Scotland's Tax Strategy: Building on our Tax Principles

December 2024

Scottish Government
Riaghaltas na h-Alba

Contents

Ministerial Foreword

Today, alongside our draft 2025-26 Scottish Budget, I am pleased to set out the next step in our Scottish approach to tax. **Scotland's Tax Strategy: Building on our Tax Principles,** builds on the foundations of our approach to taxation set out in the 2021 Framework for Tax[i].

We have taken bold, necessary action on tax in recent years, to ensure that our vital public services are prioritised. Our policy decisions were not taken lightly and ensure that progressivity is at the heart of our tax system, asking those with the broadest shoulders to contribute more to support this vibrant and growing nation. These contributions have enabled us to deliver seven new benefits, including the Scottish Child Payment - helping to create a healthier, more prosperous, and equal Scotland, from which we all benefit.

Our tax decisions are made in the context of the wider tax environment that is largely determined by the UK Government's decisions. It is challenging to give certainty against the backdrop of significant change at a UK level. Within the past 18 months, we have witnessed the previous UK Government reduce employee National Insurance contributions by 4 percentage points, while the new UK Government has increased employer National Insurance contributions by 1.2 percentage points.

Within this changing UK context, I want to give the people and businesses of Scotland all the certainty I can. My intention for the remainder of this Parliament is not to introduce any new bands or increase the rates of Scottish Income Tax, our largest source of tax revenue.

This Tax Strategy sets out the steps that will underpin this government's approach to developing tax policy; ensure the tax system raises the revenue needed to achieve our priorities; and support our growing economy.

This Strategy has been founded on wide-ranging engagement with business organisations across Scotland, tax professionals, civil society and many other stakeholders. I would like to thank everyone who has taken the time to engage, discuss and provide views during its development and I want to see that continue as we implement this Strategy and report back on progress in early 2026.

Shona Robison MSP

Cabinet Secretary for Finance and Local Government

Executive Summary

Scotland's Tax Strategy: Building on our Tax Principles sets out the next steps in the evolution of the tax landscape in Scotland, expanding on our Framework for Tax published in 2021.

In 2023, the Scottish Government published its Medium-Term Financial Strategy (MTFS), which outlined our three-pillar approach to ensuring that the public finances are on a sustainable trajectory. This Strategy delivers on the pillar "*to maintain and develop our strategic approach to tax*", sitting alongside two other pillars that ensure public money is focused on Government objectives, and focussing on economic policies and actions with the greatest potential to grow and strengthen Scotland's economy.

We have engaged with over 65 organisations, groups and individuals to deliver a Strategy which represents the breadth of views from individuals, households and businesses across Scotland. There was a clear ask from all stakeholders to evolve the conversation on tax; to show how the Scottish Government will build a tax system that is fit for the future and supports economic growth.

Tax decisions we have made since devolution, distinct from the rest of the UK, are a vital component of meeting our fiscal challenges - our policy choices on Income Tax made since 2017-18 are estimated to raise up to £1.7 billion in 2025-26 - but they are only part of the story. The fiscal and economic challenges that Scotland faces clearly go beyond a single budget cycle and require longer term policy responses. We have limited tax powers at our disposal and interactions between the Scottish and UK tax systems as well as UK Government fiscal choices, have real and direct impacts on our own tax choices and revenues.

It is within this complex and challenging context that the approach set out in this Strategy will be delivered, in collaboration with our partners, with a focus on national and local taxes. These will be prioritised around five areas.

Our priorities for the existing system: A stable tax system allows taxpayers to better manage their finances and helps businesses to plan and make investment decisions with confidence. That is why, for the remainder of this Parliament, it is our intention not to introduce any new bands or increase the rates of Scottish Income Tax.

We have heard from stakeholders that there is a clear need to build consensus on the way forward for Council Tax reform, and to consider the role that Non-Domestic Rates (NDR) plays in funding services and supporting growth. We will therefore work in partnership with Local Government to ensure that local taxes are fair and sustainable and to explore the creation of more revenue generating powers for local authorities.

We will also complete the devolution of the remaining taxes the Scottish Government has committed to delivering.

On Economy and Tax: Our priority is creating the conditions for economic growth that increases employment and earnings, lifts people out of poverty, and raises living standards. We are focused on interventions that will support our economy to be more productive and competitive, and as part of this we are taking action to grow our tax base, maximising our potential Income Tax and other tax revenues.

As we strive to grow the tax base and deliver economic growth, we understand the impacts that tax policy choices may have on individual and business decisions and behaviours, and the competitiveness of the Scottish economy. We are therefore broadening our evidence on how the tax environment impacts on the competitiveness and attractiveness of Scotland's economy.

On Administration: The principles of efficiency and effectiveness are paramount to ensuring that the Scottish tax system is fit for purpose and provides a high standard of service for Scottish taxpayers, supporting them to understand what and how to pay tax in Scotland. We will make it easier for Scottish taxpayers to understand and navigate the tax system, strengthen our approach to Scottish tax compliance, and consider changes to the legislative processes for fully devolved taxes.

On Evidence and Evaluation: We will enhance our evidence base to inform tax policymaking and support a more systematic and regular programme of appraisal and evaluation across the Scottish tax system.

Future Priorities: We will explore the reforms needed to deliver sustainable and growing tax revenues in the future, such as seeking further devolution of tax powers from the UK Government, reviewing how tax is balanced across labour, income and wealth, and considering how tax can be used to encourage positive behavioural change.

We will publish an update on progress against this Strategy in early 2026.

Introduction

Since the devolution of tax powers in the Scotland Act 2012, the Scottish Government's approach to tax has been guided by Adam Smith's four canons of taxation: Certainty, Proportionality, Convenience and Efficiency. The Framework for Tax reaffirmed our commitment to these principles, adding those of Engagement and Effectiveness, to set the foundation of the Scottish Government's approach to tax policymaking. It also emphasised the importance of fairness and progressivity as key parts of this approach.[i]

The Framework for Tax was published as we were responding to the cost-of-living crisis and economic shocks following the Covid-19 pandemic. The tax system played an important role at that time in supporting the immediate fiscal challenges facing the country. Significant cost pressures have arisen over the subsequent years, many of which will persist over the medium term. Scotland also faces a number of systemic challenges, such as an ageing population, that will create fiscal challenges over a longer time frame.

In response, the Scottish Government's 2023 Medium Term Financial Strategy[ii] (MTFS) set out the three-pillar approach that the Government is taking to ensuring that the public finances are on a sustainable trajectory. This Tax Strategy delivers on the pillar "*to maintain and develop our strategic approach to tax*", sitting alongside two other pillars that ensure public money is focused on Government objectives, and focussing on economic policies and actions with the greatest potential to grow and strengthen Scotland's economy.

We intend to publish a new MTFS in spring 2025, accompanied by a Fiscal Sustainability Delivery Plan. This Tax Strategy will inform the approach and commitments set out in both publications.

Developing the Strategy with Stakeholders

Process

Our core tax principle of engagement has been integral to the development of this Strategy. We have engaged with a broad range of stakeholders including businesses across Scotland, think tanks, academics, civil society groups and tax professionals. To learn from international best practice, we have also met with current and former officials from New Zealand, Ireland and Wales to discuss and learn from their approach to strategic tax policy.

Our consultative engagement programme was designed to ensure that a full and detailed range of contributions and views were considered. We facilitated and engaged stakeholders via roundtables, thematic workshops, 1:1 sessions and broader group discussions. These sessions were chaired by Ministers, senior Scottish Government officials and external stakeholders.

The Tax Advisory Group was established in July 2023 to provide strategic advice on tax policy and strategy to the Scottish Government. Members have provided a diverse range of views and experience to the Strategy's development, identifying areas requiring action in the current system, improving our evidence base and considering priorities for the future tax system.

We have also worked collaboratively with both Revenue Scotland and HM Revenue and Customs (HMRC), given their respective roles in the collection and management of fully devolved Scottish taxes and Scottish Income Tax.

Stakeholder Views

The views of stakeholders have shaped the focus of this Tax Strategy. This includes providing stability and certainty to support investment and confidence in the Scottish economy and the Government's priority of fair, green economic growth. There were calls for more regular and meaningful engagement between the Scottish Government and stakeholders to support the scrutiny of tax decisions; for broader and more transparent evidence on tax; and for improved communications on tax to ensure everyone understands what they should pay and the role that revenues have in supporting the delivery of our public services.

A list of stakeholders we have engaged with to date is detailed in Annex B.

Future Engagement

We will continue with this approach to engagement as we implement this strategy, undertaking more regular and systematic discussions on tax. In doing this, we will make it clearer how views gathered from stakeholders are considered as part of the policy development process. This will include reaching out to groups who may not often contribute to the conversation on tax, including young people.

We will also host our first Scottish Tax Conference in 2025, providing an opportunity to bring together a diverse range of stakeholder views to engage directly with the Scottish Government.

Chapter 1 - Our Vision

This Tax Strategy sets out our medium-term ambitions for how the tax system will develop to support the delivery of our four government priorities: eradicating child poverty, growing the economy, tackling the climate emergency, and ensuring high quality and sustainable public services.

The approach set out in this Strategy builds on the principles which formed our Framework for Tax. This will support the progression to a tax system which aligns policy aims with outcomes, is informed by robust evidence and engagement with others, and enables us to take a system wide and comprehensive approach to tax policy in Scotland.

The Existing Tax System

We have delivered a fair and progressive tax system by embedding our distinctive and ambitious Scottish approach to taxation in our policy choices, raising significant revenue with the limited tax powers that we have available. We have worked in partnership with Revenue Scotland and HMRC to ensure that the processes and systems for administering and collecting devolved taxes are robust and deliver value for money.

The Scotland Acts 2012[iii] and 2016[iv] devolved significant new powers to the Scottish Parliament. This change in the fiscal landscape required the creation of new fiscal institutions, namely Revenue Scotland, as the collection body for Scotland's devolved taxes, and the Scottish Fiscal Commission (SFC) to provide the independent forecasts which underpin the Scottish Budget. To further facilitate the devolution of powers, the Scottish Government strengthened its relationship with HMRC to ensure the efficient and effective collection of Scottish Income Tax revenues. These changes also required the expansion of the roles and remit of institutions, such as Audit Scotland and the Scottish Courts and Tribunal Service.

The Scottish tax system is made up of a combination of fully devolved tax powers related to **Land and Buildings Transaction Tax (LBTT)** and **Scottish Landfill Tax (SLfT)**; partially devolved tax powers over rates and bands for non-savings, non-dividend **Income Tax**; and local taxes which fund local services, including **Council Tax** and **Non-Domestic Rates (NDR)**. The Scottish Parliament has also legislated to support the future introduction of **Air Departure Tax**, a **Scottish Aggregates Tax**, and to allow local authorities to introduce a **Local Visitor Levy**, with the possibility of further tax powers being devolved to the Scottish Parliament on a **Scottish Building Safety Levy** to contribute to the costs of cladding remediation.

The Scottish tax system sits within a broader system, parts of which are devolved to the Scottish Government as set out above and parts of which remain reserved to the UK Government. Tax and economic policy decisions made by the UK Government have a direct impact on Scottish finances and the delivery of our priorities, including economic growth. Within Scotland, there is a further level of devolution with local taxes being determined and administered by local authorities. Managing this complexity and how taxes impact individuals, households and businesses requires a long-term view of the cumulative balance of taxes across the UK, Scottish and local level.

Analysis published at the Scottish Budget 2025-26[v] showed that the decisions made on Scottish tax and social security policy since the devolution of powers in 2016 have enhanced the progressivity of the overall system: the higher a household's income on average, the greater the share of their income is paid in tax, and the less they receive in social security.

However, there is clearly a balance to be struck when considering the potential for behavioural change by individuals and businesses in response to tax policy, and the impact on other priorities such as economic competitiveness.

The tax system also has a role to play in encouraging positive behavioural change, for example through SLfT objectives which contribute to Scotland's Zero Waste Plan[vi] by incentivising the prevention, reuse and recycling of waste.

Local taxation

Local government revenue funding relies on a combination of General Revenue Grant (GRG) plus NDR Income, any specific revenue grants, and local revenue raised (primarily from Council Tax). The policy and legislative framework that defines Council Tax has been wholly devolved to the Scottish Parliament. Council Tax is expected to contribute almost £3.0 billion towards the funding of local public services in 2024-25.

NDR are administered and collected by councils, with revenue pooled at a Scottish Government level before being redistributed to councils based on the agreed needs-based distribution formula. NDR are expected to contribute £3.1 billion towards the funding of local public services in 2024-25 (around 19%[vii] of local government general funding). We have delivered the lowest Basic Property Rate in the UK for seven years in a row. The Scottish Government continues to maintain the most generous Small Business Bonus Scheme, Fresh Start and Day Nursery reliefs in the UK, with almost 154,000 properties in receipt of relief on 1 June 2024, accounting for 61% of non-domestic properties on the valuation roll. Reliefs funded by the Scottish Government are forecast to save ratepayers £721 million in 2024-25 [viii].

The Scottish Government has led the way in the UK on reforms to NDR following the Barclay Review, which published its final report in 2017, introducing three yearly revaluations from 2023 with a one-year tone date - which remains the shortest tone date in the UK. These changes ensure that rateable values better reflect changing market circumstances. In 2018 we also introduced the flagship Business Growth Accelerator relief, which is more generous than Improvement relief in England. Other changes arising from the Barclay Review modernise the approach, reduce appeal volume and ensure greater transparency and fairness in property valuations.

Chapter 2 – The Fiscal and Economic Context

In recent years, Scotland has faced significant economic and fiscal challenges which have also been seen across the UK and which have created lasting pressures on our public finances.

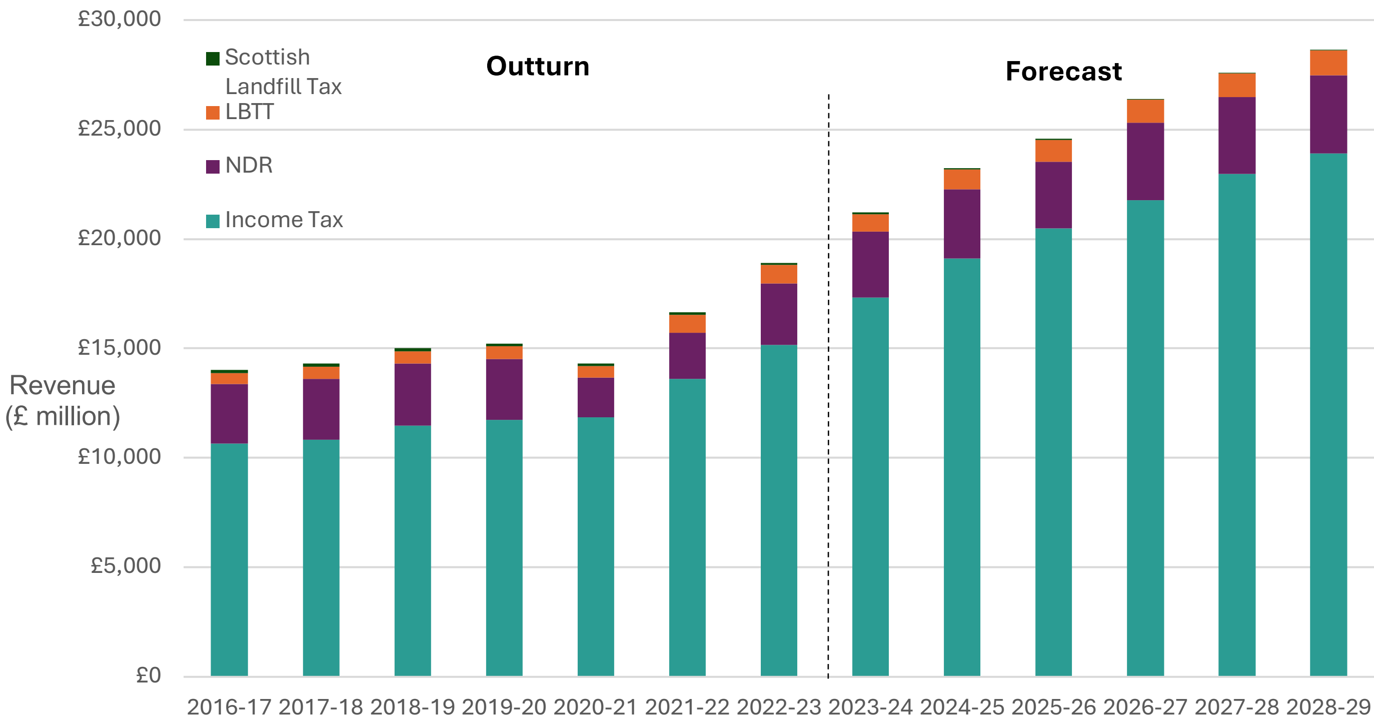
These include years of UK Government austerity, the significant economic impact of exiting the European Union, a global pandemic, Russia's invasion of Ukraine, and the cost-of-living crisis. The impacts of the inflation and cost-of-living shocks have been persistent, leading to sustained higher price levels and interest rates. Although some of the economic shocks are still unwinding, the economy has reset over this period – with relatively flat economic growth and the impact of higher prices on household finances more pronounced than during the Covid-19 pandemic.

Within the powers available, the Scottish Government has taken extensive steps to ensure that it can deliver a balanced budget each year, whilst continuing to invest in public services and support individuals, households and businesses. The decisions we have made on tax policy since devolution, distinct from the rest of the UK, have raised significant and vital revenues for investment in public services.

The SFC forecast that devolved tax revenues, including NDR, will raise £24.6 billion in 2025-26, rising to over £30 billion in 2029-30. Figure 1 shows the significant contribution of Income Tax compared to NDR, LBTT and SLfT since the devolution of tax powers in 2016-17. In 2025-26, Income Tax alone will contribute 83% (£20.5bn) of overall tax revenue.

While cross country comparisons of tax are difficult, Scotland and the UK raise substantially less as a proportion of GDP from labour taxation than the EU, but similar to the OECD average[ix]. This results in middle-income earners being taxed less in Scotland and the UK than the OECD average[x].

Figure 1 - Tax revenues over time - outturn and forecasts[xi]



The strategic, fiscal, and economic challenges that Scotland faces clearly go beyond a single budget cycle and require longer term policy responses.

For example, like many western countries, Scotland's population structure is ageing and is expected to undergo significant change, with the number of people over 65 projected to grow by 9.8% over the next five years[xii], putting further pressure on public expenditure. Scotland's working-age population is also projected to fall by roughly eight percentage points over the next 50 years[xiii], affecting the size of the tax base and adding further fiscal pressures over the longer term.

Tax revenues are a vital component of meeting our fiscal challenges, but they are only part of the story. That is why we are progressing the work required to deliver our fiscal strategy and ensure the fiscal position is sustainable: to address the drivers of public spending and focus on driving economic growth, alongside adopting a strategic approach to tax.

Taken together, this will ensure that our spending and investment decisions achieve value for money over the medium term, with sustainable spending plans in place, and the economic conditions to ensure growth in tax revenues.

The importance of economic performance

Economic performance is vital to delivering sustainable tax revenues, with the economy and tax system intrinsically linked. It is our relative performance against the rest of the UK (defined as England and Northern Ireland) which drives our net tax position[xiv] - the amount of spending power that tax contributes to the Budget. If tax revenues per person in Scotland grow faster than those in the rUK, then the Scottish Budget gains. If tax revenues per person in Scotland grow slower, then the Scottish Budget is made relatively worse off.

Several factors can affect Scotland's net tax position:

- **For Income Tax,** relative growth in earnings per person and changes in its distribution compared to rUK over time, as well as differences in pensions and property income; the relative growth in the number of taxpayers; and the relative performance of the Scottish labour market.
- **For LBTT**, the number of properties sold and the average growth in property prices, both of which can be affected by the overall performance of the economy.
- **Policy decisions** at a Scottish and rUK level. Even if the Scottish Government does not make any policy changes, rUK policy decisions can still have a material impact on the Scottish Budget. For example, if there are changes to the UK-wide Personal Allowance.[xv]

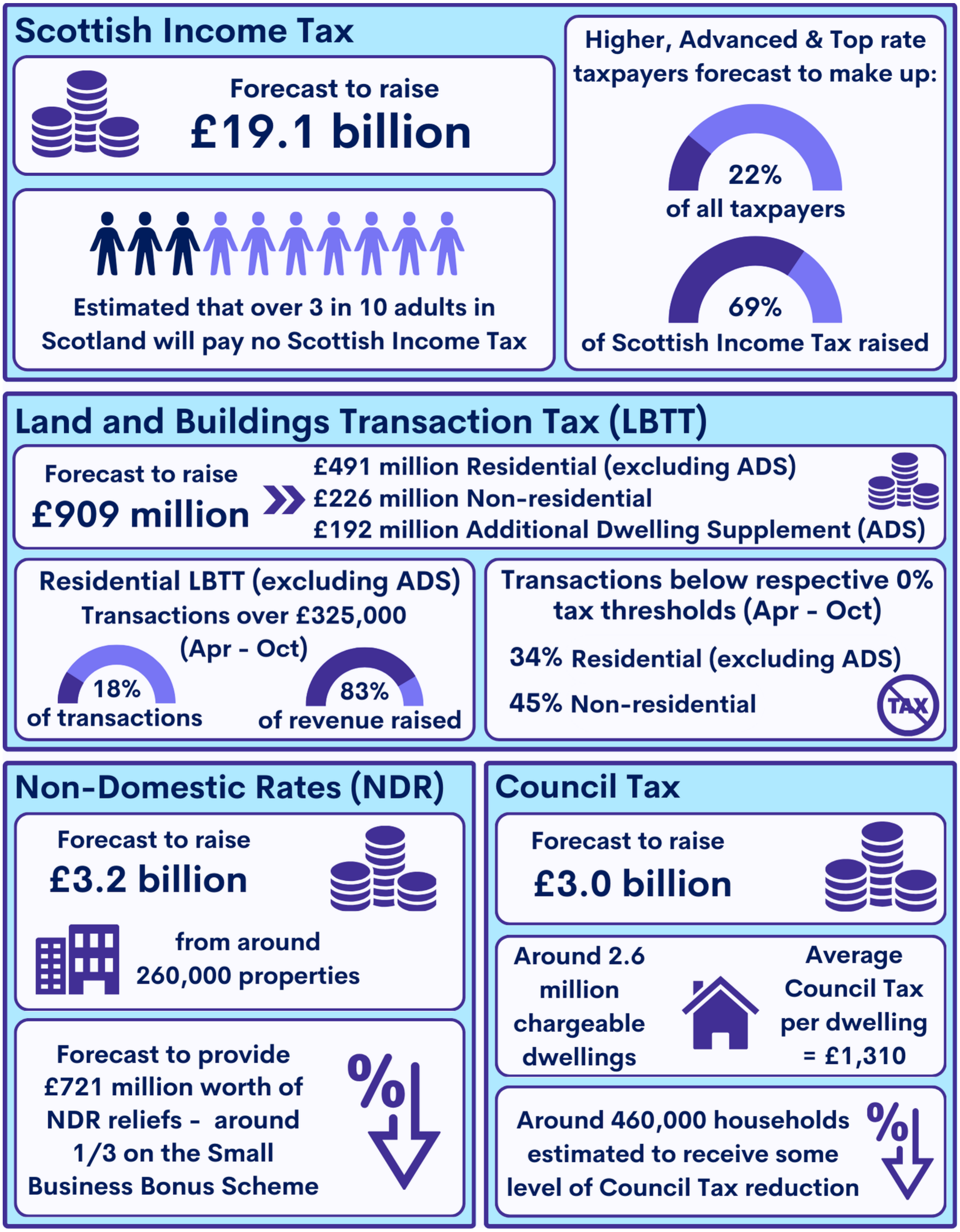
The SFC[xvi] has highlighted the historical growth of Scottish Income Tax relative to the rest of the UK underpinning the net position. Analysis suggests that this was predominately driven by a historical decline in the oil and gas industry in Scotland in the early years of devolution, combined with strong earnings growth associated with the financial services sector in London and the South East.[xvii]

Data from the Pay As You Earn (PAYE) system[xviii] shows that this historical performance gap is closing, with tax and earnings growing faster in Scotland than the rest of the UK over the past two years - partially offsetting some of the relatively slower earnings growth in Scotland.

We are making significant progress in delivering on our ambitions to transform Scotland’s economy, with growth forecasts revised up and business conditions improving. The SFC expect Scottish Income Tax to continue to contribute positively to the overall net tax position, which is set to improve from around £1 billion in 2023-24 to over £2.4 billion in 2029-30. They have flagged some downside risk to the position, as it results from a higher earnings growth forecast compared to the rest of the UK, together with our more progressive tax system.

There is also an important link between local taxation and economic performance. For NDR, rateable values are generally based on the notional market rent for a property and changes in market values are reflected at revaluation. The three yearly revaluation cycle introduced in 2023, along with a one-year tone date, seeks to ensure that rateable values reflect market values as closely as possible. There are also differences in the tax base between England and Scotland: the average rateable value of a property in Scotland is lower than in England.

Figure 2 - The Scottish Tax Base 2024-25 – Facts and Figures[xix]



Chapter 3 – Our Approach

This chapter sets out the priorities that we will progress to deliver our vision for the Scottish tax system. Building a system-wide approach to tax policymaking and delivery: one which goes beyond annual Budget cycles, supports economic growth and broader Government objectives of addressing poverty, limiting environmental changes and delivering public services.

These priorities will ensure Scotland's tax system continues to support revenue raising, provide stability for taxpayers and foster an effective and efficient tax environment for businesses. We must continue to grow our tax base; improve our tax administration, compliance and legislative frameworks; and transparently appraise and evaluate our tax policies against a broad set of measures including behavioural, economic and competitiveness outcomes.

Stakeholders have been clear that a key focus in this Tax Strategy should be a continued improvement in the operation of our current tax system, to ensure it operates as efficiently as possible and recognises the risks of unintended consequences on our tax base and revenues. In addition, consideration of the future evolution of Scotland's overall tax system, ensuring on-going careful management of the complex basket of reserved, devolved and local taxes, is vital for Scotland's long-term fiscal and economic prosperity.

Whilst delivering on these priorities will begin immediately, their effects will extend beyond this Parliamentary term.

We will update on progress in early 2026.

Priorities for the Existing Tax System

A stable tax system allows taxpayers to better manage their finances and helps businesses to plan and make investment decisions with confidence. Signalling a period of stability for our largest source of tax revenue will allow us to assess the impacts of recent policy changes, and support the conditions needed for a growing economy.

That is why, for the remainder of this Parliament, **it is our intention not to introduce any new bands or increase the rates of Scottish Income Tax.**

For the remainder of this Parliament, we will also:

- Maintain our commitment that over half of Scottish taxpayers will pay less Income Tax than they do in the rest of the UK.
- Uprate the Starter and Basic rate bands by at least inflation.
- In light of the UK Government context of a freeze to UK Higher rate thresholds to 2027-28, we will maintain the Scottish Higher, Advanced and Top rate thresholds at current levels in nominal terms. This will be reviewed annually at the Budget.

Ultimately, as with all legislative matters, the implementation of Income Tax policy will require a majority in the Scottish Parliament to support it in any given year.

We will work in partnership with Local Government to ensure that local taxes are fair and sustainable and to explore the creation of more revenue generating powers for local authorities.

To do this, we will:

- Begin the next phase of work of the Joint Working Group on Sources of Local Government Funding and Council Tax Reform (JWG) with a process of engagement in 2025 to build consensus on the way forward for Council Tax

Reform. We will publish the outcome of this by the end of this Parliamentary term.

- Support open dialogue and engagement through forums including the sub-group on NDR established under the New Deal for Business, to ensure that the NDR system supports business growth, investment and competitiveness, whilst acknowledging the important role NDR income plays in funding public services.
- Explore how NDR legislation might be consolidated and simplified.
- Carefully consider the outcome of the UK Government's consultation on 'Transforming Business Rates', including its impact on the block grant for Scotland, and noting the differences in the NDR tax base between Scotland and England. This will ensure that we continue to deliver a competitive environment to do business, whilst also recognising the important role that NDR plays in funding public services.

The Scottish Parliament has the power to create new Scottish local taxes (i.e. local taxes to fund local authority expenditure) through an Act of the Scottish Parliament. However, it must also reflect the needs and expectations of businesses and the broader economy. There are a number of criteria that should be considered when determining the level of government at which a tax could be delivered, notably the scope of the taxable activity, administrative efficiency, distribution, autonomy, and constitutionality. Any new taxes or levies being developed also need to go through a thorough due diligence review by the Scottish Government, including the feasibility of administration and collection arrangements.

Where a proposal for a new tax sits at the local level, the Scottish Government works with Local Government to consider its delivery, development, and appraisal. This ensures that any individual new tax aligns with the Scottish Government's key tax principles, our strategic approach to taxation and complies with national and international laws, including human rights, in accordance with Scotland Act 1998 provisions[xx].

The Scottish Government and COSLA have already made significant progress on implementing a Fiscal Framework with Local Government, including on the commitment to explore local revenue raising and sources of funding, such as the Visitor Levy.

We will complete the devolution of the remaining taxes the Scottish Government has committed to delivering.

The Scottish Parliament has passed legislation for Scottish Aggregates Tax and Air Departure Tax, the two additional taxes recommended by the Smith Commission. Delivery of these taxes remains a key strategic priority for the Scottish Government. They will grow our tax base, increase the number of taxes collected and managed by Revenue Scotland, add to the accountability and fiscal powers of the Scottish Government, and demonstrate our ability to make good tax policy and legislation.

To do this, we will:

- Introduce the necessary secondary legislation for the Scottish Aggregates Tax to the Scottish Parliament and work with the UK Government to ensure that the new tax can be introduced on 1 April 2026.
- Work with the UK Government to resolve subsidy control issues with the current Highlands and Islands exemption to enable the implementation of Air Departure Tax.

We have also made significant progress on securing powers to create a new tax – a Scottish Building Safety Levy – which will provide funding for the vital work of remediating buildings fitted with unsafe cladding. Following the completion of the devolution process, we will introduce a Bill within this Parliamentary term to establish the legislative basis for a Scottish Building Safety Levy.

Whilst the Scottish Government remains committed to fulfilling the Smith Commission recommendations[xxi], we must protect the Scottish Budget from unnecessary levels of risk. This applies to the assignment of VAT, where concerns remain around the levels of uncertainty and volatility associated with the proposed assignment methodology, without appropriate fiscal or policy levers to help manage that risk. The Scottish Parliament Finance and Public Administration Committee discussed VAT Assignment and agreed, on a cross-party basis, that there were inherent challenges with VAT Assignment. Following the conclusion of the Fiscal Framework Review in August 2023, and in light of these concerns, the Scottish and UK Government jointly agreed to work on the options for the future of VAT Assignment.

The Economy and the Tax System

We will drive forward a renewed focus on expanding the tax base and tax revenues by progressing specific economic activities with the potential to grow the economy and get more people into work.

Our priority is creating the conditions for economic growth that increase employment and earnings, lifts people out of poverty and raises living standards. We are focused on activities that will support our economy to be more productive and competitive, and as part of this are taking action to grow our economy and our tax base.

Economic growth is an integral driver of ensuring Scottish public finances are sustainable in the long term, increasing the revenues raised to support public services. In addition, stakeholders have been clear that the Scottish Government must ensure stronger links between our economic and tax strategies.

Actions that we are taking to grow our economy include:

- Maximising the full potential of our workforce, through removing barriers to employment and ensuring our skills and education system is responsive to learners and skills priorities, easy to navigate and supports participation in the labour market.
- Providing Employability Support, including increased access to health services and flexible work – supporting progression in work, helping more people to get back into work, and bring them closer to employment to address long-term economic inactivity.
- Continuing the delivery of Scotland's Migration Service, which provides practical support to employers in navigating the UK immigration system to recruit internationally; and support to individuals to relocate and settle in Scotland, delivering our strategic approach to addressing the challenges of population

attraction and retention within communities facing population decline as set out in our Addressing Depopulation Action Plan[xxii] .

We are focused on creating the conditions for growth by bringing more people to Scotland, supporting our people into work, and raising wages for those working here. We also recognise the need for our tax environment to support private investment as well as to fund the public services which underpin a competitive economy.

We will broaden our understanding on how the tax environment impacts on the competitiveness and attractiveness of Scotland's economy.

This has been a clear ask from stakeholders, including the business community. As we strive to grow the tax base and deliver economic growth and prosperity, we understand the impacts that tax policy choices may have on individuals and business decisions and behaviours, and the competitiveness of the Scottish economy.

The interactions between tax policy and competitiveness are complex. The Scottish Government recently published an evidence overview of Scotland's competitiveness internationally.[xxiii] The paper outlined that competitiveness is multi-faceted, with many countries scoring highly on international rankings despite differing approaches to taxation. Indeed, many important aspects of competitiveness, such as skills and infrastructure, are supported by revenues from taxation.

To support a broader understanding:

- We will assess the links between tax policy and the economy in greater detail through a programme of evidence development. Our initial focus will be on Income Tax, our largest source of tax revenues, publishing an initial evidence review in 2025.
- In line with the principles of the New Deal for Business, we will continue to engage with businesses and organisations to contribute to the assessment of the

cumulative impacts of Scottish, UK and local tax policies on the competitiveness of the economy.

Administration of the Existing Tax System

We will deliver a fair, efficient and effective tax system in Scotland.

Our Framework for Tax principles guide the approach to tax policymaking in Scotland for all devolved and local taxes. The principles of efficiency and effectiveness are paramount to ensuring that the Scottish tax system is fit for purpose and provides a high standard of service for Scottish taxpayers, supporting them to understand what and how to pay tax in Scotland.

To do this, we will:

- Make it easier for Scottish taxpayers to understand and navigate the tax system by increasing public understanding of tax, including through publishing our tax literacy outcomes.
- Strengthen our approach to Scottish tax compliance in collaboration with HMRC and Revenue Scotland.
- Work with tax administrators to streamline and ensure efficient tax collection mechanisms to reduce the costs of tax collection, including exploring how to increase the digitalisation of the Scottish tax system to allow more effective data sharing.
- Renew the consideration of the case for introducing changes to the legislative processes for the fully devolved taxes.

Increasing public understanding of tax

Public understanding of tax is important for many reasons: empowering individuals to manage their tax affairs, supporting tax compliance and improving civic engagement and awareness of how tax supports the delivery of public services.

To support this, in early 2025, we will publish our tax literacy outcomes which seek to improve understanding of tax across the whole system. This work will be developed in collaboration with stakeholders, including tax policy and advocacy specialists.

These outcomes will support work with Local Government, HMRC and Revenue Scotland, employers, educators and tax policy groups to develop, implement and evaluate approaches to improve understanding of the complex tax landscape in Scotland and the UK. This work will be underpinned by the findings from externally commissioned research on international best practice on tax communications and engagement, due to be published in Spring 2025.

Strengthen Tax Compliance

Tax compliance is at the heart of having a fair, effective and efficient tax system.

On Income Tax, the National Audit Office and Audit Scotland[xxiv] have both highlighted the importance of reviewing and strengthening the approach to Scottish tax compliance, given the increased divergence between the UK and Scottish Income Tax systems. We will work with HMRC to strengthen our joint Service Level Agreement[xxv], which governs the administration of Scottish Income Tax, to improve our collective understanding of compliance risks and, where necessary, ensure timely and robust measures are taken to address these risks. Outputs will include an updated compliance plan for Scottish Income Tax, increased communication with taxpayers to promote good compliance, and risk-based analysis of compliance risk. These actions will help to ensure that we are responding appropriately to tax divergence across the UK, protecting revenues, and promoting public trust in the tax system.

Revenue Scotland is responsible for the collection and management of fully devolved taxes. Its Approach to tax compliance publication[xxvi] sets out a high-level, risk-based approach founded on helping taxpayers to comply with their obligations and, where needed, solving disputes and pursuing non-compliance. As the number and range of devolved taxes increases, the Scottish Government will continue to ensure that the legislative arrangements assist Revenue Scotland in its role, including using targeted anti-avoidance rules.

While it is right that these distinct areas of work are progressed by those who administer Scottish taxes, the Scottish Government will ensure that knowledge and best practice is shared widely, for the benefit of the overall tax system.

Streamlining Legislative Processes

Tax and legal professionals have called for a Scottish equivalent to the UK Finance Bill process or other tax-specific arrangements that would allow for regular changes to the fully devolved Tax Acts using primary legislation. This issue was considered by the Devolved Taxes Legislation Working Group prior to its work being paused in 2020, but without a solution being identified. We will renew this consideration in light of the planned introduction of new taxes and seek the Scottish Parliament’s participation in this work, given that the viability of any proposals may depend on changes to Parliamentary process and procedures.

Evidence and Evaluation

We will enhance our evidence base to inform tax policymaking and support evaluation of tax changes.

A robust approach to evidence and evaluation will improve transparency around tax decisions and their impacts; provide evidence on cumulative effects across the whole tax system; and support debate on the existing tax system and future reform.

To do this, we will:

- Publish our first Areas of Research Interest (ARIs) on tax and set out, in the coming months, the exploratory funding available to support the development of these ARIs.
- Develop a systematic and regular programme of appraisal and evaluation across the Scottish tax system.

Areas of Research Interest (ARIs)

The Institute for Government recommended that the UK Government should systematically detail its Areas of Research Interest (ARI)[xxvii]. These aim to enable researchers to understand where their work could have the most impact on policy decisions, to generate engagement and collaboration between government and external research communities, broadening the evidence base underpinning the development of our tax system.

To support the work in this area, Figure 3 sets out our key tax research areas for the next five years, with more detailed research questions provided at Annex C. These ARIs have been developed and tested with stakeholders as part of the engagement for the Tax Strategy.

It is expected that these will form part of a broader package of work on ARIs being developed by the Scottish Government.

Figure 3 – Areas of Research Interest Themes

- The overall tax system in Scotland and its interactions with UK and broader policy systems
- Behaviour Change and Tax Policy, including distributional impacts
- Tax and Economic Impacts
- The Role of Tax in the Environment
- Local Government Taxation

Evaluation

As part of the Scottish Government's Corporate Evaluation Action Plan published in August 2024[xxviii], there is a clear commitment to evaluate significant tax policy decisions to assess impacts and to strengthen future decision making.

We have already evaluated previous tax policy changes. In 2021, we published an evaluation of the 2018-19 reforms to the Income Tax system, following devolution of tax powers[xxix]. This evaluation sought to assess the revenue and economic impacts of the move to a five-band system, as well as the operational costs and impacts on employers and payroll operators. The analysis found that the changes met the desired policy objectives, raising additional revenue while managing the risks of significant behavioural responses. More recent work with HMRC has focused on taxpayer migration and behaviour change. This found taxpayer migration responses to the 2018-19 reforms were broadly in line with the international evidence, set against a backdrop of continued positive inward net migration of taxpayers into Scotland.[xxx]

We recognise the need to build evaluation across the devolved and local tax system, ensuring that significant policy decisions are transparently monitored and assessed as further data and evidence emerges.

To do this, we will:

- Formally evaluate the impact of the changes to **Income Tax** in 2023-24 and 2024-25 once outturn date is available and, in advance of this, closely monitor behavioural impacts on different groups of taxpayers, business, and the economy using a range of economic evidence and stakeholder engagement.
- Conduct our first five-year review of **LBTT** by the end of this Parliament, to support an evaluation of key aspects of the tax legislation, including the application of the ADS where exceptional circumstances and events occur. The review will support decisions in the next Parliament on the case for any legislative changes.

Future Priorities

We will explore the reforms needed to continue to deliver sustainable and growing tax revenues in the future.

Our devolved tax powers have enabled us to progressively raise significant additional revenue for Scotland. Through the planned introduction of new taxes, such as the Building Safety Levy and Visitor Levy, we have also demonstrated that we can make different choices on tax to reflect Scottish priorities.

However, our system remains closely entwined with that of the UK Government, resulting in a partially devolved system that is complex to navigate. With this comes an increasing need for us to take account of the cumulative impact of both UK and Scottish Government decisions on tax policies across individuals, households and businesses. We also need to recognise the risks of unintended consequences on our tax base and revenues, including those resulting from the interaction of UK-wide National Insurance Contributions with the Scottish Income Tax system.

Guided by our Scottish tax principles, we will begin a programme of work focused on:

- **Reserved tax powers**

The further devolution of tax powers from the UK Government will ensure that the existing Scottish tax system works more efficiently and will enable more decisions that impact the people and businesses of Scotland to be made in Scotland. Given the complexity of tax policy, and the role it plays in the wider economy, we will consider the tax landscape in the round as we plan our next steps on tax devolution. It is also vital - given the operation of the Fiscal Framework – that a robust and thorough articulation of estimated revenues, distributional impacts and likely behavioural consequences supports any case for further devolution.

- **Balance of taxes across labour, income and wealth**

Scottish Income Tax provides around 80% of devolved tax revenues and our policy choices since devolution have resulted in the most progressive Income Tax system in the UK. However, there is increasing international debate on balancing labour taxation with other forms of income and wealth, including land and property taxation, to develop tax systems that are more resilient and provide a broader set of fiscal tools to respond to economic shocks and future fiscal challenges.

To support this discussion, we will explore what wealth taxation could look like for Scotland, understanding the opportunities and challenges that this may offer our tax system, and the steps needed to progress towards this broadening of tax options. This will include reviewing how existing local and property taxes would fit within broader structural reform.

- **Tax as a lever to encourage positive behavioural change**

Taxes have the potential to act as powerful incentives to change behaviour and improve policy outcomes across a wide range of activities. The introduction of the Scottish Landfill Tax has, alongside legislative and other measures, supported the transition to a circular economy and has highlighted both how effective tax can be in supporting behaviour change but also that where behaviour change is possible, the revenues raised are, by definition, transitory in nature.

Alongside this Strategy, we are publishing research we have undertaken with Climate Exchange (CXC)[xxxi] which highlights the importance of broad engagement when developing policy in this area, the need to build a consensus for change and for clarity around the objectives of any proposed tax. We are also taking forward work with the Scottish Land Commission to consider the role of taxation and fiscal interventions in supporting land reform and reducing greenhouse gas emissions from land.

Evolving the structure of our tax system will take time and involve discussion, debate and engagement with others. That evolution must be underpinned by the need for sustainable and growing tax revenues to support government priorities, ensuring our basket of taxes broadens our tax base and balances risks across tax revenues. We also must continue to recognise the role of tax in the economy, enabling our tax environment to support and incentivise economic activity.

We will set out our detailed programme of work on future priorities alongside the next MTFS in 2025. Our approach will be taken forward in collaboration with stakeholders and will be evidence led. We are also keen to draw on the experiences of other countries in considering longer-term reform of their tax systems, such as the Irish Government's Commission on Taxation and Welfare, as well as building on the rich evidence base already developed by the Institute of Fiscal Studies, UK Wealth Commission, and others.

Annex A - List of Priorities and Actions

Priorities for the Existing Tax System

For the remainder of this Parliament, it is our intention not to introduce any new bands or increase the rates of Scottish Income Tax.
We will also: • Maintain our commitment that over half of Scottish taxpayers will pay less Income Tax than they do in the rest of the UK. • Uprate the Starter and Basic rate bands by at least inflation. • In light of the UK Government context of a freeze to UK Higher rate thresholds to 2027-28, we will maintain the Scottish Higher, Advanced and Top rate thresholds at current levels in nominal terms. This will be reviewed annually at the Budget.
We will work in partnership with Local Government to ensure that local taxes are fair and sustainable and to explore the creation of more revenue generating powers for local authorities.
To do this we will: • Begin the next phase of work of the Joint Working Group on Sources of Local Government Funding and Council Tax Reform (JWG) with a process of engagement in 2025 to build consensus on the way forward for Council Tax Reform. We will publish the outcome of this by the end of this Parliamentary term. • Support open dialogue and engagement through forums including the sub-group on NDR established under the New Deal for Business, to ensure that the NDR system supports business growth, investment and competitiveness, whilst acknowledging the important role NDR income plays in funding public services.

• Explore how NDR legislation might be consolidated and simplified. • Carefully consider the outcome of the UK Government's consultation on 'Transforming Business Rates', including its impact on the block grant for Scotland, and noting the differences in the NDR tax base between Scotland and England. This will ensure that we continue to deliver a competitive environment to do business, whilst also recognising the important role that NDR plays in funding public services.
We will complete the devolution of the remaining taxes the Scottish Government has committed to delivering.
To do this we will: • Introduce the necessary secondary legislation for the Scottish Aggregates Tax to the Scottish Parliament and work with the UK Government to ensure that the new tax can be introduced on 1 April 2026. • Work with the UK Government to resolve subsidy control issues with the current Highlands and Islands exemption to enable the implementation of Air Departure Tax.

The Economy and the Tax System

We will drive forward a renewed focus on expanding the tax base and growing tax revenues by progressing specific economic activities with the potential to grow the economy and get more people into work.
We will broaden our understanding on how the tax environment impacts on the competitiveness and attractiveness of Scotland's economy.
To support this, we will: • Assess the links between tax policy and the economy in greater detail through a programme of evidence development. Our initial focus will be on Income

Tax, our largest source of tax revenues, publishing an initial evidence review in 2025.

- In line with the principles of the New Deal for Business, we will continue to engage with businesses and organisations to contribute to the assessment of the cumulative impacts of Scottish, UK and local tax policies on the competitiveness of the economy.

Administration of the Existing Tax System

We will deliver a fair, efficient and effective tax system in Scotland.
To do this we will: • Make it easier for taxpayers in Scotland to understand and navigate the tax system by increasing public understanding of tax, including through publishing our tax literacy outcomes. • Strengthen our approach to Scottish tax compliance in collaboration with HMRC and Revenue Scotland. • Work with tax administrators to streamline and ensure efficient tax collection mechanisms to reduce the costs of tax collection, including exploring how to increase the digitalisation of the Scottish tax system to allow more effective data sharing. • Renew the consideration of the case for introducing changes to the legislative processes for the fully devolved taxes.

Evidence and Evaluation

We will enhance our evidence base to inform tax policymaking and support evaluation of tax changes.
To do this we will: • Formally evaluate the impact of the changes to **Income Tax** in 2023-24 and 2024-25 once outturn date is available and, in advance of this, closely monitor

behavioural impacts on different groups of taxpayers, business, and the economy using a range of economic evidence and stakeholder engagement.

- Conduct, our first five-year review of **LBTT** by the end of this Parliament, to support an evaluation of key aspects of the tax legislation, including the application of the ADS where exceptional circumstances and events occur. The review will support decisions in the next Parliament on the case for any legislative changes.

Future Priorities

We will explore the reforms needed to continue to deliver sustainable and growing tax revenues in the future.
Guided by our Scottish tax principles, we will begin a programme of work focused on: • Further devolution of tax powers • Balance of taxes across labour, income and wealth • Tax as a lever to encourage positive behavioural change

Annex B – External stakeholder list

- Addleshaw Goddard
- Abrdn plc
- Association of Chartered Certified Accountants (ACCA)
- Association of Tax Technicians (ATT)
- Barclays
- Baillie Gifford
- BDO
- Brodies LLP
- Burness Paull
- Citi
- Charlotte Street Partners
- Chartered Institute of Payroll Professionals
- Chartered Institute of Taxation (CIOT)
- Child Poverty Action Group (CPAG)
- CIPFA Local Government Directors of Finance
- Confederation of British Industry Scotland (CBI)
- Convention of Scottish Local Authorities (COSLA)
- David Hume Institute
- Deloitte
- Enable
- Equality and Human Rights Budget Advisory Group
- EY (Ernst and Young)
- Federation of Small Business (FSB)
- Fraser of Allander Institute
- Glasgow Disability Alliance
- Health and Social Care Alliance Scotland
- Institute for Government
- Institute for Public Policy Research (IPPR) Scotland
- Institute of Chartered Accountants of Scotland (ICAS)
- Institute of Directors Scotland (IoD)
- JP Morgan
- KPMG
- Law Society Scotland (LSS)
- Low Incomes Tax Reform Group (LITRG)
- Lloyds
- Oxfam Scotland
- PA Consulting
- Pinsent Masons
- Poverty and Inequality Commission
- Pricewaterhouse Cooper (PwC)
- Prosper

- Reform Scotland
- Resolution Foundation
- Revenue Scotland
- Royal Bank of Scotland
- RSM UK
- Schroders
- Shepperd and Wedderburn
- Scotland Food and Drink (SFD)
- Scottish Financial Enterprise (SFE)
- Scottish Fiscal Commission
- Scottish Land and Estates
- Scottish Property Federation
- Scottish Retail Consortium (SRC)
- Scottish Tourism Alliance (STA)
- Scottish Trades Union Congress (STUC)
- Scottish Women's Budget Group
- SLAED Executive committee
- Scottish Government Tax Advisory Group
- UK Hospitality
- University of Edinburgh Business School
- University of Dundee
- University of Stirling
- Walter Scott & Partners

Annex C - Areas of Research Interest and Research Questions

Our research questions on tax ensure that our policy and analytical priorities are aligned over the medium-term. In setting these questions, we seek to understand the current tax landscape but also to consider future challenges and opportunities.

This Annex sets out the strategic questions which we expect to inform our programme of evidence and evaluation over the next five years. We are actively seeking collaboration and input from the broader research community to ensure our policy is based on the very latest research. By collaborating on research and evidence, we can make sure our policies are well-informed and robust, but also innovative and forward-looking.

It is essential to understand the full and cumulative impacts of our tax policy decisions and therefore our first ARIs are focussed on enhancing our evidence base in this area.

We welcome the expertise from the research community to support us to take this forward.

1. **To understand the overall tax system in Scotland and its interactions with UK and broader policy systems**
   - How may the Scottish tax base change in the future, for example, due to Scottish and UK Government policy changes, economic shocks, and longer- structural changes?
   - How could the balance of taxes be optimally managed across the whole system, considering individuals, households and business?
   - What are the impacts of the interactions between the tax system and broader policy systems e.g. social security and labour market?

- How does the Scottish tax system compare to other relevant countries, and what lessons can be learned to improve tax outcomes for example on revenue, behaviour, and redistribution.
- How can the Scottish Government best support taxpayers to understand the tax system and obligations?

2. **Behaviour change and tax policy,** including distributional impacts
    - What is the scale of behavioural effects to tax policy changes across the economy, and how do these vary by tax?
    - What are the most impactful types of behavioural responses over the short and longer term e.g. labour supply, tax planning, and migration?
    - How do marginal and average tax rates impact behaviour change at a devolved and cumulative level e.g. combined with reserved tax policy?
    - How does compliance, and taxpayers' perception of compliance, affect behaviour?
    - What are the best ways to design systems and policy to minimise fraud and error in Scotland, while maintaining excellent and accessible services?

3. **Tax and economic impacts**
    - How, and to what extent, do different taxes and policy decisions impact business confidence and competitiveness of the economy?
    - What is the optimal tax mix across different taxes to maximise efficiency/reduce economic distortions?
    - What economic interventions have the biggest impact on the tax base, and revenues?
    - Based on international examples, what are the key factors to support a growing economy and tax base?
    - Based on international evidence, what is the optimal balance between tax and fiscal policy as opposed to regulation changes or other alternatives to achieve economic outcomes, e.g. economic growth/productivity?
    - What are the longer-term impacts of tax policy on the economy?

4. **The Role of Tax in the Environment**
    - How might the transition to a net zero economy affect the tax base in Scotland?
    - What are most effective tax and fiscal levers to drive behavioural change to support our environmental objectives, in particular relating to net zero?
    - Based on international evidence, what lessons can be learned about the appropriate balance of local, national and supra-national fiscal environmental measures?

5. **Local Government Taxation**
    - What lessons can we learn from other countries about the balance between local and national taxes?
    - How do other countries use property taxes and how have successful reforms to these been delivered?

Glossary

Budget: A document prepared by the government to present its anticipated tax revenues and proposed spending/expenditure for the coming financial year.

Block Grant: The grant received by the Scottish Government made up consequentials of UK expenditure, calculated by the Barnett Formula.

Block Grant Adjustment (BGA): Deductions or additions to the Scottish Government's total Block Grant to reflect devolved tax receipts or social security expenditure.

Fiscal Framework: The Fiscal Framework agreement was published alongside the Scotland Act 2016 setting out the new funding arrangements, fiscal rules and borrowing powers for the Scottish Government. Following a review between the UK and Scottish Governments, an update was agreed and published in August 2023.

Net position: The difference between tax revenue or social security expenditure applied to the Scottish Budget and its equivalent block grant adjustments (BGAs). For tax, revenues in Scotland are compared to a BGA deduction for the equivalent revenues in England and Northern Ireland. For social security, expenditure in Scotland is compared to a BGA addition for the equivalent spend in England and Wales.

Net zero: Achieving an overall balance between emissions produced and emissions taken out of the atmosphere.

Outturn data: Official published statistics about actual revenues and expenditure.

Overall net position: The combined impact of the tax net position and social security net position in a budget year.

PAYE: PAYE stands for Pay As You Earn and is HM Revenue and Customs' (HMRC) system to collect Income Tax and National Insurance from taxpayer income, such as wages from employment and pension income.

Tone date: The date at which all non-domestic properties are valued by the Assessor.

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This publication is available at **www.gov.scot**

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The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-83691-057-2 (web only)

Published by The Scottish Government, December 2024

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS1524790 (12/24)