24 February 2017

Dear Bruce

Draft Budget 2017/18 – Digital Engagement

As part of your Committee’s scrutiny of the Scottish Government’s Draft Budget 2017/18, I was happy to answer questions you had solicited from members of the public via twitter. Not all the questions could be addressed in the time allocated and I undertook to respond in writing for those that weren’t reached, and I understand you will then publish these on the Committee’s webpage. To this end my answers to the remaining questions can be found at annex A.

I look forward to our future engagement as we proceed with the Budget Bill.

DEREK MACKAY
Annex A: Scottish Government answers to twitter questions commissioned by the Finance Committee, but not answered at the session on 16 January

Taxation (General)

Q: How much of the estimated £120bn UK tax gap comes from the Scottish economy? (Scott Clark)

A: HMRC produces a tax-gap analysis, which seeks to estimate the difference between the amount of tax that should, in theory, be collected by HMRC, against what is actually collected. In their latest publication, they estimate the UK tax gap for 2014/15 as £36bn or 6.5% of theoretical liabilities. HMRC do not break this amount down by geographic area within Scotland.

HMRC continues to be responsible for the collection and administration of Scottish income tax, including compliance and enforcement activities, and the Scottish Government continues to work with HMRC to ensure that the risk of evasion and avoidance in Scotland is minimised.

Revenue Scotland is responsible for the collection of the full devolved taxes and...

Q: Can you explain the logic behind not increasing the 40% tax band as in line with the UK Government? (David John Nugent)

A: The aims of our tax proposals are to ensure that Scotland raises revenue fairly and efficiently to fund public services and ensure that Scotland remains an attractive place to live and work and do business.

In making our decisions on income tax policy we have sought a balance between protecting those taxpayers on lower incomes at a time of UK Government austerity, whilst asking those higher earners to forego a tax cut to raise additional revenue to support and deliver important public services.

Less than 10% of Scottish adults pay the Higher rate of income tax in Scotland.

HMRC

Q: What negative impact on tax compliance & yield will there be long term as a result of local HMRC Office closures? (John Davidson)

A: HMRC is responsible for the collection and administration of Scottish income tax, including compliance and enforcement activities.

We are fully committed to working with all interested parties at local, national and UK level, including the trades unions, to mitigate the impact of HMRC office closures and job losses in Scotland.

Q: Does the Cabinet Secretary back PCS union call over HMRC failures? (Cat Boyd)

A: An established assurance framework including a Memorandum of Understanding ensures that HMRC is implementing and operating Scottish income tax robustly. Additionally the National Audit Office and Audit Scotland report annually on HMRC's performance against this.

HMRC’s wider performance is a matter for the UK Government.
Q: Are HMRC’s plans to close all tax offices outside the central belt compatible with strong local economies and effective SRIT? (Ry McNeely)

A: Scottish Ministers are on record as being fully committed to working with all interested parties at local, national and UK level to mitigate any potential impacts of HMRC office closures and job losses in Scotland. Scottish Ministers are also committed to increasing sustainable economic growth across Scotland to support vibrant and resilient communities.

HMRC state that in the vast majority of cases, and especially with income tax collection, enforcement and compliance processes do not rely on local access to every taxpayer. In addition as more tax affairs are handled digitally the requirement for HMRC to be based locally reduces.

Q: Have equality and economic impact assessments been undertaken for the closure of HMRC offices in Scotland? (Barbra Farmer)

A: These are matters for the HMRC and the UK Government. However, clearly the SG support as many jobs here in Scotland as possible.

Q: What economic impact assessment has been undertaken regarding the closure of HMRC offices in Scotland? (Scott Clark)

A: This is a matter for HMRC and the UK Government.

Q: Does the Scottish Government recognise that collecting tax revenue needs skilled staff? Will you challenge HMRC cuts? (Scott Clark)

A: HMRC is responsible for the collection and administration of Scottish income tax, including compliance and enforcement activities.

HMRC have provided assurances to the Scottish Government that their planned action will have no impact on the operation and collection of Scottish income tax. The overall HMRC level of employment in Scotland will not change as a result of their reorganisation.

Q: Can you trust HMRC to deliver SRIT after they missed out 420,000 Scottish taxpayers from the new database? (Lynsey Pattie)

A: HMRC have provided the Scottish Government with assurances that their implementation and operation of Scottish income tax, including the identification of Scottish taxpayers, is robust.

The National Audit Office recognised in their report published in December 2016, that the Scottish Government played a key role in identifying this issue and ensuring that HMRC developed and implemented a successful solution.

Extensive on-going scrutiny continues to be applied by the Scottish Government to all HMRC activity in implementing and operating Scottish income tax. Specific attention is paid to the strategy for identifying Scottish income tax payers including regular review meetings between HMRC and the Scottish Government.

**Deadweight losses**

Q: Is the minister keen to avoid deadweight losses by collecting revenue from economic rent as advised by Stiglitz / Mirrlees (Scottish Land Revenue Group)?

A: Decisions on tax policy are informed by a wide range of considerations, including impacts on the markets taxed and behavioural responses.
Q: Are the deadweight losses of taxation higher than 1:1 in Scotland (Scottish Land Revenue Group)?
A: Decisions on tax are informed by evidence on positive or negative impacts on the markets affected as a consequence of any changes. We are not aware of any aggregate assessment of the overall tax system in Scotland, which of course includes reserved taxes.

Q: Will the minister require parliament to publish an annual assessment of economic rent generated from all sources in Scotland (Scottish Land Revenue Group)?
A: That would be a matter for Parliament.

Q: Will the minister command an annual assessment of the deadweight losses inflicted on Scotland by Acts of Parliament (Scottish Land Revenue Group)?
A: There are currently no plans to commission this.

Q: Does the minister recognise that each £1 of tax raised in Scotland inflicts a deadweight loss on the economy of at least £1 (Scottish Land Revenue Group)?
A: Tax is just one side of the balance sheet. Revenues from taxation are essential for funding public services and investing in the economy.

Q: Does the minister identify the cancellation of the deadweight losses of taxation as the route to fully funding public services (Scottish Land Revenue Group)?
A: The aims of our tax proposals are to ensure that Scotland raises revenue fairly and efficiently to fund public services and ensure that Scotland remains an attractive place to live and work and do business. To do that the Scottish Government relies on a basket of taxes and the Budget provides an annual opportunity to review tax policy.

Q: When invested taxes generate returns (e.g. a site value increases when an amenity is improved), to whom do the returns belong (Scottish Land Revenue Group)?
A: Where efficient and fair, the Scottish Government does take steps to recoup public investment. Examples include Section 75 agreements and Tax Incremental Finance schemes.