

**Advisory Group on Economic Recovery – Call for views
Response from the Low Incomes Tax Reform Group (LITRG)**

1. Executive Summary

- 1.1. The Fiscal Framework is due to be reviewed during 2021. That review provides an opportunity to consider possible changes to the Fiscal Framework to ensure that it supports the Scottish economy appropriately.
- 1.2. Over the past year or so, the Scottish Government has been considering methods of improving the tax policy-making process and the legislative processes for taxes in Scotland. The Scottish Government has also been carrying out work to improve communications about tax in Scotland.
- 1.3. Together, these projects should help to improve transparency, stakeholder engagement, scrutiny, awareness and understanding of taxes. In turn, this should help ensure the Scottish tax system offers credibility and accountability in the eyes of the public, which will be important in supporting Scotland's economic recovery.

2. About Us

- 2.1. The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.

- 2.2. LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3. The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3. Introduction

- 3.1. Quite rightly, many people have been finding ways to show thanks to those at the forefront of dealing with the coronavirus (COVID-19) pandemic. LITRG would also like to thank the more 'invisible' cohort of civil servants, such as Revenue Scotland, Social Security Scotland, local government, Scottish Government and Scottish Parliament staff, working behind the scenes.
- 3.2. Both the UK Government and the devolved governments have announced unprecedented support for individuals and businesses, aimed at easing the economic impact of the self-isolation and social distancing measures required to shield the population – and particularly the most vulnerable – from the coronavirus pandemic.
- 3.3. We recognise that civil servants have been working around the clock to try to deliver the support that has been announced. We know that it is not an easy task to produce, almost overnight, systems and processes to get support to people who desperately need it. Especially when they themselves have a reduced workforce as a result of the current situation.
- 3.4. We, at LITRG, stand ready, as ever to work with them and support this work in any way we can.
- 3.5. The COVID-19 pandemic is likely to have long-term economic effects on Scotland. We welcome the fact that the Scottish Government is aiming to take this opportunity to consider their strategy and options for building a more robust and resilient Scottish economy. Our expertise lies in the area of tax, as well as its interactions with tax credits and welfare benefits; these are the issues on which our response focuses.

4. Significant macroeconomic and fiscal implications will change the economic context for the foreseeable future. What will be the shape and form of the recovery from the crisis and what will be the implications for the future growth and structure of the economy?

- 4.1. It should be noted that Scotland's particular combination of funding sources may place constraints upon some of its options that may not be faced by the UK as a whole. This is

because the UK government has monetary sovereignty, i.e. the exclusive authority to designate the legal tender forms of payment, and to control the issuance and retirement of the legal tender. Scotland does not have this ability. Instead, it is funded by a combination of revenues from Scottish taxes,¹ the block grant and limited borrowing.²

- 4.2. The Fiscal Framework, which was published in February 2016, includes a funding model that aims to guarantee a fair and transparent mechanism for adjusting the block grant, such that it reflects the introduction of devolved Scottish taxes and the transfer of responsibility for some social security spending to the Scottish Government.
- 4.3. We endorse the view in the CIOT submission, that there should be an examination of the fiscal impacts of the coronavirus support programmes and how funding announced by the UK Government has translated into funds available for the Scottish Government, via the block grant. This will help to establish whether the Fiscal Framework has operated as expected and whether it has worked appropriately in these exceptional circumstances.
- 4.4. We note that the Fiscal Framework is due to be reviewed during 2021. That review provides an opportunity to consider possible changes to the Fiscal Framework to ensure that it supports the Scottish economy appropriately.
- 4.5. We do not provide views on the future required level of taxation. Nor do we offer comment on where the burden of taxation should fall. These are matters for politicians.
- 4.6. Over the past year or so, the Scottish Government has been considering methods of improving the tax policy-making process and the legislative processes for taxes in Scotland (see paragraph 8.1 ff. below). It will be necessary to see this work through to fruition in order to ensure that Scotland's tax system is in the best position possible to support its economic recovery.
- 4.7. We think it is important to implement a new tax policy-making process and some legislative processes for tax to ensure Scotland can make well-informed decisions in relation to amendments to current tax policy and legislation, but also in relation to introducing new taxes. The new processes should ensure good consultation, stakeholder engagement and scrutiny.

¹ The phrase Scottish taxes includes the fully devolved taxes (Land and Buildings Transaction Tax and Scottish Landfill Tax), the shared taxes (Scottish income tax) and local taxes (Council Tax and Non-Domestic Rates).

² The borrowing (capital and resource) available to Scotland is set out in the Fiscal Framework Agreement: <https://www.gov.uk/government/publications/the-agreement-between-the-scottish-government-and-the-united-kingdom-government-on-the-scottish-governments-fiscal-framework>

5. Different sectors and businesses will be impacted in different ways. What are the medium- to long-term consequences of the lockdown on businesses, including loss of employees, debt overhang, loss of markets, reduced investment and unemployment?

5.1. N/A.

6. The crisis will impact differently on different groups in society, and on different parts of the labour market; and, has already revealed some thorny issues about relative wages across key occupations. What will the implications of the recovery be for different groups, unemployment and on the nature of work? How is the recovery likely to impact on socio-economic inequality as a whole?

6.1. N/A.

7. What can be done now to ensure the transition to a wellbeing-oriented, inclusive economy on a transition to net zero? How can the wellbeing of the people of Scotland flourish and what are the environmental implications of the crisis?

7.1. N/A.

8. There will be big changes in the form, nature and interactions between different institutions. How will the crisis change the role and relationships between the UKG/SG/LAs, business and other institutions?

8.1. The Scottish Government began a review of the tax policy-making process in Scotland in 2019; this included a consultation, 'Devolved taxes: a policy framework', which was published in March 2019.³ LITRG and the CIOT submitted a joint response to this in June 2019.⁴ This consultation focused on the approach to planning, managing and implementing fully devolved tax policy in Scotland. As we noted in our submission, we thought the overall proposed policy and legislative cycle looked appropriate. We believed it would help to deliver a fair, simple and certain tax system. It would also help to avoid unintended consequences for all stakeholders, including taxpayers and the Scottish Government. While we welcomed the proposed regular and structured cycle, we also noted the need for enough flexibility to deal with urgent issues outside the parameters of the normal cycle.

³ <https://consult.gov.scot/financial-strategy/devolved-taxes-policy-framework/>

⁴ <https://www.tax.org.uk/policy-technical/submissions/devolved-taxes-policy-framework-ciot-and-litrg-response>

Implementing these new policy and legislative processes should also help to ensure meaningful and constructive stakeholder engagement.

- 8.2. The CIOT has been involved in the work of the Devolved Taxes Legislation Working Group. Although LITRG has not been directly involved in that group, we endorse the views set out by the CIOT. In particular, we agree that it is important that the work of that group is continued and concluded and agree with the view that there is a need for a regular Finance Bill process in Scotland.
- 8.3. We do not believe that the coronavirus pandemic changes the need for new tax policy and legislative processes for tax in Scotland. If anything, we think the pandemic has highlighted the importance of expediting the changes that have already been explored in the Scottish Government policy framework consultation or are in the process of being considered by the Devolved Taxes Legislation Working Group.
- 8.4. This is because the implementation of these changes should improve engagement, scrutiny and flexibility in relation to tax policy-making and legislative activity.
- 8.5. It is also important to ensure that current Scottish Government work to improve communications about tax with the general public is built on. This should also encompass interactions with social security. The importance of approaching this in a holistic manner cannot be over-emphasised. We mean this both in the sense of considering tax and social security together and their interactions, and also in the sense of considering interactions between the Scottish and the UK powers and responsibilities. We illustrated this in a recent submission to the Scottish Affairs Committee of the UK Parliament in relation to universal credit.⁵
- 8.6. This will help to improve the general public's awareness and understanding of tax and social security powers, and their devolution. In turn this should help to improve the accountability and credibility of the tax system in Scotland, and therefore taxpayer buy-in.⁶

9. The pandemic is a shock which will provide insights and data across a range of areas. How do we ensure that we learn from the impact of the crisis and respond accordingly?

- 9.1. N/A.

LITRG
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⁵ <https://www.litrg.org.uk/latest-news/submissions/190730-scottish-affairs-committee-inquiry-impact-welfare-policy-scotland>

⁶ <https://www2.deloitte.com/uk/en/pages/press-releases/articles/the-tax-education-gap-majority-of-the-uk-dont-understand-personal-tax.html>