Scotland's new powers: Tax and welfare

reformscotland.com

reform scotland

FAST FACTS

On tax

- The Scotland Act 2012 makes the Scottish Parliament responsible for the Scottish Rate of Income Tax, currently 10p, from April 2016. Any change must be applied to all bands.
- Under the Scotland Bill 2015/16, this will increase to control over all income tax, with changes to individual bands permitted (plus Air Passenger Duty and Aggregates Levy).
- Though this is welcome, until Scotland has a broader basket of taxes it is difficult to introduce the coherent tax reform that would provide a better environment for economic growth. One dominant tax is a blunt instrument; it is not the final chapter of fiscal devolution.
- **Therefore, Reform Scotland believes that until the Scottish Parliament has a broader range of taxes at its disposal, the income tax level in Scotland should not be altered.**

On welfare

- £2.5bn worth of benefits out of the £16.7bn that was spent in Scotland by Westminster in 2013/14 will be devolved to Holyrood as a result of the Scotland Bill 2015/16.
- Most of these benefits interact with other benefits which are not being devolved.
- As with tax, unless a far greater proportion of welfare is devolved, the ability to introduce coherent reform is limited.
- However, the Scottish Government has the opportunity to improve upon the administration of taxable benefits either by taxing the benefit at source or removing the need for it to be taxed altogether.
- **The Scottish Government should ensure that one department is responsible for both tax and welfare powers. As well as creating a more transparent system, it would enable the benefit to be taxed at source.**
- Both options are far more user-friendly and give Scotland the opportunity to lead by example.

CONTEXT

Reform Scotland has persistently called for far greater tax and welfare powers to be devolved to the Scottish Parliament. The 2015/16 Scotland Bill, though welcome, does not give Holyrood sufficient powers to introduce coherent tax reform. It is a blunt instrument which will not offer the opportunity to create a better environment for economic growth in Scotland.

The Scottish Parliament gains limited control over income tax from 2016/17 as a result of the Scotland Act 2012. It will be devolved almost in full following the passing of the Scotland Bill 2015/16. **The devolution means that 71% of the tax raised by the Scottish Parliament will come from the single source of income tax.**

<u>Therefore, we believe that until a broad range of tax powers are devolved, the income tax level should remain the same.</u>

That same legislation also devolves some welfare benefits to Holyrood, though those benefits only account for about £2.5bn of the £16.7bn spent in Scotland by Westminster in 2013/14. **The devolution amounts to less than 15% of the total.** Many of those benefits are also tangled up with other benefits which have not been devolved.

Equally, the benefits due to be devolved are too intertwined with other welfare payments to offer any real opportunity to reform. Again we would call for greater powers to be devolved to enable real change.

The devolution of Carer's Allowance presents the Scottish Government with an **<u>excellent opportunity to lead Westminster on reforming the administration of taxable benefits</u>**, and we would encourage it to do so.

BACKGROUND ... on tax

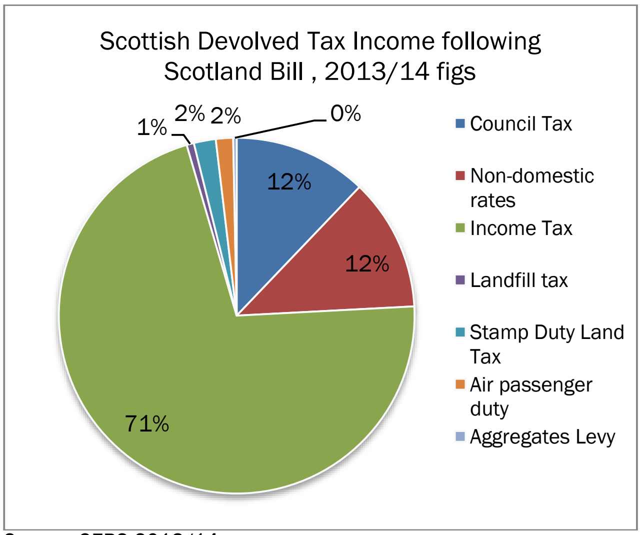
The Scotland Act 2012 devolved 10p of income tax across all bands to the Scottish Parliament (the Scottish Rate of Income Tax). This comes into effect from 2016/17.

The proposed Scotland Bill 2015/16 will devolve the rest of income tax to Scotland, in addition to Air Passenger Duty and Aggregates Levy (we have not included any assigned revenue from VAT as control over the tax has not been devolved).

However, despite this, the Scottish Parliament will control less than 30% of all tax income raised in Scotland.

<u>More importantly, 71% of all tax revenue raised by the Scottish Parliament will come from a single source – Income Tax.</u>

Reform Scotland believes that with tax income so overly reliant on a single tax, it is likely to be impossible to introduce coherent tax reform that would encourage economic growth. It is a blunt tool, and therefore further devolution is required.



Source: GERS 2013/14

BACKGROUND ... on welfare

According to Government Expenditure and Revenue Scotland 2013/14, published in March 2015, £16.7 billion was spent on social protection by Westminster in Scotland. However, the benefits proposed to be devolved cover only £2.5bn of the expenditure – less than 15% – with the main benefits all remaining reserved.

The benefits proposed to be devolved are:

- Discretionary Housing Payments
- Attendance Allowance
- Disability Living Allowance
- Carer's Allowance
- Industrial Injuries Benefits
- Severe Disablement Allowance
- Benefits in the Regulated Social Fund (Mainly Winter Fuel Payments)

The following complications should also be noted:

- Personal Living Allowance is to replace some aspects of Disability Living Allowance – *this will also be devolved*.
- Severe Disablement Allowance is being replaced by Employment and Support Allowance – *this will not be devolved.*
- Attendance Allowance can affect Pension Credit and Housing Benefit – *these will not be devolved.*
- Carer's Allowance can affect the Universal Credit – *this will not be devolved.*
- It can also affect the benefits of the person that is being cared for – *those benefits will not be devolved.*
- Cold Weather Payment comes under the Regulated Social Fund – *this will be devolved.* However, eligibility is based on other benefits which *will not be devolved*.

We can see that the welfare system is a Gordian Knot which is ill-suited to bit-part devolution. Unless all major welfare benefits are devolved, there is little opportunity to reform and improve the system.

<u>As all of welfare was devolved to Northern Ireland in 1998, there is also no reason why it could not be devolved to Scotland to enable coherent reform.</u>

Taxable benefits

Despite the limited nature of welfare devolution, there is an opportunity to improve administration.

Carer's Allowance is a taxable benefit. In other words, although the government is giving you the benefit, it wants to take some of that same benefit back. However, the government will not tax benefits at source. This means that it is up to the individual to ensure the money is paid back, mainly through a decrease in their personal allowance or self-assessment.

Other benefits are taxable, including:

- the State Pension
- Jobseeker's Allowance
- Employment and Support Allowance (contribution based)
- Incapacity Benefit (from the 29th week)
- Bereavement Allowance
- pensions paid by the Industrial Death Benefit scheme
- Widowed Parent's Allowance
- Widow's pension

This process is overly complicated, inefficient and not at all user-friendly. However, since a taxable benefit, Carer's Allowance, is being devolved to Holyrood, there is an opportunity to create a better system of administration, thereby leading Westminster by example.

POLICY RECOMMENDATIONS

1. While only limited tax powers have been devolved, the Scottish Income Tax should not diverge from the UK level.

The Scottish Government will not have a basket of taxes which would enable it to introduce coherent tax reform. As a result, until more varied tax powers have been devolved we would advise the Scottish Government against varying income tax from the UK level.

2. Have one Scottish department responsible for both new tax and welfare powers due to be devolved to Scotland.

Welfare expenditure is currently divided between two departments, HMRC and the Department for Work and Pensions (DWP). As we believe that far greater tax and welfare powers should be devolved to Scotland, it is important that we don't follow Westminster's lead and create a confusing set-up split between different departments. As a result, Reform Scotland believes that a single department should be responsible for these tax and welfare new responsibilities to ensure a simpler and more user-friendly system with greater transparency.

3. Reform administration of Carer's Allowance.

The UK system for taxing benefits is overly complicated, totally inefficient and not at all user-friendly.

The benefit should either be taxed at source, which could be done if one department was responsible for tax and welfare, or not taxed in the first place.

This also gives the Scottish Government the opportunity to lead by example and, by changing the administration arrangements in Scotland, encourage the Westminster Government to adopt a similar approach.

All 2013/14 figs (£m)	Scotland Act 1999		Scotland Act 2012		Scotland Bill 2015/16	
Total Scottish Expenditure	66,388		66,388		66,388	
Scottish Parliament expenditure	40,813		40,813		40,813	
Additional spending powers					Discretionary Housing Payments	29
					Attendance Allowance	481
					Disability Living Allowance	1,473
					Carer's Allowance	182
					Industrial Injuries Benefits	91
					Severe Disablement Allowance	91
					Benefits in the Regulated Social Fund (Mainly Winter Fuel Payment)	202
New Scottish Parliament expenditure level	40,813		40,813		43,362	
Scottish Parliament Taxes	Council Tax	1,941	Council Tax	1,941	Council Tax	1,941
	NDR	1,927	Non-domestic rates	1,927	Non-domestic rates	1,927
			10p Income tax	4,564	Income Tax	11,410
			Landfill tax	105	Landfill tax	105
			Stamp Duty Land Tax	319.5	Stamp Duty Land Tax	319.5
					Air passenger duty	251
					Aggregates Levy	50
Income raised from Scottish Parliament taxes	3,868		8,857		16,004	
Income raised from Westminster taxes	50,086		45,098		37,951	
Scottish Parliament tax income as % of Scottish Parliament expenditure	**9.48%**		**21.70%**		**36.91%**	
Total tax revenue raised in Scotland	53,954		53,954		53,954	
Scottish Parliament tax income as % of total tax raised in Scotland	**7.17%**		**16.41%**		**29.66%**	