FINANCE COMMITTEE

INQUIRY INTO THE DEVOLUTION OF FURTHER FISCAL POWERS

SUBMISSION FROM SCVO

Summary

- Any new tax and financial powers that come to Scotland should lead to a new, principle-based approach to tax, using it as a means to support the creation of the kind of Scotland we want to see.
- It is essential that Scotland is given powers over a portfolio of taxes to allow the Scottish Parliament to flexibility over how it constructs a tax system.
- Any new tax system must be clear and easy to understand for ordinary people, in order to promote transparency and accountability.
- If income tax is devolved, various facets of charity taxes most also be devolved to ensure consistency. This is also true of some areas of charity regulation.

Introduction

SCVO welcomes this inquiry. We focus on general principles for the devolution of further financial powers, and on the further financial powers that the third sector is keen to see devolved, including: principles for a new tax system; fiscal accountability; and charity tax and regulation.

Principles for a new tax system

Tax is not just about bringing in money for the Government. It is also a system that can be reflect the priorities and needs of Scottish society. By having tax powers here in Scotland, we can perhaps better respond to particular local needs or microeconomic areas in Scotland, or areas where policy diverges from the wider UK such as on climate change.

As SCVO has previously discussed, there are various principles which relate to how our society operates, which also reflect third sector values. In SCVO’s paper ‘A vision of a Scotland for all’, we brought together a range of ideas including:
• the importance of human rights principles underpinning key policy developments;
• that proper consideration should be given to the environment; and
• the necessity of ensuring a minimum standard of living for all whether or not they are able to work.

These principles can, to varying degrees, be reflected in a tax system. This could be achieved through higher taxes or duties on harmful behaviours, lower taxes for positive behaviours, or tax rates that are progressive, i.e., levying tax on those who are more able to pay or through the redistribution of funds to those in need. One could also bring in new taxes that reflect particular political values here in Scotland – such as a progressive Land Value Tax to encourage efficient and sustainable use of land, or even a tax on international financial transactions such as the ‘Robin Hood’ tax advocated by Oxfam. It’s worth noting too that several organisations estimate corporate tax avoidance denies developing countries more revenue than they receive in development aid, so if corporation tax were to be devolved, we suggest that the Scottish Government consider the impact of corporate tax policy on low income countries globally.

We hope to see the Committee consider how these principles can be reflected in any new tax powers that Scotland gains, and in any new tax system that Scotland creates.

A tax portfolio, accountability and transparency

It is essential that Scotland is given powers over a portfolio of taxes to allow the Scottish Parliament to flexibility over how it constructs a tax system: otherwise, we might be left unable to alter the system that we currently have even if there is the political will to do so. The devolution of a nominated percentage across a basket of different taxes might ensure an appropriate balance. This would allow any future government to pursue the more progressive, redistributive tax system to which the third sector aspires, should the political will exist.

Moreover, the principle that any level of government ought to raise the money it spends, ensuring its fiscal accountability, is broadly supported by the third sector.
Consequently, in many discussions about the devolution of further powers, reference has been made to the ability for Holyrood to raise the related funds. We leave to the Committee to decide exactly what the best system would be, although we would say that any potential devolution of taxation must not place a disproportionate burden on one tax and taxpayer base to generate income.

Furthermore, the importance of transparency at all levels of government has consistently been raised by the third sector. It is clear that any new tax system must be clear and easy to understand for all people. Not only will a simple and easily understandable system allow people to understand what money is being collected and from whom, but it will also help to prevent tax evasion and avoidance.

Finally, whatever the settlement, there is a clear need for good working relations between the UK Government, the Scottish Government and local government in order to ensure that tax policy reflects the needs of all regions on which it impacts.

**Charity Tax**

The issue of charity tax is one where the third sector is able to speak with some confidence. The sector as a whole believes that supporting charitable activity through the tax system is an important principle for any modern democratic and inclusive society.

Charity tax relief is currently reserved and is deployed by HMRC. Some charity utility reliefs such as water rates, non-domestic rates and property transaction fees are already devolved.

If income tax were to be devolved, then powers over income tax reliefs for charitable donations which follow personal taxation must also be devolved to ensure consistency. This includes Gift Aid, Social Investment and Inheritance Tax reliefs. These reliefs would need to be devolved in full, giving Scotland the power to redesign the schemes and not just deliver the existing UK systems. In discussion with the UK Charity Tax Group, there was recognition that Scotland should have the power to design a different, perhaps better scheme of charitable tax reliefs if it wishes. The only parameter would be that as part of the European Union, any
devolved personal tax relief scheme would also need to recognise and provide relief for donations from Scottish tax payers to charities in other EU member states as well as to the rest of the UK.

VAT, including partial and zero-rates on certain products is subject to EU rules and therefore there is limited opportunity to devolve reliefs from the UK. However, many activities undertaken by charities are regarded as non-business and therefore, unlike most private businesses, the associated VAT costs must be absorbed by the charity. At present VAT rebate schemes are the only mechanism to offer relief and a number of charity relief schemes supporting academy schools, national museums and galleries and to a lesser extent air ambulances and mountain rescue are in operation at UK level. We believe that the devolution of VAT relief schemes offers a real opportunity to better reflect Scotland’s unique geography, demography, public service mix and national ambitions. Importantly, this approach would be consistent under EU rules so long as the Scottish schemes reflected State Aid rules.

Charity Regulation

If any organisation wants to be a charity in Scotland or to undertake substantial charitable activities in Scotland, they need to follow register with the Office of the Scottish Charity Regulator (OSCR) and Scottish charity law and regulation. This has been devolved since 1999, was codified in 2005 and in its implementation has followed a different trajectory to the rules governing charity law and regulation in England and Wales.

However, HMRC maintains its own rules on who it recognises for charitable purposes independently of any of the charity regulators including OSCR. However, the HMRC has, in practice aligned its approach with the laws and regulations that are maintained by the England and Wales Charity Commission. The clear implication is that if substantial income taxes are devolved to Scotland, then the third sector in Scotland would want to see the rules around charity recognition for tax purposes to be fully devolved to Holyrood. This would this maintain the alignment between tax and charity, but would also further support alignment with charity status under Scottish law.
Regulation of fundraising is one area where there is debate within our sector. Some aspects of fundraising are devolved, for example, the regulations around street collections. However, fundraising standards are currently self-regulated through the UK Fundraising Standards Board. If fundraising standards were to be taken back for direct regulation by UK Government, then this would raise questions around the devolved competencies. Potentially, the HMRC could take an interest with respect to tax avoidance and its rules around 'fit and proper' persons running charity finances. In addition, the charity regulators, including in Scotland, would take an interest with respect to charity brand protection. Therefore, we favour consistency with Scottish charity regulation and consider we need the relevant powers devolved in order to achieve this. (Having said that, some charities have an interest in maintaining UK-wide consistency for fundraising rules, in some cases to support cross-border fundraising.)

**Conclusion**

It is clear that the Committee, if it is keen to do so, has a significant opportunity here to argue for more than a tweak to the tax system whatever powers we end up with; rather, we can aim for a tax system for Scotland that reflects the progressive principles outlined above. In order to do this, it is essential that Scotland is given powers over a portfolio of taxes to allow the Scottish Parliament to flexibility over how it constructs a tax system.

There may also be significant scope to make a new tax system clear and easy to understand, and we hope that the Committee and Scottish Parliament will take this on.

Finally, if income tax is devolved, various facets of charity taxes most also be devolved to ensure consistency. This is also true of some areas of charity regulation. We would be happy to talk the Committee through these areas in detail if desired.
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About us

The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the third sector. There are over 45,000 voluntary organisations in Scotland involving around 138,000 paid staff and approximately 1.3 million volunteers. The sector manages an income of £4.9 billion.

SCVO works in partnership with the third sector in Scotland to advance our shared values and interests. We have over 1600 members who range from individuals and grassroots groups, to Scotland-wide organisations and intermediary bodies.

As the only inclusive representative umbrella organisation for the sector SCVO:

- has the largest Scotland-wide membership from the sector – our 1600 members include charities, community groups, social enterprises and voluntary organisations of all shapes and sizes
- our governance and membership structures are democratic and accountable - with an elected board and policy committee from the sector, we are managed by the sector, for the sector
• brings together organisations and networks connecting across the whole of Scotland

SCVO works to support people to take voluntary action to help themselves and others, and to bring about social change. Our policy is determined by a policy committee elected by our members.

Further details about SCVO can be found at www.scvo.org.uk.

References

Scottish Voluntary Sector Statistics 2010, SCVO


i http://www.scvo.org.uk/long-form-posts/scvos-vision-of-a-scotland-for-all/

ii http://www.andywightman.com/docs/LVTREPORT.pdf

iii http://robinhoodtax.org.uk/