ICAS SUBMISSION TO THE SMITH COMMISSION ON THE DEVOLUTION OF FURTHER POWERS TO SCOTLAND

30 October 2014
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Executive summary

ICAS has a duty to act in the public interest on debates of national importance. This submission to the Smith Commission aims to inform the process for further devolution in a positive and constructive manner.

Further devolution is a complex and delicate balance. This submission sets out how we think further devolution can be achieved within the broader context of the UK’s single economic, currency and regulatory market, in order to increase the accountability of the Scottish Parliament and facilitate economic growth.

Our key messages are:

Accountability of the Scottish Parliament

- Constitutional amendments should be considered which establish the Scottish Parliament as a permanent and irreversible part of the UK Constitution;
- The Scottish Parliament should be made more accountable to Scottish taxpayers;
- More use should be made of the powers which are already devolved;
- The system for scrutinising and challenging legislation in the Scottish Parliament must be strengthened;
- A Scottish Office of Budget Responsibility should be established to improve the scrutiny and accountability of the Scottish Parliament in relation to fiscal powers.

Retention of the single UK market

- The UK’s single economic and currency union and regulatory framework – and the single market in savings and investment - should be retained;
- The benefits of further devolution of powers should outweigh the additional cost and complexity involved;
- Administrative burdens on businesses trading cross-border should be minimised.

Economic growth and job creation

- Air Passenger Duty could usefully be devolved to allow Scottish airports to be more competitive and open up more direct routes to new export markets;
- Power could be devolved to allow the setting of a minimum wage for Scotland;
- The Scottish Parliament’s borrowing powers could be increased to facilitate increased investment in infrastructure, so as to create jobs and generate wealth in the future;
- Strong support for a durable settlement for the longer term which provides a stable platform for business to encourage investment and economic growth.

 Devolution of tax powers

- Tax powers should only be devolved where they generate benefits which outweigh the cost and complexity of doing so, bearing in mind the amounts of tax likely to be generated for the Scottish Parliament;
- Further devolution of powers over income tax rates and bands could readily build on the Scotland Act 2012 powers which are to be implemented in 2016;
- Further devolution of income tax would need to be implemented on a step by step basis to avoid problems in implementation and unintended consequences;
- Variation of VAT rates within a member state is prohibited by EU law;
- Devolution of corporation tax would carry a number of complex cross border complications for both businesses and Government;
- It would be possible to assign to the Scottish Parliament amounts equivalent to Scottish VAT receipts and/or Corporation tax receipts.
Practicalities of devolution

- To ensure a durable settlement, devolution of further powers to Scotland should be on a coherent and consistent basis with the devolution of powers to other parts of the UK;
- Sufficient time needs to be allowed in due course for the proper consideration of the proposals for further devolution and for public consultation, and a realistic timetable set for implementation;
- Consideration should be given as to whether the Scottish Parliament should cascade appropriate powers and responsibility down to local authorities.

Ipsos MORI survey of ICAS members in Scotland

As part of the preparation for this submission, ICAS commissioned Ipsos MORI to survey our members in Scotland. We obtained a 14% response rate, with 1,268 members submitting their views. The results of the survey are included at Appendix 1.

Key messages from the survey include the following:

- Significant support (69%) for the Scottish Parliament making more use of its existing devolved powers;
- 88% of members believe that increased accountability for the Scottish Parliament is a key factor in considering whether taxes should be devolved; and
- 68% of members favoured some further devolution, although views were varied on the extent of devolution.
1 INTRODUCTION

1.1 ICAS welcomes the opportunity to submit its response to the Smith Commission which is tasked with establishing a Heads of Agreement on the devolution of further powers to the Scottish Parliament. During the lead up to the Scottish independence referendum, ICAS sought to inform the debate on a number of important issues. Our submission to the Commission is intended to help inform the decision as to what, if any, additional powers could be devolved.

1.2 The Scottish independence referendum held on 18 September resulted in a decisive vote for Scotland to remain an integral part of the United Kingdom. Prior to the referendum the leaders of the main Westminster parties pledged substantial further devolution of powers to the Scottish Parliament and the continuation of the Barnett formula. The proposals for further powers to be devolved therefore need to be taken forward in the context of Scotland remaining part of the United Kingdom, and we support the outcome objectives which were agreed at the 22 October meeting between the Commission and the political party representatives.

1.3 Whilst we recognise the political significance of the above pledge, in section 2 of this paper we highlight the substantial powers which are already devolved to the Scottish Parliament. Furthermore, the Scotland Act 2012 resulted in significant further tax powers being devolved to the Scottish Parliament, and these are due to be implemented in 2015 and 2016. We believe there is a low level of awareness across the Scottish electorate on the extent of existing devolution and the further devolution already in progress, and public awareness needs to be raised in this respect.

1.4 We understand the calls from the Scottish Government for greater social justice and the creation of a fairer society in Scotland. Key to achieving these objectives are:

- Improving the accountability of the Scottish Parliament to Scottish taxpayers; and  
- The creation of jobs and the generation of wealth, through economic growth.

1.5 In seeking to increase the accountability of the Scottish Parliament to Scottish taxpayers, we recognise the desire to make the Parliament responsible for raising a greater proportion of its expenditure budget in taxation revenue, through the devolution of further taxation powers and the possible assignation of tax revenues collected in Scotland.

1.6 This submission reflects the results of an ICAS members’ survey conducted by Ipsos MORI in October 2014. The results are set out in Appendix 1.
2 DEVOLUTION – THE CURRENT POSITION

2.1 The UK has been a very successful economic and political union for over 300 years. The Scotland Act 1998 which established the current Scottish Parliament and the Scotland Act 2012 have devolved substantial powers to the Scottish Parliament. We believe it is a useful starting point to highlight those powers which are currently devolved to Holyrood and those which remain reserved to Westminster before giving consideration to what future powers should be devolved. It is also noted that devolution is the default position, so unless a matter is specifically reserved in legislation as a function of the UK Parliament, then it is devolved to the Scottish Parliament.

Table 1: Summary of devolved and reserved powers

<table>
<thead>
<tr>
<th>Devolved powers</th>
<th>Reserved powers</th>
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<tbody>
<tr>
<td>Agriculture, forestry and fisheries</td>
<td>Benefits and social security</td>
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<tr>
<td>Education and training</td>
<td>Immigration and nationality</td>
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<tr>
<td>Environment</td>
<td>Defence and national security</td>
</tr>
<tr>
<td>Health</td>
<td>Foreign affairs</td>
</tr>
<tr>
<td>Housing</td>
<td>Employment</td>
</tr>
<tr>
<td>Law and order (including the licensing of air weapons)</td>
<td>Broadcasting</td>
</tr>
<tr>
<td>Local government</td>
<td>Trade and industry, including competition and customer protection</td>
</tr>
<tr>
<td>Sport and the arts</td>
<td>Nuclear energy, oil, coal, gas and electricity</td>
</tr>
<tr>
<td>Tourism, economic development and financial assistance to industry</td>
<td>Consumer rights</td>
</tr>
<tr>
<td>Some aspects of transport, including the Scottish road network, bus policy and ports and harbours</td>
<td>Data protection</td>
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<tr>
<td>Social work</td>
<td>The constitution</td>
</tr>
<tr>
<td>Planning</td>
<td>Fiscal, economic and monetary system</td>
</tr>
<tr>
<td>Law and home affairs, including most aspects of criminal and civil law, the prosecution system and the courts</td>
<td>Transport (not particular to Scotland) including railways, transport safety and regulation</td>
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<tr>
<td>The police and fire services</td>
<td>Medical ethics: abortion; human fertilisation and embryology; genetics; xenotransplantation and vivisection</td>
</tr>
<tr>
<td>Natural and built heritage</td>
<td>The civil service</td>
</tr>
<tr>
<td>Statistics, public registers and records</td>
<td>Equal opportunities</td>
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<tr>
<td>Certain Income tax raising powers (enhanced by The Scotland Act 2012)</td>
<td></td>
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<tr>
<td>Drink driving and speed limits</td>
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1 House of Commons Library Standard Note SN/PC/04744 ‘The Commission on Scottish Devolution – the Calman Commission, 4 June 2010, Helen Holden (Adapted from)
Assessment of devolution

2.2 We support the findings of the Calman Commission in relation to how devolution has worked in the last 15 years (We note that Calman only considered the first 10 years of devolution):

The evidence we have had is that the division of responsibilities in the Scotland Act was well thought through and works well in practice.

Implementation of Scotland Act 2012 devolved tax powers

2.3 The Calman Commission’s proposals culminated in the enactment of the Scotland Act 2012 which introduces further devolved taxes, which are to be in place from 1 April 2015, and the new Scottish Rate of Income Tax (SRIT) that will be charged from April 2016. Therefore significant changes to the existing devolution model have already been made but, as yet, have not come into existence.

2.4 We note that opinions polls appear to show that there is demand from a sizeable proportion of the Scottish population for further devolution of powers from Westminster to Holyrood. It is however questionable as to whether the extent of forthcoming additional devolved powers under the Scotland Act 2012 is known.

2.5 ICAS members have been actively engaged with the Scottish Government to contribute to the shaping and fine tuning of the new devolved tax powers in the Revenue Scotland and Tax Powers Act and the two devolved taxes, Land and Buildings Transaction Tax and Scottish Landfill Tax. Tax changes in particular can take time to implement; indeed it will be three years from when the Scotland Act 2012 granted powers to devolve stamp duty land tax to Scotland until the replacement land and buildings transaction tax starts to be collected and therefore expectations around tax devolution need to be established accordingly.

2.6 We have sought to promote awareness of the forthcoming devolved taxes, which are to be in place from 1 April 2015, and the new Scottish Rate of Income Tax (“SRIT”) that will be charged from April 2016. It will be levied on Scottish taxpayers (as defined according to tax residence – a different concept from tax domicile) but notably it does not apply to savings income. Whilst the SRIT remains a UK tax, the rate will be decided by the Scottish Parliament. Another feature with these new ‘Scottish taxes’ (the two devolved taxes and SRIT) is the lack of general awareness about them.

2.7 In particular, it would be helpful if there was a wider awareness of the SRIT, and that there are already measures in place so that Scottish politicians will be setting a significant proportion of the income tax levy for Scottish taxpayers from 2016 onwards. We recommend that there should be an immediate public awareness campaign led by policy makers. It should also include greater awareness of the operational consequences, such as decisions about establishing who is a Scottish taxpayer and that responsibility for collection will fall on payroll operators to operate ‘S’ payrolls.

2.8 The broader operational issues relating to SRIT have been identified and discussed in a Technical Note issued by HMRC in May 2012. However, as ever the difficulties are in the detail and the practical consequences for charities and pension providers in particular, together with administrative solutions (including ignoring any devolved tax consequences) are now well understood. Nevertheless, our members have already expressed concerns about the preparedness of HMRC to operate SRIT fully and effectively from 6 April 2016; we are currently awaiting an update to allay fears in this area.

Accountability and devolution of further powers

2.9 One of the main arguments put forward for a change to the status quo is for the Scottish Parliament to be held more accountable to the Scottish public by making it more responsible for the income raised to fund its expenditure. Per the Government Expenditure and Revenue (GERS) figures for 2012/13, total public expenditure in Scotland was estimated to be £65bn.
£39bn of this expenditure was spent by the Scottish Government and local councils. Total Scottish public sector revenue, inclusive of a geographical share of North Sea revenue, was estimated to be £53bn. The revenue raised by taxes controlled by the Scottish Parliament (i.e. Council tax and non-domestic rates) was £4bn. Therefore, the Scottish Parliament only has control over 7.5% of the tax revenues generated in Scotland. In terms of the expenditure which it spends, it only has control over raising 10.3% of that amount.

2.10 The question also has to be asked as to what level of revenue the Scottish Parliament needs to be responsible for, for this perception in relation to its apparent lack of accountability to be mitigated. Per the GERS figures for 2012/13, £10.9bn is the estimated amount of income tax collected that relates to people resident in Scotland and likewise VAT receipts of £9.3bn are estimated to be generated in Scotland. Even if income tax was to be fully devolved and estimated Scottish VAT receipts assigned to Scotland, this would still leave the Scottish Parliament only being responsible for controlling 45.53% of the total tax revenues relating to Scotland.

2.11 We have set out our views in this paper on the possibility of greater devolved powers in relation to the following areas:

- Constitutional issues, scrutiny, accountability and oversight (section 4)
- Taxation and welfare (section 5)
- Economic growth and job creation (section 6)
- The state pension; (section 7) and
- Economic regulation (section 8)
- Charity related matters (section 9)

2.12 Whilst we have not responded directly to the questions posed by the Smith Commission we have sought to ensure that our views on these specific issues are encapsulated within this submission.

2.13 We would highlight that devolving a power by itself will have no impact. It is how policies are applied in utilising that power which will determine the impact for example on Scotland’s economic performance. Whilst any tax could be devolved one has to consider the overall impact of doing so. We would again refer to the work of the Calman Commission which stated:

In an economic Union devolving taxation could introduce serious economic inefficiencies, and the UK tax system is comparatively administratively efficient for taxpayers and government. We do not want to undermine or distort the efficient UK single market or create undue compliance costs.

The UK is an economic Union with a very integrated economy, with goods and services traded within it all the time. We are absolutely clear that this economic Union is to Scotland’s advantage and in considering how devolution should develop we have been very careful not to make recommendations that will undermine it. Many devolved powers are important for economic growth, and are most effectively run by the devolved bodies, but the Scottish Parliament and Government cannot run a separate macro-economic policy without threatening the benefits of this economic Union. This is also important for taxation, because the scope to have different rates of tax inside a single economy is limited.

2.14 In some cases, there could be more efficient and joined up implementation of policy where currently separate powers relating to a similar area can be brought together under the responsibility of one Government and where policy decisions can therefore be aligned.

2.15 We recognise the urgency with which discussions on devolution of additional powers are taking place. However, we would recommend that in due course full consideration and consultation takes place in relation to the proposals being made, in order to avoid the risk of unintended adverse consequences.
3  FUNDAMENTAL PRINCIPLES

3.1 ICAS calls for the devolution proposals from the Smith Commission to be based on an agreed set of principles. Ideally those proposals would be clearly set out in timed stages, over a pragmatic timescale, so that any changes in powers can be intelligently formulated, properly considered and consulted upon. The best legislative outcomes are based on clear longer term objectives, with properly considered and consulted on legislative proposals. There seems to be a widespread expectation that devolution of further powers will be delivered quickly, but expectations need to be managed and time allowed to make sure that this is done in a sensible, planned manner and that the risk of unintended consequences is minimised.

3.2 ICAS is generally supportive of the agreement from the first meeting of the Commission on 22 October that the eventual outcome should:

- form a substantial and cohesive set of powers;
- strengthen the Scottish Parliament within the UK;
- bring about a "durable but responsive" constitutional settlement, which maintains Scotland's place in the UK;
- not be conditional on the conclusion of other political negotiations elsewhere in the UK;
- not cause detriment to the UK as whole or its constituent parts;
- cause neither the UK or Scottish Government to gain or lose financially simply as a result of devolving a specific power;
- be compatible with international obligations, including EU law, and be agreed with a "broad understanding" of potential costs.

3.3 In particular, we strongly support the need for a durable settlement for the longer term, which provides a stable platform for business, to encourage investment and economic growth. In our view, any long term solution for Scotland needs to be placed in the context of, and be consistent with, UK wide constitutional changes, and the fourth outcome objective needs to reflect this.

3.4 The result of the recent referendum showed that the majority of the people in Scotland wish to remain part of the union of nations that is the United Kingdom. This commitment to the UK has three major consequences:

- **Constraint on devolution of powers**
  Scotland will remain in the UK’s economic union, reflecting the deep integration between the economies of Scotland and the rest of the UK — and there must therefore be a continuation of the single system of economic and fiscal management and the single currency, so that capital and economic flows are unrestricted within an optimal currency area. The devolution of further powers to the Scottish Parliament over fiscal affairs must ultimately be constrained by the stability requirements of the currency union.

- **Risk pooling and redistributive advantages**
  Most matters relating to welfare redistribution, namely taxation, pensions and welfare payments are currently managed by the UK state. This ensures that the risks associated with illness, unemployment and old age are shared across the whole of the union, and it allows for some redistribution of wealth from the stronger to the weaker local economies within the UK. The devolution of more powers to the Scottish Parliament for spending on social programmes must be carefully considered within the risk pooling and redistributive advantages of the current system.

- **Fiscal and monetary policy**
  The UK Parliament must continue to have responsibility for fiscal and monetary policy and for redistributive social programmes. The uncodified nature of the constitution of the UK gives rise to the risk of misunderstandings and tensions between the nations of the union. To build stability for the longer term, a set of principles which underpin the UK’s
economic, social and political union should be agreed and documented by all the nations of the UK.

3.5 ICAS members strongly believe that a principles based approach should be adopted in this debate. For the purposes of this submission, we have adopted five principles to provide a comprehensive basis for assessing whether and which specific powers should be devolved to Scotland. These are as follows:

(i) Devolution of powers should not undermine the UK’s single economic and currency union and regulatory framework, nor the single market in savings and investment across the UK;

(ii) Devolution of further powers to Scotland should be considered by reference to devolution of powers to other parts of the UK, on a coherent basis and avoiding inconsistencies;

(iii) The benefits of further devolution of powers should outweigh the additional cost and complexity involved, both on a transitional and an ongoing basis, and should impose minimal administrative burdens on businesses trading cross-border;

(iv) Devolution of further powers should result in greater accountability of the Scottish Parliament within a reasonable timeframe;

(v) Devolution of tax or welfare powers should give greater alignment with and support for powers already devolved.

3.6 Although the timetable for the Smith Commission is very tight, it is important that in due course, sufficient time is allowed for the proper consideration of the proposals for further devolution and for public consultation. Similarly, the implementation timetable needs to allow time for the necessary systems build or adaptation, and also communication with all those affected, whether in Scotland or in the rest of the UK.

3.7 To provide confidence and certainty for the business sector and the Scottish electorate, and to manage expectations on speed of delivery, it will be necessary to publish a clear roadmap for the transition on how the devolution proposals adopted will be implemented.
4. CONSTITUTIONAL ISSUES, SCRUTINY, ACCOUNTABILITY AND OVERSIGHT

Scottish Parliament – Relationship with UK constitution and Westminster

4.1 In line with the pledges given prior to the referendum, consideration needs to be given to the constitutional amendments that are required to ensure that the Scottish Parliament will be a permanent and irreversible part of the UK constitution. There will be a need for flexibility to cater for constitutional changes to the UK, in order to ensure that the Scotland arrangements can represent a durable part of those wider arrangements.

4.2 The Calman Commission proposed the establishment of a standing joint liaison committee of the UK and Scottish Parliaments to oversee relations and to consider the establishment of subject specific ad hoc joint committees. The Joint Exchequer Committee was established in 2012 primarily to address the powers in the Scotland Act 2012. We believe that further consideration should be given to this recommendation and the scope of the established joint working arrangements with the objective of establishing a broader inter-governmental framework.

4.3 As proposed by the Calman Commission, we believe consideration should also be given to enhancing the present Finance Ministers’ quadrilateral meeting or similar to incorporate representatives of the devolved jurisdictions and that the scope of its discussions should be widened to cover not just expenditure but also taxation and macro-economic issues.

Scrutiny and accountability of the Scottish Parliament

4.4 The current unicameral structure for the Scottish Parliament was designed when it was envisaged that no single party would have a majority in the Parliament and that Scottish Governments would always be coalition governments. It is doubtful as to whether it is fit for purpose when one party has a parliamentary majority, and so can influence the Committee structure which takes on the main scrutinising, challenging and revising role in the development of legislation. Further, with the increasing devolution of powers from Westminster – from the Scotland Act 2012 and as a result of the current devolution considerations – and the increasing volume of legislation which this is likely to bring, we question whether the existing legislative structure and processes have the capacity to provide the necessary degree of scrutiny and challenge to ensure a satisfactory quality of legislation which is capable of achieving its desired policy outcomes. We therefore call for a constitutional review to be undertaken of the Scottish Parliament’s legislative processes and its capacity to scrutinise the expected volumes of legislation in the future.

4.5 With the devolution of taxes from the Scotland Act 2012 and with the likely devolution of further taxes arising from the current process, we call for the creation of a Scottish Office of Budget Responsibility (SOBR) (or a significant enhancement of the role and resources of the proposed Scottish Fiscal Commission), which would improve the scrutiny and accountability of the Scottish Government and the Scottish Parliament in relation to the exercise of fiscal powers.

Accountability of UK regulatory bodies to the Scottish Parliament

4.6 As discussed in section 8, to maintain trust in the UK financial system and capital markets, the powers of the Financial Conduct Authority, Prudential Regulatory Authority, Financial Reporting Council and Competition and Markets Authority should continue to be exercised on a UK basis. There is a rationale for enhancing the accountability of each of these regulatory bodies to the Scottish Parliament, in relation to their activities in Scotland.
Devolving powers to local councils

4.7 In the spirit of devolution, consideration should be given as to whether the Scottish Parliament should cascade appropriate powers and responsibility down to local authorities. The rationale supporting the case for cascading such powers is similar to that for devolving powers from Westminster to Holyrood, i.e. that this could lead to greater local accountability and more informed decision making at the local level.
5 TAX AND WELFARE POWERS

Introductory comments

5.1 Consideration of tax devolution requires recognition of the fact that the different components of the UK tax system are intricately intertwined, so that it is difficult to consider the main taxes in isolation. Nor can tax be viewed separately from other matters such as national insurance contributions, or independently of taxpayer behavioural consequences. The devolution of taxes therefore runs the risk of greater cost and complexity, wider tax differentials and increased scope for tax avoidance or even tax evasion. Operational aspects need to be addressed for the tax authorities, for Scottish and other UK businesses, and time allowed for effective implementation.

5.2 It would be possible to devolve all or some aspects of any tax. Our comments below reflect members views and highlight some of the challenges which would need to be addressed in relation to specific taxes.

5.3 In terms of the amounts of tax revenues generated in the UK, the most important taxes are income tax, national insurance contributions (“NIC”) and VAT. Although corporation tax featured in discussions during the referendum debate, the revenues generated from corporation tax are much lower. Consideration should be given as to whether the cost and complexity of devolving specific taxes exceeds the benefits sought, bearing in mind the amounts of tax likely to be generated by each tax for the Scottish Parliament.

5.4 Further devolution of income tax powers could readily build on the Scotland Act 2012 powers which are to be implemented in 2016. In particular, some of the restrictions over the Scottish Rate of Income Tax (“SRIT”) might easily be lifted to provide flexibility on income tax rates and potentially bandings, whilst leaving the structure and legislation around income tax as a UK matter, administered by HMRC. More extensive devolution of income tax would involve greater challenge but could then be implemented in stages with the related complexities addressed at each stage. The challenges relating to the devolution of income tax are considered below.

5.5 Variation of VAT rates within a member state is prohibited by EU law. However, it would be possible to assign to the Scottish Parliament an amount equivalent to Scottish VAT receipts (estimated as necessary).

Need for cost-benefit analysis

5.6 Ninety four percent of ICAS members surveyed agreed it was important that any further tax powers devolved to Scotland should maximise benefits in relation to cost. Such benefits would include the amount of the tax receipts, but may also include the non-financial benefit of greater local accountability for the devolved taxes - and should outweigh the additional cost of setting up and operating those powers. As examined in a previous ICAS paper, the greater the extent of tax devolution the greater the likely cost to taxpayers in areas such as new IT systems, restructuring HMRC staffing, and taxpayer data extraction.

Assessment versus principles identified

5.7 If taxes are to be devolved then those which would seem to fit best into the principles identified at 3.5 above (deliverability with maximum benefit relative to cost considerations and minimal business administration) are property and land taxes and income taxes. Land and Buildings Transaction tax is already devolved, as is Council Tax. Income tax is by far the biggest generator of tax revenue and is relatively predictable as, by and large, levels of employment over time are relatively stable and people are relatively immobile.

5.8 By 2016 HMRC will need to have the capability of identifying Scottish taxpayers for income tax purposes. This was in the past a major hurdle to the devolution of taxes or elements of taxes, and also to the obtaining of precise information on the likely number of Scottish
taxpayers and likely amounts of tax which could be raised. Consequently, it would be easier to seek further devolution of these taxes which relate to individual taxpayers, as that base will already have been identified by 2016.

5.9 Without devolving complete taxes, there are different levels of devolution which may be possible. Using income tax as an example, it would be possible to devolve any or all of the following areas of responsibility: (i) rates (ii) bands (iii) personal allowances (iv) inclusion of earned, or earned and investment income. The consequences of each of these would need careful consideration. The first few of these could, as currently envisaged, be undertaken by HMRC through notices of coding primarily. The more extensive the changes, the more likely it would be that significant investment in a separate tax administration regime would be required. In order to meet our principles set out above, devolution of income tax should not involve full powers over the tax base. What is both feasible, and supported by ICAS members, is devolution of income tax rates and possibly bands.

5.10 There should, however, be some limitations as to scope. For example, the inclusion of investment income within the ability to vary income tax rates would impose costs and complexity on banks and other deposit takers if the basic tax rate for investment income was to differ between different parts of the UK. The impact on pension providers has already been the subject of extensive evaluation as referenced in the HMRC Technical Note of May 2012.

5.11 The interaction between taxation and commercial considerations also needs to be addressed. For example, if income tax as it relates to investments, savings and dividends is devolved the attractions of the single UK savings and investment market may be affected, and this, in turn, may reduce access to the full range of financial products which currently offers a real and significant benefit for Scottish consumers as well as those in the rest of the UK.

5.12 Care must be taken to ensure that decisions on devolution of powers will not lead to commitments that cause significant disruption to employers and tax authorities and which have not been adequately thought through. Despite the devolution of certain tax and powers in countries such as Canada, USA and Australia, these are not necessarily appropriate comparisons for the UK due to the integration of the economies of the home nations and because the starting point in the UK is one of an integrated tax system. Any additional layer of tax administration is in danger of adding costs and complexity.

Incremental development and staged implementation

5.13 HMRC and also other Government departments that are responsible for large operational processes, such as the Department for Work and Pensions, have learned that large scale change is best dealt with on a step-by-step basis. This is particularly so when working with computerised processes. There have been too many large IT projects that have turned out to be unwieldy or have failed. This, combined with the significant change programmes currently under way in HMRC at the same time as staff numbers are being reduced, suggests that the devolution of taxes to Scotland, or elsewhere in the UK, should be undertaken on a staged basis. The Smith Commission may wish to set out the ambition and scope of devolving certain taxes but we recommend that the implementation should be phased in over a number of years. Ideally, the SRIT planned for 2016 should be permitted to settle in, say over two years, before there is further devolution of income tax.

5.14 Operational aspects are of crucial importance in delivering any policy. The importance of operational systems and functionality can be seen in delivering, say, the Universal Credit welfare reforms or in waylaying implementation of policy as happened with the Scottish Variable Rate provided for in the Scotland Act 1998, which has never been levied. Whilst operational difficulties should not be used as an excuse to prevent delivery of policy that the public desires, the operational possibilities do need to be part of the consideration. Given the extent of policy changes and staff cuts at HMRC, and its role in delivering any form of tax devolution, HMRC’s capabilities and implementation issues need to be identified and addressed as soon as possible in support of the chosen objectives.
Employer costs

5.15 Businesses are *de facto* the main collection agents for Government of payroll taxes and VAT. The administrative burden on businesses should be considered and mitigated - including the necessary learning about the various changes, adaptation of business systems and reporting mechanisms, as well as the provision of support and advice to employees.

Income tax

5.16 Detailed consideration of devolved tax powers was undertaken by the Calman Commission, whose analysis and conclusions remain valid today. Accordingly any next stage in the further devolution of income tax powers to the Scottish Parliament should start with income tax rates and potentially bandings, whilst leaving the structure and legislation around income tax as a UK matter.

5.17 The devolving of power over income tax rates, and bands, will be likely to result in different rates being applied in different parts of the UK. This may lead to more local accountability between tax and spend. It may also influence taxpayer behaviour. For instance, if income tax becomes more onerous, taxpayers may seek to convert sources liable to income tax into something else that is liable to, say, corporation tax or capital gains tax. This could be further aggravated if corporation tax rates too were to be lowered. Or there could be further demand for tax planning if income tax was devolved but NIC remained reserved. There have been strenuous anti-avoidance measures in recent years to prevent the exploitation of differences between income tax and national insurance which could be re-opened if income tax in some devolved jurisdictions was permitted to diverge.

5.18 Standard tax planning around employees, the self-employed and small companies can be driven by the differential in tax and NIC costs for employees compared with the self-employed, and the differential in tax rates, combined with the different timings of payment, between income tax for the unincorporated business and corporation tax for the incorporated business. There are also different tax consequences if a shareholder/director is paid via dividends or salary, or retains profits and eventually sells the company for a capital gain.

5.19 There needs to be careful consideration of the issues and problems around this. For a number of years tax practitioners and business have called for the greater alignment of income tax and national insurance, which is unlikely to be met if income tax rates are devolved but national insurance is not. The interaction between income tax and national insurance and between taxes and the welfare system is very intricate. The Smith Commission may not have sufficient time to fully analyse the ramifications of proposals to devolve some elements of this. An alternative approach could be to consider a more radical separating of tax and national insurance but, again, this will need time to properly evaluate.

5.20 The possibility of tax planning consequences arising out of the devolution of certain taxes needs to be factored into the proposals. The Revenue Scotland and Tax Powers Act 2014 introduced a General Anti-Avoidance Rule for fully devolved taxes that is different from the UK General Anti-Abuse Rule, and sets out to take a stronger stance against tax avoidance. There is a danger, however, in setting the right tone about compliance and public duty if the rules are overly complicated, the law permits different opportunities, and there are confusing messages about anti-avoidance.

Interaction between tax and other policy areas

5.21 A tax system works on a number of complex and interrelated principles and interactions. The success of Scotland’s tax system depends on it being an integrated and coherent part of the country’s wider economic, legal and constitutional package. The Scottish tax system which will result from any further devolution in addition to that arising from the Scotland Act 2012 needs to take account of these factors as well as any constraints from EU membership.
5.22 Care needs to be given to the interaction of taxes on investments, savings and dividends. For example, a considerable input into any business investment decision may be the tax implications around both income tax and capital taxes. Small business decisions are invariably tied into long term pension and retirement planning for the owners. Personal investment decisions are made with regard to both income tax and capital gains tax considerations. It follows that a decision to reserve income tax on investment income to Westminster means that capital gains tax should also be reserved.

**Corporation tax**

5.23 The results from the ICAS members’ survey demonstrate some support for devolution of powers in relation to rates and bands of corporation tax but the majority do not support its full devolution.

5.24 If full corporation tax devolution was found to be necessary to deliver the desired devolution of rates and bands, an analysis of business profits attributable to each country on a transfer pricing basis for every company in the UK operating across the English-Scottish border would have to be undertaken. ICAS members are not in support of such devolution of corporation tax, possibly because of concerns over the administrative burden for business outweighing the likely benefits. Certainly, 94% of members thought that maximising benefits in relation to costs was important in any decision on devolution. Taken together this means the imperative may be to find alternative methods of delivering the same economic effects as a change in corporation tax rate or band, without the accompanying major administrative burden.

5.25 If corporation tax is devolved to Scotland, or even the ability for a limited variation in rates, it could result in greater opportunities for cross border tax planning and avoidance. It could also encourage a damaging "race to the bottom" which would reduce tax receipts for both the Scottish and UK Governments. Reservation of corporation tax would maintain a level playing field across the UK, including for reliefs such as research and development and patent box, as well as avoiding the need for major restructuring to avoid the potential loss of the various reliefs available to corporate groups. EU State Aid considerations would also need to be addressed in considering corporation tax devolution.

5.26 The potential problems of devolving corporation tax suggest an allocation methodology as an approach which would be less burdensome for businesses. Indeed, a majority of members supported an alternative of an allocation of an appropriate share of corporation tax revenues as a means of delivering greater accountability of the Scottish Parliament.

5.27 It should not be forgotten that the consideration of devolution of corporation tax powers to Northern Ireland was suspended pending the outcome of the Scottish independence referendum. The coherence and competitiveness of the corporation tax regime in the UK needs to take account of Scotland and Northern Ireland, and the potential debate in Wales, as they may impact on each other.

5.28 There are a number of specialist corporate regimes, for example for financial services or oil and gas, and complications may arise if these were either devolved or it was decided that some types of businesses would remain reserved.

5.29 In summary, it should be borne in mind that economic competitiveness and attracting inward investment is about more than just corporate tax rates. If it is considered necessary, however, an assignment of corporation tax take could be introduced, based on a measure of Scottish economic activity.
North Sea Oil & Gas

5.30 Any devolution of tax powers relating to North Sea oil and gas production would need to recognise that:

- Substantial oil and gas reserves remain but it is increasingly difficult and costly to extract them;
- The major tax revenue usually focussed on from North Sea oil and gas production is corporation tax (rather than petroleum revenue tax) so would depend on devolution of corporation tax, which is discussed above;
- The variability of volumes extracted in conjunction with fluctuations in the oil and gas prices would make tax revenues very volatile; and
- The significance of the potential devolved revenues to Scotland’s budget, combined with that volatility, makes it difficult to see how such variability of tax revenues would be managed within the Scottish budget.

5.31 Petroleum revenue tax is administratively linked to corporation tax and the supplementary charge. Fundamentally it reflects international oil market pricing rather than Scotland’s general economic success. It carries full oil price volatility and so is not suitable to match most parliamentary expenditure plans. For all these reasons it is not a clear candidate for devolution.

Capital taxes

5.32 Capital taxes, both inheritance tax and capital gains tax, provide a political message about the taxation of capital but in relative terms neither raises much money and they are expensive and time consuming to administer. If raising revenue at optimum cost and accountability to the wider population is sought, they should not be prime candidates for devolution.

5.33 One original purpose of capital gains tax was to prevent income tax avoidance. ICAS has called for a long term road map for personal pensions and savings, to give stability and certainty to savers and full access to the unified UK savings market wherever they are in the UK. The tax provisions to align to this include income tax on investments, savings and dividends and capital gains tax. Income tax on investments, savings and dividends is currently outside the SRIT provisions and, along with capital gains tax, should remain UK powers.

5.34 Inheritance tax ("IHT") may on the surface appear suitable to be devolved: it is relatively independent of other taxes and levied to a significant extent on property and trusts, both of which have distinct Scottish legislation. However, it is based on the concept of tax domicile, which is a relatively immovable concept. It is different from residence, so that establishing taxpayer domicile for the UK’s sizeable and wealthy mobile population between Scotland and the rest of the UK could be particularly cumbersome and inefficient. IHT is also a technically demanding tax and we question whether it would be the best use of limited resources to re-write and administer, a devolved inheritance tax, with the necessity of double tax relief provisions if the tax base was to change.

Air passenger duty

5.35 We support the recommendation made by the Calman Commission in 2009 in relation to air passenger duty. This would be an appropriate tax to devolve as it ties in with the devolution of transportation and there are unlikely to be jurisdictional issues. It is also a standalone tax and, therefore, there are fewer interdependencies. Depending on how such a power was utilised by the Scottish Parliament it would have the potential to lower this duty to make airports in Scotland more attractive in attracting new airlines. This could have the knock on effect of making it easier for Scottish businesses to do business in places where currently there are no or few direct flights to that particular location.
Forecasting of future revenues

5.36 Points to be borne in mind when considering future forecasts of revenue from the Scottish tax base include that Scottish taxpayers have a different profile from that in the rest of the UK, with a lower proportion of top income earners – the top 1% of taxpayers pay 25% of income tax at UK level, but pay only 17% in Scotland. Amounts generated from the “sin taxes” on alcohol and tobaccos are also higher per head in Scotland than in the UK as a whole.

5.37 It was noted in a previous ICAS paper that only around 13,000 taxpayers in Scotland paid income tax at the (then) 50% rate, so the tax generated from such a provision may not offer the spending powers hoped for if the implementation costs were to be significant. These examples are indicative of the consequences of decisions to devolve tax powers, and where management of taxpayer expectations and transparency of effect could be useful.

5.38 We would also highlight that both the Calman Commission and the Silk Commission looked in details at the powers that are devolved to the Scottish Parliament and Welsh Assembly respectively. Both Commissions concluded that a range of taxes were not suitable for devolution based on a number of factors.

5.39 The detailed mechanism to pass the financial consequences of tax devolution, in the form of, say, block grant adjustment can be complex to arrive at, and identifying the tax attributable to Scottish taxpayers or a Scottish tax base is currently a matter mainly of estimation and approximation. Care needs to be taken in considering the tax consequences of any devolution decision that both of these aspects are properly understood and plans developed in parallel to deliver the financial analysis and outputs necessary to support the policy decisions.

5.40 The ICAS sponsored independent academic research report “The tax implications of Scottish Independence or further devolution”, available from the ICAS website at: http://icas.org.uk/Frecknall-hughes/ offers further insights and analysis.

National insurance contributions (NIC)

5.41 NIC has increasingly been used to raise additional tax revenues, rather than just be linked to funding certain welfare benefits and state pensions, which has led to calls to consider the formulation of plans to merge these in the longer term rather than have taxpayers grapple with two similar but distinct systems. To the extent that NIC is still linked to, or perceived to be linked to welfare benefits and state pensions, it makes sense to retain its link to the welfare system, and so it should only be devolved if the related expenditure is devolved. A considerable amount of expert reviews on this have been published in recent few years, including by the Office of Tax Simplification, which might inform deliberations on this point.

5.42 ICAS members did not support full devolution of NIC or welfare benefits, but did support powers over targeted measures, such as the ability to provide targeted relief for employers NIC or over benefits, such as housing and attendance allowance where the powers are already devolved.

New tax powers

5.43 Members supported consideration of powers over new tax areas, such as minimal alcohol tax, unhealthy foods tax and environmental taxes, but did not favour mansion tax or hotel bed tax.
Welfare benefits

5.44 Any consideration of devolution of welfare benefits needs to recognise that some welfare benefits are paid on a net of tax basis; also that some welfare benefits are taxable and some are not. Any proposals to devolve welfare or tax powers need to include consideration of these interactions. For example, if welfare remained a Westminster power and income tax was devolved, a reduction in tax paid might lead to a claimant having higher net income resulting in a reduced benefit entitlement - and vice versa. The claimant would see no or limited change from the devolution of powers, the Scottish tax system would receive less tax and the welfare bill (in Westminster in the above scenario) would reduce – and vice versa. The overall impact in terms of resulting complexities and financial impacts for claimants as well as each government’s needs would have to be considered, so that workable solutions could be arrived at.
6 ECONOMIC GROWTH AND JOB CREATION POWERS

6.1 Currently power over economic development is already devolved to Scotland. However, the scope of such powers is somewhat restricted, in that powers over related areas, such as taxation (including NIC), employment and welfare are largely reserved. In line with the views expressed by our members in the Ipsos MORI survey, there are significant numbers who believe that there should be further devolved powers in relation to economic growth and job creation. That said, we also need to take account of the principles at 3.5 above which we propose should be used to determine whether further powers are devolved. Therefore, our proposals in this area are as follows:

Air passenger duty

6.2 As we stated above at paragraph 5.35, we support the recommendations made by the Calman Commission in 2009 in relation to Air Passenger Duty (“APD”). This would be an appropriate tax to devolve as it ties in with the devolution of transportation and there are unlikely to be jurisdictional issues. It is also a standalone tax and, therefore, there are fewer interdependencies. Devolution of APD would allow Scottish airports to be more competitive and open up more direct routes to new export markets, in turn providing benefits to Scottish business generally.

NIC savings

6.3 It might be attractive to the Scottish Parliament to be able to provide employment incentives to businesses in Scotland by way of specific reliefs from Employers’ National Insurance Contributions (NICs). This would need to be considered in the broader context of the possible devolution of NIC.

Minimum wage

6.4 The Low Pay Commission currently makes recommendations to the UK Government in respect of the minimum wage levels for the UK. We believe that consideration should be given to devolving the power to set a minimum wage for Scotland to the Scottish Parliament, accompanied by the establishment of a Scottish Low Pay Commission.

Better joint working practices

6.5 We believe there is a need for better liaison and co-ordination between business enterprise and export assistance agencies in the different parts of the UK – to make the existing devolution settlement work better.

Investment in infrastructure

6.6 We believe that consideration needs to be given to some of the major infrastructure challenges facing Scotland. Therefore, we believe there is a need for an increase in the Scottish Parliament’s borrowing powers to facilitate increased investment in infrastructure so as to create jobs and generate wealth in the future – eg in improved transport infrastructure, providing for energy security for the future (constructing generating capacity and connecting to the grid), and improving broadband connectivity. As discussed in section 9, additional borrowing powers could usefully finance preventative spend designed to reduce demand on public services in the future.

Burden of different regulatory regimes

6.7 We highlight the concern of business about the additional cost and complexity of devolution of powers and the loss of a “level playing field” between England, Wales, Northern Ireland and Scotland. Where possible, such divergence is to be avoided to help preserve the benefits of the UK’s single market.
7 THE STATE PENSION
Devolving the state pension

7.1 In its paper “More Powers for the Scottish Parliament” (October 2014), the Scottish Government advocates the devolution of full powers in respect of social security, including the state pension. In their submissions to the Smith Commission, the other political parties propose the devolution of some areas of welfare but none specifically advocates the devolution of the state pension. As pensions generally and the state pension in particular were central issues in the debate in the lead up to the referendum on Scottish independence, we have considered some of the possible implications of devolving the state pension in this submission.

7.2 ICAS contributed to the debate on pensions and independence through the publication of two papers under the banner “Scotland’s pensions future”: “What pensions arrangements would Scotland need?” (April 2013); and “Have our questions been answered?” (February 2014). The level of interest in what would happen to the state pension in the event of Scottish independence prompted the Scottish Government to set out its views on the matter in its paper “Pensions in an independent Scotland” (September 2013) and the UK Government followed suit in its command paper “Scotland Analysis: Work and Pensions” (April 2014). Aspects of these previous publications are highly relevant to any discussions about the devolution of the state pension to Scotland.

7.3 Social security in Northern Ireland is fully devolved and without controversy. The devolved arrangements are explained in Annex A of “Scotland Analysis: Work and Pensions” and Annex A throws light on why devolution in this area has been a relatively low key topic.

7.4 Northern Ireland has chosen to maintain essentially the same social security system as the rest of the UK and to adopt the ‘parity principle’. The parity principle is based on people throughout the UK paying consistent rates of NIC and non-devolved taxation (which at the moment is all taxation other than taxes raised by local government) and in return being entitled to consistent rights and benefits. It therefore means that entitlement to the state pension is transferrable throughout the UK and leads to economies of scale through sharing the IT infrastructure used to calculate and pay consistent levels of benefits.

7.5 The parity principle is embodied in law by section 87 of the Northern Ireland Act 1998 which requires the Minister for Social Development and the Secretary of State for Work and Pensions to consult one another to ensure that legislation achieves, as far as possible, a single system of social security, child support and pensions across the UK.

7.6 From 1 April 2016, the Pensions Act 2014 brings in the single-tier state pension in England, Scotland and Wales. The Northern Ireland Assembly is yet to pass similar legislation. It is the intention of the Northern Ireland Executive to introduce such legislation but it has not yet done so.

7.7 While there is no indication that the single-tier pension will not be implemented in Northern Ireland or implemented with significant differences, the manner of the passage of such a Bill through the Northern Ireland Assembly and the implications of any divergence between Northern Ireland and the rest of the UK would be relevant to any discussions taking place in Scotland around the possible devolution of the state pension.
7.8 In its paper “Pensions in an independent Scotland”, the Scottish Government highlighted a number of areas of potential divergence in policy from the UK Government’s approach, specifically increases in the state pension age and the implementation of the single-tier state pension. These are summarised as follows:

- Delaying the increase in the state pension age to age 67 which would have been considered in the first instance by an independent commission;
- Retaining the savings credit element of pension credit;
- Introducing a single-tier state pension of at least £160 per week in 2016, increased in line with the triple lock which could have resulted in a single-tier amount higher than the continuing UK; and
- Protecting pensions paid on a partner’s contributions for those retiring before 2031. In the continuing UK any pensions paid on a partner’s contributions would only relate to derived entitlement under the existing system.

7.9 If the state pension was to be devolved to the Scottish Government and the parity principle was not adopted with policy diverging along the lines described above, the UK Government’s response to divergence and the sharing of systems could be similar to the view set out in “Scotland Analysis: Work and Pensions”. This view was that a continuing UK would not be willing to make changes to existing systems to accommodate differences in policy and that, in the event of a “yes” vote, this would only have been overcome by delaying any changes until an independent Scotland developed its own infrastructure. There would therefore be significant costs involved if the parity principle was not adopted and timescales would be important too, as it would take time to ensure that the appropriate IT infrastructure was in place prior to any divergent policies being implemented.

7.10 Of course the consequences of divergence would be more far reaching than changes to infrastructure. If the amount of the state pension or the state pension age varies in Scotland compared to the rest of the UK then by definition there would no longer be a UK-wide State Pension as UK citizens would not be entitled to consistent rights and benefits. Many of the legacy issues that we raised in our “Scotland’s Pensions Future” papers could be recast in the context of the devolution of the state pension:

- For those not yet retired, would accrued state pension rights be preserved up the point of devolution? How would these accrued rights be funded? What arrangements would be made to maintain records of the accrued rights of individuals within separate jurisdictions?
- How would the requirement for a minimum qualifying period of ten years work for UK citizens who worked in Scotland and elsewhere in the UK during their working lives?

7.11 The legacy issues referred to above have implications for government expenditure and liabilities if the parity principle is not adopted. However, the consequences of divergence are linked to revenue raising in terms of both taxation and national insurance. There is a direct link between NIC and credits made by or on behalf of individuals and their state pension entitlement and state pensions in payment are largely paid for through non-devolved general taxation. With the devolution of greater powers over taxation to the Scottish Parliament, somehow the operation and payment of Scottish and rest of the UK state pensions would need to dovetail with the exercise of tax powers both devolved and non-devolved, the raising of National Insurance contributions and indeed the setting of Scottish block grant. For example, if the Scottish state pension was more generous than the rest of the UK state pension, then taxpayers in other parts of the UK would likely seek assurances that the ‘extra bit’ was paid for through revenues raised in Scotland.

7.12 If the state pension is devolved to Scotland the future cost will also be a function of the country’s demographics. Again, information which came to light during the debate about Scottish independence could be relevant if the parity principle is not applied to its devolution.

7.13 In June 2018, the Pensions Policy Institute (PPI) published a briefing note setting out its written evidence to the Scottish Parliament’s Finance Committee on “The potential impact of
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Scottish independence on state pensions in Scotland. On 18 June 2014, the Scottish Parliament’s Finance Committee heard evidence from a number of experts on pensions as part of its inquiry into Scotland’s Finances post-2014, including the Director at the PPI who gave oral evidence on the briefing note.

7.14 The PPI promotes the study of pensions and other provision for retirement in old age. It is an independent body which exists to contribute facts, analysis and commentary to help commentators and decision-makers to take informed policy decisions. It does not make policy recommendations or lobby for any particular policy. The PPI examined how much the UK Government would spend on state pensions in Scotland under current plans in years to come and how this would compare with spending by any potential future government of an independent Scotland.

7.15 The PPI research highlighted that expenditure on pensioner benefits in Scotland is expected to be higher in Scotland than the UK as a whole under current plans and would be higher still if any potential future government in Scotland committed to the additional measures set out in the Scottish Government’s paper ‘Pensions in an Independent Scotland’. This would be the case even though average life-expectancy in Scotland is lower than for the UK as a whole. For example, the trigger year in which the state pension age would need to increase to 68 to avoid more than a third of adult life being spent in retirement is 2033 for the UK and 2046 for Scotland.

7.16 The PPI stressed that increased state pension spending was not necessarily unaffordable. However, a future Government of an independent Scotland would have needed to either raise higher revenues (for example, through taxation), reduce spending in other areas (for example, where demographic pressures are less), or have higher Government debt levels.

7.17 Of course, any conclusions drawn today about future demographics have their limitations. Predictions about the population could be refined, to produce more reliable dependency ratios. This would require statistical information, not currently available, on the proportion of the adult population expected to be economically active, i.e. the “working population”. Dependency ratios are currently estimated on the basis of the working age population (as a proxy for the working population) compared with those who have reached the normal retirement age; such estimates limit the usefulness of analysis based on them.

7.18 Other factors could influence assumptions made about Scotland’s demographics in the decades to come. Policies which successfully increased the proportion of the population who are expected to be economically active, or improve the predicted life-expectancy and healthy life-expectancy, could in time change the analysis.
8 ECONOMIC REGULATION POWERS

Financial services law and regulation including pensions

8.1 In keeping with our comments that savers should have access to a unified UK savings market, including pension saving, it follows that financial services and pensions law and regulation should remain a UK matter as should pension protection arrangements.

Economic regulation

8.2 Business is vital to our integrated economy and whilst ICAS could suggest a number of ways in which new regulatory powers could be divested to Scotland, UK business simply needs “Better Regulation”. This objective will be best achieved by ensuring all UK businesses share common legislative and regulatory arrangements wherever possible, subject to a continuing commitment to reduce ineffective and unnecessary regulation.

8.3 The UK has sophisticated and well developed company law and financial reporting arrangements, which to a significant extent stem from EU audit directives and international standards. These arrangements necessitate a single system of UK company and audit regulation and therefore justify integrated oversight arrangements. We would support the status quo, ensuring that companies and the audit profession are subject to UK wide oversight in the public interest. The Department for Business Innovation and Skills should continue to have oversight of business policy for the UK, in order to drive economic growth.

8.4 To maintain trust in the UK financial system, the powers of the Financial Conduct Authority and Prudential Regulatory Authority should continue to be exercised on a UK basis. Likewise, to ensure continued trust in the UK capital markets, the responsibilities of the Financial Reporting Council and Competition and Markets Authority should continue to be exercised in a UK context.

8.5 There is a rationale for enhanced accountability of each of these bodies to the UK Parliament, and the presentation of their Annual Reports to the Scottish Parliament and Welsh Assembly to provide a mechanism for all Parliaments to consider the effect of UK regulatory activity.

8.6 Our caveat to maintaining the “status quo” would be a call for change to the way in which accountancy services and insolvency practitioners are regulated, as set out immediately below.

Consistent regulation of accountancy services

8.7 ICAS intend to call on both the UK and Scottish Governments to implement consistent regulation of all firms and individuals providing accountancy and tax services to the public on a commercial basis. Consumers in the UK have come to expect all professional advisers to be subject to rigorous regulation and high standards. Medicine, dentistry, legal services and architecture are regulated professions (that is, all providers of these services are subject to regulation in the public interest). Accountancy and tax services are central to UK business, taxation and the economy, yet many consumers are unaware that not all providers of these services are subject to an assessment of technical skills, ongoing regulatory oversight or, a requirement to maintain their professional development, high ethical standards and minimum insurance protection. There is therefore a risk for consumers. More consistent regulation of services is in the public interest and would increase public confidence, create a mechanism to protect consumers and ensure consistently high professional standards. Both the UK and Scottish Governments could work together to develop this proposal.

Insolvency practitioner regulation

8.8 The Scottish Parliament enjoys legislative autonomy in relation to personal insolvency (this power having been a matter for Holyrood since the re-establishment of the Scottish
Parliament in 1999), but the regulation of the insolvency profession is a reserved matter, even where the profession is acting in the wholly devolved area of personal insolvency.

8.9 ICAS is a Recognised Professional Body for insolvency regulation in the UK and the main representative of the insolvency profession in Scotland. Almost all of our insolvency practitioners (IPs) are based and practice in Scotland. We acknowledge that we have a self interest in the prospective regulatory landscape in Scotland, but we feel bound to make the following submission in the public interest.

8.10 It would be wrong for the regulation of IPs to continue to be regulated on a UK wide basis, when the relevant legislative powers are vested in the Scottish Parliament. The Scottish Parliament has legislative powers in relation to personal insolvency. It follows that it ought to have a closer role in the oversight of IPs accepting personal insolvency appointments. Some careful thought would need to be given to how such regulatory oversight might be discharged (for example, this oversight role would be incompatible with the trustee role presently undertaken by the Accountant in Bankruptcy). The practical implementation would need some careful consideration by the Scottish Parliament but the principle is sound; both regulatory and legislative powers ought to rest with the same Parliament.

8.11 If corporate insolvency is re-reserved to the UK Parliament (a recommendation of the Calman Commission – see also paragraphs 8.13 to 8.16 below) then it follows that the statutory regulation of IPs engaged in corporate insolvency ought to remain with the UK Parliament (again, enabling business regulation to remain UK based). The Department for Business Innovation and Skills has already consulted on the proposal to split the corporate and personal insolvency licensing arrangements for the UK, with IPs being regulated on the basis of the type of insolvency appointment. This proposed tiered licensing approach ought to make it easy to separate the regulatory arrangements, enabling appropriate regulatory powers to be devolved to the Scottish Parliament.

8.12 We would make one further observation. The Small Business, Enterprise and Employment Bill includes a statutory power to establish a single regulator for insolvency in the UK. The move for a single regulator has been prompted by concerns about the quantum of insolvency fees and the absence of an effective safeguard for consumers. The recent insolvency regulation reforms have been prepared on a UK wide basis, but the key concerns do not apply to the same extent in relation to Scotland, where there is a well-developed and robust fee approval system for corporate and personal insolvency. If introduced, a single regulator is unlikely to be based in Scotland. There is an urgent need for reflection on how these proposals will impact Scottish IPs and consumers, so as to bring about considered regulatory arrangements which can address any underlying consumer issues and respect the devolved legislative arrangements for insolvency.

Corporate insolvency powers

8.13 Powers over corporate insolvency need to be located within one legislative parliament. Corporate insolvency legislation is currently reserved to Westminster except in relation to receivers and the processes of liquidation. Broadly therefore, administration and creditor voluntary arrangements are reserved, receivership is fully devolved and liquidation is only partly devolved. This arrangement has resulted in a lack of clarity in the legislative competence of each parliament, adoption of different practices within insolvency regimes which do not have any justification and Scotland not keeping its corporate insolvency regime up to date and on a par with that in England and Wales. All of this has resulted in Scottish insolvency processes lagging in efficiency which ultimately is a cost borne by the creditors and is detrimental to the Scottish economy. This situation underlay the Calman Commission recommendation to re-reserve to Westminster all aspects of corporate insolvency, mentioned in paragraph 8.11 above.

8.14 The Scottish Government has since given an undertaking to modernise and bring corporate insolvency legislation in Scotland up to date. The Small Business, Enterprise and Employment Bill currently making its way through the UK Parliament contains several
provisions for further key changes to corporate insolvency. The commitment made by the Scottish Government needs to be followed through and delivered to ensure that the economic return through corporate insolvency and restructuring to the Scottish economy is maintained on a par with England and Wales, in order that Scottish companies are not placed at a disadvantage against their major trading partners due to outdated procedures and legislation.

8.15 The lack of clarity over devolved responsibility has been the subject of recent decisions of the Courts. In the recent case of The Scottish Coal Company Limited (in liquidation) much consideration was given to whether legislation passed by the Scottish Parliament was within the powers given to it under the Scotland Act 1998. The fact that four QCs and four senior Judges in the Court of Session could not agree on the division of powers and their effect on corporate insolvency processes highlights the difficulties that the split responsibility of legislative power provides.

8.16 We therefore call for corporate insolvency legislation to be the responsibility of a single parliament, either through the Calman Commission recommendation that corporate insolvency be re-reserved to Westminster or, alternatively, for corporate insolvency to be fully devolved to Holyrood.
9  CHARITY RELATED MATTERS

Funding preventative spending and borrowing powers

9.1 During this extended period of public spending restraint and increasing demand for public services, we support the development and roll out of arrangements which support a preventative spend agenda to achieve better outcomes for communities over the longer term. Charities have knowledge and experience which are vital to the success of this agenda. While there are a number of barriers to taking forward preventative spend initiatives, which could be overcome within the existing devolved arrangements, we believe that further borrowing powers are needed for the Scottish Parliament if transformational change is to take place and for charity sector innovation to be properly harnessed.

9.2 At present Scottish local authorities can borrow to fund capital within the bounds of the Prudential Code and the Scottish Government will acquire some limited borrowing powers over capital and revenue under the Scotland Act 2012. Borrowing powers for revenue expenditure are directly linked to the acquisition of tax powers and therefore could not be exercised specifically to fund preventative spend initiatives.

9.3 Borrowing for capital projects has always been viewed as preferable to borrowing to fund revenue expenditure due to the benefits accrued from capital expenditure being spread over more than one financial year. A key overarching objective of preventative spending initiatives is to reduce demand for public services and create future savings. Therefore, preventative spending, like capital spending, is about investing in the future. We believe this provides clear justification for the extension of the Scottish Government’s borrowing powers and the borrowing powers of Scottish local authorities to fund preventative spend initiatives within prescribed limits.

Gift aid

9.4 Charity law and regulation is already devolved to Scotland. The availability of charity tax reliefs, however, is determined by UK tax law.

9.5 All UK charities apply to HMRC to reclaim gift aid on donations received from UK taxpayers. In the run up to the implementation of the Scottish Rate of Income Tax (SRIT) from 1 April 2016, HMRC has had to consider whether arrangements for reclaiming gift aid were adjusted to cope with both the Scottish basic rate of income tax and the UK basic rate of income tax.

9.6 In order to avoid placing an additional administrative burden on charities, HMRC has taken the decision that gift aid for charities will continue to apply at the UK basic rate, regardless of whether the donor is a Scottish taxpayer or UK taxpayer. However, if the Scottish and UK basic rates of income tax diverge considerably or it becomes possible to provide gift aid relief at the correct rate without the currently anticipated administrative burden, HMRC is expected to reconsider its position.

9.7 On balance ICAS supports this approach at the current time. However, it may be appropriate for HMRC to consider how the administration of gift aid could be adapted in a way which enables charities to obtain gift aid relief at the ‘correct rate’ as the further devolution of powers over income tax to Scotland and the exercise of such powers could make this desirable.

9.8 However, the treatment of gift aid does give rise to more fundamental questions around the relationship between the collection of income tax in one jurisdiction and its expenditure on good causes in another jurisdiction. For example, if there is to be a closer alignment of the raising of income tax and the spending of income tax receipts in a single jurisdiction, it is possible that the operation of a UK gift aid system could be undermined. If a Scottish taxpayer donates money to a charity registered in England & Wales which operates solely in that jurisdiction, it is questionable whether the tax relief should be funded from Scottish revenues or vice versa.
Therefore, it is important to be mindful that the approach to gift aid arising from the Scotland Act 2012 represents a departure from the underlying social policy intention that a taxpayer can choose to make a donation to a charity in lieu of receiving the gross income. A taxpayer makes a donation to charity from his or her net income but the charity receiving the donation benefits from the gross position in relation to the basic rate of tax. This link will be broken if the UK basic rate is applied to all donations, in the event that a Scottish basic rate of income tax varies from the UK basic rate.

The reason for giving this choice to taxpayers is that the state values the contribution made through charitable works to the purposes of the state sufficiently to agree to the tax, which would be due on the gross income, being forgone by the state in favour of charitable works. Taxpayers can choose whether to receive the income and suffer tax on it or they can choose to allocate the entire gross income (and capital gains) to charity. This is what gift aid achieves and a correct understanding of why it exists should be the starting point for any review of policy, even one which in practice results in a departure from the underlying social policy intention.
Appendix 1: Ipsos MORI survey of ICAS members

ICAS engaged Ipsos MORI, the leading UK research company to undertake a survey of the ICAS membership in Scotland. We obtained a 14% response rate, with 1,268 members submitting their views. A summary of the results which helped to inform our submission are included below.

A GENERAL

Q1. To begin, which of these statements comes closest to your view on what you’d like to see in terms of the further devolution of powers in Scotland?

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No further devolution</td>
<td>31%</td>
</tr>
<tr>
<td>Minimal further devolution (e.g. power to increase income tax rates, and/or vary tax bands)</td>
<td>17%</td>
</tr>
<tr>
<td>Some further devolution (e.g. also power to change personal allowances or reliefs)</td>
<td>14%</td>
</tr>
<tr>
<td>Significant further devolution (e.g. full income tax powers, corporation tax powers and significant welfare benefits powers)</td>
<td>12%</td>
</tr>
<tr>
<td>Maximum devolution possible (full control over tax and spending other than matters such as monetary policy, aspects of citizenship, defence, intelligence and security, foreign affairs, and aspects of the constitution of the UK as a whole)</td>
<td>26%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1%</td>
</tr>
</tbody>
</table>

Q2. Looking at these statements again, what do you think is the most commonly held view among your industry in terms of the further devolution of powers in Scotland?

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No further devolution</td>
<td>22%</td>
</tr>
<tr>
<td>Minimal further devolution (e.g. power to increase income tax rates, and/or vary tax bands)</td>
<td>23%</td>
</tr>
<tr>
<td>Some further devolution (e.g. also power to change personal allowances or reliefs)</td>
<td>22%</td>
</tr>
<tr>
<td>Significant further devolution (e.g. full income tax powers, corporation tax powers and significant welfare benefits powers)</td>
<td>12%</td>
</tr>
<tr>
<td>Maximum devolution possible (full control over tax and spending other than matters such as monetary policy, aspects of citizenship, defence, intelligence and security, foreign affairs, and aspects of the constitution of the UK as a whole)</td>
<td>6%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>15%</td>
</tr>
</tbody>
</table>

Q3. How important or unimportant do you think it is to have a set of clear guiding principles to assess what, if any, further powers should be devolved?

<table>
<thead>
<tr>
<th>Importance</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very important</td>
<td>81%</td>
</tr>
<tr>
<td>Fairly important</td>
<td>13%</td>
</tr>
<tr>
<td>Not very important</td>
<td>3%</td>
</tr>
<tr>
<td>Not at all important</td>
<td>1%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1%</td>
</tr>
</tbody>
</table>

Q4. How far do you agree or disagree with the following statement?

The Scottish Parliament should make more use of existing devolved powers (e.g. Council Tax).

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>32%</td>
</tr>
<tr>
<td>Tend to agree</td>
<td>37%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>15%</td>
</tr>
<tr>
<td>Tend to disagree</td>
<td>8%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>6%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1%</td>
</tr>
</tbody>
</table>
B TAX

The next few questions are about your views on the devolution of taxes.

Q5. How strongly would you support or oppose the further devolution of powers in relation to the following aspects of Income Tax?

Note: the Scottish Rate of Income Tax has already been established in the Scotland Act 2012 and is effective from 6 April 2016.

PLEASE SELECT ONE OPTION FOR EACH ROW

<table>
<thead>
<tr>
<th></th>
<th>Rates</th>
<th>Bands</th>
<th>Personal allowances</th>
<th>Earned income only</th>
<th>Unearned income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly support</td>
<td>25%</td>
<td>24%</td>
<td>24%</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>Tend to support</td>
<td>28%</td>
<td>26%</td>
<td>22%</td>
<td>21%</td>
<td>16%</td>
</tr>
<tr>
<td>No feelings either way</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Tend to oppose</td>
<td>16%</td>
<td>17%</td>
<td>18%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>Strongly oppose</td>
<td>25%</td>
<td>28%</td>
<td>30%</td>
<td>29%</td>
<td>35%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1%</td>
<td>1%</td>
<td>*</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Q6. How strongly would you support or oppose further devolution of powers in relation to the following aspects of Corporation Tax?

PLEASE SELECT ONE OPTION FOR EACH ROW

<table>
<thead>
<tr>
<th></th>
<th>Rates</th>
<th>Bands (e.g. small companies, marginal companies and large companies)</th>
<th>Sectoral incentives</th>
<th>Geographic incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly support</td>
<td>25%</td>
<td>25%</td>
<td>26%</td>
<td>27%</td>
</tr>
<tr>
<td>Tend to support</td>
<td>24%</td>
<td>24%</td>
<td>30%</td>
<td>31%</td>
</tr>
<tr>
<td>No feelings either way</td>
<td>6%</td>
<td>7%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Tend to oppose</td>
<td>17%</td>
<td>17%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Strongly oppose</td>
<td>27%</td>
<td>27%</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

The next question is about the full devolution of certain taxes, which would be legislated by the Scottish Parliament.

(Note: Stamp Duty Land Tax and UK Landfill Tax are to be ‘switched off’ from 1 April 2015 in Scotland, when they will be replaced by Land and Buildings Transaction Tax and Scottish Landfill Tax. VAT cannot be devolved within the UK because of EU requirements.)
Q7. Please indicate which, if any, of the following taxes do you think should be fully devolved?

<table>
<thead>
<tr>
<th>PLEASE SELECT ONE OPTION FOR EACH ROW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Don't know</td>
</tr>
</tbody>
</table>

Key assessment criteria

Q8. How important or unimportant do you think the following should be when assessing whether or not a tax should be devolved?

<table>
<thead>
<tr>
<th>PLEASE SELECT ONE OPTION FOR EACH ROW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed of delivery of devolved powers to meet voters’ expectations</td>
</tr>
<tr>
<td>Very important</td>
</tr>
<tr>
<td>Fairly important</td>
</tr>
<tr>
<td>Not very important</td>
</tr>
<tr>
<td>Not at all important</td>
</tr>
<tr>
<td>Don't know</td>
</tr>
</tbody>
</table>

Raising new taxes

Q9. The Scotland Act 2012 permits the Scottish Parliament to establish new taxes. How much would you support or oppose the introduction of the following new sources of tax?

<table>
<thead>
<tr>
<th>PLEASE SELECT ONE OPTION FOR EACH ROW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel bed tax</td>
</tr>
<tr>
<td>Strongly support</td>
</tr>
<tr>
<td>Tend to support</td>
</tr>
<tr>
<td>No feelings either way</td>
</tr>
<tr>
<td>Tend to oppose</td>
</tr>
<tr>
<td>Strongly oppose</td>
</tr>
<tr>
<td>Don't know</td>
</tr>
</tbody>
</table>
Revenue allocation

Q10. How far do you agree or disagree with the following statement:

As an alternative to the devolution of certain powers, an allocation of an appropriate share of VAT and/or Corporation Tax revenues and/or North Sea oil related taxes would result in greater accountability of the Scottish Parliament.

PLEASE SELECT ONE OPTION ONLY

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Tend to agree</th>
<th>Neither agree nor disagree</th>
<th>Tend to disagree</th>
<th>Strongly disagree</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14%</td>
<td>36%</td>
<td>13%</td>
<td>19%</td>
<td>16%</td>
<td>3%</td>
</tr>
</tbody>
</table>

C  ECONOMIC GROWTH AND JOB CREATION

The next few questions are about devolved powers relating to economic growth and job creation.

Q11. How important or unimportant do you think the following are in relation to assessing whether powers to encourage economic growth and job creation should be devolved?

PLEASE SELECT ONE OPTION FOR EACH ROW

<table>
<thead>
<tr>
<th>Speed of delivery of devolved powers to meet voters' expectations</th>
<th>Minimal cost for revenue authorities and other stakeholders to implement</th>
<th>Ease of administration</th>
<th>Increasing birth rate for new businesses</th>
<th>Stimulation of finance for new and growing businesses</th>
<th>Helping larger companies to grow</th>
<th>Reduction in cost of employing staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very important</td>
<td>23%</td>
<td>43%</td>
<td>50%</td>
<td>44%</td>
<td>54%</td>
<td>29%</td>
</tr>
<tr>
<td>Fairly important</td>
<td>39%</td>
<td>42%</td>
<td>39%</td>
<td>42%</td>
<td>39%</td>
<td>48%</td>
</tr>
<tr>
<td>Not very important</td>
<td>21%</td>
<td>10%</td>
<td>7%</td>
<td>7%</td>
<td>4%</td>
<td>18%</td>
</tr>
<tr>
<td>Not at all important</td>
<td>15%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td>3%</td>
<td>1%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Q12. How strongly would you support or oppose the following powers being devolved within the jurisdiction of the Scottish Parliament?

PLEASE SELECT ONE OPTION FOR EACH ROW

<table>
<thead>
<tr>
<th></th>
<th>Statutory minimum wage</th>
<th>Employment law</th>
<th>Ability to provide reliefs from Employers’ NIC for certain categories of employee or employer</th>
<th>Specific tax incentives to encourage investment, such as a Scottish version of the Enterprise Investment Scheme (EIS)</th>
<th>Immigration</th>
<th>Company law</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly support</td>
<td>24%</td>
<td>19%</td>
<td>20%</td>
<td>29%</td>
<td>21%</td>
<td>15%</td>
</tr>
<tr>
<td>Tend to support</td>
<td>27%</td>
<td>20%</td>
<td>33%</td>
<td>44%</td>
<td>17%</td>
<td>16%</td>
</tr>
<tr>
<td>No feelings either way</td>
<td>9%</td>
<td>11%</td>
<td>15%</td>
<td>8%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Tend to oppose</td>
<td>19%</td>
<td>23%</td>
<td>16%</td>
<td>7%</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>Strongly oppose</td>
<td>20%</td>
<td>26%</td>
<td>16%</td>
<td>11%</td>
<td>30%</td>
<td>33%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>*</td>
<td>*</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

D WELFARE

Q13. How far would you support or oppose the devolution of the following welfare benefits?

PLEASE SELECT ONE OPTION FOR EACH ROW

<table>
<thead>
<tr>
<th></th>
<th>State pension</th>
<th>Universal credit</th>
<th>Housing benefit (nb: housing policy is already devolved)</th>
<th>Attendance allowance (nb: personal care is already devolved)</th>
<th>Child benefit</th>
<th>Job seeker’s allowance</th>
<th>Childcare support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly support</td>
<td>18%</td>
<td>18%</td>
<td>21%</td>
<td>22%</td>
<td>20%</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>Tend to support</td>
<td>13%</td>
<td>13%</td>
<td>25%</td>
<td>25%</td>
<td>20%</td>
<td>21%</td>
<td>23%</td>
</tr>
<tr>
<td>No feelings either way</td>
<td>6%</td>
<td>18%</td>
<td>19%</td>
<td>20%</td>
<td>16%</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>Tend to oppose</td>
<td>22%</td>
<td>18%</td>
<td>12%</td>
<td>12%</td>
<td>17%</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Strongly oppose</td>
<td>41%</td>
<td>31%</td>
<td>22%</td>
<td>21%</td>
<td>27%</td>
<td>27%</td>
<td>24%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>*</td>
<td>3%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Note: * denotes a result of less than 0.5%
Appendix 2: Relevant ICAS publications

Scotland’s Tax Future: What Tax System would Scotland Want, ICAS, August 2012

Scotland’s Tax Future: The Practicalities of Tax Devolution, ICAS, November 2012

Scotland’s Tax Future: Taxes Explained, ICAS, May 2014

Scotland’s Pensions Future: What pensions arrangements would Scotland need?, ICAS, April 2013

Scotland’s Pensions Future: Have our questions been answered?, ICAS, February 2014.

The Tax Implications of Scottish Independence or Further Devolution, J Frecknall-Hughes, S James & R McIlwhan, published by ICAS, May 2014

All of the above publications can be downloaded free of charge from: http://icas.org.uk/Scottish Independence/
**About ICAS**

1. The Institute of Chartered Accountants of Scotland (ICAS) is the oldest professional body of accountants. We represent over 20,000 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. Nearly two thirds of our members work in business, whilst a third work in accountancy practices. ICAS members play leading roles in around 80% of FTSE 100 companies.

2. As probably the single largest body of financial and tax experts in Scotland, with members throughout the world, ICAS has the depth of knowledge and experience to inform any debate over devolution of tax and financial powers, highlighting opportunities, pitfalls, administrative issues and likely behavioural responses. We have a wide range of overseas experiences and insights into the workings of the best, and less successful, systems and processes.

3. ICAS also has a public interest remit, a duty to act not solely for its members but for the wider good. So it is in the enviable position of having both the key competencies and focus to inform the debate on the question of what additional powers should be devolved to Scotland.

4. In advance of the Scottish independence referendum, ICAS published a series of papers on tax and pensions, which considered the impact not only of independence, but of the devolution of further powers as currently under consideration. ICAS also sponsored independent research into the tax implications of independence or further devolution. This submission builds on and reflects that body of work, which remains relevant, and which can be found at [http://icas.org.uk/ScottishIndependence/](http://icas.org.uk/ScottishIndependence/).

5. ICAS will continue to play its part in Scottish, UK and international affairs, influencing developments and representing the interests of its members. As it currently does for the UK Government and within the devolved powers of the Scottish Government, post referendum ICAS will continue to contribute to policy development by both Governments; for the Scottish Government, we will comment on proposed devolution of further powers and will seek to ensure that the implementation of any new powers transferred and the corresponding policy options chosen are workable (for the Government and for our members) and in the public interest.

6. ICAS will therefore seek to work constructively with the Scottish and UK Governments, and with Lord Smith’s Commission, within our areas of expertise, to assist in the transfer of new powers to Scotland. In pursuing such work, we will offer the assistance of ICAS secretarial staff and seek to engage our members in the relevant areas of expertise. Subject to their availability and willingness to participate, this will include committee members and also any other members with the experience and expertise in the relevant subject areas.