Dear Bruce

The FSB welcomes the opportunity to respond to the Committee’s call for evidence on implementing the Smith Agreement. Our views on further powers for Scotland are set out in our submission to the Smith Commission, which is attached for ease of reference.

We recognise that implementing the draft clauses presents a number of practical challenges. In particular, we are understandably keen to ensure that this process does not result in unnecessary disruption or administrative burden for Scotland’s small businesses. The greatest risk in this respect is likely to arise from the devolution of VAT and income tax.

In discussions about moving from the Smith Agreement to legislation, the FSB has consistently highlighted the need to ensure, as far as possible, that change is seamless from the taxpayer’s perspective. In practice this would mean avoiding additional paperwork for Scottish businesses, for example, having to complete two VAT or PAYE returns to two governments.

Thus far, we have received clear assurances that it is the UK Government’s intention to avoid any such disruption to business and to build on, not replace or duplicate, existing systems.

It is also helpful to consider the process currently underway to introduce the Scottish rate of income tax (SRIT) in April 2016. While the implementation of SRIT has not yet occurred (and thus the scope for difficulties to arise remains), the level of preparation and discussion with stakeholders has been good. In particular, HMRC’s early indication that it would seek to minimise the impact of the changes on employers and approach key questions from their perspective was extremely helpful. Accordingly, this is an implementation model we feel we would be well advised to adopt as further devolution is implemented.

I hope this is helpful and we are, of course, more than happy to expand on any of the above points if required.

Yours sincerely,

Colin Borland
Head of External Affairs, Scotland

Enc Smith Commission Submission
Lord Smith of Kelvin KT  
The Smith Commission  
144 Morrison Street  
EDINBURGH  
EH3 8EX  
23 October 2014

Dear Lord Smith,

Thank you for your letter of 26th September 2014 seeking the FSB’s input to your work on the devolution of further powers to the Scottish Parliament.

The FSB is Scotland’s largest direct-membership organisation, representing some 19,000 members in every community of the country and sector of the economy. In addition to helping our members do business more economically and with less risk, we campaign for an economic, business and political environment in which entrepreneurship can flourish and businesses can grow.

The FSB maintained a strictly neutral stance during the referendum campaign, but did conduct the largest survey of Scottish small businesses’ views on the debate, how it was affecting their business, the questions which mattered most to them and their hopes and concerns about the future.1 This work then informed a voting guide we produced in conjunction with the University of Edinburgh Business School that sought to explore the issues.2

In the immediate aftermath of the referendum vote, the FSB joined with twelve other leading business, industry and employer organisations3 in issuing a joint call for the focus of any new devolution settlement to be firmly on driving economic growth.4

In that statement, we sought to underline our strong belief that, “business and entrepreneurship has a crucial role to play in delivering the fairer and more prosperous Scotland for which so many

1 A survey of 1,826 FSB members in Scotland, carried out between 22 April and 15 May 2014. For more details see: http://www.fsb.org.uk/News.aspx?loc=scotland&rec=8653
3 The others were: Scottish Chambers of Commerce; Institute of Directors; CBI; Scottish Financial Enterprise; SCDI; ScotlandIS; Chemical Sciences Scotland; Scotch Whisky Association; Scottish Retail Consortium; Scottish Engineering; Scottish Building Federation; and ICAS.
expressed a keen desire during the referendum campaign. Not only do we create jobs, opportunities and revenues, a life in business can open up a whole world of possibilities for those with the creativity and drive.”

We now know that the referendum campaign itself had an impact on business decisions. 18% of respondents to our survey said that the referendum had influenced a business decision in the previous twelve months. When asked for examples, firms highlighted postponing investment or taking on new long term commitments. Thus, we see it as being in the interests of our members and the overall business environment that the proposals put forward by your commission represent a long-term constitutional settlement which gives businesses an agreed framework to plan and work within.

It is because we are keen for your proposals to represent a long-term, sustainable solution that in this submission we resist the temptation to argue for certain powers to be devolved to the Scottish Parliament because we believe that the current Scottish Government would use them in a manner of which we would approve (or indeed argue for other powers to be retained at a UK level because we fear disadvantageous use by the current government). Rather, we will focus on those areas where the act of devolving power to Holyrood will, in itself, benefit Scotland – regardless of the political complexion of the Scottish Government.

From the survey work we undertook during the referendum campaign, we know that the preferred option among our members in the event of a No vote was for the Scottish Parliament to be given greater powers.⁵ And, judging by the tenor of the public debate so far, it certainly seems that the Scottish Parliament is set to become a more powerful actor in our economy.

If this is the case, then we submit that the focus should be on how any new settlement will make boosting business and growth the top priority for the Scottish Parliament and Scottish Government. In practice, we believe this means making Holyrood responsible for raising more of the money it seeks to spend. Thus, allocating income tax receipts generated in Scotland to the Scottish Parliament, while devolving the power to set rates and bands (alongside a consequent drop in the block grant, obviously), is worthy of consideration. Further, income tax revenue is not the only serviceable yardstick of economic activity. The same could be said for receipts from National Insurance and VAT, therefore the practicalities of allocating these revenues directly to Scotland may also merit investigation.

However, we would stress that the economic advantages of any moves to allocate revenues raised in Scotland to a Scottish exchequer (and devolve some of the powers relating to income tax) must be balanced against the need to avoid placing extra administrative burdens on businesses. Our members value the UK single market and one of their key concerns in relation to independence was around having to deal with different tax and regulatory regimes.⁶

We applaud, for example, the manner in which the Scottish Income Tax is being implemented, with HMRC taking responsibility for identifying affected taxpayers and collection. This allows the policy objectives to be achieved, while imposing minimal disruption on the employer and his/her payroll systems.

⁵ When asked about changes they would like to see in Scotland’s governance in the event of a No vote, 62% of respondents said they would opt for more powers for the Scottish Parliament, while 22% opted for no change. Scotland’s Independence Referendum: Your Business, Your Vote, page 7.
⁶ 60% identified different tax and regulatory regimes to the rest of the UK as one of the main business risks. Scotland’s Independence Referendum: Your Business, Your Vote, page 7.
As a result, we caution against cancelling out the benefits of a Scottish Parliament more attuned to the health of the economy with the imposition of extra administrative burdens on the very businesses on whom the economy depends.

In conclusion, we would urge that your proposals represent a sustainable, long-term solution which makes the Scottish Parliament responsible for raising more of the money it spends while not introducing any further administrative burdens on business.
I hope this is helpful and wish you every success in your deliberations.

Yours sincerely,

Andy Willox OBE
Scottish Policy Convener
Federation of Small Businesses