Revenue per person, 2011-12
2013-14 prices

Source: Authors’ calculations using GERS 2011-12
## Options for raising more revenue

<table>
<thead>
<tr>
<th>Reform</th>
<th>Revenue raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax: increase basic rate by 1ppt</td>
<td>£365m</td>
</tr>
<tr>
<td>Income tax: increase higher rate by 1ppt</td>
<td>£60m</td>
</tr>
<tr>
<td>Income tax: reduce personal allowance by £500 p.a.</td>
<td>£280m</td>
</tr>
<tr>
<td>VAT: increase main rate by 1ppt</td>
<td>£430m</td>
</tr>
<tr>
<td>VAT: increase reduced rate by 1ppt</td>
<td>£35m</td>
</tr>
<tr>
<td>VAT: increase zero rate by 1ppt</td>
<td>£165m</td>
</tr>
<tr>
<td>Increase alcohol and specific tobacco duties by 10%</td>
<td>£120m</td>
</tr>
<tr>
<td>Increase fuel duties by 10%</td>
<td>£215m</td>
</tr>
<tr>
<td>Increase council tax rates by 10%</td>
<td>£175m</td>
</tr>
<tr>
<td>Abolish single occupants’ council tax discount</td>
<td>£140m</td>
</tr>
</tbody>
</table>

An opportunity to improve on the UK tax system

Mirrlees Review ([www.ifs.org.uk/mirrleesReview](http://www.ifs.org.uk/mirrleesReview)) identified many flaws in need of attention, including:

- Council tax is still based on 1991 property values
- Corporation tax favours debt finance over equity
- Zero and reduced rates of VAT are an inefficient way to redistribute
- Inconsistent carbon prices makes cutting emissions unnecessarily costly
- Fuel duties not well targeted at congestion
- Business rates discourage property-intensive forms of production
- Stamp duty means properties not owned by people who value them most
Tax design for an independent Scotland

Scots might have different priorities

- Put more/less value on reducing inequality, paying for public services, etc.

Two other reasons Scotland’s optimal tax system differs from UK’s

1. Scotland has different characteristics from the UK as a whole

2. Scotland and rUK having different tax systems
   - Hassle for people/firms with cross-border affairs
   - International mobility and tax competition
   - Inter-governmental co-operation would be valuable, both for enforcement and to limit tax competition
Scotland has different characteristics

• Slightly more equal income distribution $\rightarrow$ less need for redistribution
  – Though may also have stronger/weaker preference for redistribution
  – Or more/less responsive population

• Lower congestion $\rightarrow$ motoring taxes should raise less
  – Congestion, not emissions, is the biggest cost imposed by driving
  – Driving 1km causes congestion worth 6.3p in Scotland vs. 12.3p in England & Wales

➤ NB these are differences relative to optimal, not current, UK policy

• Oil and gas are a bigger part of the economy (if split geographically)
  – Optimal tax policy the same: high, stable rate on cash-flow base
  – But getting it right is more important in Scotland
Cross-border issues: direct personal taxes

• Hassle for people with cross-border affairs
  – Understand system, deal with two tax authorities, fill in tax return,...

• And potential tax competition
  – Insofar as people can move to / work in / save in lower-tax country

➢ Extent of both of these would depend on detailed rules adopted
  – Replicate UK system or choose something different?
Cross-border issues: corporation tax

• Would need to calculate how much profit earned in each location
  – Big challenge if Scotland and rUK choose different rates

• SNP propose a rate 3ppts below rUK rate
  – Would encourage investment in Scotland and profit-shifting to Scotland
  – Size of these responses difficult to quantify

• Independence also strengthens rUK incentive to cut rate: competition
Cross-border issues: VAT and excise duties

• ‘Destination basis’ of VAT mostly avoids problems of corporation tax
  – Location of consumption easier to identify than location of production

• But still some cross-border concerns
  – Cost and hassle of trading across borders
  – Greater scope for fraud
  – Cross-border shopping (especially excise tax competition?)
Mobility of tax bases

- Clearly highest for corporation tax (mobile investment, profit-shifting)
- And lowest for property taxes (land and existing buildings can’t move)
- Personal taxes (moving/working/saving abroad) and indirect taxes (cross-border shopping) somewhere in between

➢ Shift to greater reliance on less mobile tax bases, especially property?
  - Opposite of recent trend
Conclusions

• Scotland raises similar onshore revenue to UK as a whole
  – Less from income tax and from wealth and property taxes
  – But more from VAT and duties on alcohol and tobacco
• Geographical share of oil revenue means higher overall – for now
• Independence would give opportunity to design tax system differently
  – Remove some of inefficiencies in current UK system
  – Reflect different preferences and different economic circumstances
• But independence also brings challenges
  – Cross-border shopping and tax competition: rely more on property taxes?
• Economic differences and tax competition both point towards lower optimal tax rates in Scotland than in UK
• Yet dealing with budget deficit points towards higher taxes