FINANCE COMMITTEE
INQUIRY INTO THE DEVOLUTION OF FURTHER FISCAL POWERS
SUBMISSION FROM NFU SCOTLAND

Introduction

1. NFU Scotland (NFUS) is Scotland’s premier agricultural lobbying group, and represents 8,500 farming and crofting members across Scotland.

2. Throughout the referendum process, NFUS engaged with the two campaigns on behalf of its members, and maintained a non-partisan and neutral stance towards independence from the outset. As part of this engagement, NFUS held a series of independence debates between March and September 2014 up and down Scotland which invited members to put questions to representatives from both campaigns. This consultation response therefore focusses on key issues and questions that frequently arose at these events.

3. NFUS has established a position that bridges much of what previously had divided members across the Yes and No campaigns prior to the referendum. The majority of members believe that devolution has been good for Scotland and positive for Scottish agriculture. In accepting a future within the UK there is a view that further meaningful powers should be devolved to Holyrood. However, it is noted that caution must be applied to avoid unintended consequences and a hard, fast handover of powers to Scotland must not be done in haste and without proper analysis and consideration of finances. Delivering a sustainable settlement for the short term is a key priority, but perhaps would best be secured for the long term with a level of political symmetry in other parts of these islands.

4. NFU Scotland was invited to submit a response to the Smith Commission on further devolution in October 2014. As a result, we held discussions with members in each of the NFU Scotland regions between 14 and 29 October 2014. Members were also invited to submit written responses to NFU Scotland between 10 and 29 October 2014. This response is formulated from the aspects relating to financial services and taxation as contained within NFUS’ full response to the Smith Commission.

5. In sum: NFU Scotland considers it crucial for the rural economy and the food and drink sector that UK and EU markets are open to unrestricted movements and services. To ensure open movements and parity of standards, and to optimise basic costs, basic regulatory standards and enforcement should be maintained at a UK level.
Public finances and taxation

6. A competitive tax and economic environment in line with other parts of the UK is crucial, however, NFUS considers that having the ability through business rates and capital allowances to incentivise best practice in land ownership, business investment, land tenure and the development of processing capacity would add great value to the Scottish economy. NFUS members recognise that current tax allowances – tax reliefs for agricultural land and buildings, Inheritance Tax relief and capital gains rollover relief on developed agricultural land go some way in improving the financial environment for the farming industry. The devolution of certain tax varying powers – set out below – may play a part in countering the costs for peripheral and island communities. However, NFUS considers that Inheritance Tax should remain reserved to Westminster. It is considered essential that the current laws of succession are maintained to allow fixed property to be passed to a particular member of the next generation. This device is crucial to allow farm properties to pass to the next generation without fragmentation or the burden of debt.

7. NFUS supports the immediate devolution of responsibility for fuel duties and Air Passenger Duty to Scotland. It is strongly felt that residents of remote rural Scotland areas are punished for being peripheral to urban centres, and NFUS would fully support any proposal to abolish Air Passenger Duty outright for flights to and from Scotland. It is also considered that such a move would bring money back to rural Scotland by encouraging connectivity, trade and movement for residents, incomers, and tourists. Devolution of fuel duties could also encourage the Scottish Government to relax these rates to areas other than the Scottish islands, so to encourage movement between sparsely populated areas in South Scotland, for example.

8. It was felt strongly that the agricultural industry would benefit greatly from new tax devices that would incentivise the building of new infrastructure, such as sheds and buildings, as well as incentives to bring more derelict and unused rural houses and buildings back into use either to put into the rental market or to convert surplus farm buildings into office or industrial use.

9. NFUS would therefore support the devolution of Capital Gains Tax and further powers that would allow the Scottish Government to use capital allowance levers such as the Annual Investment Allowance to incentivise rural infrastructure development. Continuity and consistency of rates year-to-year for schemes such as this is also desirable.

10. It is also prudent to note that encouraging investment and construction of new infrastructure within rural Scotland will have resultant upstream and downstream benefits for rural Scotland by the employment of local contractors to construct such buildings, and therefore boosting the circular rural economy.

11. NFUS supports the devolution of any mechanism by which the Scottish Government could provide ‘business rate holidays’ to investors looking to Scotland to build new processing capacity – for example, abattoirs and dairy units. The same would apply for businesses indigenous to Scotland that are looking to expand operations. It is essential that the Scottish Government is able to provide more incentive to home and foreign investors, in order for it to truly hold its hat as a Good Food and Drink nation.
12. NFUS members were also attracted to the concept of using Corporation Tax as a device to attract new investors to Scotland. However, full devolution of Corporation Tax to the Scottish Government may be problematic in creating competitive distortions for the rest of the UK and a Scottish ‘tax haven’. It is suggested that the UK Government consider setting targets to incentivise investment and business growth in new enterprise zones that go above and beyond the current City Deal model. The room for variation would therefore remain within a UK-wide framework, with buy-in from the constituent parts of the UK, so that other parts of the islands aren’t unfairly disadvantaged.

13. NFU Scotland has for some time advocated an approach that would incentivise landlords to develop long-term letting arrangements that will encourage a more vibrant tenant farming sector in Scotland. It is noted that the Agricultural Holdings Review Group will come forward with a range of proposals in December 2014 seeking to resolve some of these issues. However, considering that Scotland currently has the lowest proportion of tenanted farmland in Scotland, it is now essential that the Scottish Government has levers within its control to develop new schemes to support the long-term letting of land. NFU Scotland welcomes further discussions with the relevant UK Government authority on how such an incentive might work in practicality.

14. To maintain economic cohesion within the UK Sterling zone and to avoid distortion of competition and the wider economy, any application of tax varying powers of this sort might have to be constrained by agreed variation bands or limited by defined tax-raising targets, agreed at a UK level. In line with this, NFUS also recommends that all parts of the UK, including Scotland, use the same portfolio of taxes and the current UK-wide Competition and Markets Authority is maintained to promote cohesion and competitive status throughout these islands.

15. NFUS is not opposed to full devolution of income tax to Scotland, but suggests that a full financial analysis is undertaken of the implications following the implementation of new powers delivered through the Scotland Act 2012. Nor is NFUS opposed to keeping proceeds of VAT receipts raised in Scotland, in Scotland. However, if the devolution of tax powers to Scotland is to be a staged process, it is also essential to examine the impact such changes will have upon the monies given to Scotland via the current Barnett Formula, and must consider the eventual phase out of the Scottish Block Grant.

16. NFUS members who are tenants of the Crown Estate are strongly of the view that the investment and support of the Estate is crucial for their business and the wider rural community. Its function and autonomy should therefore not be compromised. NFUS does not have a view of the Crown Estates jurisdiction over the foreshore. However, NFUS is sympathetic to unique circumstances in Orkney and Shetland, and is open to processes of internal devolution relating to Crown Estate decision-making as part of the Our Islands – Our Future campaign.
Conclusions

17. Devolution is likely to be an evolving process however aspirations will only be met if key milestones or targets are clearly agreed. Solid anchor points to basic UK functions including defence, foreign affairs and the Bank of England should be defined to sit alongside a commitment to shared basic regulation and enforcement. NFU Scotland members are as one in seeking well-defined and transparent UK policy development and representation at an EU and international level.

18. NFUS considers that there is value in a wide range of powers being devolved to Holyrood, although Scotland’s competitive status must be stabilised by tax varying powers being actioned within bands agreed with UK partners. For some a federal structure is seen as an end point, however incremental steps that might see Scottish spending supported by an equal split between Scottish tax raising powers and a UK contribution based on the Barnett formula has attractions. This formula would provide a level of stability and through the Barnett dividend it could help support the higher levels of spending required in Scotland’s peripheral and Island areas. It is clear that any agreed formula must mean there is transparency as to how funding is allocated.