

One department: Doing it differently

reformscotland.com

reform
scotland

FAST FACTS

- Under the Scotland Act 2016 the Scottish Parliament will be responsible for the rates and bands of Income Tax.
- The Scotland Act will also devolve £2.5bn worth of benefits out of the £16.7bn that was spent in Scotland by Westminster in 2013/14.
- At Westminster, welfare and tax are split between two departments, though there are overlaps, such as child benefit and tax credits, which are welfare benefits but the responsibility of HMRC.
- This split in responsibilities damages transparency, openness and accountability, and means that recipients have to deal with two different departments to receive their entitlement.
- Rather than simply mirroring how things are managed at Westminster, the Scottish Government has the opportunity to do things differently and create a more efficient and effective system.
- By ensuring one department, and one cabinet secretary, is responsible for both tax and welfare powers, the Scottish Government can create the potential for a system which is more transparent, user-friendly and can easily adapt to more responsibilities.
- The Scottish Government should also ensure that Carer's Allowance is taxed at source.

CONTEXT

The Scottish Parliament will have control over the rates and bands of income tax from April 2017 following the passing of the Scotland Act 2016.

That same legislation will also devolve some welfare benefits to Holyrood, though those benefits only account for about £2.5bn of the £16.7bn spent in Scotland by Westminster in 2013/14.

Many of those benefits are also tangled up with other benefits which have not been devolved.

Reform Scotland has continually called for far greater tax and welfare powers to be devolved to the Scottish Parliament. We believe that until a broader range of tax powers is devolved, the income tax level should remain the same. One tax doesn't provide the opportunity to introduce coherent tax reform that would provide a better environment for economic growth in Scotland.

Equally, the benefits due to be devolved are too intertwined with other welfare payments to offer any real opportunity for reform, and again we would call for greater powers to be devolved to enable real change.

Reform Scotland believes that the vast majority of tax and welfare powers should be devolved to Holyrood, and that a Basic Income should replace a number of out-of-work related benefits. However, for the purpose of this briefing, we are focusing only on the powers that the Scottish Parliament has, or is about to receive and how they can be used to create a more efficient and effective system than the one in place at present.

They give the Scottish Government the opportunity to lead Westminster by example, and to create a system which is able to cope and adapt to expanding powers.

BACKGROUND

According to Government Expenditure and Revenue Scotland 2013/14, published in March 2015, £16.7 billion was spent on social protection by Westminster in Scotland. However, the benefits proposed to be devolved cover only £2.5bn of the expenditure, with the main benefits all remaining reserved.

The benefits proposed to be devolved are:

- Discretionary Housing Payments
- Attendance Allowance
- Disability Living Allowance
- Carer's Allowance
- Industrial Injuries Benefits
- Severe Disablement Allowance
- Benefits in the Regulated Social Fund (Mainly Winter Fuel Payments)

With regard to the benefits being devolved, it is worth noting the following:

- Personal Living Allowance is to replace some aspects of Disability Living Allowance, though that too will be devolved.
- Severe Disablement Allowance is being replaced by Employment and Support Allowance (ESA), which is *not* due to be devolved.
- Attendance Allowance can affect entitlement to Pension Credit and

Housing Benefit, which are *not* due to be devolved.

- Carer's Allowance can affect entitlement to the Universal Credit, which is *not* due to be devolved. It can also affect the benefits of the person that is being cared for, with those benefits not being devolved.
- Cold Weather Payment comes under the Regulated Social Fund and is due to be devolved. However, eligibility is based on other benefits which are *not* due to be devolved.

Revenue Scotland & the Scottish Social Security Agency

Given the overlap in tax and welfare, Reform Scotland was disappointed that the First Minister did not take the opportunity in her Cabinet re-shuffle to ensure that the new tax and welfare powers were the responsibility of a single cabinet secretary. Instead, income tax powers will be the responsibility of Derek Mackay, while Angela Constance has responsibility for welfare.

The SNP's manifesto gave a commitment to "establish a new Scottish Social Security Agency to administer devolved benefits".

However, Revenue Scotland will not actually be administering Income Tax in Scotland (that task will still be performed by HMRC), so as well as holding HMRC to account, Revenue Scotland could easily be expanded to take on welfare responsibilities to ensure a joined up approach.

In 2007 the Low Incomes Tax Reform Group gave written evidence to the Work and Pensions Select Committee, highlighting its concern about the then new split in responsibilities between HMRC and the DWP:¹ It commented:

“We believe that a major cause of complexity in the welfare system is the fact that it is now split between two different Government departments, each with its own policies, practices and culture developed, for the most part, without reference to the other. The fact that DWP and HMRC can adopt a different approach to the same mutual customer, in the same situation; can only result in confusing the customer as to what they are entitled to, and what their obligations are.”

In other words, the experience for those entitled to benefits is already complicated enough. Devolution should be used as a way to improve the efficiency and effectiveness of the system, from both the point of view of the claimant and the tax payer.

Having two separate departments in Scotland could lead to some individuals, particularly in the longer term, having to deal with up to four separate departments for welfare, as well as their council for any issues relating to council tax rebates or discounts.

For example, consider the following fictitious case study:

Stuart lives in Scotland with his eight-year-old daughter and 75-year-old mother.

His mother needs frequent help during the day and is entitled to Attendance Allowance. Stuart is his mother's carer, spending 35 hours a week caring for her. He is entitled to Carer's Allowance.

He is entitled to child benefit for his daughter.

He works for 10 hours a week and is entitled to income support.

He may have to deal with four different agencies in order to claim his entitlement:

Income Support	DWP
Child Benefit	HMRC
Attendance Allowance & Carer's Allowance	Scottish Social Security Agency
Carer's Allowance	HMRC (as Carer's Allowance is a taxable benefit, he needs to have his personal allowance changed in order to pay the tax due on the benefit as this is not currently done at source. HMRC are administering Scottish Income Tax on behalf of Revenue Scotland, if this changed, he would need to inform Revenue Scotland instead).

¹

<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmworpen/463/463we29.htm>

Although the roll out of Universal Credit will take some benefits back from HMRC to the DWP, some claimants will still have to deal with HMRC either because they are working, are in receipt of child benefit, or a taxable benefit.

Devolution of Carer's Allowance

Carer's Allowance is a taxable benefit. In other words, although the government is giving you the benefit, it wants to take some of that same benefit back. However, the UK Government will not tax benefits at source. This means that it is up to the individual to ensure the money is paid back, mainly through a change in their PAYE tax code.

The following other benefits are taxable:

- the State Pension
- Jobseeker's Allowance
- Employment and Support Allowance (contribution based)
- Incapacity Benefit (from the 29th week you get it)
- Bereavement Allowance
- pensions paid by the Industrial Death Benefit scheme
- Widowed Parent's Allowance
- Widow's pension

We believe that such a system is overly complicated, inefficient and not at all user-friendly. However, since a taxable benefit, Carer's Allowance, is being devolved to Holyrood, there is an opportunity to change the way taxable benefits operate and thereby also lead Westminster by example. There is no reason why, for example, the Scottish Government could not tax this benefit at source.

POLICY RECOMMENDATIONS

Reform Scotland believes that the vast majority of tax and welfare powers should be devolved to Holyrood, and that a Basic Income should replace a number of out-of-work related benefits. However, for the purpose of this briefing, we are focusing only on the powers that the Scottish Parliament currently has, or is about to receive.

1. Have one Scottish department, under one Cabinet Secretary, responsible for both the new tax and welfare powers due to be devolved to Scotland.

This may at first seem like a small administrative point, but it is about looking to create a better, more coherent and transparent system and not simply replicating what happens at Westminster. At Westminster there is the Department for Work and Pensions (DWP) and Her Majesty's Revenue & Customs (HMRC). The former is responsible for welfare and the latter for taxation.

However, it is not that simple; child benefit has switched to being an HMRC responsibility along with tax credits, though both of those benefits interact with others that lie with the DWP.

Figures on benefit expenditure are often opaque where two departments are involved and produce different figures. As a result, the two departments make for a less transparent and efficient system for the taxpayer.

There are clear overlaps in their roles. So instead of simply following the Westminster model, there is an opportunity to look to see if Scotland can do things differently. Surely we can come up with a better system and this at least should be considered.

Isn't that the point of devolution?

Although HMRC will currently continue to administer Income Tax for Scotland, there may come a point in the future, particularly if more powers are devolved, when Revenue Scotland takes on this role. It is also necessary to create a department now which can easily adapt to increased responsibilities in the future. Therefore, we would recommend that groundwork is undertaken now to ensure that Revenue Scotland can easily adapt to new powers in the future.

It is worth remembering that if Scotland creates two separate departments, some individuals will find themselves having to deal with four different departments in order to receive their welfare entitlements. This is not efficient and certainly not in the interests of the individual.

Therefore, Scotland has an opportunity to lead Westminster by example and create a more user-friendly and efficient system.

2. Tax Carer's Allowance at source

The Westminster system of making certain benefit recipients contact HMRC and have to provide tax returns or change their PAYE tax code is far too cumbersome. The DWP and HMRC expect companies, through PAYE, or other private organisations providing payment to individuals, such as pensions, to tax at source and give the income tax and NIC directly to HMRC. Therefore there appears to be no reason why the DWP cannot do this.

As Carer's Allowance is to be devolved, and is a taxable benefit, there is an opportunity to improve the administration of the system and for the Scottish Government to tax this benefit at source.