Draft

Centre for Scottish Constitutional Studies

Alternative Financial Plan for Sovereign Scotland

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1. Summary

As a sovereign state, **Scotland** will have a unique opportunity to financially start afresh, on a clean sheet basis, with a financial structure suitable for Scotland's needs, and authorised by a written Constitution.

The CSCS proposes a financial framework whereby Scotland effectively controls its own monetary and fiscal systems.

The following CSCS proposal provides for a viable monetary system that does not incur significant public debt, coupled with an alternative fiscal system that encourages economic growth, greater equality and offers a sustainable improvement in social well being.

A monetary system whereby Scotland adopts its own currency, sets the interest rates; sets the rate of exchange; provides for effective banking regulation; authorises Constitutional Money as National Credit rather than incur National Debt; and advocates a return to full reserve banking.

Only the state National Central Bank will be authorised to create the national currency (as cash or electronic credit). When the state creates all the money there is no significant long-term public debt.

The Scottish National Central Bank will provide interest free money (national credit), for the capitalization of public infrastructure assets as required by national, regional and local government.

Domestic borrowing will be from regulated private banks – requiring them to offer competitive interest rates to attract deposits for lending. This will also provide a rational and stable platform for personal savings and pensions.

A simpler Scottish fiscal system based on only eight tax laws, to replace the complex UK fiscal system, with its 319 tax laws and 1042 tax exceptions (2010).

A fiscal system; that will lower both public and private sector administration costs; minimise tax evasion; reduce inequality; and encourage investment, competitiveness and economic growth; by leaving more money in individual and company pockets.

Under the proposed system an individual will be able to provide all taxation details on a one-page taxation form. Business taxation will also be simplified thus lowering overhead costs.

A point to consider is that if Scotland were to opt for European Union membership, the rules of the European System of Central Banks, applying to both euro-zone and non-euro zone member states, do not allow for the “sterling currency union” proposed by the SNP, i.e. two EU member states cannot share one Central Bank – *In Casu* the Bank of England.

Question: Would a Scottish government have the political will to work corporatively with the private sector to seek the way out of the global wide national debt trap?

2. The Financial Management of Sovereign Scotland

A number of the necessary financial management functions are already in place in Scotland, operating as regional headquarters (such as taxation, education, health, etc.) as part of the overall UK systems.

However, sovereign (independent) Scotland will have to set up or take full control of all of the financial machinery of government and the most vital of these are:

1. The National Treasury.
2. National Bank of Scotland (Central Bank).
3. A National Investment Bank.
4. A National Currency.
5. A National Mint.
6. Revenue Scotland.
7. An Independent Stock Exchange.
8. A National Savings Bank /Postal Service.
9. An Office of Budget Responsibility.
10. Companies House.

2.1 **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.

2.2 The National Bank of Scotland.

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

The National Bank of Scotland will be an institution of state, controlled by statute (such as Article 6 of the draft 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. The National Bank of Scotland will be the only authority for increasing the amount of money in circulation**.**

2.3. **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 draft Constitution of Scotland.

2.4. **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 and convertible only through the National Bank of Scotland. The National Bank of Scotland will also fix the foreign exchange rates for the Scots Pound in relation to the National Balance of Payments.

It is proposed that the Scots Pound be initially pegged to the Pound Sterling or the Swiss Franc. To avoid confusion with the Pound Sterling, and following a transition period, consideration should be given for the new currency to be called the ScotMerk (SM), divided into 100 pence.

2.5. A National Mint.

A private company currently provides the UK Mint functions. The functions provided include the manufacture of security paper for and security printing of a range of secure documents including Bank notes, Passports, Vouchers, Tax stamps, Traveller's cheques, Driving licences, Bank cheques, and Postage stamps.

Control of the supply of coins and notes in sovereign Scotland will come under a department of the National Bank of Scotland.

Private Scots banknotes will be withdrawn and replaced with notes and coins issued by the National Bank of Scotland.

On grounds of National Security coupled to the number of jobs involved it is proposed that the coinage, bank notes and other secure documents for Scotland be manufactured in Scotland.

2.6. Revenue Scotland.

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, post independence, there will be Tax Offices in every electoral Region and City in Scotland.

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

2.7. **A Scottish Stock Exchange**.

Sovereign Scotland will require its own commercial Stock Exchange where the shares of companies in Scotland and abroad are traded; and where investment capital can be raised.

Simply put, participants in Scotland's commercial markets need access to competitively priced finance. Over the longer term this is more likely to come from Scotland-based institutions than from the overpriced City of London outlets.

2.8. **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.

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.

2.9. **The Office of Budget Responsibility**

Sovereign Scotland will require an Office of Budget Responsibility [OBR] to provide independent scrutiny (audit) and authoritative analysis of Scotland's public finances. Operating as an official independent watchdog ensuring that government spending provides value for revenues collected.

Consideration should be given to utilising the OBR to vet major government projects prior to finalising contract details.

2.10 **Companies House**

All limited companies in Scotland will be registered at Companies House, based in Edinburgh, in accordance with the Scottish Companies Act.

The main functions of Companies House are to:

* Incorporate and dissolve limited companies;

* Examine and store company information delivered under the Companies Act and related legislation; and

* Make this information available to the public.

* Regulate the conduct of Company directors.

3. Current Government Revenue systems

From the functional point of view of the practicing Accountant and Tax Professionals there are many shortcomings in the UK tax system.

The UK tax system is complex, bureaucratic, and highly inefficient with some taxes not even cost efficient in their means of collection. For example, some departments such as the PAYE and NIC actually cost 48.3 pence in administration for every £1 they collect. Out of the 2008/2009 UK Budget of £596 Billions, at least some £120 Billions was utterly wasted and most of it could have been saved had the administration system been reformed.

A great part of the problem is that the basic system of administration has not changed for over two and a quarter centuries. The UK Government's major IT failures over the past ten years have been largely the result of modern systems having to incorporate obsolete, arcane and outdated working practices. In an Independent Scotland we will be starting with a clean sheet and can implement "Best practice" models found elsewhere in the world.

The large number of UK Tax Laws (some 319) is a major pitfall for legislators. This complicated and complex minefield of legislation is full of loopholes – enabling exploitation by tax evaders.

An effective Scottish Tax system can be achieved with some eight 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, after all expenditures in Scotland, of £3.5 billion 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.

4. Proposed Model for Government Funding

Monetary and Fiscal Policies

Both monetary and fiscal policies play a crucial role in the overall economic framework. **Without control over its monetary policy no state can be Independent.**

4.1 **Monetary Policy**

"The following is a short extract from a comprehensive policy document published separately."

Monetary Policy controls the issue of the currency, the banking system, interest and foreign exchange rates, the balance of payments, the National Debt and Regulation of financial Services.

There are three fundamental elements to a sound monetary system – three legs which support a stable platform upon which any number of secondary public functions and private enterprises can be constructed – any or all of which may survive, prosper or collapse, but without threatening the stability of the platform itself. They are:

1. The issue and integrity of the National currency and credit – a Constitutional responsibility of the State.
2. The distribution of that currency and credit among the people and the management of their distributed accounts and payments – the responsibility of the State chartered banking system.
3. Guarding the sovereignty of the currency against attack, manipulation and corruption – the responsibility of the government of the day.

With these three fundamental elements a rational, stable and sustainable monetary policy is achievable. Our money, in all its forms, will be originated and be issued by the State free of debt. It will be distributed by Chartered Banks that will keep our personal and corporate accounts as at present, but they will no longer originate or issue the National Credit.

The National Currency shall be the sole legal tender within the National borders and only the State, under the authority of the Constitution, shall have the power to coin or otherwise create money or credit denominated in the National Currency.

The Key Financial Institutions of State and the Funding of Public Capital Investment

The Constitution of a Nation is the basis of any democracy. The Constitution is the ultimate authority rather than the government of the day.

In Sovereign (Independent) Scotland, the State will, as authorised by the Constitution of Scotland, be the sole guarantor and supplier of the National Currency and Credit (Constitutional Money). The Constitution will clearly distinguish between the issue of the currency and its dissemination through the chartered banking system.

The National currency will be the Scots Pound or Scotmerk (SM), equal to 100 pence. The National Bank of Scotland will be the sole issuer of the currency both as cash or money substitutes including bank and electronic credit.

Constitutional Money will also be available through the (Scottish) National Investment Bank. Constitutional Money will be available to replace bank borrowing for national and local government investment in infrastructure projects, such as hospitals, schools, and for new roads, thus National Debt will seldom be incurred.

Private banks will no longer be permitted to create their own credit and will therefore be required to attract deposits and investment from their customers for re-lending. If and when needed, private banks may obtain supplies of the national credit from the National Bank of Scotland. Private banks and mutual will revert to full reserve banking in place of the current fractional banking system. The fractional banking system is essentially institutionalised fraud.

New money would therefore enter circulation exclusively as government payment for national and local government infrastructure and investment in wealth creating public assets.

4.3 **Revenue [Tax] Collection System**.

The Scottish Revenue Service (Revenue Scotland) will have a National Headquarters.

There will be a Revenue Office located in each of the Scottish Electoral Regions.

Each Regional Revenue office administers the collection of all tax revenues due within the Region and then remits, on a monthly basis, an agreed proportion [of say 45 %], to the Scottish Treasury through the national headquarters of the Scottish Revenue Service.

Each electoral Region will be sub-divided into local revenue areas.

There will be a revenue office in each local revenue area to administer the collection of all revenues due within the designated geographical area.

The mechanism is fairly simple. Let us say for example Aberdeen and Aberdeenshire becomes the Region. The Region is split into multiple local revenue areas - one of which is Turriff and District. Retailer A does his monthly accounts, calculates the amount of tax [revenues] due less any tax paid on purchases – much as happens at present – and remits the balance to the local Turriff office for processing. The Turriff Office processes the return and passes the return to the Regional Revenue Office in Aberdeen. The Regional Revenue Office in Aberdeen processes the agreed proportion to the Treasury through the National Headquarters. This has the virtue of maintaining a steady cash flow.

To ensure proficiency and compatibility within and across all government departments a standardised system of accountancy is proposed.

A Civil Service College will be established to ensure civil servants are taught **one common standardised system.**

4.4 Proposed Fiscal system.

A Simpler, more-efficient Fiscal (taxation) system can be achieved with only eight comprehensive Tax Laws as follows:

1. A **Flat Tax** to replace Income Tax, National Insurance Contributions and Capital Gains Tax.
2. A **Land Value Rent** to replace Council Tax and Uniform Business Rates .
3. An Annual **Wealth Tax** to replace Inheritance Tax.
4. A **Sales Tax** to replace Value Added Tax (VAT).
5. An **Employment Tax** to replace employers NIC.
6. **Excise Duties** paid on Fuels and Alcohol.
7. **Corporation Tax**.
8. **Environment Tax**.

Transition Period

In the beginning the UK Tax system will be used, during the period necessary for setting up the new Monetary and Fiscal systems and the re-structuring of the Revenue Scotland Service.

Preparation for this should start immediately after the YES result of the referendum. Although it would be technically possible to achieve a functional changeover within approximately 18 months, realistically the changeover process might take until 2020 to implement.

The bloated UK government model of administration will then be scrapped and the Scottish Revenue Service will return to the more efficient and client friendly systems in force some 40 years ago, resulting in approximately a 50% reduction in collection costs. It should be noted that an Independent Scotland cannot afford a feather-bedded Civil service on the UK lines and this bullet must be bitten early on by all concerned.

Tax Law 1

FLAT TAX replaces Income Tax, NIC and Capital Gains Tax.

The UK Tax system removes £10.11 billion from Scottish hip pockets or 7.05% of all UK Income Taxes. This tax system is crying out for reform and the proposal is to replace Income tax and other taxes with a Flat tax. It is proposed that a flat tax rate of 30% be applied on all income over the personal allowance of £12,000 pa and will also include the National Insurance Contributions which are currently set at 12% of income.

Calculations indicate that the Flat Tax will generate £18.22 billion plus some £282 million from Capital Gains Tax.

A Flat Tax (short for flat tax rate) is a tax system that applies a constant rate, levied on individual income. When allowances are applied a "flat tax" becomes a progressive tax with the special characteristic that above the deducted allowances, the rate on all further income is constant.

Under the proposed system specific allowances will be available:

- A personal allowance of £12,000 (Twelve thousand pounds) - which would take 27% of the lowest paid taxpayers out of paying tax altogether.
- A married couples allowance of £2,000 (Two thousand pounds) – which will be available to one person within a registered Civil Partner marriage.
- A child allowance of £1,500 (Fifteen hundred pounds) per child for up to a maximum of three children.
- An age allowance of £3,000 (Three thousand pounds) will be added to the personal allowance for persons of 75 (seventy-five) years and above.
- For persons reaching the state pension age the Flax Tax Rate will drop to the basic rate of 20 %.

Part or all of the personal allowance can be transferred between Civil Partner (married) couples.

On all further income there would be a flat tax rate of 30% (The 30 % rate combines a basic rate of 20 % plus a 10 % provision in place of the 12 % National Insurance Contributions for Health and social security provision).

Pension lump sum and periodic payouts at retirement will be tax free – with any income generated from these payouts being treated as income. For retired persons the basic rate of 20 % flat tax will normally apply.

CAPITAL GAINS TAXES. Capital Gains Taxes are a big drain on the profits from capital item transactions such as property and equity shares, being in effect a tax on inflation, although there is indexation for businesses that is meant to compensate for inflation.

Each year everyone who is liable to capital Gains Tax will get an annual tax-free allowance. The annual exempt allowance for 2016 will be £12,000. If your overall gains for the tax year are above this amount then the remaining gains will attract the basic Flat Tax rate of 20%.

Example: Mr Scott, age 38 years, is married with two children, and is the highest wage earner in the family. His wife works and uses her full personal allowance.

Mr Scott's total taxable PAYE income is £26,500.

Allowances £: 12,000 personal.
2,000 married couples.
3,000 two children. Totals: 17,000

£26,500 less £17,000 is £9500.

Tax payable on £9,500 @ 30% is £2850.

Capital Gains after inflation index are £16,000.

2016 annual exempt allowance is £12,000.

Capital Gains Tax payable @ 20% on £4,000 is £800.

Total tax payable is £3,650.

Comparison – UK Tax Payable 2014:

£26,500 less £9,440 is £17,060.
PAYE tax payable on £17,060 is £3,412.
NIC payable on £26,500 less £7966 is £18,534 @ 12% is £2224.

Total UK PAYE & NIC tax payable is £5636.
Capital Gains Tax payable on £16,000 less £10,900 is £5,100 @ 18% is £918.

Total UK tax payable is £6554.

Mr Scott will have £2904 more spending money with a Flat Tax system.

Q&A: Flat taxes

Q: What is a 'flat tax'?

A: A simple tax system that charges a single rate of tax regardless of income. People who earn £100,000 pay the same rate as those on £30,000. However a tax-free personal allowance of around £12,000 is being suggested for an independent Scotland.

A report from the Adam Smith Institute has suggested that a flat tax rate of 22 per cent, with a tax-free personal allowance of £12,000, would be a possible and fairer tax system in the UK.

Q: Do any countries currently have a flat tax system?

A: FORTY-TWO countries currently have the system, and others including Australia, Germany, Greece and Poland are understood to be looking at the possibility of switching to it. The Flat Tax is highly efficient to administer being a simple percentage of taxable income and has been adopted by forty-two nations such as:

Abkhazia	10%	Albania	10%	Andorra	10%	Anguilla	3%
Bulgaria	10%	East Timor	10%	Estonia	21%	Georgia	20%
Greenland	37 to 46% (depending on the municipality)					Ukraine	15%
Grenada	30%	Guernsey	20%	Hungary	16%	Jamaica	25%
Jersey	20%	Kazakhstan	10%	Kyrgyzstan	10%	Latvia	25%
Lithuania	15%	Madagascar	22%	Romania	16%	Russia	13%
Serbia	12%	Seychelles	15%	Singapore	20%	Tuvalu	30%

Singapore with a population of 5.7 million, similar to Scotland's is the economic powerhouse of SE Asia.

Q: So what are the benefits of a flat-tax?

A: Simplicity: Taxpayers and collectors only have to use one rate of tax in their calculations.

Middle-incomers would pay the same rate as high rollers but a big slice of their income would be tax-free. Therefore it could be argued that the effect of the tax would be progressive not regressive.

Q: Would it help the poor?

A: Currently, the poorest fifth of households pay the greater tax burden. According to the Adam Smith report the poorest third of families pay 9 per cent of their income in income tax. Under a flat-tax they would pay nothing. Families of below-average income pay 12 per cent of their income in tax - under the new system the report claims it would be halved.

The report also argues that the flat-tax would remove the disincentive to work for those on benefits, because they would not be taxed for the first £12,000 earned.

Q: So what do the critics say?

A: Critics of the system suggest tax cheats would simply divert their attention from fabricating their expenses to hiding their income under a flat-tax regime.

The system would remove most of the specific tax deductions that try to give allowances for specific circumstances or incentives for particular activities (like saving for a pension). Therefore it is arguably less responsive to the needs of individual taxpayers.

The report by the Adam Smith Institute admits that a flat-tax system would lead to an initial drop in tax revenue (and therefore money available for public sector spending). It believes funds would be recovered by less people dodging taxes and because there would be a greater incentive to go out to work.

Tax Law 2.

LAND VALUE Rent replaces Business Rates and Council Tax

The present local tax regime suppresses economic activity and encourages bubbles. Land value rent could yield more while costing less.

Business Rates are a regressive tax on small and medium sized profitable businesses. They are abnormally high in Scotland, because the mostly Labour Local Authorities have never implemented the Standard Business Rate Laws brought in by the last UK Conservative government in 1989.

Council Taxes also contribute to the costs of Council services in Scotland.

Both Business rates and Council Tax are regressive and unfair taxes and will be replaced by the much fairer Land Value Rent (LVR).

Because LVR is a levy on the ground rent value of land the present anomaly of empty property attracting no Council tax is done away with and the Local Authorities can expect to raise LVR of £7.441 billion or 12.93%. In fact LVR will generate far more than this from big estates and banks of development land held by speculators and property developers.

The Land Value Rent rate will be levied at 3.5 pence per £1 of land value.

Land value rent is a levy collected by government on the **value of land alone**. In economic terms, the value of property is made up of two distinct factors of production, namely, land (the natural resource) and capital (man-made improvements to it such as buildings).

Land and property valuations are carried out by the Valuation Office Agency an executive agency of the Scottish Revenue Service.

"See Appendix A" for details.

Tax law 3.

WEALTH TAX replaces INHERITANCE TAX

It is the popular view that Inheritance tax is for the seriously wealthy only. Not so, it applies to many people who have worked hard to build up a small business, only to find after death, the heirs have to find that the Government goes away with a sizeable chunk of the deceased's wealth. (Micro and small businesses are core of the Scottish economy)

Inheritance Taxes at £932 million or 1.85% are a really destructive element in business growth and in fact, quite often mean that viable businesses sometimes have to cease trading in order to pay the punitive rates of tax that is currently 40% over the nil rate band.

Inheritance tax will be replaced by an annual wealth tax in three bands:

a. £0 up to £750,000 = 0%.

b. £750001 up to £2,000,000 = 1.5%,

c. Over £2,000,001 = 2%.

This will leave capital sums intact and allow small businesses to plan ahead for the long-term future without the bogey of Inheritance tax blighting plans for investment in the future.

Wealth taxes can expect to raise £1.756 billion or 3.05%.

Although the more "progressive types" will scream that the rich are being let off the hook etc. – this is not so. Using the "Salami slicing" method so beloved of the EU and big corporations the tax take is actually increased more or less painlessly for the payer. For example an Estate worth £20,000,000 would over a 50 year period pay £20,000,000 in wealth tax which is a lot more than the £8,000,000 raised by Inheritance taxes on a one off basis which as previously mentioned can do immense harm to viable businesses.

Tax Law 4.

SALES TAXES replaces VALUE ADDED TAX

A national **Sales Tax (ST)** will be placed on the sale or lease of goods and services in Scotland to replace the European Union imposed Value Added Tax (VAT). The tax may be imposed on sales to consumers and to businesses.

We propose that the national **"Sales Tax**" has four bands:

- A **Zero rate** on basic foodstuffs and essentials, household heating, baby products, children's clothing, medicines and medical appliances such as spectacles.

- A **10% Rate** on just about everything else consumed within the borders of Scotland except for luxury goods which will be taxed at -

- A **20% Rate** on Luxury items such as expensive cars over £30,000, jewelry, furs, non-utility furniture and antiques.

- An **Exempt rate** for financial products, medical services, education services and land transactions.

Altogether some £5.278 billion in Sales Tax would have been raised in 2010/11 in a hypothetical Independent Scotland instead of the £7.488 billion of VAT actually raised as part of the UK. However it should be noted that sales and exports to our southern neighbors would be exempt from Sales Tax and the figures reflect this factor in the calculations thus explaining the gap.

A **LOCAL SALES TAX (LOST)** is a special purpose tax levied at Regional level that may be implemented within the Regions for a selective purpose to help finance their budgets. The rate will set by the Regional authorities at a maximum of 1 %, and remitted by the retailer or business on a monthly return. The Sales tax could thus be increased to 11 % across the Region.

"See Appendix B" for more details.

Tax Law 5.

EMPLOYMENT TAX ON EMPLOYERS

National Insurance Contributions are effectively a Tax and raised £7.014 billion or 8.04%. The Employee National Insurance contributions will be collected as part of the flat tax contributions to the national wealth.

Employment tax to be levied at a rate of 8% will replace the current Employer's National Insurance Contributions. That is a 4% reduction from the UK NIC rate of 12%. This will generate an inflow of some £2.551 billion.

There will however be a need for a weekly contribution from persons who are not working or who may not have enough contributions to qualify them for their old age pension. These weekly contributions will be ring fenced in a [personal] trust fund for growth.

Such persons would include:

- Part-time workers.
- Persons with insufficient contributions to qualify for an old age pension.
- Persons not contributing through earned income.

Tax Law 6.

HYDROCARBON OILS / **FUEL DUTY**

The Scottish Hydrocarbon Oils contribution to the UK in 2010/11 was £4,122 billion or 16.01% of the total collected. This is more properly described as an Excise duty than a tax. Excise Duty is payable when the Fuels leave the Refinery gate and the high percentage reflects the dominant position of the Grangemouth Refinery in the UK.

There are also large imports of refined fuels from places like Rotterdam in addition from UK refineries further south. Duty is payable when the fuels are offloaded into the storage tanks in the many outlying ports such as Stornaway, Lerwick, Kirkwall et al. The Duty is then charged to the end user when it is uplifted. It is proposed that Excise Duty be renamed "**Fuel Duty**." The rate of duty will be the same for all fuels, removing the artificial differential rates on Petrol, Diesel and LPG that exist at present.

Scotland would raise £1.877 Billions, some £2.425 billion less than the UK 2010/11Figure. There are two main reasons for this:

1. Exports of fuels to the rump UK will be exempt from Duty and

2. **Fuel Duty will be levied at a rate of 39 pence per litre** – instead of 50.5 pence per Litre. The Regions will be responsible for collecting Fuel Duty and will also have the ability to vary the rate by an extra 3p per Litre in order to help less advantaged communities with infrastructure projects and subsidised public transport. **It should also be noted that Vehicle excise duty (Road Tax) will be replaced by a 5p per litre surcharge on all fuel sales for road vehicles.** (More on this subject later.)

One major difference will be that the Highlands and Islands will receive targeted rebates of Fuel duty. For example Domestic flights between the mainland and the islands will be duty free instead of the full excise duty paid as at present, as will be essential lifeline ferry services. This will at a stroke reduce airfares by some 65% and about 45% in the case of the ferries. This will remove the anomaly that it is cheaper to fly to Turkey from Glasgow than it is from Glasgow to Stornoway.

Fishermen and Farmers will receive an 80% (32p per Litre) rebate on Fuel duty reclaimed every three months based on receipted fuel invoices. Road hauliers will receive a 50% (19.5 pence per Litre) rebate to help them to remain competitive in view of the long distances they have to travel. This would be impossible were Scotland to remain in the EU as it would be classed as a subsidy.

The same rate of 50% will also apply to public transport and the Scottish Railways. Therefore the cost of public transport to the traveler will come down thus making the car as a mode of transport less desirable because of cost. The Rosyth Ferry to the continent if based in Scotland, would be duty free.

Because fuel is more expensive in the islands – both Eilean nan Siar and the Northern Isles – it is proposed that fuel duty is reduced by a further 10 pence per litre to maintain the same relative price at the pumps as on the mainland.

VEHICLE EXCISE DUTIES – Tax Law 6.

Vehicle Excise Duty raised £401 million or 0.79% slightly below the UK average reflecting the duty paid on new vehicles and Road Fund Duty. The operation of the collection is not efficient and is wide open to fraud such as counterfeit tax discs. It is proposed to scrap this tax and excise duty altogether and replace it with a charge of 5pence on top of the Fuel duty of 39 pence per litre. This means that any vehicle whether or not based in Scotland will be paying for the upkeep of the roads. This tax will be collected by the Regions and could be ring-fenced for building and upkeep of the roads network. A side effect will be that new vehicles will be far cheaper to purchase.

TOBACCO DUTY – Tax Law 6.

Tobacco Duty raised by Scotland contributed £982 million or 12.05% to the UK Exchequer. Certainly this amount will be greatly reduced due to exports to the rump UK, and EU etc. being exempt for this duty. Therefore an Independent Scotland could expect to raise some £590 million. It would be logical to maintain this duty on a par with the rate set in London to avoid cross border trafficking that occurs presently across the English channel between France and England.

BETTING AND GAMING DUTY – Tax Law 6.

The UK total is £1.391 billion of which Scotland's share is £ 134 million or 0.27% slightly over the population average thus revealing that Scots in general tend to gamble more than our southern neighbours.

An Independent Scotland should have its own National Lottery to provide for good causes. It would be wise to maintain parity with the rump UK level of Betting Levy Taxation.

Betting and Gaming Duty will be levied at a rate of two percent.

ALCOHOL DUTIES – Tax Law 6.

The UK HM Revenue and Customs list the alcohol duties raised in 2010/11 under four separate headings:

1. Spirits £2.256 billion of which Scotland's share is £839 million or 37.29%. This reflects the high output of Whisky and other spirituous distilling in Scotland. An Independent Scotland would generate less revenue, some £464 million with the assumption that the level of Alcohol duty remains on a par with the UK.

2. Beer £3.072 billion of which Scotland's share is £408 million or 13.28% that again reflects the fact that Scotland produces more than her population percentage would suggest. The Scottish Treasury would expect to receive some £307 million in a full year. Again assuming that Alcohol Duty is on a par with the UK.

3. Wine and made wine £2.385 billion of which Scotland's share is £196 million or 8.22% may well be overstated even though large quantities of wine are imported into Scottish ports. Scotland only produces a very small amount of wine that is statistically insignificant. Most of the wine consumed is imported.

4. Cider and Perry £200 million of which Scotland's share is £15 million or 7.5% most of which is imported from the Rest of the UK but there is some from the EU.

This is a complex and bureaucratic method of accounting for this duty.

Therefore all Alcohol Duties will be levied at 45 pence per unit of alcohol.

This would raise £1.458 billion or 2.89%.

CAPITAL TRANSACTION TAX – Tax Law 6.

Capital Transaction Tax better known as Stamp Duties account for £357 million or 0.74%.

This tax is levied on legal documents relating to the transfer of ownership of company shares, land, property and other transactions.

"Stamp duty was introduced in 1694 (and was literally a fee payable to the crown for placing its stamp on legal documents), and was first graduated according to value in 1808. Over time, we've come to realise how stupid that is, but no one actually had the guts to do anything about it until this tax was devolved to the Scottish Government who simplified the rates."

Currently, Stamp Duties paid by the Scottish Financial sector on Bonds, shares and other transactions are credited to the London account because Edinburgh, one of Europe's foremost Financial Centre's does not have a Stock Exchange. Therefore the Scottish Stamp Duties are understated. The stamping of stocks and bonds is vital to the trade in them to prevent fraud. Stocks and shares cannot be traded without the Government stamp showing that duty has been paid.

One of the first pieces of legislation required by Sovereign Scotland will be for the creation of a Stock Exchange in Scotland.

Stamp Duty Rate on share transfers will be levied at:

- Zero percent rate on share transfers valued at £1000 or less.
- A rate of 0.5 percent on share transfers valued over £1000.

"The Land and Buildings Transaction Tax (Scotland) Act 2013, passed by the Scottish Parliament, received royal assent on 31st July 2013" and will come into effect in April 2015."

Stamp Duty rate on the purchase price of land and properties will be levied at:

- Zero percent on values of £200,000 or less.
- Five (5) percent on values over £200,000.

Examples:

John Campbell buys a property for £300,000. He pays £5000 in Stamp duty.

- £200,000 at a rate of zero percent is £00.
- £100,000 at a rate of 5 percent is £5000.

James Cochran buys a property for £2 million. He pays £90,000 in Stamp duty.

- £200,000 at a rate of zero percent is £00.
- £1,800,000 at a rate of 5 percent is £90,000.

Stamp duty is to be paid within 30 days of date of completion of transfer of ownership of property (When all contracts are signed and dated).

The stamp duty rates proposed will reduce start up costs for new companies in sovereign Scotland.

Custom Import Duties – Tax Law 6

Customs Import duties are expected to raise some £116 million.

Tax Law 7

CORPORATION TAXES

Non North Sea Company Corporation Taxes £3.062 billion over and above £3.214 billion is credited to the North Sea Oil account.

To give Scottish based Companies a competitive edge the following is proposed;

- A rate of 10 pence in the pound for companies with taxable profits of less than £one million per year.
- A rate of 10 pence in the pound on the first £one million of taxable profits per year for all companies.
- A rate of 20 pence in the pound for all taxable profits of £one million and over per year.
- A tax deferment period of two (2) years to apply to start up (new) companies to assist during the crucial start up period.

Tax Law 8.

CLIMATE CHANGE LEVY replaced with **ENVIRONMENT TAX**

Climate Change Levy is another nice little earner for the Chancellor. This supposedly 'Green' tax is nothing more than another devious ploy to raise revenue to plug the ever-growing hole in the National Accounts. This tax will be incorporated into the Environment Tax which will be ring fenced to invest into environmentally friendly projects such as increased recycling, composting, (commercially highly profitable) clearing up toxic waste, anaerobic digester systems and investment into high temperature incinerators operated by either Local Authorities or commercial concerns – that can be linked to heating for homes and market garden greenhouses, along with electricity generation from waste which otherwise would go to landfill. An Independent Scotland should be aiming at over 95% of waste being recycled or incinerated. All businesses will be required to install the most environmentally friendly effluent and/or exhaust filtration methods.

The Environment Tax rate will be levied at a rate of 5 %.

Those businesses that become more energy efficient, recycle their waste products and are generally more environmentally friendly will pay less tax than a business that produces a larger carbon footprint.

All businesses, farms, factories, public buildings will be assessed every two years and the rate of tax set for the coming years.

LANDFILL TAX replaced with **ENVIRONMENT TAX** – Tax Law 8.

Another EU imposed tax for supposedly environmental reasons. This will be replaced by the more honest Environment Tax (at a rate of 5 %) whereby pollution is taxed and the proceeds ring fenced to invest in more environmentally efficient methods of waste disposal such as recycling and high-temperature plasma incineration instead of landfill. Rate?

It is proposed that the following three types of Taxes be terminated for the reasons stated.

CUSTOMS DUTIES & AGRICULTURAL LEVIES

An Independent Scotland should aspire to a Free Trade Area that would result in reduced Customs Duties initially until the level of trade increases and thus achieve greater Customs revenues. The present level of EU imposed Agricultural levies is a tax on exports and unfairly penalises Farmers. Therefore The Agricultural levy should be axed completely as an Independent Scotland would be out with the EU Common Agricultural Policy (CAP). If Scotland had been Independent in 2010/11 then this heading would have brought in £116 million instead of £198 million.

AIR PASSENGER DUTY

This EU Imposed tax for supposedly environmental purposes, in reality is an excuse for Governments to increase their tax revenues at the passengers' expense. It is also a tax which costs almost as much to collect if not more, and administer as it raises and an Independent Scotland should do away with this tax altogether.

There are currently 4 bands from £10 on very short haul flights up to £170 on long haul flights that is quite punitive and also a deterrent to airline growth. There is a strong possibility that Scottish Airports would attract and generate extra trade from south of the border especially on international routes when this tax is abolished.

INSURANCE PREMIUM TAX

Insurance premium Tax is a nice little earner for the UK Chancellor. It is a regressive tax that hits the Individual as well as business in the pocket. It is also a nightmare to administer by businesses and not really cost effect to administer. It would greatly benefit the strong Scottish Financial sector to abolish this tax altogether and it would give the Scottish Insurance companies the competitive edge in the Insurance market thus increasing profitability and raising extra Corporation taxes on profits to partially or fully offset the loss of IPT.

4. Appendices:

Appendix A- Tax Law 2

It is proposed that Council Tax and Uniform Business Rates be abolished and replaced by a Land Value Rent levied on the unimproved value of land only (excluding improvements such as buildings, drainage and services).

All land in Scotland will be subject to Land Value Rent.

The Land Value Rent rate will be set at 3.5 pence per £1 of land value, or as authorised by the national budget.

A Scottish Land Use Database will be developed to identify the existing use of all land in Scotland. The programme of Land Registration will be accelerated to be complete by 2015.

The implementation of Land Value Rent will be led by local government, which will hold the Land Use database and continue to be responsible as the valuation authority for the appointment of assessors to value land.

Land values should be determined according to the best available market data and updated on a regular basis (at least every 2 years).

In the event of disputes over land values, an appeals process will be set up through local Land Tribunals.

Public open space, public transport infrastructure and open water will be exempt from LVR.

The current rebates on properties under Council Tax [second homes, empty properties etc.] would be abolished and would not apply under LVR.

Notes:

Potential: All land has a monetary value that can be expressed as a capital value or a rental value. Land Value Rent (LVR) is a levy or tax on that value. Importantly, it is only the land that is valued, taking account of any planning permission or zoning associated with it, and not any improvements made to the site such as buildings. For a domestic property, the house price includes both values, and the tax would not apply to the building, only to the land it stands on.

There are several practical issues involved in the implementation of a land value tax. Most notably, it needs to be:

- Calculated fairly and accurately,
- High enough to raise sufficient revenue without causing land abandonment, and
- Billed to the correct person or business entity.

In theory, levying a land value rent is straightforward, requiring only a valuation of the land and a register of the identities of the landholders. There is no need for the taxpayers to deal with complicated forms or to give up personal information as with an income tax. Because land cannot be hidden, removed to a tax haven or concealed in an electronic data system,[18] the tax cannot be evaded.

Valuation: Valuers in Scotland have no difficulty in general in valuing land and property for a range of purposes. The only difference between current valuations carried out for capital gains tax, business rates or compensation appeals is that they are normally of the whole property (i.e. land and property together).

All that needs to be done is to adopt the familiar Residual method based upon the following process: Valuation of the property (market price of the land and buildings) less depreciated replacement costs of the buildings equals land value.

A number of land uses would pay for the first time (e.g. agriculture and forestry). Industrial and business & retail would, by contrast pay some 40 % less than they currently pay.

The value of the land is a function of its location and the use to which the land may be put according to planning law. In practice, the valuation of land is a professional judgement based upon a range of information including the market value of the land and buildings in a neighbourhood, assessments of reconstruction costs and existing planning permissions. The Valuation Office Agency (VOA) regularly publishes baseline residential land values. In percentage terms the value of land can vary from between 30% and 80% of the total purchase price of a property depending on locality.

One other factor needs to be considered in assessing land values and that is the permitted use of the land. Sites with planning consent for residential housing will be worth much more than sites used for agriculture. Thus on a local scale, account needs to be taken of the highest and best use (HABU) of a site, that being the use upon which valuation should be based.

A **land value rent** (or **site valuation rent**) is a levy on the unimproved value of land only. It is an *ad valorem* tax on land that disregards the value of buildings, personal property and other improvements. A land value rent (**LVR**) is different from other property taxes, which are taxes on the whole value of real estate: the combination of land, buildings, and improvements to the site.

Land value rent systems are currently implemented throughout Denmark,[3] Estonia, Russia, Singapore, and Taiwan. The tax has been applied in sub-regions of Australia (New South Wales), China (Hong Kong), Mexico (Mexicali), and the United States (Pennsylvania).

Appendix B – Tax Law 4

VAT is a European Union (EU) imposed tax that replaced the original UK purchase tax in 1973. It is cost efficient to collect (5 pence in the £1). This is largely due to the fact that the Business sector has to bear the brunt of collecting and accounting for the tax. Unfortunately VAT is wide open to fraud like many other ill thought out EU inspired initiatives and taxes.

The lower paid pay a larger proportion of their income in VAT than does the higher paid. For example take two people who regularly commute to Aberdeen, drive the same model of car and pay the same amount in fuel. Let us say the fuel cost is £6,000 per annum of which the VAT element is £894. Person A is a Nurse on £17,000 pa and person B is a middle manager for an Oil service company on £42,000 pa. Person A pays 5% of their income in VAT. Person B pays just 2.1% of his income in VAT.

The **Sales Tax** that will replace VAT will have far more rigorous safeguards put in place to prevent its exploitation by gangs of criminals in scams such as “Carousel fraud” (safeguard details under review).

Fraud is estimated to cost the UK exchequer some £3 to £5 Billions per annum as a bare minimum. VAT is also a regressive tax that hits the lower paid much harder than the better paid and is in need of reform that is unlikely as long as Scotland is part of the UK and the EU. It should also be noted that VAT goes to the UK treasury while Sales tax will remain within Scotland.

LOCAL OPTION SALES TAX (LOST)

*Example: In the United States, a **local option sales tax** (often abbreviated LOST) is a special-purpose tax implemented and levied at the city or county level. A local option sales tax is often used as a means of raising funds for specific local or area projects, such as improving area streets and roads, or refurbishing a community's downtown area.*

LOSTs are always appended onto a state's base sales tax rate, most commonly at a rate of 1%. For example, in Iowa, the base sales tax rate is 5% state wide, or five cents per dollar. If a city or county in Iowa were to implement a local option sales tax, this would result in a 6% sales tax rate, or six cents per dollar. Since a LOST is implemented at city or county level, they apply only within the city or county in which it was implemented.

A LOST most often (if not always) requires a passing vote (referendum) by the general public before they can be implemented. Once implemented, a LOST is often levied for only temporary time periods, such as five years. As the expiration date approaches, another vote may be presented to the public, giving the options of either extending the LOST (for any other projects), or letting the LOST expire and discontinue.

The seller collects Sales Tax at the time of the sale and the seller then files returns and submits the tax to the revenue office.

Section 6: Proposed Budget Tables under review.

The following budgets figures are currently under review to reflect the growth in the Scottish economy that has occurred during the past four years.

The budget figures shown were calculated some four years ago and since then there has been significant growth across much of Scotland's income generating industries.

Provisional Budget proposals for an Independent Scotland		Bugetted Revenues Millions (£)	Percent
Local Sales Tax to replace VAT.	£	5,278	9.48%
Fuel Duty at 39p per unit	£	1,877	3.37%
Road Fund duty incorporated into Fuel Duty at 5rp per litre	£	401	0.72%
Alcohol uties levied at 45p per unit of alcohol	£	1,458	2.62%
Betting Levy Tax	£	134	0.24%
Customs Import Duties	£	116	0.21%
Air Passenger duty EU tax not applicable to Scotland	£	0	0.00%
Insurance premium tax EU tax not applicable to Scotland	£	0	0.00%
Landfill Levy	£	75	0.13%
Climate change levy	£	73	0.13%
Aggregates Levy	£	0	0.00%
SUB TOTAL	**£**	**9,412**	16.91%
Flat Tax at 30% on incomes over £12,000 pa.	£	18,220	32.74%
Employers employment tax of 8%	£	2,551	4.58%
Corporation taxes at 20%	£	5,219	9.38%
Capital gains flat tax rates allowing for indexation	£	282	0.51%
Inheritance/Wealth Tax 1 to 2% on assets more than £750k	£	1,756	3.16%
Stamp Duties/Capital transaction tax reformed in scope	£	357	0.64%
TOTAL Inland Revenue	**£**	**28,385**	51.00%
Land Rental Value Tax (LVT) Replaces Rates and Council Tax	£	7,441	13.37%
Other taxes and royalties	£	296	0.53%
Crown estates now known as Scottish estates	£	2,676	4.81%
Interest and dividends	£	552	0.99%
other revenues	£	120	0.22%
TOTAL Other taxation	**£**	**11,085**	19.92%
Corporation Taxes @ 20% North Sea Sector	£	2,712	4.87%
Petroleum revenue duty	£	1,880	3.38%
supplementary petroleum revenue duty	£	1,500	2.70%
Oil licwences and royalties	£	60	0.11%
Crown Estates Wayleave rights	£	620	1.11%
TOTAL North Sea Oil revenues	**£**	**6,772**	12.17%
Total revenues generated in an Independnet Scotland	**£**	**55,654**	100.00%

EXPENDITURES Provisional Budget proposals for an Independent Scotland		Bugetted Expenditures Millions (£)	Percentage of Revenue
Public Adminstration Expenditures	£	1,323	2.38%
International Services	£	520	0.93%
Public Sector Debt interest including agreed share of UK Deficit	£	2,619	4.71%
			0.00%
Conventional forces defence spending excluding Capital expenditure	£	1,920	3.45%
			0.00%
Public order and safety. Policing, Courts and prisons	£	1,920	3.45%
Enterprise and economic development	£	1,130	2.03%
Science and Technology	£	440	0.79%
Employment policies	£	353	0.63%
Agriculture Fisheries and Forestry	£	785	1.41%
Transport	£	2,330	4.19%
Environmental protection	£	970	1.74%
Housing and Community Amenities	£	1,414	2.54%
Health NHS Scotland	£	10,520	18.90%
Recreation Culture and Religion	£	1,260	2.26%
			0.00%
Education	£	7,540	13.55%
Training	£	240	0.43%
Social Security and protection	£	15,400	27.67%
Total Expenditures	**£**	**50,684**	91.07%
Total Revenues brought down	**£**	**55,654**	100.00%
Balance of revenues:	**£**	**4,970**	8.93%
Futures Fund	**£**	**3,500**	6.29%
Emergency Contingencies Fund	**£**	**1,470**	2.64%

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