

The Foundations of Scottish Taxation

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I have been asked to give evidence to the Scottish Parliament's Finance and Constitution Committee on the subject of the Foundations of Scottish Taxation and related issues on April 19 and will be doing so. In anticipation I have written a briefing document, as I was asked to do. [It is available here.](#)

There are four main themes to the briefing and I will highlight each separately in due course, even though they are related. The first addresses the core issue of the Foundations of Scottish Taxation. Revenue Scotland proposed that these be:

- * Proportionality;
- * Certainty;
- * Convenience;
- * Efficiency

As I note in my submission:

These ideas are, of course, familiar. Adam Smith might have used the term equity rather than proportionality; otherwise these come straight from The Wealth of Nations [and date from 1776].

As I added:

I have no desire to question the authority of a great Scottish moral philosopher but it is fair to note that Smith might be a little surprised at the scope and range of taxes to which his principles are now being applied. He would, for example, have been unfamiliar with the idea of:

- * Income tax
- * National insurance
- * VAT

- * *Corporation tax*
- * *Capital gains tax*
- * *Many other modern levies and charges.*

In that case I argue that

If the tax system has changed out of all recognition since Smith wrote so too might some other issues as well. Modern principles of tax need to reflect:

- * *Modern taxation theory*
- * *The role tax now plays in economic policy*
- * *The social and economic priorities of the society that imposes the charge;*

And concluded that:

I suggest that this means that the proposed principles may prove to be insufficient as the foundation for a Scottish tax policy.

I may have understated my case. To be candid, I am a little surprised that such limited aspiration has been suggested for Scottish taxation. What these supposed foundations really relate to (proportionality or equity apart, which is undoubtedly ethical) are rules of administrative convenience that assume that the main purpose of tax is to fund government spending. As a matter of fact, as I will primarily note elsewhere, that is not true. The main purpose of tax is to recover for the government the funds that it has spent into the economy to prevent excess inflation arising. Because this liberates tax from the artificial constraint imposed upon it of, firstly, funding government spending and, secondly, being the tool required to balance the government's books tax can then be seen in its true role as a tool to deliver the required level of inflation, to stimulate the economy when appropriate and to deliver social policy.

Based on this analysis I argue in my submission that:

The principles that should guide the management of the Scottish tax system must be broader than those suggested by Adam Smith. They should instead recognise the fact that tax is the instrument that has the greatest power to shape many of the economic and social outcomes of the society in which we live. This suggests the following principles should form the basis for tax in Scotland:

- * ***The tax system should deliver the macro-economic goals of the Scottish government.***
- * ***The tax system should reflect the social priorities of the Scottish people.***

- * ***The tax system should encourage the engagement of all in Scotland in the democratic process.***
- * ***The Scottish tax system should be effective in:***
 - * ***Reducing economic and social stress within Scotland and between Scotland and other states;***
 - * ***Encouraging truthful, tax compliant behaviour;***
 - * ***Minimising opportunities for tax abuse.***
- * ***Additionally the Scottish tax system should be:***
 - * ***Integrated with other law, such as that regulating companies, partnerships and trusts to help deliver tax compliant behaviour and a level playing field for all Scottish businesses;***
 - * ***Be adequately resourced to achieve these objectives.***

It's my suggestion that these are true economic and social principles that can really underpin tax in Scotland (and elsewhere come to that) and will, as a result, guide the work of ministers, MSPs, Revenue Scotland and those concerned with Scottish economic and taxation debate more appropriately than some maxims written in 1776, however useful they might have been at the time.