Scottish government block grant adjustments

General Features

21 October 2022

The CIOT and LITRG submitted a joint response to the call for evidence on Scottish government block grant adjustments for tax and welfare devolution.

The Fiscal Framework agreement between the UK and Scottish governments determines how the Scottish government is funded and also underpins the powers set out in the Scotland Act 2016. The original agreement was published in February 2016. It states that there should be a review of the framework after a parliament's worth of experience; this is to be preceded by an independent report presented to both the UK and Scottish governments. These are taking place in 2022.

The UK and Scottish governments commissioned the independent report in June 2022. It will evaluate the block grant adjustment funding arrangements for tax and welfare devolution against the principles agreed by the Smith Commission. This call for evidence (<u>tinyurl.com/c2yaxyhy</u>) was published at the end of July, with the aim of gathering views to inform the independent report.

It is anticipated that the subsequent fiscal framework review will have a wider scope than the independent report, and that there will be the opportunity for stakeholders to provide their views.

The joint response to the call for evidence focused on the issue of improving understanding of block grant adjustments among stakeholders. We note that there are several different stakeholders with varying degrees of interest in block grant adjustments. These different groups require different levels of understanding. As a result, we suggested that the strategy for improving understanding should be adjusted to suit each group of stakeholders.

From a LITRG point of view, the general public has a more limited awareness and understanding of block grant adjustments but we think that improving this is of less importance than improving their understanding of the wider picture of devolved taxes in Scotland.

The CIOT noted that professional bodies and their members would probably benefit from understanding how the block grant adjustments work, as this will inform their discussions with government officials.

LITRG set out more detail of the kinds of information it is important for ordinary taxpayers to know, including the interactions between Scottish income tax and reserved aspects of income tax. We explained that there are positive messages that the Scottish government can share, which could help to improve understanding of Scottish income tax; for example, the fact that Scottish intermediate rate taxpayers can claim additional tax relief on their relief at source pension contributions.

The CIOT's polls over the past few years demonstrate that there continues to be low awareness among Scottish taxpayers about the role of the Scottish Parliament in their income tax liabilities. Given that devolved taxes now account for a significant amount of the money that the Scottish Parliament spends, it is important for accountability and transparency that taxpayers understand the division of tax powers.

We suggested that in terms of the general public, it would be better for the UK and Scottish governments to focus their attention on improving understanding about the nature and extent of devolved taxes, rather than block grant adjustments. We provided ideas about how they could do this and how they could use key events in the tax calendar as a starting point.

The full CIOT response is available here: www.tax.org.uk/ref1018

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