

# 2024 GENERAL ELECTION BRIEF

## Tax

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## Tax is a partly devolved matter

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Last week we published our briefing on devolution, which discussed which matters are devolved - i.e. controlled by the Scottish Parliament - and which are reserved - that is, controlled by the UK Parliament.

Tax falls in between the two - parts of it are devolved, others remain reserved.

Although this can be complex, it's also one area where the legislation is pretty clear, and so the complexity does not mean ambiguity.

In this brief, we'll cover the tax system in Scotland, which areas are devolved and reserved, and levels of taxation, as well as trends being forecast going forward by the Office for Budget Responsibility (OBR).

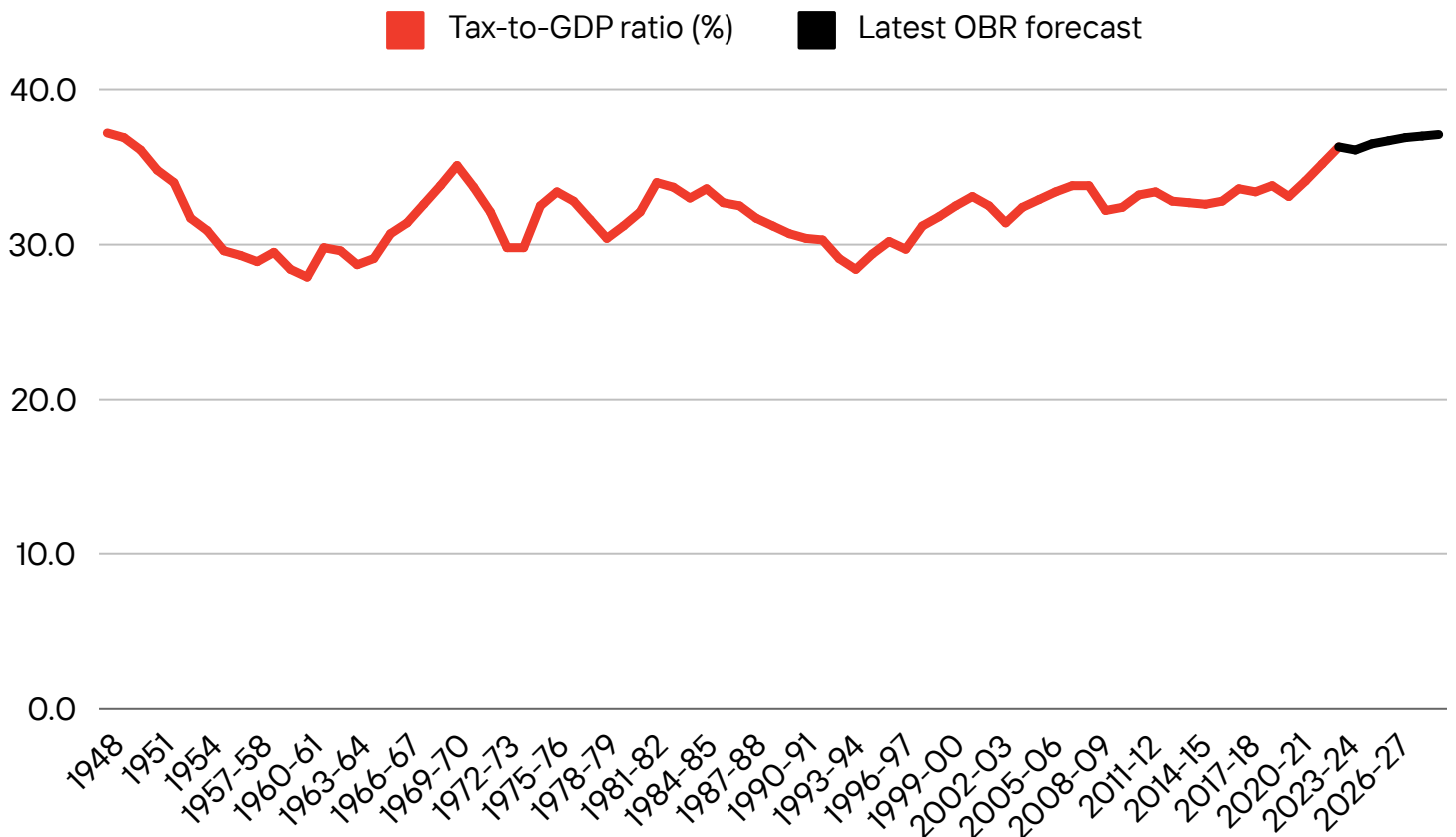
## The big picture on tax

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You may have heard about the 'tax burden', or more accurately the share of national income collected in tax. This is usually defined by the OBR as 'national accounts taxes' (taxes plus NICs) as a share of

GDP.

**Chart 1:** UK tax-to-GDP ratio



**Source:** OBR

The direction of movement is pretty clear over the medium term: taxes are forecast to rise to high historical levels, in large part as a result of frozen thresholds for personal taxes dragging more and more income into higher bands of tax. This 'fiscal drag' has been much talked about in recent budgets and fiscal events, and its impact on the tax-to-GDP ratio has been the reason for the challenges faced by the Prime Minister and Chancellor when portraying themselves as a tax-cutting government. Some of the tax rises will be lower than previously projected, but households will feel the increases nonetheless.

But much as it is politically difficult, it has also become an economic necessity. With the population ageing (as the [OBR has long warned](#)) and increasing debt interest payments, the UK Government has had to raise taxes in order to meet its fiscal rules - and even then, it has had to rely on plans for pretty steep spending cuts.

So whatever happens, taxes are likely to go up. In fact, if the next government changes nothing to announced policy, they will go up to the second-highest level in the post-Second World War period. And if the Government wants to meet the health care demands of a population living longer - which is a great thing! - then it [may not be able to stop there](#).

# Are these taxes devolved, reserved or somewhere in-between?

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In this section, we'll take you through the major taxes, what policy action there has been recently, where responsibility lies in each case, and what to look out for or ignore as a Scottish voter in this election.

## Income tax

Income tax is a partially devolved tax. The Scottish Parliament has powers over non-savings, non-dividend income tax, which accounts for around 90% of all income at UK level.

Income tax is by far the largest revenue stream for the public sector. In 2022-23, it raised £251 billion across the UK - nearly a quarter of all public sector revenues, and 40% more than the next largest revenue stream.

Scotland's powers over income tax are the most extensive of any particular area of the UK, including introducing new bands and rates, as well as setting all thresholds apart from the personal allowance - powers which have been used extensively since 2018-19.

But there are many areas that remain in the control of the UK Parliament, even in the context of devolution. These include the personal allowance, below which the rate of tax on income is zero, as well as its withdrawal at £1 for every £2 of income earned between £100,000 and £125,140.

Crucially however, the definition of income remains the domain of the UK Parliament, which means that Scotland's tax policy is set in the context of often quite technical decisions on the treatment of income, and which are decided by HMRC. HMRC also conduct all compliance work on income tax, and so any decisions on focussing and funding of additional 'crackdowns on tax avoidance' - if they indeed are additional funding for civil service work - could affect amounts raised in Scotland.

And of course, given that income tax on dividend and savings income remains reserved, any changes remain the purview of the UK Parliament.

**Look out for:** announcements related to the personal allowance, which apply directly to Scotland; any proposals to change treatments of dividends or savings income, which apply even if you live in Scotland.

**Ignore:** announcements about parties pledging not to change income tax rates or discussion of income tax thresholds other than the personal allowance - those do not apply to Scotland. (Though look out for any NICs implications below.)

## National Insurance Contributions (NICs)

National Insurance Contributions are technically categorised by the Office for National Statistics as compulsory social security contributions - mostly because paying them for a certain number of years is related to being able to claim state pension, as well some other benefits - but they are for all intents and purposes another form of income tax for those under the state pension age. They are a significant part of the public sector's revenue, raising £177 billion (17% of all revenues) in 2022-23, although the recent cuts to the main rates will reduce revenues by around £20 billion a year.

Employees pay class 1 NICs, which are 8% on income above the personal allowance and below £50,270, and 2% thereafter; their employers also pay 13.8% on wages above £9,096. Self-employed persons pay class 4 NICs: 9% on profits between the personal allowance and £50,270, and 2% thereafter.

NICs are reserved, meaning that most people in Scotland are affected by taxes on income set by two different parliaments. With the Scottish Government keeping the threshold at which taxpayers start paying the higher rate of income tax (42% in Scotland) at £43,662 and the NICs rate dropping from 8% to 2% only after £50,270, this dual system means that employees in Scotland earning between those amounts pay a marginal tax rate (that is, the tax on their last pound earned) of 50%.

**Look out for:** any announcements on NICs, be they rates or thresholds - they are reserved and therefore any changes apply directly to Scotland.

## Value Added Tax (VAT)

VAT is a tax that will be familiar to most people, as it is paid on most consumption transactions (although the UK has one of the leakiest VAT systems in the world, with many exemptions and lower rates that make little sense). It is also a very large revenue raiser for the UK Government, bringing in £162 billion in 2022-23.

In a devolved context, VAT was part of the Scotland Act 2016 package of devolution, and Scotland is meant to at some point in the future receive an assigned portion of revenues. But as we have pointed out [before](#), this is fraught with potentially unsurmountable difficulties, and it has predictably (and probably sensibly!) been kicked into the long grass in the latest review of the Fiscal Framework Agreement.

As it stands then, even if it's notionally devolved or in the process of devolution, VAT is functionally reserved. And so any policy changes or commitments not to change anything are directly relevant to Scotland. The definitions of what is and isn't exempt (including, say private school fees) as well as thresholds for registration are UK Parliament decisions.

**Look out for:** any announcements on VAT, including rates, exemptions and thresholds - all will apply in Scotland.

## Non-North Sea Corporation tax

Onshore corporation tax is levied on the profits of incorporated businesses, and it is a reserved tax with respect to Scotland (legislation has been passed to devolve it in Northern Ireland, but implementation has been delayed indefinitely).

Corporation tax raises significant amounts of revenue - £73 billion in 2022-23 at UK level - but it is a level of magnitude below the three largest taxes, raising less than half of VAT. This may seem surprising, especially given the relatively high headline rate of 25%, but companies are allowed a plethora of deductions which means that the effective tax rate they pay is much lower - more like 15%.

Some of these reliefs are sensible and in fact the OBR [assessed the permanent full expensing measure](#) last year as having a positive effect on private sector investment - which is low in the UK, and therefore this is a measure that's likely to yield benefits in terms of future growth. Other reliefs such as interest deductions probably make less sense and [incentivise debt-financing](#).

**Look out for:** announcements on whether corporation tax is included in pledges of what will or won't be raised.

**Ignore:** figures that appear to be raised from companies through 'cracking down on tax avoidance.' There was a huge programme of widening the tax base for companies after the Financial Crisis, but that was (a) done at an international level, which helped reduce the opportunities to find lower-tax jurisdictions; and (b) much of the low-hanging fruit has been picked already - in fact, that's largely how then-Chancellor George Osborne managed to keep cutting the headline rate of corporation tax during the early 2010s while increasing revenues.

## North Sea taxes

North Sea oil and gas exploration is taxed separately and the specific regime that applies to each oil and gas field depends on when they were first approved for development, making this a relatively complex part of the tax system. Older fields paid petroleum revenue tax, which was levied at a 50% rate, but these fields raise essentially no revenue now and this system is now near-enough abolished.

Instead, there are three main charges paid by oil and gas companies taking part in North Sea exploration:

- A corporation tax charge of 30% (instead of the headline 25%) on profits which are ring-fenced to oil and gas extraction. That means that companies can't pull it together with, for example, losses in other business activities to reduce their taxable profits. There is however a generous allowance for capital spending;
- An additional 10% supplementary charge on ring-fenced profits, which excludes deductions for finance costs and therefore increases the level of taxable profits; and
- The energy profits levy, commonly known as the 'windfall tax', which is an additional 35% surcharge on ring-fenced profits and which is set to expire at the end of 2028-29 - although there is an allowance for new investment.

Put together, the total rate on profits in scope of the taxes is 75%, although the effective tax rate will be lower due to allowable deductions. Oil and gas revenues raised £9.8 billion in 2022-23 - just under

1% of all government revenues. But with the oil price forecast to settle at a lower level than in that year, the OBR forecast this to fall to £2.2 billion by 2028-29, which would represent less than 0.2% of public sector receipts.

North Sea corporation tax is a fully reserved policy area, and therefore proposals made in this campaign would apply to Scotland. Of course given that Scotland accounts for the overwhelming share of direct employment in oil and gas extraction in the UK, this area takes on an additional significance - see our recent blog post about the claims about the potential effect of policies on the North East of Scotland.

**Look out for:** announcements regarding changes to the 'windfall tax' and whether it might be extended, the rate might change or capital allowances might be tightened. Also look out for claims about how much might be raised - UK oil and gas extraction is high-cost in international terms, and therefore activity is very much linked to prices in the international markets. Parties claiming to raise money from it to pay for other spending areas should face questions about whether the spending will still happen if the oil price drops.

## Capital gains tax

Capital gains tax, or CGT for short, is a tax on increases in the value of assets over time when held by individuals or trusts. CGT is a complex tax, with tax rates depending on individuals' incomes and the type of asset being sold. It's also a very hard tax to forecast because tax only becomes due on disposal (i.e. sale) of the asset. So if (for example) the stock market performs poorly, this might lead people to delay their sales of assets, which in turn reduces the tax take in that particular year.

The plethora of reliefs includes a primary residence exemption, business asset disposal relief (previously called entrepreneurs' relief, and described by the Resolution Foundation as ['quite likely the worst tax relief in the UK'](#)) and annual exempt amounts.

CGT is a reserved tax, and so any proposals made by parties in this campaign would apply in Scotland. CGT raised £16.9 billion in 2022-23, around 1.6% of all public sector receipts.

**Look out for:** any announcements that might change rates or reliefs - these would apply to the whole of the UK, including Scotland.

**Ignore:** figures that appear to be raised from companies through 'cracking down on tax avoidance.' HMRC previously had one-off schemes to bring some money into UK tax, such as the tax cooperation agreement with Switzerland, but this having been done already, it's unlikely that significant amounts might be raised from similar schemes.

## Property transaction taxes

Those buying property in England and Northern Ireland pay a transaction tax called Stamp Duty Land Tax, or SDLT, which replaced the old stamp duty regime in 2003 and is collected by HMRC.

Since then, property transaction taxes have been devolved to Scotland and Wales. In Scotland, there is now a separate regime called Land and Buildings Transaction Tax, or LBTT for short, which is operated by Revenue Scotland. LBTT rates and bands are decided by the Scottish Parliament rather than the UK Parliament.

The Scottish system's marginal rate band system ('slice' as it has been called) has been subsequently emulated by the HMRC-run system, although rates differ across the systems.

In both cases, for residential property there is a nil-rate band: the first £150,000 in Scotland, and the first £250,000 in the SDLT system. But given lower house prices in Scotland and different subsequent bands, the effective tax rate on an average-priced property is lower in Scotland than in England (though higher than in Northern Ireland, where the average-priced property pays no SDLT).

Property transaction taxes raised £16.7 billion in 2022-23, of which £0.8 billion was LBTT raised in Scotland - which reflects far higher house prices in England in particular. The average house price in England was £302,000 in December 2023, compared with £190,000 in Scotland.

**Ignore:** any proposals on 'stamp duty', as SDLT is usually called - they won't apply in Scotland, which has its own system controlled by the Scottish Parliament.

## **Landfill tax**

Landfill tax is due on disposals of waste at a licensed landfill site. HMRC operates the collection of the UK Government's landfill tax, but there is a separate Scottish Landfill Tax system operated by Revenue Scotland. The rates, however, are the same in both cases - as indeed is the Welsh rate, which is also devolved.

Landfill taxes raise relatively small levels of revenue in the grand scheme of things - around £0.7 billion UK-wide in 2022-23, of which £0.1 billion was collected through Scottish Landfill Tax. The Scottish Government however, has legislated for a ban on on biodegradable municipal waste going to landfill from 2026 onwards, which will reduce tax receipts significantly.

**Ignore:** any proposals on landfill tax - they won't apply in Scotland, which has its own system controlled by the Scottish Parliament.

## **Local taxes: council tax and non-domestic rates**

The power over these two tax streams has been in place the longest, having formed part of the Scotland Act 1998. In large part, however, they had already been devolved beforehand: council tax was always set locally. Non-domestic rate-setting powers had previously been devolved to regional authorities, but with their abolition in 1995, the power reverted to the Scottish Office. This was subsequently handed over to Scottish Government ministers from 1999, and it remains with them.

Council tax and non-domestic rates (NDR, also called business rates) are important revenue raisers for local services. In Scotland, they accounted for £5.6 billion in 2022-23, or 2.6% of GDP. This is pretty

similar to figures for the UK as a whole, which show local taxes accounting for around 2.8% of GDP.

Of course, given the description above, it's unsurprising that none of these taxes are directly on the ballot in the General Election. Council tax rates are set by each of Scotland's 32 local authorities - even if at times [heavily leaned on](#) by the Scottish Government - and the Scottish Parliament has the powers to reform the system should it wish to do so. On the NDR side, the Scottish Budget is used to set the rate (known as the poundage) as well as any bands and reliefs that apply.

The main way in which decisions elsewhere in the UK can affect the Scottish NDR system is through reliefs funded by the UK Government that apply to England. Chancellor after Chancellor has continued to tinker with reliefs, and additional funding through that is transferred to the Scottish Government via the Barnett Formula. However, none of these funds are ringfenced, and therefore it's up to Holyrood politicians to decide how to spend it.

**Ignore:** near-enough any announcement on council tax or non-domestic rates, as they are either local or Holyrood matters.

## Air passenger duty

Air passenger duty, or APD for short, is a tax on departures from UK airports, with different amounts due depending on the destination. Long haul flights face higher rates (£92 for standard class), whereas the tax on domestic flights is as low as £7.

APD raised £3.3 billion in 2022-23, which is just over 0.1% of national income, with receipts forecast by the OBR to nearly double by 2028-29 as demand for air travel grows.

The Scottish Government [consulted](#) on the introduction of Air Departure Tax in 2016 as a replacement for APD, with the intention of cutting it by 50% before scrapping it altogether, but has since [reversed its decision](#) due to environmental concerns. So while devolution has been legislated for in the Scotland Act 2016, it has yet to be implemented and it seems unlikely to move anytime soon. In the meantime, HMRC continues to administer APD across the UK - including Scotland.

**Look out for:** any announcements on APD - with devolution yet to be implemented, decision would apply to Scotland.

## Aggregates levy

Aggregates levy is a tax on the commercial use of rocks, sands and gravel that's been dug from the ground, dredged from the sea in UK waters, or imported - the idea being to encourage the re-use of materials rather than extraction.

Aggregates levy devolution was legislated for in the Scotland Act 2016, but there were issues relating to EU state aid concerns with the UK tax that the [Scottish Government needed to be resolved](#) before devolution was implemented. With the UK no longer part of the EU, including the transition period, this has been unlocked, and Scottish Aggregates Tax - collected by Revenue Scotland instead of HMRC - will replace aggregates levy in Scotland from 2026.



**Look out for:** announcements relating to changes that apply until 31 March 2026 - they would apply to Scotland.

**Ignore:** any longer term announcements - by then, it will be the responsibility of the Scottish Parliament.

## Excise taxes

We usually use excise taxes as a catch-all term for taxes on specific products released for consumption in the domestic market. This differs from a general consumption tax like VAT in that these are controlled goods, which have to be in some form of facility and whose release into general circulation triggers a tax liability. All these taxes remain reserved.

**Fuel duties** are the largest excise tax, raising around £25 billion in 2022-23. The level of fuel duty has however fallen in real terms considerably, as it has now been 14 years since the last time it was increased in cash terms. Since then, Chancellor after Chancellor has gone on to freeze it or cut it, while maintaining - somewhat unbelievably - that they still intend to increase in future years.

Maintaining this fiction has flattered the assessment of the UK Government's ability to meet its fiscal rules by around £6 billion by the end of the forecast period. Of course, with the transition to net zero, fuel duty receipts are expected to start to fall significantly as electrification increases, leaving a gaping hole in the public finances.

**Alcohol duties** accounted for £12 billion in revenues, whereas **tobacco duties** brought in another £9 billion. On the former, there is a much-vaunted form of words that has made its way into parliamentary parlance, which is 'duty on Scotch Whisky and other spirits' - by which politicians really just mean spirits duty, which is the same for any alcoholic drink exceeding 22% ABV. It also obviously applies only to releases for consumption in the UK rather than to the manufacture of products - for example, 90% of all Scotch Whisky is exported and therefore not subject to this duty.

**Look out for:** any announcements of parties intending to meet fiscal rules on the basis of the current OBR forecasts. That would imply raising fuel duty by 5p per litre plus the retail price index (RPI) next year, and by RPI subsequently, as that is what the forecasts assume - and the basis on which the government has been able to make policy 'add up.' Also look out for anything relating to the future of fuel duty, which is projected by the OBR to fall quickly after the end of the next Parliament. How do parties plan to combat that - will they continue to try and avoid [road pricing](#)?

## Our next event

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**Fraser of Allander Institute General Election Webinar**  
**Special Guest - Professor Sir John Curtice**

## Friday 14 June 2024

09:30 - 10:45 (GMT) | Online

Join the [FAI](#) team to hear their latest analysis on the general election announcements and what they mean (or don't mean!) for Scotland. The various promises and claims made will be examined, and we'll discuss how these interact with the devolution settlement - if, indeed, the parties have made this clear!

The team will be joined by polling legend Professor Sir John Curtice, who will reflect on what the latest polls are telling us about the result, both for the UK and Scotland.

[Register here](#)

Registered attendees will be sent the join details for the webinar by email on the morning of 14 June 2024.

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