Yousaf's plans for wealth tax 'won't fix spending problems'

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Humza Yousaf's plans for a wealth tax and to target higher earners even further will do little to solve the Scottish government's immediate spending challenges, economists and academics have said.

MSPs on Holyrood's finance and public administration committee have been told the UK's tax system is a "total mess" and interventions in devolved taxation by the Scottish parliament have made things worse.

The Scottish government is forecast to have a spending gap of about £1 billion in the 2024-25 financial year, which means it will need to raise additional revenue or cut services.

The first minister has raised the prospect of a 1 per cent wealth tax on assets, which could include pensions and property, as well as introducing an income tax band aimed at higher earners.

The Institute for Public Policy Research Scotland think tank estimated a 45 per cent rate on earnings between £58,285 and £125,140 could raise an additional £257 million annually. But João Sousa, the deputy director of the Fraser of Allander Institute at the University of Strathclyde, told the committee that new taxes would be unlikely to fill the looming spending gap.

He said: "Introducing new taxes is not only challenging in terms of the devolution framework but the process of introducing a new tax is actually quite long. It requires time spent designing a tax, consultation and actually preparing the implementation and collection mechanisms. It is highly unlikely all of that would be done by the time the new financial year rolls around."

David Heald, emeritus professor at the Adam Smith Business School at the University of Glasgow, said he was an advocate for devolved taxation but said: "The UK tax system is a total mess and the Scottish parliament has made the tax system in Scotland worse."

David Bell, emeritus professor at the University of Stirling, added: "The UK system is a mess and Scotland has added to that mess. There is further potential in confusing things insofar as the introduction of a wealth tax would, I think, take a lot of time and require cooperation with the UK government.

"A wealth tax is not a simple tax. In most countries there is a lot of avoidance. The only place it seems to work is Switzerland but in other places it is not regarded as a potential significant source of revenue."

Bell also warned that the perception of Scotland as a place of high taxation could act as a barrier to economic growth by deterring investment and making it more difficult to attract and retain skilled workers.

Heald suggested that taxing socalled higher earners more was likely to be reductive because the 42 per cent higher earning threshold of £43,663 did not mean people were "rich".

Had he been advising the [Scottish] finance minister "I would not have regarded putting up the higher rate and additional rate as something to do. If you want to get more income tax in you have to hit the basic rate. There is not much more scope [for higher earners]".

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