From: [redacted]
Sent: 01 December 2017 13:14:07
To: scottish.ministers@gov.scot
Cc: [redacted]
Subject: FAO Cabinet Secretary for Finance and the Constitution

Attachments: ABI letter to Cabinet Secretary for Finance and the Constitution 30.11.17.pdf

Please find attached a letter for the attention of the Cabinet Secretary for Finance and
the Constitution on the implications of changes to income tax rates for pensions.

Regards,
[redacted]

[redacted]
?Association of British Insurers (ABI)
Direct Dial: [redacted]
Mobile: [redacted]
Email: [redacted]
Association of British Insurers
[redacted]

EVENT
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Derek Mackay MSP November 30
Cabinet Secretary for Finance and the Constitution
The Scottish Government

St Andrew's House

Regent Road
Edinburgh
EH1 3DG

Dear Cabinet Secretary,

I am writing in response to the Scottish Government discussion paper on The Role of Income Tax in Scotland's Budget to highlight some of the potential implications for the insurance and long term savings industry.

Scotland is a key location for the UK's insurance and long term savings industry, supporting 23,000 jobs and contributing more than £3bn in GVA to the economy. One in four UK life and pensions jobs are based in Scotland, and the Edinburgh city region is a long-established hub supporting more than 8,000 jobs generating £1.72bn in GVA for the local economy through companies including Standard Life Aberdeen, Scottish Widows, Royal London and Baillie Gifford.

We acknowledge the four key tests for income tax decisions, as set out in your discussion paper. In particular, that the changes you make along with your decisions on spending should support the economy, and Adam Smith's principles on the certainty, convenience, efficiency and proportionality of taxation.

Some of our member companies have expressed concern that a Scottish Rate of Income Tax which significantly increases the higher rates and bands for Scottish taxpayers may have an effect on Scotland's attractiveness as a place to live and work. It could become difficult to recruit highly skilled and highly paid financial services workers to Scotland, as higher rate taxpayers may be deterred from living and working in Scotland if there are significant increases to personal income tax rates, alongside higher Council Tax rates and Land and Buildings Transaction Tax rates for higher value properties.

Your discussion paper sets out a number of alternative approaches including ones where the Scottish Government may introduce a number of bands around 20% including the options for 19%, 20% and 21% rate bands. This raises the question on which rate would pensions tax relief at source (PRAS) be applied?

Section 7.2 of your paper considers the fiscal impact of increasing the number of bands. The introduction of additional bands around the existing 20% band are likely to have a significant impact on the administration of PRAS. Currently relief at the basic rate of tax is claimed by a taxpayer's pension provider and added to the customer's contributions. If an individual is entitled to relief at a higher rate, this claim can be submitted by an individual either through their tax return or otherwise contacting HMRC. If an individual is entitled to relief at a higher rate, this claim can be submitted by an individual either through their tax return or otherwise contacting HMRC.

So, for example, if your employer has deducted a contribution of £80 from your net pay, your pension provider is able to claim back a further £20, so a total gross contribution of £100 is paid into your pension. Higher rate taxpayers can claim further tax relief at the higher rate less the basic rate already claimed from HMRC, usually via a self-assessment tax return.

Pension providers have been working with HMRC to amend their systems so that, should the basic rate of income tax in Scotland diverge from that in the rest of the UK, relief is claimed at the correct rate for Scottish customers. It is important to note that these changes only deal with divergence in the basic rate. They do not allow for relief to be claimed by pension providers at more than one rate. Indeed, it is difficult to see that systems could be modified to do so given that it would require the pension provider to have details of the customers' liability to tax at those rates.

If further bands are to be proposed by the Scottish Government, then consideration needs to be given to the impact on PRAS, and the risk that significantly more people will need to make individual claims for additional relief or miss out on pensions tax relief to which they are entitled. Your discussion paper notes the risk the Scottish Government bears of any lost revenues from reliefs if they impact on Scottish taxpayers more than the rest of the UK. However there is also a risk that taxpayers may lose out on pensions tax relief they are entitled to claim as a result of Scottish Government policy.

If the Scottish Parliament decides to introduce further bands and rates, then Parliament would need to provide clarity to pension providers on which rate should be considered as the Scottish Basic rate, so that PRAS can be correctly applied and Scottish taxpayers can receive the tax relief to which they are entitled.

The ABI would be happy to meet with you and your officials to further discuss the implications of changes to the Scottish Rate of Income Tax for Scottish taxpayers' pensions and long term savings. If you would appreciate this then please contact me to arrange a convenient date and time.

Yours sincerely,

[redacted]