Scottish Tax Raising Powers May Not Benefit Scotland in the Short Term

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The Scottish tax raising powers announced in the Smith Commission report released this morning may not benefit Scotland at all in the short term say London chartered accountants Blick Rothenberg LLP

" The problem," said Frank Nash, a senior tax partner with the firm, " is that the Scottish Government will not only have to put in place new tax administration processes which they will have to fund themselves, but they will also now receive a bill from the Treasury to cover the costs of introducing the Scottish tax and devolved benefits."

He added: "This is all going to effect their bottom line and lead to high uncertainty both from a personal and business tax perspective."

"The Scottish rate of income tax (SRIT) which is set to be introduced from April 2016 will need to meet the aspirations of the Scottish Governments spending and welfare programmes. We would expect no significant change in the Scottish rate to the comparable or existing main UK rates and we would urge full openness and consultation with Scottish tax payers both personal and business."

The problems that will arise could include:

Employers having to operate different sets of tax codes for Scotland and the rest of the UK given the impact of different rate bands including SRIT.

People who live in border communities will need to confirm which taxpayer they are. They may live in Scotland but work in England.

Alan Pearce the firm's VAT partner said: "Despite reports, there are no significant changes (as devolved powers are not allowed under EU legislation) other than the ability of the Scottish Parliament to retain some of the VAT revenues raised in Scotland."

He added: " Most reports are simply saying that 50% of VAT raised in Scotland will be retained. However, it's not quite that simple:

"The report confirms that Scotland can retain the first 10 percentage points of the standard rate (which currently does equate to 50%) but if Westminster decides the raise the rate above 20%, under the current proposals, none of the extra revenue raised would go to Scotland. There is no mention of the reduced rate so it appears that any VAT raised at 5% will be fully retained by the UK Government.

There is an interesting logistical issue here. Where a VAT registered entity has businesses north and south of the border and remits its VAT receipts under a single registration, how would the amounts of VAT raised in Scotland be identified? This could result in additional administration for businesses that have operations in Scotland and elsewhere in the UK."

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