# TAX POLICY FOR AN INDEPENDENT SCOTLAND

**In the fifth SIC Transition Paper – Tax Policy for an Independent Scotland – political economist, chartered accountant and tax specialist Richard Murphy describes the steps Scotland will need to take during the independence transition period and after in order to set up a strong and fair tax system. His reasoning is as follows: "If Scotland is to have a modern, functioning, controlled and effective economy then having a strong, upheld, respected and enforced tax system is critical. Only a strong and fair tax system can ensure that a future independent government will be able to effectively deliver its chosen policies."**

Richard proposes that "If Scotland is to be independent it will be a very different country to the UK that it will have left and its tax system will need to change to reflect this fact". He goes on to explain that the current UK tax system is "not fit for purpose" as it is managed by Her Majesty's Revenue & Customs (HMRC), which is not directly answerable to any government minister, nor is it answerable to parliament. The system is riddled by taxpayer abuse, is aided and abetted by weak administration, inappropriate tax design and a tax profession that is more than willing to abuse that system.

The paper presents a clear work programme for the process of how an independent Scotland can create a new appropriate and fairer tax system, an enormous challenge but one that can be completed, he says, within the likely three-year transition period.

The first task will be the creation of a tax system that will not replicate the failings in the current UK tax system. The second task, much of which will be carried out after independence, will be to make more detailed changes that reflect Scotland's social values.

Richard starts with the proposition that "tax is not all about raising money". It is "more complex" and he proposes that tax has six roles to play in society, which need to be taken into account when managing tax in an independent Scotland (assuming that Scotland creates its own Scottish currency):

1. To ratify the value of the currency by demanding payment of tax in the currency that is used for transactions in the country. The government can then take control of the economy that it is responsible for, on behalf of the people who elect it;
2. To reclaim the money the government has spent in the economy – in fulfilment of its democratic mandate – with the primary objective of controlling inflation;
3. To redistribute income and wealth for the benefit of society as a whole and the individuals within it;
4. To reprice goods and services that might otherwise harm society, such as carbon, tobacco and alcohol;
5. To raise democratic representation – because most people who vote pay tax, meaning tax has an important role in encouraging both local and national democracy;
6. To reorganise the economy through what is called fiscal policy. Fiscal policy can mean providing tax incentives for desirable activities, withdrawing them from others that might need to be discouraged, and also setting the overall amount of money a government wishes to inject into its economy. By setting the balance between tax revenues and spending the economy might be expanded (by under taxing compared to spending) or contracted (by overtaxing compared to spending) as circumstances require.

Drawing on examples from our Nordic and European neighbours he outlines a new system for managing tax in an independent Scotland. For example, the creation of a Minister of Tax responsible for the Scottish Treasury, a Ministry of Taxation and a Parliamentary Committee for Tax. He proposes that tax policies should not be contained within a finance box but that the Ministry of Taxation would need to consult with, and take into consideration the objectives of, other government departments – those responsible for environment, health, transport, social security, employment, business and others. An independent Revenue Scotland could fulfil an administrative role but it should be protected from any political and big business interference. In order not to replicate the failings of HMRC a network of local tax offices should be set up giving the population easier access. A Board could oversee its governance made up of representatives from a wide range of stakeholders groups – large and small businesses, including the self-employed, employees and trade unions, charities and civil society, local authorities, the tax profession and staff from Revenue Scotland.

If the Scottish tax system is to function well "it must be accountable to the people in Scotland". Tax transparency will be critical and Richard outlines ten principles to govern this. In addition, an audit agency must ensure that the government delivers and is accountable to parliament.

The paper also sets out in detail the measures needed to tackle tax abuse that would include maintaining effective registers of Scottish companies and other assets.

A wide range of taxes will obviously be needed, including: Income tax charged on a wide variety of sources, tax on company profits, capital gains tax, wealth tax, and so on. The paper sets out proposals for changing tax rates, allowances and relief, revising corporation tax, VAT, inheritance tax and carbon taxes. Importantly, Richard proposes having an alternative tax to replace the current National Insurance (during the transition to independence) and integrating tax and benefit systems that will help to lift a substantial number of people out of poverty.

In conclusion, Richard states: "The challenges in achieving these goals will be significant but social and economic justice in post-independence Scotland does, in no small part, depend upon them being achieved".

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