

**Scottish Parliament: Pre-budget scrutiny 2021-22 – Call for views
Response from the Low Incomes Tax Reform Group (LITRG)**

1. Executive Summary

- 1.1. The Scottish Government has, over the past year or so, been exploring possible changes to the tax policy-making process, alternative legislative processes for tax and how to raise public awareness about tax in Scotland. We think the pandemic has highlighted the importance of expediting these pieces of work. Taking forward these three strands of work should help to ensure that Scotland continues to have a tax system, policy framework and process for making tax policy and legislation that has integrity, credibility and is fit for purpose. It should also mean that Scotland is positioned as well as it can be, in the aftermath of the COVID-19, in terms of making best use of its devolved tax powers. All three strands of work will complement each other in ensuring transparency and Ministerial accountability.
- 1.2. The biggest potential for raising revenue is arguably offered by Scottish income tax powers, although these powers in themselves are limited. If changes are made to Scottish income tax, we think it is imperative that consideration is given to interactions with the reserved aspects of income tax and also to interactions with social security, both reserved and devolved.
- 1.3. Council tax is a possible policy area for consideration, although any reform would undoubtedly require significant consultation and preparation.

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. LITRG would like to thank the cohort of civil servants, such as Revenue Scotland, Social Security Scotland, local government, Scottish Government and Scottish Parliament staff, working behind the scenes to deal with the coronavirus (COVID-19) pandemic.
- 3.2. Although it would be most welcome if the pandemic were to be controlled by 2021, there appears to be a risk that there may be further waves of coronavirus to come. Noting that over the past few years there have been a number of other virus outbreaks, there is no doubt also a risk that there may be others in the future.¹ Moreover, Scotland also faces other significant challenges in 2021, such as the end of the transition period following Brexit² and the climate change emergency.³
- 3.3. 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. Our suggestions are aimed at ensuring Scotland is able to make the best use of its tax powers going forward, so that the Scottish taxes can assist Scotland's other policy-making areas.

¹ For example, SARS in 2003 and H1N1 in 2009.

² <https://www.gov.uk/transition>

³ <http://www.gov.scot/publications/global-climate-emergency-scotlands-response-climate-change-secretary-roseanna-cunninghams-statement/>

4. Given the ongoing uncertainty and volatility, what changes to the budget process both within government and parliament may be required to ensure sufficient transparency and Ministerial accountability in a rapidly changing fiscal environment?

- 4.1. 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 2019.⁴ LITRG and the CIOT submitted a joint response to this in June 2019.⁵ 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. Implementing these new policy and legislative processes should also help to ensure meaningful and constructive stakeholder engagement.
- 4.2. The CIOT has been involved in the work of the Devolved Taxes Legislation Working Group (DTLWG). Although LITRG has not been directly involved in that group, we endorse the views set out by the CIOT in relation to the work of the DTLWG.
- 4.3. We do not believe that the coronavirus pandemic changes the need for new tax policy and legislative processes for tax in Scotland (as explored by the Scottish Government consultation and the DTLWG). 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 DTLWG. The implementation of these changes should improve engagement, scrutiny and flexibility in relation to tax policy-making and legislative activity.
- 4.4. The Scottish Government has also been carrying out work to improve communications about tax with the general public; this needs to be built on.⁶ The importance of approaching this in

⁴ <https://consult.gov.scot/financial-strategy/devolved-taxes-policy-framework/>

⁵ <https://www.tax.org.uk/policy-technical/submissions/devolved-taxes-policy-framework-ciot-and-litrg-response>

⁶ For the last two years (2018 and 2019), the CIOT has undertaken a poll of the Scottish public and found a decline in awareness and understanding of the devolved tax regime (<https://www.tax.org.uk/media-centre/press-releases/press-release-new-poll-discovers-more-four-fifths-scots-lack> and <https://www.tax.org.uk/media-centre/press-releases/press-release-poll-scots-still-failing-understand-devolved-taxes-support>). In the 2019 survey, for example, 86 per cent of respondents said they need better information about how taxes are decided in Scotland. The poll also identified that the number of people who could correctly identify that income tax was a tax shared between Holyrood and Westminster fell from 34 per cent in 2018 to 26 per cent in 2019. This problem is not unique to Scotland.

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.⁷ Together with an annual Finance Bill process, 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.⁸

4.5. As an aside, HMRC are in the process of revising 'Your Charter'.⁹ This is with a view to making it more customer-focused. When working on communications about taxation, the Scottish Government needs to take into consideration the standards set out by HMRC and Revenue Scotland in their respective Charters for any interactions.¹⁰

4.6. Taking forward these three strands of work (tax policy-making processes; tax legislation processes; communications about tax) should help to ensure that Scotland continues to have a tax system, policy framework and process for making tax policy and legislation that has integrity, credibility and is fit for purpose. It should also mean that Scotland is positioned as well as it can be, in the aftermath of the coronavirus pandemic (and also in view of the likely challenges 2021 holds, as noted at paragraph 3.2), in terms of making best use of its devolved tax powers. All three strands of work will complement each other in ensuring transparency and Ministerial accountability.

5. What are the implications for the Scottish Government's existing taxation policy arising from COVID-19 and what changes, if any, should be considered?

5.1. 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. It may be that there will be a shrinking of the tax base for various taxes as a result of COVID-19, and this

⁷ <https://www.litrg.org.uk/latest-news/submissions/190730-scottish-affairs-committee-inquiry-impact-welfare-policy-scotland>

⁸ <https://www2.deloitte.com/uk/en/pages/press-releases/articles/the-tax-education-gap-majority-of-the-uk-dont-understand-personal-tax.html>

⁹ <https://www.gov.uk/government/consultations/hmrc-charter>

¹⁰ <https://www.gov.uk/government/publications/your-charter> and <https://www.revenue.scot/about-us/charter-standards-and-values>

will need to be considered when looking at tax policy, particularly if this is greater in Scotland than in the rest of the UK.¹¹

- 5.2. 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,¹² the block grant and limited borrowing.¹³
- 5.3. As noted above, Scotland's budget has certain constraints. Scotland's tax powers offer some room for manoeuvre. The biggest potential for raising revenue is arguably offered by Scottish income tax powers, although these powers in themselves are limited¹⁴ and are possibly also further restricted by political considerations, both in terms of public acceptance and parliamentary arithmetic. We do not offer a view on possible changes to rates and bands, other than to note that with five rates and bands the structure is arguably already more progressive than that for UK income tax, and as a natural corollary of the structural differences creates some complexities, for example in interactions with reliefs and also with reserved aspects of the income tax system, such as where a taxpayer has both earned income and savings income. In addition, before any changes are made to income tax rates and bands, we think it would be imperative to consider the knock-on effects for tax credits and social security benefits (both devolved and reserved). The inevitable result of these interactions is additional complexity for taxpayers and claimants, with confusion being more likely, and arguably acting to the detriment of transparency.
- 5.4. Over the past few years work has been carried out in Scotland to review both non-domestic rates¹⁵ and council tax.¹⁶ Although recommendations made following the Barclay Review of non-domestic rates have been and are in the process of being implemented, there has been

¹¹ Some sectors (for example tourism and hospitality) may face sharp rises in unemployment, reducing the number of Scottish taxpayers who pay Scottish income tax.

¹² 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).

¹³ 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>

¹⁴ Scotland only has the ability to set the rates and bands for the income tax that Scottish taxpayers pay on their non-savings and non-dividend income.

¹⁵ <https://consult.gov.scot/rates-review/barclay-review-of-business-rates/>

¹⁶ <http://localtaxcommission.scot/download-our-final-report/>

very little change to council tax. One option might be to earnestly review and reform council tax, with a particular focus on ensuring land or property values are reflected more consistently and updated regularly. Currently the property values used are those as at 1991 for properties already constructed at that time, or a nominal 1991 value for new-build properties. Thus, they are almost 30 years out of date. We note that there may be difficulties in valuing property over the next 12 months or so, due to the coronavirus pandemic and Brexit for example. We acknowledge that any significant reform to council tax would create winners and losers, but there are ways to mitigate those effects and to build a broad consensus, for example by using a consultative approach to developing policy options in this area.

- 5.5. There is work being undertaken in Scotland to explore the feasibility of a Basic Income.¹⁷ It appears that although there is a view that it would be desirable to run pilots, this is not currently feasible due to a variety of legislative and technical challenges. Nevertheless, if broader reforms are being considered to Scotland's tax and social security systems, then it would be worth including the possibility of a Basic Income in those considerations.

LITRG
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¹⁷ <https://basicincome.scot/>