SUBMISSION FROM THE CHARTERED INSTITUTE OF TAXATION AND THE ASSOCIATION OF TAXATION TECHNICIANS

Introduction

The Chartered Institute of Taxation (CIOT) and Association of Taxation Technicians (ATT) have carried out a short survey of their members in Scotland on issues that arise in relation to the Discussion paper recently published by The Scottish Government on corporation tax.¹

We concentrated our survey on issues arising from the possible changes in corporation tax rate that may result from Scotland taking power over corporation tax. As well as the business impact of changes in rate – probably a reduction – we were also interested in administrative costs that may result if Scotland has a different rate from the rest of the UK.

We have previously carried out a similar survey of our Northern Ireland members in relation to the call from the Northern Ireland Executive for Northern Ireland to have a lower rate of corporation tax². It would be possible to compare opinions between the two surveys.

The CIOT & ATT are pleased to have had the opportunity to contribute to this consultation process, as we have been throughout the evolution of the Scotland Bill proposals. We are committed to supporting this process as it develops and we are available to lend the expertise of our membership to facilitate that.

Executive summary

Devolution of corporation tax offers opportunities to stimulate the local business environment, but there are challenges in terms of how a devolved system would run and also the revenue implications. In revenue terms, if a corporation tax rate cut worked, that would mean more companies choosing to locate themselves in Scotland, generating more income tax, national insurance, business rates and VAT³. This could boost the Scottish economy but it would not be a one-way bet. There is no guarantee that the books would balance in the Scottish Government’s favour. The discussion paper recognises this issue.

We would stress that we have not considered issues around the impact of a Scottish reduced rate on overall UK revenues. It is of course possible that overall UK revenue would reduce; that additional investment in Scotland was at the expense of the rest of the UK. We simply note that this was a key reason why the original Calman report was against devolving corporation tax.

On balance, our survey results showed respondents saw potential in a corporation tax rate cut in attracting investment in the Scottish economy. However, many were

¹ Our survey was carried out in August 2011 and attracted 40 responses from members based in Scotland.
³ However, of course at present any increased NIC & VAT receipts would not flow directly to Scotland.
concerned that corporation tax revenues would fall short of forecast with risks for funding of public services.

The majority of respondents were in favour of any rate cut applying to investment as well as trading income because of the strength of Scotland’s funds management industry.

The survey also highlighted recognition from members of the additional administrative costs for businesses operating throughout the UK as a result of a change in Scottish corporation tax. This would also impact on HMRC and how their way of policing companies operating across the UK would be affected.

Members did come up with some other suggestions for making the local business environment more competitive. The most frequent were for higher Annual Investment Allowance and changes aimed at promoting employment (a number of calls for lower rates of national insurance); increased R&D tax credits were also popular. Some respondents did suggest that reducing employment costs was a better target than corporation tax reductions.

There may be issues around EU State Aid rules if differential tax rates (or indeed some targeted incentives) are introduced but the Scottish Government will no doubt be aware of the need to explore this area.

Results from the survey

Our survey asked 15 questions: we outline the results below.

**Q1 The importance of the headline corporation tax rate in encouraging investment.**

The headline rate is seen as very important (27%) or of significant impact (55%) by most respondents, though some (17%) see the headline rate as of limited importance. The point that most members acknowledge is clearly that the headline rate provides an important signal, though all tax practitioners will stress that there is more to a tax position than the simple rate of tax.

**Q2 The extent to which a reduction in the rate of corporation tax in Scotland could support additional investment, higher growth rates and increased employment in the Scottish economy.**

Over a quarter of the respondents see a strong link between the reduction in CT rate and investment, growth and employment. Most of the other respondents see some linkage with only 8% feeling there would be no real impact, with one person suggesting that there was no guarantee that increased employment in particular would result. This does highlight the interesting point that a CT rate cut may attract some businesses more than others and have an uneven impact on employing companies.

**Q3 The risks to the Scottish Government arising from a devolved corporation tax rate in Scotland**
We posed a number of options for respondents to consider, as well as asking for additional suggestions. The two main risks identified were:

- CT receipts falling short of forecasts (a risk agreed by 70% of respondents)
- Timing issues – the lag between a rate cut and payback in terms of investment, meaning public services could be impacted (a risk identified by 60% of respondents).

About a third of respondents identified each of: a risk of ‘rate’ competition with Northern Ireland and Wales; a risk of dependence on corporate profitability; a risk of Scotland having insufficient borrowing powers; a risk of constant pressure to reduce the Scottish rate further. That prompted the comment from one respondent that the Executive would have to ensure it had appropriate expertise to deal with the issues that would arise in relation to increased tax powers and responsibilities.

Q4-6 Potential compliance costs and administrative burdens for business arising from a devolved corporation tax rate in Scotland

This is an issue we probed members quite carefully on, asking for views on companies that operated solely in Scotland, those that operated across the UK and those that also operated outside the UK.

As might be expected, only a minority (22%) thought that the new rate would mean any real difference to compliance/administrative costs for companies operating only in Scotland, though this is still a significant proportion. We suspect it reflects worries about there being more changes than simply a rate change.

Equally predictably, over 90% thought that companies operating throughout the UK faced additional costs but a good number of them (28% of respondents) thought the impact would be ‘negligible’. It leaves 64% clearly concerned and an interesting point raised by some was whether commercial software companies who produce corporation tax software would produce Scotland-compliant programmes. We suspect they would but it is a question we think should be addressed with the main software producers, both in terms of the timescale they would need and the cost implications for users.

For companies who operate internationally, a majority of members (55%) thought there would be no or negligible additional cost of dealing with a Scottish CT rate. This presumably reflects the belief that such businesses are well used to dealing with a variety of tax rates, including preparing a variety of tax computations. However, that does leave 45% believing there would be real additional cost for such companies.

We did not ask members what they thought would cause these additional costs would be in the survey. However, anecdotal comments suggest members in
Scotland would have similar views on the question to our members in Northern Ireland on the same question.4

Overall, our view is that additional administrative costs are something to bear in mind in any debate around a separate corporation tax system for Scotland. This includes considering the impact on HMRC and how their way of policing companies operating across the UK would be affected. We consider this is our members' underlying concern in suggesting that UK-wide businesses would face extra costs.

Q7 The balance of potential costs and benefits of a reduced corporation tax rate in Scotland

We asked members whether in their view the benefits of a reduced CT rate would outweigh the potential costs and risks. Some 28% thought it definitely would; 22% said 'just about'; 27% said ‘finely balanced’; 8% that the risks just outweighed the benefits; 15% thought costs and risks clearly exceeded the benefits. There are a number of ways of interpreting these results:

- that half think that the benefits are definitely there;
- that half are cautious or concerned;
- that a large proportion (77%) think benefits are probably there.

Q8 The merits of a deferred implementation of a rate reduction in Scotland and its potential impact on investment decisions

It is clearly possible that the Scottish Government could announce that they planned a rate reduction, but wanted to defer the actual rate cut.

A significant majority of respondent (60%) said that an announcement of a rate reduction that was deferred would raise concerns that the cut would actually happen. Coupled with the group (7%) who said that such a deferred cut would ‘simply lose impact’ does mean a clear majority view is that such a strategy would risk losing a good deal of impact. On the other hand, 30% thought that a deferral would lead to deferred investment or simply have no real impact. If a deferred approach is taken it is important to have clear timeline and certainty of implementation to give confidence that the rate cut will take effect.

4 Members in Northern Ireland who deal specifically with large corporates identified concerns around:

- transfer pricing: how would profits be allocated – and how would this allocation be policed by HMRC?
- permanent establishments: there will be issues around employees who are split between the two “jurisdictions” with possible arguments around when a permanent establishment is established and the level of profits it should attract.
- corporate residence of the various group companies.
Q9-11 Should any reduction in corporation tax rate be restricted to Scottish trading income only (ie not to apply to investment income)

A clear majority (59%) thought restricting a rate cut to trading income was wrong though the remainder saw it as the right route.

One reason for posing this question was to see if people thought trading income would be a better target as more likely to create jobs. This was acknowledged by some, but there were concerns over the additional administrative complexity of trying to operate a ‘split rate’.

We were also expecting comments about the risks of offering a low rate on investment income meaning that Scotland could become a ‘headquarters only’ or ‘finance department’ location. Some respondents noted this, but it was seen as a positive possibility. As one person put it ‘This would be an incentive to develop [Scotland] as an investment holding company location’, consistent with the strength of the Scottish Funds industry.

Q12&13 Should the corporation tax system give greater support to small and medium sized companies: would this be a better route than cutting the main rate of corporation tax?

The general view (59%) was that support to SMEs was preferable to cutting the main CT rate. Almost all of those who supported this view said that the best route was a lower rate of tax for SMEs, those there was a near-equal split between offering this lower rate to just the smallest companies (50%) and those who thought it best to reduce the small profits rate of CT (43%).

Q14 We asked which of a variety of routes would help improve the Scottish business tax system: changes to R&D tax credits, annual investment allowances, training credits a national insurance holiday or reduction, investment incentives similar to the Enterprise Investment Scheme of a different level of Minimum Wage in Scotland.

We asked for views on eight options. There was no outright ‘winner’; apart from the last-ranked item, all attracted a good measure of support. The ranking order was (note we deliberately split the NIC option up – combining the votes for the three NIC options would make it the clear winner):

- Annual investment allowances
- NIC reduction or holiday for additional employees
- R&D tax credits
- Training credits
- NIC reduction or holiday for existing employees
- Investor incentives similar to EIS
- NIC reduction or holiday for self-employed
- Different NMW

The vote for annual investment allowance (presumed to be for an increase) implies that many of the respondents are focussed on modest-sized businesses. In many
ways, the various options target different sectors or sizes of businesses and need to be considered in that context.

Q15 Are there other options for CT that should be pursued to help the Scottish economy?

This final question provoked a range of suggestions, some linked to previous answers:
- Three people argued that employment costs were a better target than corporation tax rates if incentives were being sought to encourage investment
- Higher R&D tax credits for renewable energy technology
- Abolish stamp duty on shares

Full fiscal autonomy was also suggested by one respondent.

The Chartered Institute of Taxation

The Chartered Institute of Taxation (CIOT) is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT’s primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

The CIOT’s comments and recommendations on tax issues are made solely in order to achieve its primary purpose: it is politically neutral in its work. The CIOT will seek to draw on its members’ experience in private practice, Government, commerce and industry and academia to argue and explain how public policy objectives (to the extent that these are clearly stated or can be discerned) can most effectively be achieved.

The CIOT’s 15,400 members have the practising title of ‘Chartered Tax Adviser’.

The Association of Taxation Technicians

Founded in 1989, the Association of Taxation Technicians (ATT) is the leading professional body for those providing UK tax compliance services and related activities. Our members are qualified by examination and practical experience to assist individuals and businesses in complying with their tax obligations.

The primary objective of the Association is to provide an appropriate qualification for individuals who undertake tax compliance work. Those who meet the membership requirements have their qualification recognised by use of the title of ‘Taxation Technician’ and the designatory letters ‘ATT’.

The Association has recently admitted its 7,000th member and now has over 10,900 Fellows, members and registered students.

Chartered Institute of Taxation and The Association of Taxation Technicians
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