Thank you for your letters dated the 5th September and the 27th October 2011 on the Scottish Government’s corporation tax discussion paper and our proposition for devolving alcohol duties.

Your letters pose a number of queries, many of which are already addressed in our papers. Nevertheless, I will take this opportunity to respond to the points raised in both letters. I hope these answers allow Ministers and officials to discuss these issues in a productive manner in the weeks ahead.

As we have made clear, our preference has always been to take forward these discussions in the form of substantive negotiations, so that we can work together effectively to negotiate provisions that both our Parliaments can agree upon. I believe that time still remains for dialogue on these matters in advance of both Parliaments’ further consideration of the Bill in the New Year. Indeed, such dialogue is still required to address the weaknesses in the Scotland Bill as proposed.

Corporation Tax

Our discussion paper on corporation tax clearly highlighted the economic opportunities that would exist should Scotland secure responsibility for corporation tax.

A competitive corporation tax regime can be a key feature of a country’s strategy for growth. Devolving corporation tax has attracted the support of some of Scotland’s most successful entrepreneurs. With full responsibility for corporation tax, the Scottish Parliament would have a range of new, positive choices to help strengthen the Scottish economy. This would enable us to build on the initiatives we have already taken to make Scotland the most competitive location in the UK for business, such as our highly successful Small Business Bonus Scheme.

Indeed since you issued your letter, we have undertaken detailed modelling of the potential impact on the Scottish economy from a more competitive corporation tax rate. Our analysis shows that a reduction in the corporation tax rate equivalent to a cut from 23% to 20% could...
increase employment by around 27,000 after 20 years. I am sure you will share my belief that boosting sustainable economic growth in Scotland will benefit the UK as a whole.

Your letter raises a number of technical and administrative issues with devolving corporation tax. I note that nearly all of these have been covered in our discussion paper and you will no doubt be dealing with similar issues with respect to Northern Ireland and your consultation there.

I am sure that you will agree with me that the optimal strategy for reform is one that balances opportunities to promote growth whilst ensuring that the administrative burden on business is minimised. This is what all governments who are financially responsible do on a regular basis and Scotland would be no different.

The current UK tax system is complex and there are numerous examples in recent years where deficiencies in the current system bring into question the value for money taxpayers receive. That is precisely why the Scottish Government will examine all options before deciding on the most efficient tax system for Scotland, including the taxing of foreign profits and arrangements for small companies.

Likewise, I fully accept that governments face a careful balancing act between promoting growth and balancing the public finances. Once again however, this is something which financially responsible governments deal with on a regular basis and this cannot be viewed as a credible argument against giving Scotland greater autonomy. Our analysis shows that pre-announcing changes to corporation tax rates or allowances, phasing in reform or utilising borrowing powers responsibly, can help ensure that such trade-offs are managed in a responsible and efficient manner. Indeed the latest forecasts from the Office for Budget Responsibility predict that UK corporation tax receipts in 2013-14 will be higher than their pre-recession peak, despite the planned reductions in the headline corporation tax rate which your Government are currently taking forward.

I do not accept however, the estimates provided by HMRC on the potential costs to the Scottish Budget. I noted with interest the headline result predicted that halving the corporation tax rate in Scotland would cost approximately £2.6bn, identical to the entire estimated corporation tax revenues raised in Scotland. I was also puzzled why, unlike the modelling undertaken by HM Treasury for Northern Ireland, no assessment was made of the potential positive impact on the Scottish economy from a more competitive corporation tax rate.

Finally, it is right that you highlight the importance of ensuring that devolving corporation tax is compliant with EU State Aid laws. Our discussion paper and proposition recognises this and I am confident that our proposition is compliant with EU State Aid.

**Excise Duty on Alcohol**

The Scottish Government’s proposition for devolving alcohol duty is clear. We propose that alcohol duties be devolved to the Scottish Parliament so that the revenue raised from the duty in Scotland flows to the Scottish Budget.

This has a number of significant advantages. Firstly, it would better align the tax revenue raised with the public spending cost from alcohol consumption. Secondly, it would also provide a more stable revenue stream to help partly offset the volatility from the other tax proposals in the Scotland Bill. It therefore provides a useful mechanism to help address one of the key flaws in the Bill as it stands.
Our proposal for a per capita reduction in the block grant, which would then be replaced by duty revenues, is based on the belief that there is no fundamental reason why the level of alcohol consumption in a particular nation or region of England should differ from another part of the UK. This clear and simple principle would provide a fair basis for adjusting the block grant.

You also raised a number of technical issues with the way in which alcohol duties are estimated in Scotland and the motivation for apportioning revenues according to consumption. As ultimately the liability of the duty is borne by the consumer, I believe that using consumption as a means for apportioning such revenues is the most appropriate approach. Indeed this is the system adopted in many other countries.

I was disappointed that you misunderstood our proposition to conclude that this would incentivise the Scottish Government to encourage greater alcohol consumption. Let me reaffirm the Scottish Government’s commitment to tackling alcohol misuse in Scotland. That is precisely why we will shortly introduce a minimum price for alcohol.

Finally, you ask for clarity on why we believe that the Scotland Bill should be amended to devolve alcohol duties to the Scottish Parliament. We believe that this is the best way to put in place a mechanism for reforming the financial framework for Scotland that is transparent and robust to future reform.

I trust that my response addresses the key points raised in your recent correspondence. As I outlined at the start of my letter, I am committed to working constructively with the UK Government to find opportunities to improve the Scotland Bill and to address its key weaknesses.

I believe that we should discuss directly the principles and key policy objectives of our proposals on corporation tax and excise duty. The questions of a more technical nature should be discussed and resolved through the forum of the Joint Exchequer Committee (JEC), which is already discussing similar issues related to the Bill’s existing provisions.

It is common ground that these implementation issues will not be resolved before the Bill’s parliamentary stages are complete. As you know, we have proposed that the Bill should provide a formal statutory role for the Scottish Parliament in commencing the financial provisions. Such an amendment would recognise the Parliament’s proper role (analogous to the recent extension to devolution in Wales), and would provide both the necessary time and an incentive for both governments to reach a mutually satisfactory agreement on the implementation arrangements. I know you were asked about this by the Scotland Bill Committee on 27 September, and I was encouraged by your undertaking to consider this issue further. I would hope that negotiations on the Bill would also consider this proposal.

I am copying this letter to the Secretary of State for Scotland and Bruce Crawford.

JOHN SWINNEY

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