Centre for Scottish Constitutional Studies

Extract from Government Funding Paper

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1. Introduction

Following a Yes vote in the referendum on Independence in September 2014 how will Scotland's political leaders choose to fund Government Services?

Will they choose to carry on the existing UK forms of governance and administration? The current UK tax system is bureaucratic, bloated and highly inefficient with some taxes not even cost effective in their means of collection. Over the years, the so-called re-organisations and efficiency savings drives have resulted in the system becoming even more bloated, slower to resolve queries and increasingly inefficient.

Or, take advantage of a clean sheet and start afresh? This would give our nation the opportunity to fund government services by making use of fresh ideas and more cost-efficient systems. Systems as used by other nations and better suited to a global trading nation of some 5.3 million people.

It is proposed that the Scottish Government Funding system be primarily modelled on that of the Swiss Canton and Nordic District examples; where a significant proportion of taxation power is devolved to semi autonomous Regions; with system adaptions to meet Scottish requirements.

Under National Overview, many of the Scottish Government's functions will be devolved to the Regions, making for simpler, more efficient and cost effective government funding.

Sovereign Scotland will have to set up or take full control of the financial machinery of government and the most vital of these are:

1. The National Treasury.
2. A Central Bank.
3. An Investment Bank.
4. A National Currency.
5. A National Mint.
6. Revenue and Customs services.
7. An Independent Stock Exchange.
8. A National Savings Bank /Postal Service.
9. An Office of Budget Responsibility.

All Government and Public Services will be financed by direct and indirect taxation to provide better value for money than the present UK tax systems.

2. Financial Management of Sovereign Scotland

1. **The National Treasury**.

The Treasury manages the nation's finances; it sets tax rates and proposes the National Budget. It is responsible for the day-to-day financial transactions of government. (Located in Edinburgh)

2. **The Central Bank of Scotland**.

Sovereign Scotland will require a Central Bank, a public institution, to manage the nation's currency, money supply, interest rates and rate of exchange with other currencies. The Central Bank will also oversee and regulate the privately owned, commercial banking and financial system of Scotland.

The Central Bank will be an institution of state, controlled by statute and Article 6 of the written Constitution of Scotland. It will act as the state reserve bank and will be the sole issuer of the National Currency and all currency substitutes e.g. electronic credit instruments. (Located in Edinburgh)

The Central Bank will be the only authority for increasing the amount of money in circulation.

3. **An Investment Bank**.

Scotland will have an Investment Bank that will provide debt free funding for public capital investment for National and Regional Government as authorised under Article 6 of the Constitution of Scotland. (Located in Stirling)

4. **A National Currency**.

It is proposed that Sovereign Scotland adopt the Scots Pound, divided into 100 pence to be the sole basis of legal tender within Scotland. To avoid confusion with the £ Sterling, following a transition period, an alternative name for the new currency might be the Scotmerk.

5. A National Mint.

Private Scots banknotes will be withdrawn and replaced with notes and coins issued by the Central Bank of Scotland. (Located in Inverness)

6. Scottish Revenue and Customs Services.

The big UK government model of bloated administration will be scrapped and the Scottish Revenue system will return to a more efficient and client friendly system.

To assist with a client friendly service there will be a Tax Office in every Region and City in Sovereign Scotland. (Located in East Kilbride)

Following Independence Day there will be a transition period where the UK system will be used until the new Scottish taxation system is implemented. Realistically it may take some eighteen months to transfer over the relevant data.

7. **A Scottish Stock Exchange**.

Sovereign Scotland will require its own commercial Stock Exchange where the shares of companies in Scotland are traded; and where investment capital can be raised. (Located in Edinburgh, Glasgow)

8. **A National Savings Bank / Postal Service**
In Scotland there already exists a national framework for postal services, including some 1425 post office branches. A Scottish headquarters would require to be established (Located in Dundee).

Independence would provide a number of options to improve on postal service across Scotland. Options, such as negotiating the retention of a uniform flat rate charge throughout Scotland and the remainder of the rump UK. Independence would also provide an opportunity to improve on the parcel delivery service.

9. **The Office of Budget Responsibility.**

Sovereign Scotland will require an Office of Budget Responsibility to provide independent scrutiny (audit) and authoritative analysis of Scotland's public finances. Operating as an official independent watchdog in a similar manner to the current UK wide Office of Budget Responsibility. (Located in Dumfries).

5. Current Government Revenue systems

The large number of UK Tax Laws (some 319) is a major pitfall for legislators; and they are full of loopholes – enabling exploitation by tax evaders. An effective Scottish Tax system can be achieved with some seven comprehensive Tax Laws.

A significant obstacle to change will be the lack of political will to change to a more efficient and cost effective system that will result in a cull of Civil Service posts.

Summary of current UK Taxation Systems

1. Income Tax.
2. National Insurance contributions.
3. Capital gains Tax.
4. Business Rates.
5. Council Tax.
6. Company Corporation Tax.
7. Inheritance Tax.
8. Value Added Tax.
9. Hydrocarbon Oils Excise duty.
10. Tobacco Health duty.
11. Alcohol Duties.
12. Betting & Gaming Duty.
13. Customs duties.
14. Agricultural Levy.
15. Air Passenger duty.
16. Insurance Premium Tax.
17. Landfill Tax.
18. Climate change Levy.
19. Aggregates Levy.
20. Stamp duty.
21. Vehicle Excise Duty.
22. North Sea Oil Revenues.
23. Other Taxes & Royalties.
24. Interest & Dividends.
25. Gross Operating surplus.
26. Scottish Estate Incomes.
27. Miscellaneous Revenues.

Notes:

a) With some 8.4 % of the population of the UK, Scotland raised some £56 billion in revenues in fiscal year 2011/12, amounting to 9.4 % of the total revenues raised by the UK treasury. This provided a surplus balance of payments of £3.5 billion, over expenditures in Scotland, into the UK treasury.

b) The UK GDP in 2011/12 was £1,525 billion of which Scotland's contribution was £151 billion or 9.9 %. Due in the main, to the fact that Scotland has a healthier export trade than the remainder of the UK.
c) The present PAYE system is a costly and often intolerable burden on the business sector, especially for the Small Medium Enterprise sector (SME). The PAYE system administration costs vary from 15.0 to 51.4 pence per £1 collected.
d) The European Union imposed VAT is cost effective to collect (5 pence in the £), due to the business sector having to bear the brunt of collecting and accounting for the tax.
e) Other taxes such as the Aggregates Levy and Air Passenger Duty cost as much to collect as they raise and should be abolished.

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4. Proposed Government Revenue Systems

Sovereign Scotland requires a simpler, more efficient and cost effective range of systems to fund government services. The burden of taxation requires to be spread more evenly and thus enable a reduction in the level of tax paid by individuals and companies. Such cost effective systems will also significantly reduce current tax evasion, thus increasing revenues.

1. A Flat Tax in place of Income Tax, National Insurance and Capital Gains Tax.
2. A Land Rental Value payment that replaces Business Rates and Council Tax.
3. An Annual Wealth Tax that replaces Inheritance Tax.
4. A Local Sales Tax to replace Value Added Tax (VAT).
5. An Employment Tax paid by Employers to replace employers NIC.
6. Excise Duties paid on Fuels and Alcohol.
7. Corporation Tax on Companies.

Notes:
Under the proposed systems the following assumptions and methodologies are being used:

1. The present primarily centralised taxation power is devolved into a more effective two-tier system. With the taxation powers being devolved, under the written Constitution of Scotland, to both the National Government and Regional Councils.
2. The Regional Councils will be responsible for collecting all taxes and remitting an agreed proportion to the Central Government.
3. The Regions will have the right to vary the rates of taxation in line with local needs. There will be a compensating mechanism whereby some of the taxes raised in the more prosperous Regions are redistributed to the less well off Regions.

4. Scotland is not a member of the European Union (EU), but of the European Free Trade Association (EFTA) and has negotiated its own favourable bi-lateral agreements with the EU, such as Switzerland and Norway have done.
5. Industries such as the oil and gas, and major infrastructure projects with high capital long-term investment needs will benefit from proactive, stable tax incentive systems.
6. To promote economic growth:
   a) The excise duty on transport and domestic heating fuels would be reduced to some 39 pence per litre.
   b) Vehicle excise duty (Road Tax) together with the excise duty on new vehicles would be replaced by a surcharge of 9.5 pence per litre on the price of fuel at the pump. This will eliminate much of the current bloated bureaucracy used for the issue and collection of related revenues.
   c) Fishermen, farmers, domestic flights to the highlands & islands, road hauliers, ferries, public transport and the Scottish railways would be given targeted rebates on fuel of between 50 to 85 %.

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Banking references: Ronald Morrison.
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