Introduction

1.1 This is a supplementary note by the Chartered Institute of Taxation (CIOT) following our submission of written evidence and appearance before the Finance Committee of the Scottish Parliament, as part of the inquiry into Scotland’s Fiscal Framework. As requested, we take this opportunity to provide more information in respect of the questions posed about paragraphs 5.3 and 6.3 of our previous written submission.

1.2 The CIOT is an educational charity concerned with promoting the education and study of the administration and practice of taxation. For more details see the statement about us at section 3 below.

2 Paragraphs 5.3 and 6.3 – block grant calculation and adjustments – ‘indexed deduction’ and ‘levels deduction’

2.1 As we explained in our original submission, we are not economists, but tax specialists. In drafting our submission, we had the aim of assisting the Finance Committee’s inquiry by pulling together thoughts by experts in various fields, not just tax, that seemed relevant. This was to make our response as helpful as possible.

2.2 In order to ensure accountability to the Scottish people concerning the bottom line of the block grant, we think it is important that not only is it clear how the adjustments to the block grant relate to Scotland, but also how the block grant itself fits in.

2.3 Our understanding of the possible methods of adjusting the Barnett formula is drawn from the work of economists, such as the article by David Bell and David Eiser referred to in our initial written response. For a more detailed explanation of the indexed deduction and levels deduction methods of adjusting the Block Grant, we

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1 The CIOT’s written response to the Finance Committee of the Scottish Parliament’s call for evidence is available on the CIOT website: http://www.tax.org.uk/tax-policy/public-submissions/2015/inquiry_scotlands_fiscal_framework
CIOT supplementary note in respect of the Finance Committee’s Inquiry into Scotland’s Fiscal Framework
20 May 2015

would point the Committee to that article in particular on the website Scottish Fiscal and Economic Studies: http://scotfes.com/2014/11/20/how-should-the-barnett-formula-be-adjusted-to-reflect-devolved-taxes-a-question-of-allocating-risk-wonkish/. This article sets out how each of the methods could operate and the likely implications for Scotland of each method.

2.4 For ease of reference, we repeat paragraphs 5.3 and 6.3 here:

2.4.1 5.3 The way in which the block grant is calculated will affect the budgetary risks facing both UK and Scottish Governments. In order to ensure transparency, the method of adjustment should ensure that Scotland faces the consequences of its policy decisions (positive and negative). There are suggestions this may be difficult to achieve with the Barnett formula. A potential solution has been suggested – that is to treat devolved taxes as ‘comparable’, in the same way that devolved spending is considered ‘comparable’. Two possible methods have been suggested, each having different implications for Scotland:² indexed deduction and levels deduction.³

2.4.2 6.3 It might be possible to index the block grant adjustments according to what happens to the equivalent tax or spending area in the rest of the UK. This would retain the incentive for the Scottish Government to grow tax revenues and limit spend in Scotland, while benefitting from the UK’s protection. The argument against this is that the tax / spend areas in Scotland and the rest of the UK might diverge for reasons unrelated to Scotland’s policies. It would be complex to separate out the effects of Scottish Government policies, in order for Scotland to only bear the risks related to them.

² Blog post on Scottish Fiscal and Economic Studies (ScotFES) by David Bell and David Eiser: http://scotfes.com/2014/11/20/how-should-the-barnett-formula-be-adjusted-to-reflect-devolved-taxes-a-question-of-allocating-risk-wonkish/. This blog sets out how each of the methods could operate and the likely implications for Scotland of each method.

³ The indexed deduction method has been proposed in respect of the Scottish rate of Income Tax.
3 The Chartered Institute of Taxation

3.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT’s work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

3.2 The CIOT draws on our members’ experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT’s comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

3.3 CIOT members are not economists.

3.4 The CIOT’s 17,000 members have the practising title of ‘Chartered Tax Adviser’ and the designatory letters ‘CTA’, to represent the leading tax qualification.