Agenda

• Practicalities and Timing
• General Policy Objectives
• Tax Priorities
• Proposals for Key Business Sectors
• Other Proposals
• Emerging Issues and Reaction
Independence Day: Tax practicalities

• On Independence Day - 24th March 2016:
  o Nothing changes - Scottish tax system remains as per UK
  o May 2016 - Scottish Government elections; after which...
    o ... the new Government launches its manifesto tax and spending policies
• HMRC continues transitional tax collection/administration till Revenue Scotland takes over.
• Personal tax admin should transfer to Revenue Scotland in first Parliament.
• Fundamental work required to streamline the collection of corporation tax which therefore will take longer to transition
But in the meantime...

Many changes relating to the tax system will be in place before 2016:

- Land and Buildings Transaction Tax
- Landfill Tax
- Revenue Scotland & Tax Powers Act 2013
- DOTAS regime and GAAR?
The White Paper: General policy objectives

- Four principles will characterise the tax system – **Simplicity**, **Neutrality**, **Stability** and **Flexibility**.
- Align tax and welfare systems more closely and design a more efficient and simpler tax system with less scope for avoidance.
- Use tax policy to support wider economic aims such as developing growth sectors, widening the export base and attracting investment.
- Focus on SMEs with suggestions of reducing compliance burden and adjusting the tax system to suit Scottish corporate tax profile.
- Tax-based incentives that can be applied to investment in, and income from, R&D.
- There is: “...no requirement to raise the general rate of taxation to fund existing levels of spending”.
Six priorities to support the Scottish economy for the first session of independent Scottish Parliament (May 2016 – May 2021?)

1. **Increase personal tax allowance**, benefits and tax credits in line with inflation

2. **Reduce corporation tax** by up to 3% below the UK rate

3. **Cut Air Passenger Duty** by 50% (0% if possible in future)

4. **End** UK Govt. proposals for *married couples’ tax allowances*.

5. **Examine** need to increase SME’s *NI employment allowance*.

6. **Simplify tax system** to a target £250m annual revenue gain.
The White Paper: Proposals for Key Scottish Business Sectors

Oil and Gas

• Decommissioning relief in the same manner and at the current rate.
• Consider enhancements to the tax regime to maximise recovery rates, incentivise production and encourage exploration.
• No plans to increase overall tax burden.
• No changes without consultation and the aim of long-term stability in the regime.
Financial Services

• Common Sterling zone with UK to facilitate cross-border trade.
• Continue support for tax-free savings such as ISAs and to use tax to incentivise savings.
• Scotland will inherit the UK system for Real Estate Investment Trusts (REITs) and other investment structure. Changes might be made by future governments but current government ‘recognises the positive impacts of such schemes.’
• No comment on existing tax regime for banks, insurers, asset managers.
The White Paper: Proposals for Key Scottish Business Sectors

SMEs

- Cut compliance costs for SMEs.
- Examine the need for an increase in NI employment allowance and enhanced capital allowances for SMEs.
- Potential tax concessions for those investing in SMEs e.g. through chargeable gains system
- Tax based incentives applied to either R&D expenditure or income from investment in R&D.
- Continued lowering of business rates
The White Paper: Proposals for Key Scottish Business Sectors

Inbounds

• Assumption that existing double tax treaties remain in force.
• New treaty required for ‘new’ outbounds/inbounds’.
• Reduced corporation tax rate to increase investments and attract jobs to Scotland.
Scottish Income Tax – due to take effect April 2016 but would be superseded in the event of a ‘yes’ vote. Residence test may remain as basis for income tax regime.

Rates and allowances would track UK until after the elections of May 2016.

Basic rate allowances increase by inflation.

Collected by HMRC in same way as currently until some point after May 2016.

Rules over returns, penalties and taxpayers’ rights may change as well as rates.

Residence based on time in Scotland.
The White Paper: Other Tax Policies

Fuel duty

- Examine benefits of a fuel duty regulator mechanism to stabilise prices.

VAT

- Inherit UK system and then amend.
- Suggestions that compliance simplified for SMES (e.g. fewer returns)
- Possible reduction in VAT for repairs and maintenance expenditure
The White Paper: Emerging Tax Issues & Reaction

• Concern over corporate group relief for losses between Scottish & UK Companies post Independence.

• Complexities arising from UK Companies operating in the future with Scottish branches, and vice versa.

• Inward investors attracted by current UK corporate tax regime; how will a Scottish tax system compare?

• Potential increases in unrecoverable VAT for partially exempt groups/companies post independence.

• EU & Currency will impact tax
The White Paper: Emerging Tax Issues & Reaction

- Individuals/employees spending significant time working cross border UK – personal tax residence/permanent establishment issues

- Ability of individuals to move to their favoured tax regime

- Corporates considering how they might restructure to their favoured tax regime.

- Hesitation of current investment in Scotland

- Ignorance of taxes devolved under the Scotland Act
... nothing will remain unchanged

Post ’98  |  Today  |  Referendum  |  Transition  |  Future

Devolved Scotland  |  Scotland Act  |  ‘YES’  |  NEGOTIATIONS
• Fiscal & Currency  
• Regulation  
• EU membership  
• National debt

‘NO’  |  RETURN TO DEVO NEGOTIATIONS
• Further Income Tax  
• Corporation Tax  
• Borrowing Powers  
• Welfare  
• APD

New negotiations  |  INDEPENDENCE

REVISED SETTLEMENT