

Scotland's tax solution is the worst possible for every...

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There appears to be broad consensus this morning that Scotland will get devolved powers over all income tax on earnings but not savings in the review of its authority to be announced today. Some other taxing rights, which are much less contentious, will also be devolved.

I have to say I am very worried about this compromise solution for Scotland. In saying so I stress I was in favour of independence and felt Scotland should have embraced its own currency: little else made sense in September. Two months on a worst possible outcome for everyone now seems to be the option.

The settlement reached appears to be based on the premise that tax's sole purpose is revenue raising and that Scotland must have taxing powers if it spends. At the core of my concern is my belief that this is wrong. Tax has not less than six purposes:

- 1) It reclaims the money that a government has spent into an economy
- 2) It reprices goods and services that the market misprices
- 3) It redistributes income and wealth
- 4) It raises representation in democracies as people are motivated to vote by tax
- 5) It reorganises an economy
- 6) It regulates money by giving it value in exchange by requiring that tax be paid using the state currency.

You will note that none of these refers to raising revenue and that's appropriate. We know governments can and do spend money they do not have and we know governments can also spend without ever borrowing: QE has proved that. This is why I refer to tax collection as the reclamation of money the government has already spent into the economy using the power a state has to create money at will.

The trouble is Scotland does not have that power to create money. That will, as the whole referendum debate focussed upon, stay with London. So Scotland ends up with revenue collection rights but no control over money: that's half a power at best. And it has even been denied the right to reprice necessary parts of the economy to achieve the goal of redistribution which many think absolutely vital to economic recovery because tax rates on savings and rents are going to be taken out of its control meaning it can only redistribute earned income - which is precisely what is probably not needed in Scotland.

What's the outcome? A mess, is the best answer. The West Lothian question remains on the table and is too uncomfortable to answer. UK fiscal control is reduced, and Scotland has powers too limited to really effect change. Macro economic policy will be hard to deliver. The practicalities of administering two, related, domestic tax systems will be enormously difficult (who will be resident in Scotland, and how will they know?). And Scotland will remain frustrated that some real reforms will remain beyond it for time to come.

If ever we wanted to know that the No vote in September was a very big mistake this is the proof. We will now live as two nations with two tax systems and no macro economic control on some key issues living under one umbrella state with one currency that no-one can be sure they control. That's the definition of a macro-economic mess in the making. I am, I think, appropriately worried. There could have been worse outcomes - and they may still come - but this is a potential nightmare in the making.