotland's competitiveness and attractiveness to workers as well as to the size and capability of the tax base from which public funding is derived. Whilst individuals and businesses value tax stability, there is a need to be able to flex tax policies in response to what happens at Westminster and in the external environment before 2026/27.

13. The already devolved property taxes, namely LBTT, Non-Domestic Rates and Council Tax are potentially capable of being reviewed and improved upon being as they are harder to avoid, transaction-based taxes. The LBTT Additional Dwelling Supplement review should hopefully positively assist much-needed taxpayer engagement and buy-in, but it must be recognised that the revenue generated by LBTT is limited by its purely one-off transactional nature and its dependence on the relative performance of the property market. However, whilst improving efficiency and good governance in these areas is desirable, we recognise simply making efficiency and governance improvements would be likely to have a positive impact on the budget and public funding.

14. The above would place a focus on the role of tax in supporting Scottish public services and contributing to the common good.

Q2. The Scottish Fiscal Commission (SFC) notes that Scottish income taxes have grown more slowly than the rest of the UK and is forecasting Scottish taxes to be around £360 million less in 2023-24 than they would be without income tax devolution. The SFC is also forecasting that, as a result of forecast error, the Scottish Budget in 2023-24 could be £221 million lower. How should the Scottish Government's Budget 2023-24 respond to this challenge?

15. It is important to keep in mind that Scottish taxes do not sit in isolation – they are interwoven with the UK tax regime and there are connections and constraints which policymakers need to be mindful of.

16. For example, the income tax Personal Allowance which is set by Westminster and applies to all UK taxpayers, has the effect that a significant proportion of the Scottish population are lifted out of income tax altogether, which reduces the size of the tax base. In addition, the vast majority of Scottish taxpayers currently sit in the two lowest taxable income bands due to the median salary being £26,000 pa (2021).

17. It would be desirable to attract more higher rate and additional rate taxpayers to Scotland by creating roles and entrepreneurial opportunities at that earnings level. Specific tax policy around this may influence Scotland's attractiveness to individuals and families to an extent, but there are likely to be other non-tax considerations which would help to achieve this objective.

18. A forecast error is only to be expected when dealing with retrospectively supplied statistical information. The important point is transparency and understanding of how any true-up is performing year on year. Digitisation may assist here.

19. There are undoubtedly tensions and challenges arising from the size, shape and potential mobility of the Scottish income tax base, which need to be factored in when developing tax policy, particularly if there is increasing divergence from the rest of the UK. ICAS would support the transparent modelling of different policy options in this regard.

Q3. How should the Scottish Government respond to inflationary pressures and the cost of living crisis in its Budget 2023-24?

20. ICAS cannot respond to this question as it is outside of our remit – other than to note the points we have made in our responses to other questions on the size and capability of the Scottish tax base at paras 11 and 15-18 inclusive, above, and to highlight the need to consider the very important role of domestic and non-domestic local government taxation in crafting the response.

Q4. The Spending Review identifies key areas of reform over the lifetime of the Parliament to support its priorities in the Spending Review, including delivering efficiency savings across the public sector. How should the Scottish Government approach each of these areas to achieve efficiencies while also maintaining effective public services?

- **digitalisation**
- **maximising revenue through public sector innovation**
- **reform of the public sector estate**
- **reform of the public body landscape**
- **improving public procurement**

21. In terms of the digitisation point, Making Tax Digital (MTD) should represent an opportunity to improve the taxpayer experience if done well. HMRC and Scottish Government must work together to ensure Scotland is not left behind. Ideally, Scotland will be built in to HMRC's MTD projects to ensure Scottish Taxpayers receive timely, relevant and good service; this would also potentially enable the Scottish Government to benefit from any efficiency/effectiveness boost in tax administration through digitisation, and simultaneously supply the Scottish Fiscal Commission with additional sources of current data for forecasting purposes.

Q5. How effective do you think these reforms will be in delivering efficiency savings in the Scottish Budget 2023-24, and beyond? If you have additional or alternative priorities for achieving efficiencies (for example within your public sector area), please provide details.

22. ICAS cannot respond to this question as it is outside our remit. Our comment on digitisation refers.

Q6. What impact will the Spending Review priorities have on the delivery of national outcomes in the National Performance Framework?

23. Given the priorities assigned to health and social security, the outcomes relating to Health and Poverty should fare better than any of the other nine outcomes, but otherwise ICAS cannot comment on this question as it is outside our remit.

Q7. How should the Scottish Government target spending in its budget to achieve net zero targets?

24. ICAS cannot respond to this question as it is outside our remit.

Q8. How has the Scottish Government reflected its commitment to fiscal transparency in the Spending Review and how can it best ensure that spending in the Budget 2023-24 can be properly identified and tracked?

25. Studies such as The Tax Education Gap of 2019 have shown there is a clear interaction between understanding and perceptions of fairness. Educating people on tax affairs can help to inform them and set the foundations for a UK tax system in which people understand how much they pay and why and become engaged as active contributors. ICAS published its Public Finances Accountability Guide in April 2022 to encourage increased fiscal transparency and accountability.

26. The Spending Review documents are of course publicly available but there is still more that can be done to explain the detail to the general public so that complex issues are presented to all Scottish citizens in a way they can easily understand, such as infographics, explainer videos and suchlike. The communications plan which was being set up before the pandemic could be reignited now to fulfil this purpose.