

# Fiscal Policy: Income Tax

By Orla Rose Quinn



# Scottish Income Tax Bands and Rates

Over £12,570 to £14,667	Starter rate	19%
Over £14,667 to £25,296	Scottish basic rate	20%
Over £25,296 to £43,662	Intermediate rate	21%
Over £43,662 to £150,000	Higher rate	41%
Over £150,000	Top rate	46%



# What this means...

- All annual income under £12,570 is covered under personal allowance and is free from tax.
- The starter rate is for the lowest income up to higher rate being the highest paid salaries.
- Only taxed that % on income above the threshold.



# ESSCALAND: Income Tax + Starter Rate

- Adjust the bands to make it easier for self-tax calculations.
- Reduce PA to £12,500.
- Drop the starter rate to 17%. N.B. starter rate now between £12,500 and £14,000.

## Reasoning:

- This will encourage more young people to work if tax is lower and they are more likely to spend as they will make up the majority of this band.



# ESSCALAND: Basic Rate

- Decrease the basic rate to 19% lowering to 18% over 5 years. This will slightly compensate for the reduction in the starter rate.

Band will also decrease to £25,000.

Reasoning:

- (Using Scotland as a comparison) Median gross weekly salary = £592.70 = £30,820.40 annually. After PA = £18,250.40. Total taxed paid annually (after 5 years) =  $255 + 1980 + 1338.69 = £3573.69$

Compared to if the Scottish tax system were used the tax paid would be =  $398.43 + 2125.80 + 1160.12 = £3684.35$

Difference between ESSCALAND and Scotland = £110.66

- Over half of the population fall within this basic rate and the previous starter rate band so by reducing the income tax for both it will benefit those in society who need it the most, with further reductions over time.



# ESSCALAND: Intermediate Rate

- The intermediate rate will increase solely in line with the basic rate. This would then become 22% straight away adjusting to 23% over 5 years.

However, the top level of taxable income for this band will increase to £50,000.

Reasoning:

- Even though this is now taxed at a lower rate due to tax being paid on the amount over the threshold it would be calculated that more tax would be paid by those earning up to £62,500, this is justified as PA is still fully available.
- The government tax those who are able to live comfortably slightly more to help society's most poorly paid. Further, this small increase will relate to the masses so on the whole will be governmentally beneficial.



# ESSCALAND: Higher Rate

- In ESSCALAND the higher rate will also be split into further tax bands:

£50,000 - £125,000 will be the new higher rate band with an income tax rate of 38%.

## Reasoning:

- All incomes within this band are considered to be higher than average earners and all benefit from PA, this decrease will encourage more of the population to aim to earn higher as they will not be taxed as highly.



# ESSCALAND: Additional Rate

- This new additional rate of income tax is added for those who earn above £125,000. This will be at 43%.

## Reasoning:

- At this level of taxable income there is a lot of disposable income, however earners can no longer benefit from PA reductions.
- This rate of income tax may start at a lower rate than England (comparatively). However, when using this comparison the tax is 2% lower than in England which will be an incentive for the wealthy to move or invest in Scotland to pay these “lower” rates.



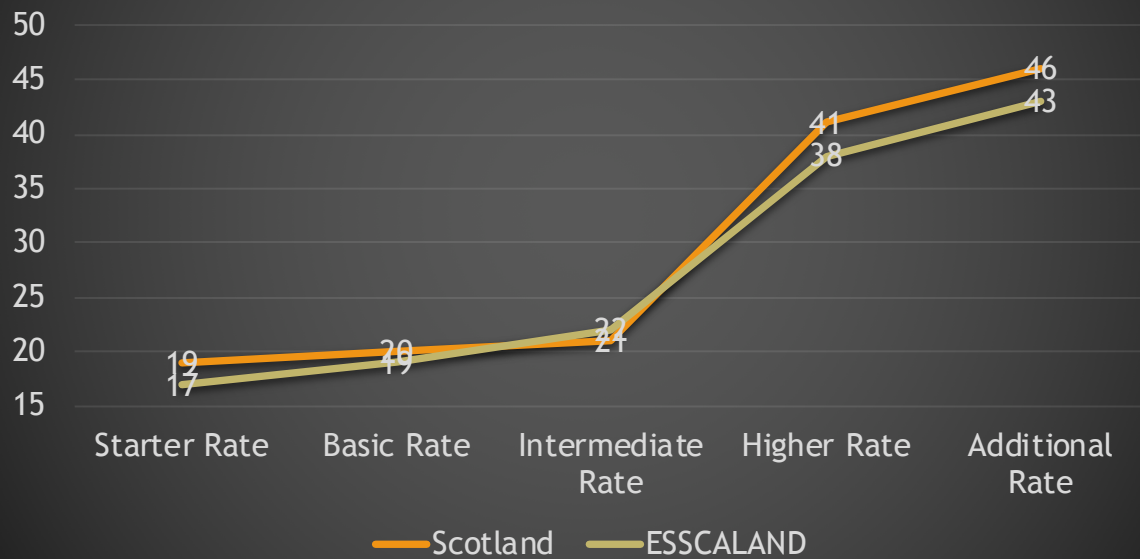
# Visual representation: ESSCALAND Tax Bands and Rates

Over £12,500 to £14,000	Starter rate	17%
Over £14,000 to £25,000	Basic rate	19% lowering to 18%
Over £25,000 to £50,000	Intermediate rate	22% rising to 23%
Over £50,000 to £125,000	Higher rate	38%
Over £125,000	Additional rate	43%

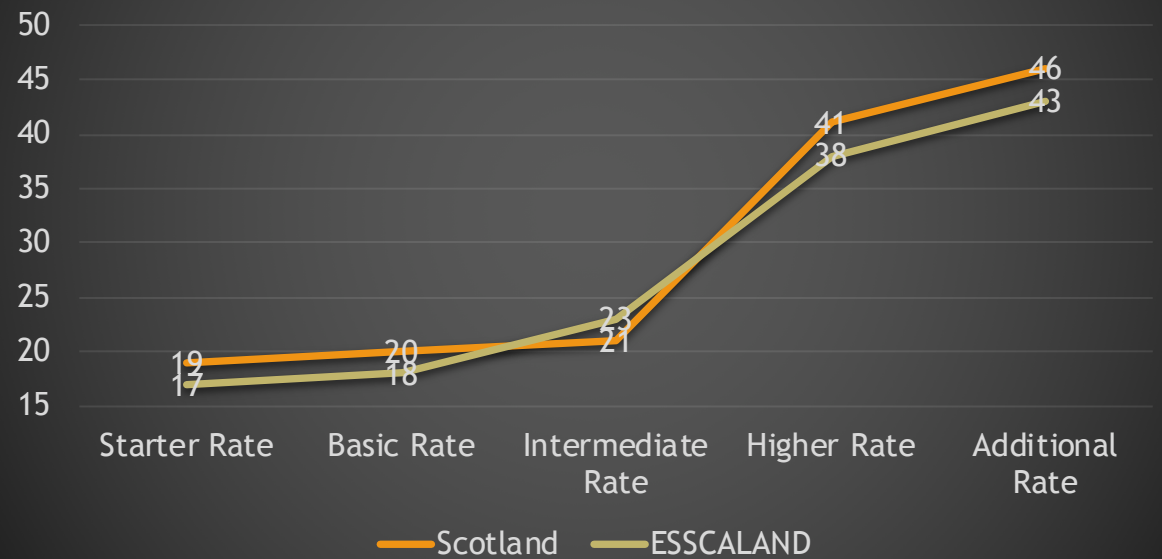


# Graphical Comparison

## Comparison of Income Tax Rates



## Comparison of Income Tax Rates After 5 Years





# Thank you for listening!

- Any questions, please do not hesitate to ask.