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Devolution of tax powers within the UK

What tax powers are moving away from Westminster?

It may feel like we're living in increasingly uncertain times ever since the UK voted to leave the EU.

That centred on most of the electorate's desire to obtain more devolved powers from Brussels, but in reality devolution has been going on a lot closer to home for decades.

Back in September 1997, Scotland and Wales held referendums to transfer certain powers from central government to the regions, while Northern Ireland followed suit a year later.

While these devolution deals saw the creation of the Scottish parliament, the national assembly for Wales and the Northern Ireland assembly, many of the powers to raise certain taxes have either recently come into force or are due to take effect in 2018.

Scotland

Despite the Scottish electorate rejecting full independence from the UK in 2014, the debate prior to the referendum was dominated by what powers Scotland should be able to decide for itself.

Indeed, this opened a can of worms around the rest of the UK and resulted in the government bringing forward measures to devolve more powers away from Westminster.

Income tax

Unlike any other nation within the UK, residents of Scotland have been paying their own rate of income tax since 2016. This is known as the 'Scottish rate of income tax'.

Scottish parliament chose to retain most of the income tax rates and bands adopted by Westminster for 2017/18, with the basic rate and additional rate thresholds remaining unchanged.

The only alteration for 2017/18 was to the higher rate band, which is set at £43,000 for those entitled to the personal allowance in Scotland, compared to £45,000 in the rest of the UK.

However, as of 6 April 2018, most taxpayers in Scotland will fall into one of five income tax bands following Holyrood's decision to introduce two new income tax bands.

A new starter Scottish rate of income tax will see a 19p tax on earnings between the personal allowance and £13,850, while earnings between £24,000 and £43,430 will fall into a new intermediate rate of income tax which is 21%.

Scottish bands	Taxable income 2018/19	Rate	Taxable income 2017/18	Rate
Personal allowance	Up to £11,850	0%	Up to £11,500	0%
Starter rate	£11,851* to £13,850	19%	n/a	
Basic rate	£13,851 to £24,000	20%	£11,501 to £43,000	20%
Intermediate rate	£24,001 to £43,430	21%	n/a	
Higher rate	£43,431 to £150,000**	41%	£43,001 to £150,000	40%
Top rate	Above £150,000**	46%	Above £150,000	45%

*Assumes individuals are in receipt of the personal allowance.

**Those earning more than £100,000 will see their personal allowance reduced by £1 for every £2 earned over £100,000.

Land and buildings transaction tax

Land and buildings transaction tax (LBTT) replaced stamp duty in Scotland on 1 April 2015.

Exactly a year later, the LBTT additional dwellings supplement came into force which is an extra 3% charge on purchases of second homes above £40,000.

The Scottish government has proposed that first-time buyers will be able to buy a property for £175,000 without being liable for LBTT. This is due to come into effect during the next tax year.

Other existing LBTT thresholds remain unchanged for 2018/19.

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Northern Ireland

Stormont finds itself in a political position of prominence within the UK, after the Democratic Unionist Party (DUP) agreed to back the Conservative's minority government.

As part of the formal agreement, the DUP demanded public investment in Northern Ireland to match that in Wales and Scotland but it had already agreed to receive certain devolved tax powers.

Corporation tax

Back in March 2015, Westminster approved the Corporation Tax (Northern Ireland) Act to devolve corporation tax rate-setting powers to the Northern Ireland assembly.

In a bid to attract more businesses to base themselves in Northern Ireland and subsequently boost its employment prospects, the assembly originally intended to reduce the UK corporation tax rate of 19% to 12.5% from April 2018.

However, this date has been pushed back after Westminster said in Autumn Budget 2017 that the Northern Ireland rate of corporation tax will only commence once the executive has "demonstrated its finances are on a sustainable footing".

Subject to this, the UK government will consider an announcement in 2018/19 and speculation suggests the introduction of the Northern Ireland rate could be delayed until 2020.

Until a date is confirmed, Northern Ireland will be bound by the UK rates of corporation tax.

These are set at 19% for both 2017/18 and 2018/19, although the Conservative manifesto contains the commitment to reduce the UK rate to 17% by 2020.

Wilfred Mitchell, chairman of the Federation of Small Businesses in Northern Ireland, said:

"Business remains united in the view that a reduced rate of corporation tax should be introduced for Northern Ireland as soon as possible.

"The current absence of an executive and assembly is hampering this, along with many other areas of economic activity in Northern Ireland, which is a very unwelcome cause of delay."

Wales

Wales is in line to collect its first national tax in almost 800 years from April 2018 when it replaces stamp duty land tax with its own devolved land transaction tax (LTT).

Land transaction tax

The current tax-free stamp duty threshold on most residential transactions stands at £125,000 until the end of 2017/18.

LTT will replace stamp duty in Wales from 1 April 2018, with the tax-free threshold originally being £150,000. An extra 3% is charged on the purchase of all additional residential properties in Wales.

That decision was made before chancellor Philip Hammond abolished stamp duty for first-time buyers on properties worth up to £300,000 in Autumn Budget 2017.

This meant first-time buyers in Wales can only take advantage of the Westminster policy for around three months before the devolved LTT takes effect.

However, in response to Hammond's Budget measure, the Welsh Assembly's finance secretary Mark Drakeford raised the LTT threshold to £180,000 for all homebuyers – not just first-time buyers.

From 1 April 2018, homebuyers in Wales will only pay various rates of LTT if they fall into the following bands:

- £180,00 to £250,000 – 3.5%
- £250,001 to £400,000 – 5%
- £400,001 to £750,000 – 7.5%
- £750,001 to £1 million – 10%
- more than £1 million – 12.5%.

Income tax

Wales will assume responsibility for partially setting its own income tax rates from April 2019 as part of a devolution deal with the UK treasury, which was announced in July 2017.

The powers allow assembly ministers to cut or raise income tax rates by 10p in each band – and will no longer require a referendum to introduce.

However, the Senedd will not raise income tax rates in Wales for the remainder of the current assembly, which is due to continue until May 2021.

Until April 2019, income tax thresholds in Wales will continue to adopt the following UK rates and bands:

Band	Taxable income 2018/19	Taxable income 2017/18	Tax rate
Personal allowance	£11,850	£11,500	0%
Basic rate	£11,851 to £46,350	£11,501 to £45,000	20%
Higher rate	£46,351 to £150,000	£45,001 to £150,000	40%
Additional rate	Above £150,000	Above £150,000	45%

England

The devolved administrations in Scotland and Wales received extra powers, and a number of 'city regions' have been granted extra control over some local spending and decisions.

While more powers will be devolved to these city regions in the years ahead, certain tax powers are not currently among them.

Devolution deals within England usually surround issues like decision-making and infrastructure rather than tax collection itself, which will remain Westminster's responsibility.

We're happy to talk through any tax issue.