The Chartered Institute of Taxation (CIOT) is grateful for the opportunity to meet with the Economy, Energy and Tourism Committee as part of the ‘Inquiry into Scotland’s Economic Future Post-2014’. This brief paper sets out our thoughts on the approach that should be adopted when designing tax policy and systems, including the importance of:

- Education about tax;
- Taking a holistic approach and not simply looking at tax policy in isolation;
- Taking a balanced approach, that is, balancing the rights of taxpayers against the needs of revenue for the Government; and
- Taking into account the practicalities of dealing with the tax system.

At the outset, we wish to stress that the CIOT is an educational charity (see below). Our expertise lies in the area of tax, especially practical aspects and we do not offer comment on the economy.

We believe that the following key principles ought to be borne in mind in the design of tax systems: certainty, simplicity, fairness, stability and consultation.

We note that the Scottish Government wishes to base Scotland’s tax system on the design principles of a modern and efficient system as set out by the Fiscal Commission: simplicity, neutrality, stability and flexibility. These overlap with the principles of Adam Smith. We agree with these principles, which largely match our own, but note that there is a tension and therefore a balance to be found between some of them.

Education
As an educational charity, we (together with our colleagues in the Association of Taxation Technicians and the Low Incomes Tax Reform Group) believe passionately that tax education is of major importance. It plays a vital role in developing a tax compliant population.

We believe that tax education should start at an early stage and it should be included in Scotland’s financial education strategy. We are pleased to note the Scottish Government’s proposal for a Financial Capability Strategy and this is a project that we would be willing to assist with.\(^1\)

Holistic approach
The tax system interacts with various other systems, but in particular the welfare benefits system. It is essential to take into account such interactions when

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\(^1\) The CIOT’s Low Incomes Tax Reform Group has recently launched a new ‘Tax Guide For Students’ website ([http://www.taxguideforstudents.org.uk/](http://www.taxguideforstudents.org.uk/)), which aims to help students in Higher Education and Further Education and those who support them. In addition, as part of the CIOT’s wider education strategy, we are creating resources and working with other organisations to assist with tax education in schools and colleges.
developing tax policy and designing tax systems; too often the UK’s tax and welfare systems work against one another.

By way of example, there is a European Commission consultation on the taxation of public bodies and exemptions in VAT legislation for activities in the public interest, such as medical care and education. It is argued that abolition of those exclusions and exemptions for VAT will not only increase tax revenues but also reduce complexity in the VAT system. However, this could increase complexity in the benefits system and demonstrates why it is important to take a holistic view. We encourage a consultative approach to achieve this.

**Balanced approach**
Governments are naturally concerned to protect revenue and to collect all the tax imposed by tax law. Nevertheless, it is important to balance the rights of taxpayers against the measures needed to protect the revenue. The proper way of increasing revenue for the tax authority is either a change in the tax base or an increase in rate. A constructive relationship between tax authority, state, tax adviser, tax agent and taxpayer can be nurtured by avoiding the use of pejorative terms when discussing taxpayers and agents or advisers. Overall, the adoption of a collaborative approach is the best means of achieving the Government’s taxation objectives.

The CIOT will always have as an objective achieving good tax law: law that achieves the right balance between the financial needs of government and the rights of taxpayers. At the same time, we believe taxpayers have the right to obtain appropriate tax advice of their choice, to enable them to achieve best use of reliefs and exemptions in the tax code and thus pay the right amount of tax.

We do not doubt that avoidance, abuse and fraud occur. Unfortunately, the countering of these behaviours can have a detrimental effect on tax law: its design, simplicity and certainty.

By way of example, long before the UK Government delivered its cash accounting scheme for small businesses, we had advocated a simple scheme for small businesses. The Office of Tax Simplification then proposed a scheme but what emerged was tax legislation that ignored many of the practical views of tax specialists and resulted in a far more complex scheme.

**Practicalities**
Tax policy should take account of the practicalities of administering the tax system it creates. The CIOT believes in making tax systems as simple as possible. This simplifies administration and is more cost-efficient for taxpayers and the tax authority. It also increases certainty and helps to achieve fiscal neutrality. This is well-known to the CIOT’s members, who assist taxpayers in meeting their tax obligations on a daily basis. Nevertheless, we recognise that a balance is required between other objectives and simplicity. We note below some issues that may arise post-2014.
A VAT reduction on repairs and maintenance work to help culture and heritage is suggested.\textsuperscript{2} While such a reduction may meet its objective, there are likely to be practical difficulties for both taxpayer and tax authority in determining repairs and maintenance that qualifies for the VAT reduction.

As a result of further devolution of taxes or independence, cross-border issues will need to be considered by many taxpayers, for example individuals who live (and work) in Scotland, but are employed by a UK employer with a UK payroll. There will be others in the reverse situation. This creates a need for excellent communication and education in relation to tax.

We are concerned about the stated policy of reducing the rate of Corporation Tax by up to three percentage points.\textsuperscript{3} This could produce a ‘race to the bottom’ with the UK matching Scottish rates. Corporation Tax is a relatively small tax source. The cost of labour to businesses is far greater, and if other policies, such as the minimum wage proposals, result in an increase in labour costs, this could outweigh the Corporation Tax gain to an investor. Another concern is that it does not appear to tie in with other visions set out by the Scottish Government, such as building social cohesion, sustaining public services and joining up tax and welfare benefits policy.

Membership of the European Union (EU) entails obligations that can impact on tax decisions. While some taxes, for example VAT, Customs Duty and Excise duties are the subject of specific EU tax legislation, other taxes not directly subject to EU tax legislation may be constrained by other principles of EU law, notably provisions relating to state aid and the fundamental freedoms. The Scottish Government has already experienced the problem in relation to the Aggregates Levy where there is ongoing litigation relating to the issue of state aid. In essence, reductions in the rate of taxation for a specific activity may be seen as state aid in certain circumstances. This can lead to uncertainty for businesses.

**The Chartered Institute of Taxation**
The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT’s work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members’ experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT’s comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

\textsuperscript{2} Page 315, Scotland’s Future (2013).
\textsuperscript{3} Page 120 Scotland’s Future (2013).
The CIOT’s 17,000 members have the practising title of ‘Chartered Tax Adviser’ and the designatory letters ‘CTA’, to represent the leading tax qualification.

Chartered Institute of Taxation
March 2014