

It had to happen: the campaign to turn Scotland into a ...

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It was, I suppose, inevitable that the SNP's recent victory in the Scottish elections would set the tax haven enthusiast free to argue that Scotland should join that pariah's club, urged on by Alex Salmond's call for Scotland to have the right to set its own corporation tax rate. And that has duly happened. As the Scotsman [reports this morning](#):

Famously, the three islands [that form the Crown Dependencies] have used that autonomy to market themselves as offshore tax havens for the rich, turning them into some of the wealthiest places on the planet.

Their example is now coming under scrutiny, as the new SNP Government in Edinburgh presses ahead with its plans for an independence referendum — which has turned growing attention on to what the Nationalists these days mean by independence. A study by Professor James Mitchell of Strathclyde University proposed that the SNP is now proposing a form of "looser union" with the UK, where it would attain sovereignty but remain part of a "confederation" of British nations. Such a nation would control matters in its own borders, but would buy in services from the rest of the UK where it was deemed appropriate.

The examples of the three British Dependencies fall short of the what the SNP wants for Scotland — full independence. But they are linked into the UK in a way which the SNP also envisages.

So could Scotland follow suit? Ben Thomson, of the [Campaign for Fiscal Responsibility](#), says that the UK should encourage the kind of tax competition shown up by the three territories.

"The game is not about dividing up the cake. It is about how do you attract a bigger cake within the UK by attracting businesses to come here. We in a global game competing against Geneva, Luxembourg or Dublin. If these businesses didn't set up in the Channel Islands, they would end up in the Cayman Islands or Bermuda." Thomson says that, given the powers of the Dependencies, a fiscally independent Scotland could

set taxes in its own areas of strength — such as oil and gas, or whisky — to suit its own local circumstances.

Thankfully there are voices of reason in Scotland, and some from unlikely sources:

But turning Scotland wholesale into a tax haven would be near impossible, say tax experts. The three islands' heavy reliance on financial services, and low levels of social need, are utterly at odds with Scotland's own profile.

Rhona Irving, a partner with PriceWaterhouseCoopers, asks: "How would you replace the tax take if you reduced it to these levels? How would you fund public services? Are you going to attract enough businesses to make up the deficit you would have?"

She's right - and for once good for PWC for pointing out the glaringly obvious fact that the tax haven model is not viable.

In case they haven't noticed [all the Crown Dependencies are in deep financial trouble](#), unable to balance their books and are in possession of tax systems ruled illegal by the European Union. But what the heck, why let something like that get in the way of the tax competition mantra?