

Scottish Independence Convention (SIC)

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TAX POLICY FOR AN INDEPENDENT SCOTLAND

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The purpose of tax in the economy

Many people think tax is all about raising money. It is not.

An independent Scotland, with its own parliament, central bank and currency (all of which are pre-requisites for being truly independent and for a successful Scottish tax system) could spend without, at least in theory, raising a penny in tax. There is nothing revolutionary about this suggestion. This has been true for British governments since 1866 when an Act of Parliament¹ required the Bank of England to always make payments when instructed to do so by the government, without first checking whether there are taxes or loaned funds available to cover the cost.

This, however, is not how tax works in practice. If a government spends without taxing back the money it has created and spent into the economy then it is likely that inflation will result. As a consequence, governments have taxed. They have also borrowed, but that is largely because of the social and economic value that government bonds create within the economy.²

And they have also deliberately created new money through the quantitative easing (QE) process to help fund their spending, even though the United Kingdom (UK) Treasury and the Bank of England³ both deny that this is one of the functions of QE.

It is important in that case to see tax as a key component within the government revenue cycle in an independent Scotland, but not as the sole contributor of funds to that process. That fact means that tax can also play other roles in the economy.

The role of tax in society

The role of tax is more complex than simply raising money for government. And even when it does fulfil that task the reasons for doing so are not so straightforward. I propose that tax has six roles to play in society:

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;⁴
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;⁵
3. To redistribute income and wealth for the benefit of society as a whole and the individuals within it;⁶
4. To reprice goods and services that might otherwise harm society, such as carbon, tobacco and alcohol;⁷
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;⁸

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.⁹

All these factors need to be taken into account when managing tax in an independent Scotland.

Why the current UK tax system is not fit for purpose in Scotland

Tax in the UK is managed by Her Majesty's Revenue & Customs (HMRC), which is not directly answerable to any government minister, nor is it answerable to parliament. These are the consequences of divisions in responsibility dating back to the 17th century English civil wars and disputes between the Crown and parliament. These anachronisms should not impede a modern Scotland.

HMRC describes its role as follows: "We are the UK's tax, payments and customs authority, and we have a vital purpose: we collect the money that pays for the UK's public services and help families and individuals with targeted financial support."¹⁰ HMRC says its three strategic objectives are to:

- Maximise revenues due and bear down on avoidance and evasion;
- Transform tax and payments for our customers;
- Design and deliver a professional, efficient and engaged organisation.

If these objectives are compared to the purpose for tax that I have suggested appropriate then three conclusions can be reached:

1. HMRC do not appear to understand the purpose or role of tax within either the economy or broader society;
2. HMRC do not understand that tax maximisation is not always what is in the best interest for society, although ensuring that tax due is settled always is;
3. Process is not strategy.

The current UK tax system is unaccountable to ministers or parliament; it has the wrong objectives, and those running it do not appear to understand the wider social consequences of the activity that they are undertaking. It is for these reasons that the existing UK tax system cannot be used as the role model for adoption by Scotland after independence. Scotland has to start afresh.

Managing the Scottish tax system

Whilst it is an inevitable fact that much of the infrastructure for tax collection in Scotland will be inherited from the system currently used in the UK, it is vital that during the transition period new systems for managing tax in Scotland be put in place.

This task is more important than deciding on particular taxes to use, rates to apply, or procedures to implement. If the Scottish economy is to be successful after independence the proper role of tax has to be understood and managed given that more than one third of all payments in post-independence Scotland will be made in settlement of tax liabilities owing. This paper sets out an outline for that new system.

A Minister of Tax and Ministry of Taxation

It is usual for the tax system of a country to be the responsibility of its Minister of Finance, and so of its Ministry of Finance. However, if the role of tax is properly understood its importance is much greater than this subordination within finance suggests appropriate.

The Minister of Tax would, of course, have responsibility for the Scottish Treasury to raise the level of funding that they believe is appropriate to meet their overall target for the fiscal balance. For example, if the Treasury wants to run a deficit of 5 percent of total spending then they would agree a revenue target for the year based upon that requirement with the Minister of Tax. However, in delivering that goal the Ministry of Taxation would also take into consideration the objectives of other government departments.

This would require discussions with the departments responsible for the environment, health and transport, all of whom are impacted by measures to constrain market failures. In addition, the departments responsible for social security and employment will need to be consulted as they will be impacted by measures with regard to inequality and the promotion of work opportunities. And the department responsible for business will need to have input with regard to the trajectory of industrial strategy. No doubt other departments could also be part of this negotiation process.

The Ministry of Taxation would be responsible for this reconciliation of the objectives for tax, the publication of the resulting tax plan, and necessary changes to taxes, tax rates and collection mechanisms that result from it. They would also be responsible to the parliament and the public at large for the resulting outcomes and for highlighting the impediments to making progress in the achievement of their goals, both nationally and internationally, where they would have responsibility for the smooth operation of tax systems on a cooperative basis.

A Parliamentary Committee for Tax

If there is to be a Minister of Tax then there must also be a Parliamentary Committee for Tax. One of the great weaknesses of the UK House of Commons is that it has never been able to agree who holds the government to account with regard to tax. Neither the Treasury or the Public Accounts Committee have a clear mandate to do so, and as such responsibility falls between them. Worse, neither is given the resources to research tax as a result. This means that far too little investigative work on HMRC is undertaken by parliament, and expertise and understanding on the issue of tax amongst MPs is not developed. Scotland has to avoid these traps by having a dedicated tax committee within its parliament.

Revenue Scotland

While a Minister of Tax must be responsible for the Scottish tax system, an agency that is beyond political interference must be responsible for the administration of tax in the country. Revenue Scotland could fulfil that role but it must not be modelled on the UK's existing HMRC. The structure of HMRC has been rightly criticised for being too close to big business; having too close a relationship with the biggest firms of tax lawyers and accountants; being selectively hostile to smaller business interests; and for being too lenient on the wealthy whilst being inflexible in their approach to people on benefits.

There is evidence to support this. Parliamentary enquiries, particularly by the House of Commons Public Accounts Committee, have exposed cosy relationships and deal making with big business. The external directors of HMRC are almost exclusively drawn from the ranks of big business and the largest accountancy firms. Revolving doors between HMRC and tax advisers have caused disquiet. There is no doubt that the rate of prosecution of big business and the wealthy is tiny. It is a matter of record that HMRC have more staff investigating relatively insignificant benefit fraud than they do tax avoidance and evasion. The available evidence does then suggest an organisation captured by particular interest groups that results in bias towards those best off in society.

Revenue Scotland must not replicate this and its governance structure must be robust to ensure that this is the case. It should have a Board made up of both Revenue Scotland personnel and people representing a wide range of stakeholder groups, and not just business interests. The groups to be represented might include both large and small businesses, including the self-employed; employees and trade unions; charities and civil society; local authorities and the tax profession as well as the staff of Revenue Scotland.

This change will not be enough in itself. There will also need to be strong evidence that Revenue Scotland is committed to delivering a fair tax system that puts peoples' needs at the centre of its

operations and thinking. The strongest indication of this will be the operation of a local tax office network that makes it easy for people to access tax office services. This is the exact opposite of what is happening in Scotland now (and also in the rest of the UK). The current HMRC office closure programme will leave just two regional tax offices in Scotland (Glasgow and Edinburgh) in the near future, with many people being hundreds of miles away from their nearest face-to-face help. If tax is at the heart of a community, as it should be, then this is a policy designed to break that link.

Revenue Scotland will also require a very different approach to the staff it employs from that used by HMRC. They will need a strong career structure, with appropriate pay attached to the tasks undertaken to make sure that suitable personnel are employed. The revolving door problem must be addressed: restrictions on the right of senior Revenue Scotland staff to work in the private sector would have to be applied for two years after they leave its employment.

Tax accountability

A tax authority that acts impartially on behalf of all in a society is now considered key to tax agency effectiveness and to high tax compliance rates (and so small tax gaps) amongst the population at large.

If the Scottish tax system is to function as well as it might then it must be accountable to the people in Scotland. In that case tax transparency is critical to the operation of the Scottish tax system. I have suggested¹¹ that there are ten principles for tax transparency, which are:

1. Everyone should have the right to access information on the tax system of the countries in which they have tax liabilities.
2. A government should publish their objectives for the tax system of the country that they govern.
3. Those objectives should be supported by detailed budget plans setting out how the government intends to raise tax revenues, and who from, and at what rates.
4. A government should provide notice of all planned changes to tax systems, consult widely upon them and only implement them with statutory approval.
5. The success or otherwise of a government in raising the revenues that it plans should be reported at least annually, and preferably more often, with full supporting information on individual taxes so that the government can be held to account for its actions.
6. The success, or otherwise, of a government and its tax authorities in delivering on its tax promises should be appraised through tax gap reports¹² that indicate amounts due not collected. Tax spill over assessments¹³ should explain why these failures occur and how they can be addressed.
7. All taxes and their administration should be backed by law and legally compliant processes, with all proposed changes in these arrangements subject to full disclosure, consultation and statutory approval.
8. All taxpayers should have access to the tax laws that a country expects them to comply with.
9. Taxpayers should be provided with the support they need to comply with the tax system of a country, and a right to appeal against a tax liability if they do not agree with it.
10. An audit agency, with statutory independence from the executive of the government, should have responsibility for reviewing the truth and fairness of all data published in pursuit of tax transparency by a government.

With regard to accountability to parliament, this requires that an audit agency (which might be a Scottish version of the National Audit Office) must make sure that the government delivers each year:

- a. A budget in a comprehensible format, which is far from what happens in the UK at present, where determining even the most basic information on what is expected to happen is very hard indeed;
- b. A set of annual accounts for the government showing a comparison with the budget and why variances arose;
- c. A tax gap analysis explaining how much tax was not collected annually and why;

- d. An annual tax spill over analysis explaining how the weaknesses in the tax system might be addressed.

With this data both the Scottish Parliament and the people of Scotland will have the chance to hold their government to account for their tax policies. The government will also have the chance to explain why those policies might work for the benefit of the people of Scotland.

The assumption inherent in this process is that an efficient tax system that delivers the policy that the government dictates in its legislation is critical if macroeconomic control of an economy is to be secured for the Scottish Government. The delivery of the government's social policies through the process of taxation should be guaranteed as a consequence.

Tackling tax abuse

In the last 20 years concern about tax abuse, whether from tax avoidance¹⁴ or tax evasion,¹⁵ has come to the forefront of public interest. Measures to tackle this abuse are critical to the success of the Scottish tax system post-independence. Key issues to consider are:

- **Joining the Organisation for Economic Cooperation and Development (OECD) and participating in its anti-tax abuse initiatives, including full international data sharing.** The OECD effectively sets the rules for international tax. Whilst it is unusual for a country the size of Scotland to be a full member of the OECD it is not impossible given the relative wealth that Scotland will enjoy. It is also entirely possible for Scotland to join the anti-tax abuse initiatives that are run by the OECD, and this will be essential for the effective operation of Scottish tax after independence. These initiatives involve the exchange of information between countries, including from tax havens. Scotland might then know which of its tax resident population are making use of facilities in such places, providing it with the opportunity to tackle tax haven abuse.
- **Use of country-by-country reporting to tackle tax abuse by multinational corporations.** Country-by-country reporting is a type of accounting that has been requested by civil society¹⁶ since 2003. It became an OECD demand¹⁷ in 2015, and is now a legal requirement for tax reporting in more than 70 countries. In 2021 the European Union (EU) might make it a legal requirement for public reporting by companies based in the EU.¹⁸ All that country-by-country reporting actually requires is that a multinational corporation publishes a limited amount of data for each country in which it operates (covering sales, profits, current taxes accrued in the accounts and tax paid for the number of employees and amounts paid to them, investment in the jurisdiction and so on).

The use of this data permits a tax authority to see whether the overall profits of the group of companies are likely to be fairly distributed, or have an implicit bias towards countries with low taxation jurisdictions inherent in them, suggesting international profit shifting is taking place. To protect its own revenue base, including from profit shifting into rUK (remainder of the UK), Scotland must require all multinational corporations submitting accounts within Scotland to provide this data, without exception, and that larger companies must put this information on public record. Only then can it be sure that international tax abuse is likely to be constrained.

- **Internal automatic information exchange.** There is considerable evidence that suggests that when a source of income is known to be automatically reported by the person making payment to their tax authority, they are likely to include it up on their tax return. Conversely, when they know that this information is not automatically provided, they are much less likely to declare it.

Within the UK there is a surprisingly limited amount of information automatically supplied by those making payment of income to HMRC. For example, it is a legal requirement that all employers provide information on pay using the PAYE scheme, and that all banks provide information on interest payments to individuals. However, there are only limited information exchange agreements in place with regard to many other sources of income, and Scotland should significantly increase the range.

For example, all rental agents should be required to report all rental income that they manage to Revenue Scotland. So too should all banks who operate accounts on behalf of companies declare that fact. They should be required to submit information on those bank accounts to the Scottish tax authority each year, including account numbers, the identities of the beneficial owners and directors of the companies in question, and the total sums deposited each year, plus year end balances. When companies are a particularly important source of tax abuse this is very important.

Broadly similar requirements should be placed upon all credit card companies and internet trading hubs, whilst those managing investments on behalf of clients should be automatically required to provide copy account statements for those clients to the revenue authorities.

Land purchases and sales, the purchase and sale of significant capital items, including cars and collectible items, and significant transactions in foreign exchange should all be automatically notified.

In every case, a taxpayer identification number should be required of the notifier. Scottish taxpayers should be aware that this is information they will have to supply to complete transactions. In this way tax evasion will be deterred.

- **General anti-avoidance principle.** The current approach to taxation in UK law is based upon a legal interpretation of tax law. The consequence is that unless it can be shown that something is subject to tax by law it is not taxed. Similarly, if it can be shown that the legal construction prevents tax being due, then broadly speaking it is not taxed even if common sense might suggest otherwise. Various attempts have been made to remedy the resulting opportunity that this provides to tax avoiders, but too much advantage still rests in their favour.

Scotland does, as a consequence, need to rely upon a different principle of law, which is possible within its legal tradition. An alternative approach to legal interpretation with regard to taxation is summarised by an Australian law of 1901,¹⁹ which states:

In the interpretation of a provision of an Act, a construction that would promote the purpose or object underlying the Act (whether that purpose or object is expressly stated in the Act or not) shall be preferred to a construction that would not promote that purpose or object.

In this context, interpretation "looks through" the strict structure of the words in the law to determine their just and equitable meaning and uses that meaning in deciding on the application of the law. It would follow that unless a Scottish tax payer could show that their transaction did not fall within the purpose or underlying objective of tax law then their transaction would be taxable. In other words, the onus of proof would be reversed: it would be for the tax payer to prove that they were not taxable when receiving income or gains, rather than for the tax authority to prove that they were taxable. It is very likely that this would prevent a great deal of tax avoidance in an independent Scotland.

- **A code of conduct for tax professionals.** An independent Scotland should require that any person wishing to provide advice with regard to tax be registered with the Scottish tax authority. As a condition of that registration, they should be required to sign a legally binding code of conduct. This code of conduct would include the requirement that they would not promote any form of tax arrangement that did not comply with the purpose or object underlying Scottish tax law. In other words, they should be ethically bound not to promote tax avoidance arrangements. Contravention of this requirement could be liable to penalties, but would also lead to the suspension of a person's right to trade as a tax adviser, which will be a significant penalty in most cases and could act as a significant deterrent to the sale of tax avoidance arrangements in Scotland.
- **Maintaining effective registers of Scottish companies and other assets.** The principle of automatic information exchange has already proven to be successful between international tax authorities and should be replicated within Scottish law. This principle does, however, presume that there are effective registers of ownership of assets so that the person receiving an income can be identified. There are particular problems with regard to the registration of ownership of some assets in the UK that Scotland must not replicate within its own tax system. For example, in

the UK it is ridiculously easy to form a company without having to prove the identity of those doing so. Similarly, a person can become a company director without having to prove their identity. And land registry data is hard to access and is very often incomplete. There is no effective register of wealth that people must maintain for taxation purposes, particularly if they are using agents (with regard to rental or investment income) to manage their property.

All of these deficiencies must be made good in an independent Scotland, but with a focus on the accurate maintenance of registers of companies and trusts. All companies should be required to report their full accounts, as supplied to their shareholders, for the public record each year. The beneficial owners and directors of the company should lose personal protection from liability if they fail to deliver that information, making those persons liable for the debts of the company, including those for taxation.

The measures outlined above would not eliminate all tax abuse in an independent Scotland, but they would have a significant impact on the scale of that abuse. They are critical to the effective management of a Scottish tax system, not least because many of the abuses that have been highlighted over the last two decades would be much harder to perpetrate if these arrangements were in place in Scotland after independence.

Taxes that Scotland will need

It is no surprise that many of the world's tax systems look remarkably alike, at least in broad principle. There is no one magic tax that solves all taxation problems. Nor is there one tax that can, by itself, capture all the necessary tax bases that exist within an economy if there is to be equity within the tax system and an appropriate balance to ensure that each person pays according to their means. As such, a wide range of taxes will be needed in an independent Scotland, including:

- Income tax charged on a wide variety of sources – pay from employment, self-employed income, pensions, benefits, investment income (including rents, interest, dividends, income from trusts and copyrights)
- Tax on company profits
- Capital gains tax
- Wealth tax
- National Insurance
- Value added tax
- Financial transactions (for example, stamp duty)
- Specific excise duties (for example, on oil/petrol, vehicles, alcohol, and tobacco)
- Customs duties on imports
- Land based taxes (often linked to local taxation systems)
- Taxes on specific issues (for example, land fill, car licences, airport taxes and maybe a tourist tax)

Tax rates

The UK tax system does, overall, produce a remarkably flat tax outcome, particularly when only income is taken into consideration.²⁰ In that case, Scotland might want to consider a broader range of tax rates, particularly with regard to taxes on income, capital gains, company profits and wealth. The objective would be to increase equity and effectiveness and produce a more progressive tax system.

Some tax rates would need to be adjusted to remove the incentive for tax avoidance. For example, the corporation tax rate should not be less than the basic rate of income tax. In fact, it should ideally be higher to compensate for the advantage that company shareholders enjoy through having limited liability.

In addition, the capital gains tax rate should be aligned with the income tax rate, with the rate determined by treating capital gains as the top part of a person's income. This practise was applied in the UK during the late 1980s and for much of the 1990s.

There will be good reason for reducing the National Insurance rate for those on low incomes, and for removing the reduction in National Insurance for those on high incomes for as long as this tax remains in use. There is also no logical reason why very high-income earners should be taxed at a maximum of 45 percent. A 50 percent tax rate could work if a government committed to its use and is not out of line with international tax norms charged on incomes over, say, £300,000 a year.

A structural review of all these issues would be an essential part of introducing a Scottish tax system.

Tax allowances

The UK tax system is notorious for the number of tax allowances and reliefs that it provides, many of which have not been reappraised for decades and are likely to be wholly inappropriate for current social need. A comprehensive review of these allowances and reliefs would be required during the transition to a new Scottish tax system.

There are gross injustices within the income tax system. This is caused by those on higher rates of tax generally enjoying higher rates of tax relief on certain deductions made against their income when compared to those on standard tax rates. For example, many of those who pay higher income tax rates currently get tax relief at 40 percent of their pension contributions, whilst those on the basic rate of income tax only get relief at 20 percent. There is no obvious reason why the savings of those who are on higher incomes should receive a greater rate of subsidy than those who have lower rates of income. In addition, the contributions that those with higher incomes make to charity usually result in them receiving a refund on the tax they pay. No such system is in operation for those who pay the basic rate of income tax. The charity does not benefit from the refund paid to the taxpayer and this is an anomaly that needs to be removed.

There are also numerous allowances and reliefs within capital gains tax that need to be addressed. In particular, the provision of a second effective annual tax-free allowance to those who can record some of their income as capital gains appears quite unjust. Why those who can arrange their affairs in this way are entitled to a second tax free sum when those who have to work for a living only enjoy one such allowance is very hard to justify. As such the removal of all or a substantial part of this allowance would appear to be long overdue.

The capital gains tax system also continues to provide significant exemptions for those who are considered to be entrepreneurs, but at the time when they sell their business and not usually when they are making an investment. That makes little sense and such allowances need to be reviewed.

The whole basis of the taxation of inheritances needs to be reviewed within the Scottish tax system. If this is not possible before a new tax system is introduced then some anomalies within the current system need to be reviewed. These anomalies include agricultural property and business property relief schemes, which substantially cut the effective rate of inheritance tax payable on the estates of many of the wealthiest people.

There are few, if any, known economic justifications for these reliefs and many more examples could be given.

Matters requiring more comprehensive review

If Scotland is to have the tax system that suits its needs then it will need to revise some of the existing taxes in use in the UK. This is an exercise that will go beyond changing rates, allowances and reliefs. The taxes that will need particular change are described below.

Corporation tax

Corporation tax is clearly a necessary and appropriate tax. It is especially effective in charging tax on the profits of larger companies, but considerable difficulties have arisen in relation to applying this to companies of all sizes. In particular, many self-employed people have been encouraged to incorporate their businesses as a result of low rates of corporation tax and to pay themselves by way of dividends, thereby avoiding National Insurance on some or all of their own pay. This has long been considered unjust, and inappropriate, not least because it creates an unlevel playing field between different self-employed people, and between the self-employed and those who are on PAYE. As such it is vital to the new Scottish system that there is a new way of taxing small companies at the time that Scotland becomes independent, or soon thereafter. This would integrate the taxation of smaller companies within the taxation of the directors/shareholders of a smaller company so that tax was paid just once, and only on the profits generated. This would remove most of the tax avoidance opportunities that currently arise from using limited companies.

Value added tax

If Scotland wishes to re-join the EU then it must have a value added tax (VAT), and whatever VAT it operates must be consistent with EU rules. However, this does not preclude a review of some of the existing exemptions and reliefs within this tax, particularly with regard to those types of expenditure that are commonplace amongst those on higher incomes (private education and private medical services). A review of available options for reform is necessary before Scotland becomes independent.

National Insurance

Almost every country has some form of national insurance or social security charge. Some countries (for example France) are extremely dependent upon them for tax revenue. But there are considerable problems with such charges. First of all, they are usually only paid by those who are in some form of employment, meaning that the very wealthy largely avoid them. Second, they are, without doubt, an impediment to the creation of new jobs because a significant part of the charge is paid by the employer, not the employee. Third, they also tend to be the largest part of the tax paid by many people on low incomes.

It has long been proposed that income tax and National Insurance should be merged. But there are substantial difficulties in doing so, not least because rates of income tax will increase significantly and because the tax rate on people who have retired and surviving on pensions will also rise, potentially by a significant amount.

The means by which National Insurance can be replaced in Scotland by a better alternative tax, one that is suited to the needs of the 21st century, must commence during the transition to independence regardless of whether change is possible by the time of independence. Examples of alternative taxes include a progressive financial transaction tax charged on all the financial flows through both personal and corporate bank accounts within Scotland. Such a tax was used in Brazil at one time and was very successful. It could provide a fair alternative to National Insurance, as well as provide a progressive alternative to VAT for the purposes of exercising fiscal control over the economy.²¹

Inheritance tax

Inheritance tax is the only true wealth tax that the UK has, and it is largely ineffective, particularly with regard to taxing the very wealthy. There are three reasons why this is the case. Firstly, the wealthy can afford to give away much of their estate before they die, and so avoid a charge. Secondly, many of the assets of the wealthy are invested in assets that enjoy tax exemptions for the purposes of this tax. The wealthy are inclined to use exemptions on agricultural property and businesses to the maximum and this has particular significance in Scotland where land ownership is highly concentrated. Thirdly, some estates are still protected by old tax planning arrangements and use trusts and other such methods. This means that inheritance tax does not redistribute wealth.

There are a number of ways to address this. Scotland could consider a wealth tax or taxes on particular assets – for example, a land value tax, but with exemptions for lower valued owner occupiers and with the requirement that a landlord is not allowed to pass the charge on to a tenant. There is also scope to consider a gift tax, where a recipient of gifts is charged tax on their cumulative inheritances during their lifetime. Such taxes tend to be more effective than existing inheritance taxes because they encourage a donor to spread their gifts more widely to avoid a tax charge, so reducing inequality (at least in a small way). Careful consideration of changes would be required, but what is certain is that the existing UK inheritance tax will not meet the needs of Scotland in the long term.

Carbon taxes

Some environmental campaigners believe that carbon taxes are the mechanism for controlling the use of substances that pollute the atmosphere and are, therefore, a necessary part of the future sustainable economy. Others are concerned that many carbon taxes appear to unjustly fall most heavily on those with the lowest incomes. Carbon tax does have a role to play in the future, as it does already with regard to hydrocarbons. However, careful design of a carbon tax or taxes will be required to make sure that social justice is maintained. It may be that regulation is a more effective tool for tackling pollution rather than taxation.

Integrating the tax and benefit systems

One of the greatest injustices in the UK tax system is that very high marginal tax rates are charged on people as they come off Universal Credit and move into work as their main source of income. If the wealthy were charged similar rates of tax, we can be sure the national media would never hear the end of it. This issue needs to be addressed.

Real time data on income and benefits does now exist. No one should pretend that making adjustments to ensure that there is a smooth transition between benefits and work (and vice versa) will ever be easy. However, effort must be made to ensure that a maximum marginal tax rate does not exceed an acceptable rate of tax to be paid by those moving between benefits and work during the transition period. Technically this can now be achieved. The effort to ensure that social justice is delivered through the Scottish tax system must be made before Scotland becomes independent.

Conclusion

The task of creating an appropriate tax system for Scotland will be a big one and a challenge to complete within the likely three-year transition period.

The first task that must be undertaken during the period of transition – from the day Scotland votes for independence to the day it achieves it – is to create the tax system that will address the failings in a tax system which might otherwise be inherited from the UK.

The second task will be to make more detailed changes that reflect Scotland's social values and this work will have to continue long after independence is achieved.

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.

References

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- 11 Unpublished work produced in collaboration with Professor Andrew Baker (University of Sheffield) for the Global Initiative for Financial Transparency, sponsored by the International Monetary Fund and World Bank.
- 12 <https://www.taxresearch.org.uk/Blog/2021/02/26/reappraising-the-tax-gap/>
- 13 <https://onlinelibrary.wiley.com/doi/full/10.1111/1758-5899.12655>. Shorter version is available here: <https://www.taxresearch.org.uk/Blog/2020/04/27/tax-after-coronavirus-tacs-the-tax-spillover-methodology-that-underpins-the-work/>
- 14 The term given to the practice of seeking to minimise a tax bill without deliberate deception (which would be tax evasion or fraud). The practice may be summarised as "seeking to get around the law".
- 15 The illegal non-payment or under-payment of taxes, usually by making a false declaration or no declaration to tax authorities; it entails criminal or civil legal penalties.
- 16 <http://visar.csustan.edu/aaba/ProposedAccstd.pdf>
- 17 <https://www.oecd.org/tax/beps/beps-actions/action13/>
- 18 <https://www.taxresearch.org.uk/Blog/2021/02/26/public-country-by-country-reporting-has-been-approved-in-the-european-union/>
- 19 Interpretation Act. 1901 (Section 15 AA). http://www.austlii.edu.au/au/legis/cth/consol_act/aia1901230/s15aa.html
- 20 <https://www.taxresearch.org.uk/Blog/2020/04/22/tax-after-coronavirus-tacs-there-is-significant-room-for-wealth-taxation-in-the-uk/>
- 21 <https://www.taxresearch.org.uk/Blog/2008/12/18/a-financial-transparency-tax-for-the-uk/> and <https://www.taxresearch.org.uk/Blog/2020/11/05/its-time-for-a-new-financial-transactions-tax-if-its-fiscal-policy-thats-going-to-control-inflation-in-the-future/> for more explanation of this option.