



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 26 February 2014

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CONTENTS

	Col.
DECISION ON TAKING BUSINESS IN PRIVATE	3679
REVENUE SCOTLAND AND TAX POWERS BILL: STAGE 1	3680

FINANCE COMMITTEE

6th Meeting 2014, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)

*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)

*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)

*Michael McMahon (Uddingston and Bellshill) (Lab)

*Jean Urquhart (Highlands and Islands) (Ind)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Crawford Beveridge (Fiscal Commission Working Group)

Professor Andrew Hughes Hallett (Fiscal Commission Working Group)

Professor John Kay

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 5

Scottish Parliament

Finance Committee

Wednesday 26 February 2014

[The Convener *opened the meeting at 09:30*]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning and welcome to the sixth meeting in 2014 of the Finance Committee of the Scottish Parliament. I remind everyone who is present to turn off any mobile phones or other electronic devices. Our first item of business is a decision on whether to take item 3 in private. Are members agreed?

Members *indicated agreement.*

Revenue Scotland and Tax Powers Bill: Stage 1

09:30

The Convener: Our second item of business is to take evidence from the Scottish Government's fiscal commission working group as part of our scrutiny of the Revenue Scotland and Tax Powers Bill. I welcome Crawford Beveridge and Professor Andrew Hughes Hallett. I understand that you both want to make a short opening statement.

Crawford Beveridge (Fiscal Commission Working Group): Thank you, convener. We appreciate the opportunity to speak to you today. Our appearance is on behalf of the fiscal commission working group, and we welcome the opportunity to share some of the thinking around the principles of tax design. Professor Mirrlees, who is a member of the group, has spoken to you before on a slightly wider basis, and we noted with great interest the experience that he was able to bring.

As you probably know, the working group is a subset of the Council of Economic Advisers. It has been established since March 2012 and was tasked with designing a robust macroeconomic framework for Scotland post-independence. To date, we have published four reports, which, if you have trouble sleeping, I am sure you will be able to work your way through over time. Three of those focus on currency, financial sustainability and the fiscal framework. Perhaps most relevant to the committee, however, is the paper that we published in November, which sets out the principles of a modern and efficient tax system in an independent Scotland. That report, together with the three other publications of the working group, provides a clear blueprint for a comprehensive fiscal framework for an independent Scotland.

Our work was not about particular tax rates, so we have not tried in any way to suggest what the specific taxes or rates should be. We were aiming to create a framework for designing a system that can meet the objectives of the Government in the most effective and efficient manner. It focuses on the clear principles of simplicity, stability, neutrality and flexibility—apologies to Adam Smith and his tax provisions—that we recommend the Scottish Government should follow in pursuing those objectives. However, we recommend that tax policy should form part of a much broader whole-system approach to the formulation of policy, taking advantage of Scotland's size to streamline institutions and decision making and focusing on the objectives of taxation and welfare across the entire public sector and beyond, which we think

could provide Scotland with a significant international advantage.

Our report made it clear that there is significant room for improvement in the United Kingdom tax system, which, like many others in the western world, has grown like Topsy over the couple of hundred years since it was introduced. It also stressed the importance of ensuring that individuals and companies pay their fair share of taxes in the system and highlighted the opportunities of using the tax system to make Scotland a more competitive environment. Such a system would be a tool for promoting economic growth, attracting quality jobs and, importantly, tackling inequalities across Scotland.

As you may know if you have read the report, we did not specifically cover the Revenue Scotland and Tax Powers Bill. Our work focused mainly on high-level principles of taxation generally. However, we hope that it can be used to inform the committee's work on the bill, and we welcome the opportunity to discuss the implications of the proposed framework.

Professor Andrew Hughes Hallett (Fiscal Commission Working Group): I have very little to add to that. That was the collective view of the working group.

Given the various principles of taxation, which have been mentioned—there are at least four, but sometimes one or two others can be added—it will never be possible to design one system that satisfies all of them perfectly simultaneously, so there is a trade-off. Not only is it for the policy makers to fix tax rates and so on—we do not suggest anything like that—but the priorities are also for the policy makers to decide. We can point out some of the pluses and minuses of different regimes, but not the details.

The evidence that you had from Professor Mirrlees a few weeks ago was very good—he gave a wonderful review of the principles behind taxation. There is little that I can add to it. There might be one or two points to pick up on but, in general, I think that he did a wonderful job, so I will not add any more on that.

The Convener: Thank you, gentlemen, for your opening comments, which are very much appreciated. In your submission there is a lot of discussion about the referendum issue and independence but we are not really here to ask about that so we will keep the questions on the issue of the bill before us. That might disappoint some of the folk in the public gallery, but never mind.

To fire on, I note that you state in paragraph 6.19 of your submission:

“A simple tax system is one in which tax rules and obligations are well known, easily understood, and liability is clear.”

However, as you touched on, the UK system is very complex. I think that there are somewhere in the region of 11,400 pages of tax law. Indeed, you go on to say in the submission:

“The UK tax system is complex and costly, and studies have shown there is considerable room for improvement in its design and operation.”

When we design a tax system for Scotland, what pitfalls should we be avoiding?

Crawford Beveridge: I will let Andrew Hughes Hallett give his views as well but what we were trying to say in the submission was that people—and businesses in particular—need a degree of certainty about what will happen with taxes. There has been a lot of discussion in the past few days about the oil industry, which is obviously very keen to make long-term investments and to have some certainty about what the tax system will do to those investments.

We were trying to say that it was important that people—individuals and companies—understood on what basis they were going to be taxed. People understand that taxes change over time because circumstances change; they understand that there needs to be flexibility in the system. However, by and large we ought to have some clarity about how things will work in the future.

To the extent that you can simplify these things, you also have an opportunity for efficiency in the system, which would allow the cost of taking taxes to come down dramatically compared with the rather complex way in which we do things today, particularly with regard to the need for large numbers of accountants to help us to get our taxes into line.

That was all that we were trying to say, really—that you cannot do all that overnight. You cannot take a very complex tax system and change it on day 1. As Professor Mirrlees probably mentioned, we were looking at probably a 10-year horizon to be able to solve the tax system and get it into a much better format. However, getting it into that state of simplicity would be worth while.

Professor Hughes Hallett: Of course, simplicity and flexibility are likely to conflict a bit and we want both, so that is where one of the trade-offs will come. It is difficult to manage that. It is particularly hard to set out a set of rules *ex ante* about how that trade-off should be managed, because if circumstances change, you might want to manage the trade-off in a slightly different way.

People want clarity about the system and how it works rather than rates. You cannot give them the rates. You do not want to make forecasts about

what you are going to do because forecasts are always wrong. You want to provide a set of principles and possibly some contingent rules, one of which might be to establish a presumption— but not necessarily a hard and fast rule—of small changes rather than large changes so that you have a gradual evolution if possible, which is known in the literature as tax smoothing. That is a popular idea.

The only thing that I would quarrel with Crawford Beveridge about is whether the UK tax system grew like Topsy or whether it is like Heathrow airport. The problem is that every time we face a new demand, we add a little bit on to the system and we end up walking down extremely complicated passages. It is much easier to have a clear system if you start with a concept and try to design it from there, working down from the general to the specific rather than adding bits on to the specific. There is an opportunity here in that regard that I would underline.

The Convener: So basically, you are saying that we should start from scratch.

One issue that causes great concern and, indeed, anger among the public is tax avoidance. For every new rule that is brought in to reduce avoidance, new loopholes seem to appear in the UK system. There is a perception among many that there are individuals who are not paying their fair share of taxation. How would you develop general anti-avoidance rules in a Scottish context in order to ensure that we have the kind of fairness that everybody feels the tax system should deliver?

Professor Hughes Hallett: I am taking notes as I listen to your question so that I do not forget it. At my age, the memory is not what it used to be, as my kids tell me.

I am not sure how to answer that question, because you are getting into the nitty-gritty of administration, implementation and, presumably, tax law. I find it difficult to talk with lawyers about the law, because I have a different perception of it. The one thing that I would say is that, if you focus on simplicity, you will have a good chance of getting higher compliance, first of all because it is more difficult to wriggle round and, secondly, because people know in advance that certain things are doable and certain things are not. That is much easier in a simple system.

The same thing applies to the question of fairness. If the system is relatively simple, you can see the degree of fairness or otherwise rather easily, so the incentive to wriggle round things if you feel that something is not quite fair is less. Without going into specific rules and administrative arrangements, I would go for simplicity as a way of

trying to characterise rules that can help us avoid avoidance.

Crawford Beveridge: Jim Mirrlees gave an example concerning property transfer, where somebody might decide that because there are differential rates, they can split up a property and buy it in sections. Given such cases, there is a stage at which one can never stop somebody with larceny in their heart from getting round the system; they will find a way to cheat no matter how many rules you put in. Therefore, it is helpful to start with the principles of what you are trying to do, so that people understand clearly that there will be somebody watching to ensure that nobody can get round the system.

At a certain point, trying to enforce the system could become more expensive than the tax that you are actually able to take, so we need a system that is as simple as possible, so that people understand what we are trying to achieve. We may just have to hope for the best as people try to find their way around.

The Convener: One issue with taxation is that sometimes the absolute letter of the law is used, as opposed to the clear meaning behind the law. That influenced the interpretation of the famous case involving Glasgow Rangers Football Club a year or two ago.

In chapter 2 of “Principles for a Modern and Efficient Tax System in an Independent Scotland”, you say:

“In considering the strengths and weaknesses of taxation, it is essential to reflect upon the entire system and not just one element.”

This is a framework bill, to a large extent. Do you feel that it does that?

Crawford Beveridge: I have to tell you that I am not an expert on the bill. I read it for the first time this week. It was long, and the bill was certainly trying to set out what we were suggesting, but we did not specifically discuss it in the working group, so we have not had time to think that through at all. I am sure that we can ask the working group to take a look at it if you wish, but Jim Mirrlees is probably the most expert of our people in that area and I suspect that the information that you got from him is as good as we are going to get.

The Convener: As I said, this discussion is not about independence, but you say in chapter 5 that independence would allow for the redesign of the tax system according to

“specific Scottish circumstances and needs”,

that

“Taxation is a key lever in competitiveness, economic growth and tackling inequalities”,

and that it

“plays a key role in a robust and successful macroeconomic framework.”

Do you believe that a bill such as this can deliver such a framework now, which can be adapted if there is a yes vote in the referendum but which can also deliver with devolved competences?

Crawford Beveridge: As far as I could tell from my reading of it, it is an attempt to put together a bill that will affect not only the two specific issues that you have mentioned but which could also be expanded to take on other levels of taxation if they were devolved to the Scottish Government. It seems to have gone quite a long way towards being able to do that, so I do not see why there should not be an opportunity to do exactly what you suggest and to adapt other things to the specific circumstances of Scotland.

The Convener: This is my final question, because I will open the discussion up to other colleagues, who will have their own questions.

You talk in your paper about

“Better linkages and streamlining of institutions involved in i) setting tax policy, ii) implementing tax policy, iii) administering tax collection, iv) linking to business policy, v) linking to welfare policy and vi) linking to environmental policy.”

How can all of those be worked together in such a bill?

09:45

Professor Hughes Hallett: That takes us back to Crawford Beveridge’s previous point. The answer is not very much, as far as the bill as drafted is concerned. You want to frame the provisions in such a way that you have the potential to do that in the future, because those issues will come up. Whether you are in a position to influence the other taxes is another matter. You certainly want to be in that position, and you would not want to frame a bill and, after the event, say, “Oh gee, we have these other taxes. Let’s see how we can link them with everything else,” without having the framework in place to do that.

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): We have before us some excerpts of your report, “Principles for a Modern and Efficient Tax System in an Independent Scotland”. You highlight a statistic that I have heard being used before. It occurred to me when I was reading the report that I have always accepted this without assessing what it means. You state:

“the Scottish Parliament is responsible for around 7% of all taxes raised in Scotland ... This will rise to 15% with the introduction of new responsibilities flowing from the Scotland Act 2012.”

What is it that we are talking about here? Does that refer to 7 per cent of all revenue accrued, or some other mechanism?

Crawford Beveridge: The report was trying to say that, at the moment, the Scottish Government has the ability to make changes to only about 7 per cent of all tax raised here, including a geographical share of oil. The Scotland Act 2012 allows us to push that up towards 15 per cent, but it is still a relatively small amount, as you are probably aware.

It can be difficult to build a tax system in pieces like this. Sometimes, some taxes will offset other taxes and will cause other things to happen. A good example might be the passenger tax at airports. Even if we had control of that and we thought that doing away with passenger tax would mean many more people coming into Scotland, such that we would make it back in VAT and other tax revenues coming in, those tax revenues would not necessarily accrue back to Scotland—they would accrue back to the Treasury. It is sometimes difficult not to take a holistic view of things in trying to figure out what it is possible to do with some small pieces.

Jamie Hepburn: Thank you for that useful clarification. That was my instinct: I thought that that would probably be the case, but I just wanted to clarify that.

The summary in your report sets out a key theme that is articulated throughout the report, which is that it is essential to consider the entire tax system rather than just one element. We are considering a bill to create a body that will deal with a very limited number of taxes. How much of an issue is that? We are where we are, so how do we do as best we can if we are not necessarily considering the entire tax system?

Professor Hughes Hallett: Quite—that is my instinctive answer. If you are looking at only a couple of small pieces, you cannot do very much with that. I know that the income tax bit under the Scotland Act 2012 is not with you at the moment, but it might be one of these days. The big problem in trying to use these taxes to steer the economy is that you have no access to the spillover on to other taxes. That is a problem in running the system, and it is one of the big disadvantages of that approach to devolving.

I reiterate what I said before. You would want a system that is capable of dealing with those things, and you should be able at least to talk about them even if you do not have the capacity to look after them until some point in the future.

Jamie Hepburn: Mr Beveridge mentioned that you have only recently looked at the bill that we are assessing just now. Judging by your reading of

the bill so far, do you think that is it doing as best it can with the powers that we have?

Professor Hughes Hallett: I would say yes.

Crawford Beveridge: From what I have read, I think that the answer is yes. However, we pointed out in our report that, ideally, you would have tax as part of an entire fiscal system in Scotland. Why do we collect taxes in the first place? One reason is to ensure that the Government is funded for the programmes that it wants to run. Another reason might be to make transfers of various sorts, either between social groups or from today into the future—for pensions and other things of that nature. A further reason might be to tackle some kind of market failure.

It is difficult to take just a couple of taxes, as you have in the bill before you, rather than making the measures part of a much more rigorous system that attaches them to what you are doing with your budgeting system, your transfer system and so on. The main point that we were trying to make was about dealing with one element in an entire macroeconomic system. We need to be careful about that. When you are fiddling with just one bit, you can only go so far.

Jamie Hepburn: I have a further similar question. The convener has highlighted part of the executive summary of your report, and I will highlight it again. The report said:

“The UK tax system is complex and costly, and ... there is considerable room for improvement in its design and operation.”

The convener asked about the pitfalls to avoid, and that leads me on to another question. Again I take on board the fact that you have only just recently looked at the bill but, in so far as you have read and understood it, does it represent an improvement, particularly in relation to the two taxes? Is it an improvement on what the UK has administered?

Crawford Beveridge: It looked to me from reading the bill that it simplifies things and makes them a lot easier for people like me to understand. I do not do a lot of work on the transfer of property and so on, but I thought that the bill makes a real attempt to simplify what has been quite a complicated system into one that is easy to understand as far as the principles are concerned.

Jamie Hepburn: Noting the answers that you have just given, I know that your recommendations on the principles for a modern, efficient tax system obviously go much wider, but do you think that the limited number of taxes that we are dealing with today meet the recommendations that you have set out?

Crawford Beveridge: Yes, I think so. As far as I could tell by checking the provisions against the principles that we set out, they will.

Jamie Hepburn: Would you agree, professor?

Professor Hughes Hallett: Yes. In part, that comes from the fact that you are able to consider the matter for the first time, as it were. I know that the taxes are not being considered for the first time, but you now have the opportunity to examine them and to ask whether this is really how you want to use them. Then, you slightly adapt the framework to fit that and you are able to do something that has not been possible before. You have the two taxes, and you can work out whether you can set them up in such a way that they allow for what you want to happen in Scotland, as opposed to there just being some average for a wider field.

I have just one further point to make on this subject, and it is a fairly obvious one for those who have listened to me before. I am fairly keen on forward-looking analysis. What are the various implications for the future? Even if you do not have control over some of the things that you might have control over in another context, you can consider the particular taxes before you and the implications of changing them or making them work in a different way—there will be various possible implications for the way in which the economy or a particular market functions. You cannot do anything about it, because it is a reserved power, but it is good to know, before something else happens—before there is a disaster, or before there is some wonderful windfall that you had not expected.

John Mason (Glasgow Shettleston) (SNP): In the overall scheme of things, when international companies from around the world are thinking of investing in one country or another country, how important is tax as part of the whole package? Presumably, they are considering other things, including an educated workforce. How important is tax in all of that?

Crawford Beveridge: When the companies that I have worked for—which I can probably speak to—are doing international location studies, tax is definitely fairly far down at the bottom of the list. If people are not sure that a tax regime is going to be consistent, they need to ensure that all the other operational things pay off for the investment that they are going to make in their company.

I have mostly been in technology industries, in which the payback time for investments is relatively short. In the oil or oil processing industries, for example, the payback time is much longer. I am sure that if I had worked for oil companies, tax and the ability to predict tax would have been further up my list.

By and large, for most companies with reasonably short-term investment paybacks, tax is one factor that they would consider. We can see, for example, the effect that the Irish position of having very low taxes had on their ability to drive inward investment. It has not done all that they might have wanted it to do, but it was certainly a factor in getting companies to consider whether they wanted to pay 20 to 30 per cent in corporation tax or 10 per cent.

Andrew Hughes Hallett might be able to talk about this more wisely than I can, but it is not just about the tax rate but about how it is administered. If I recall correctly, Germany has a relatively high rate but collects very little in tax, because there are so many allowances in the middle. That is a condition that creates a very complex tax system. The simpler the tax system, the easier it is for companies to comprehend it and include it in their decisions about whether to locate somewhere. Is that fair, Andrew?

Professor Hughes Hallett: Yes. I think that we have been in the working group too long. Crawford Beveridge has pinched half of my thunder.

Crawford Beveridge: I should explain that I am not an economist but just a simple businessperson. These guys have done their best to train me for the past four years, but I still fail sometimes.

John Mason: I found what you said interesting. You have a Scottish Enterprise background, so you have quite a lot of knowledge of companies coming and going and of what they are interested in.

Professor Hughes Hallett: What Crawford Beveridge said cuts both ways, because he has been in business and I have not, so he can speak with more authority about that.

When we consider how important tax is, we immediately start talking about corporation tax, because that is what grabs the headlines in the newspapers. Corporation tax is important, but it is not totally important and is probably less important than people would like to persuade you.

There are all sorts of other costs and taxes. When I am lecturing, we call them non-wage taxes, which are costs to the employer that are not part of the wages that they have to pay out. Those are important as well because they have to do with the competitiveness of a company's position and whether they will invest in one place rather than another. The factors that are probably further up Crawford's list, depending on what is being done, are to do with skills, education and language, and the ease of doing business. There are a lot of factors, but tax is clearly in there.

When we use the phrase "ease of doing business", what exactly we are talking about becomes a bit murky. It is often argued that a complex tax system puts businesspeople off. That is probably true, because they fear unpredictable changes that come with no warning. A simpler tax scheme would be much better for them than a complex one. It is therefore really not so much the level of tax but the potential for changing it that would bother businesspeople.

That said, the complexity is to do with how the tax system works, as Crawford implied when he mentioned Germany; it is not to do with filling in forms. There is an academic paper—I like to push academic papers—that shows that the complexity in a tax system from filling in forms apparently has no impact at all on most businesspeople's thinking. The issue is how the system actually works.

My numbers are perhaps a little out of date, but a couple of years back German corporation tax rates were in the 30 per cents, depending on where a company was and what it was doing, compared with Ireland's 12.5 per cent rate. However, Germany raised much less money by having the higher tax rate, because there were thousands of exemptions and other arrangements that meant that people found that they did not have to pay or they could pay a lower rate. It can therefore be argued that that system is too complex and takes up too much time.

As I said earlier, a simpler rate has the advantage that it is better for compliance reasons. People know what it is and are more ready to pay.

Crawford Beveridge: Just to add to that, one of the things that we said in the paper is that it is important when constructing a tax system to try to gain international co-operation. I can assure you that almost any time a company picks a country to settle in, which is usually for the reasons that Andrew Hughes Hallett highlighted—skill levels and so on—the company can structure itself in particular ways, which can be called tax avoidance or whatever, that allow it to minimise the amount of tax that it pays. There are lots of very smart accountants out there who can tell companies how to set up in Scotland and pay practically no tax at all, because they can run it through subsidiaries in places such as Ireland or Holland that will gladly allow them to do that. If we want to get fair taxes paid, we must understand that international co-operation in the way that I indicated is very important.

10:00

John Mason: I presume that the situation for a company such as Google that is just going to put up a big office in one place, which is one decision,

is different from that for companies such as Starbucks, which wants a coffee shop in every part of the world, I guess. I presume that, as long as it can make a profit, Starbucks will be less affected by tax rates than the big headquarters moving around are.

Crawford Beveridge: The reason why such companies are less affected is that they can set up their businesses in ways that flow their revenue to places where there are very low taxes. You have seen some companies, such as Starbucks, that have been under a lot of criticism because they have very large revenue in the UK but do not pay very much tax here. That is because they take that revenue and show it somewhere else in a much lower tax regime. Almost every company for which I have worked has employed large numbers of lawyers to ensure that revenue flows to places where they do not have to pay any taxes. That is because there has been no international co-operation in the arena at all.

John Mason: That is interesting, because Professor Kay is coming next and he argues that there should be more international co-operation, especially on the big taxes such as VAT and corporation tax.

Crawford Beveridge: Absolutely.

John Mason: Is that the way we are going or should be going?

Crawford Beveridge: Yes. There are many countries in the world and many of them think that giving tax breaks to people will enhance their economies dramatically because they will get some income and, perhaps, some jobs coming in. Singapore, for example, allows companies to put headquarters there and, as long as the company has a certain number of reasonable-level jobs in it, gives it a tax break on all its Asian income flowing in through the Singapore operations. There will always be such countries that will not want to sign up to a totally international system, but we could at least get a large number of countries working together.

John Kay will probably know a lot more about that than I do, but I think that he, too, would argue that we ought to try as hard as we can to get everybody to co-operate.

John Mason: Smoothing or not having large changes in the tax system has also been mentioned. Any country would be tempted, if it suddenly saw a sector making superprofits—be it banking, oil or whatever—to get in and get a cut of them. How do we balance that against stability?

Crawford Beveridge: As Andrew Hughes Hallett said earlier, that is the complexity. Some flexibility is needed because conditions change and you want to ensure that you get the right

revenue and tackle the right kinds of things through the tax system. However, the problem is that, if you make sharp shifts, you affect not only the industry that you have gone after—let us say banking or oil—because everybody else sits up and says, “Uh oh, if they do that to them, what will happen to me?” We need to be thoughtful, planful and forward thinking about how we make such changes. Is that fair, Andrew?

Professor Hughes Hallett: Yes. If you start with a small change, you can see what the reaction is. If you start with a big change, you get a reaction that may be the one that you did not want, but it is then too late. If I were doing it—which I am not going to be asked to do—I would make a small change, see how people reacted to it and then build up a bit further so that, in any one time period, there would not be a terribly big change. What is more, that would allow firms to see what way the tax regime was going. If they do not like it, they will let you know and, if they really do not like it, they will vote with their feet. It is best to go steadily.

John Mason: You say that they would vote with their feet but, if their industry is oil, which is fixed in the North Sea, they cannot exactly go away and leave it.

Professor Hughes Hallett: No. I am talking in generalities, of course. Firms voted with their feet on the pay arrangements that were put in place for banks in London. A number of funds moved themselves to Geneva. I understand that a number of them got to Geneva, found it a little bit boring—forgive me—and moved back again.

Many factors are in play, but there is a potential for firms to vote with their feet. If we look at European integration, we find that a surprising number of firms are mobile. Those in the oil industry are not because they have to be where the oil is, but factories can be deconstructed and moved elsewhere.

Crawford Beveridge: However, even with oil, there are choices to be made about where it is pumped and where the next round of investment is made. If the cost of retrieving the oil and the tax system are such that it is much easier to retrieve it in Saudi Arabia and the Gulf, firms could disinvest for a while. Eventually, investment will come back, because the firms will need to go and get the stuff out of the ground—John Mason is right about that—but we need to be careful that we do not cause firms to make investment decisions that are against our best interests.

John Mason: The final area that I want to touch on is the suggestion that tax and welfare should be joined up. There is perhaps not much room for that with the landfill tax and the land and buildings transaction tax, but we might need to consider that

at some stage. Are there international examples of where a more joined-up approach is taken than in the UK, or is it a general problem that tax and welfare are not joined up? Is that an unfair question?

Professor Hughes Hallett: No, it is not an unfair question, but it offers a temptation to make amazing generalities that are probably not terribly useful.

The Convener: It is not terribly connected to the bill either, which is what we are trying to focus on.

Professor Hughes Hallett: No, but I think that some of the discussion on the bill must reflect ideas on general practice and presumptions about how things work. If we have such discussion now, that will colour what is done at a later stage, so it is important to get round that.

There should be a connection with welfare, and I go back to the issue of taxes being assessed on incomes and what I called non-wage costs—there are connections there, too. In many European countries, those two are linked together, whereas here they are lumped together without much thought. Therefore, there probably is scope for tax and welfare to be joined up but, as you said, that is not the case with the landfill tax and the LBTT.

John Mason: Thanks very much.

Gavin Brown (Lothian) (Con): I will return to the bill. In response to a question from Jamie Hepburn, Mr Beveridge said—I think that I wrote this down right—that the bill “simplifies” the system for people like you. Will you expand on that? Which areas of the bill simplify the system?

Crawford Beveridge: Neither of the issues with which the bill deals affects me very much at all, but I had never quite understood the system in Scotland and, when I read the bill, I understood what the Government was trying to do. If I can do that with areas that are not of particular interest to me and in which I have no particular expertise, I presume that others who need to make use of these taxes will understand them much better as well.

Gavin Brown: Which parts of the bill simplified matters for you, compared with the existing system?

Crawford Beveridge: Perhaps it is just that I had not spent enough time understanding how the taxes work at the moment. When I read through the bill, I thought, “Ah! Now I understand exactly how these things work.” The answer that I gave was a general one, because I had never studied the taxes. It seemed from the bill that they were fairly simple, whereas I had always heard people complain about them in the past.

Gavin Brown: Should the bill deal purely with the two taxes that will be devolved from April of next year, or should it look at setting up a longer-term framework?

Crawford Beveridge: As I read it, the principle behind the bill was that the Government was trying to ensure that it allowed for any other devolved taxes that came along to be dealt with without going back to square 1 and starting all over again with a new bill. It seemed to meet some of the tests on simplicity, neutrality and so on in those kinds of areas, so I felt that it was set up to deal with other things that might come along.

Gavin Brown: Okay.

I would be interested to get answers from both of you on a more general proposition. To what extent should tax legislation be dealt with in primary legislation as opposed to secondary legislation and regulations? In your view, how should that balance be struck?

Professor Hughes Hallett: This is a nice discussion, because it allows me to open up on areas that I know nothing about. As I am not a tax expert and have not done a lot of work on that, it is difficult for me to know whether I am talking sense. However, my sense is that, as I said earlier, the bill should definitely be set up to look forward. The general principles should be in the primary legislation, but I do not think that it is possible to legislate on the basis of presumptions about how things will work. That has to be dealt with in secondary legislation or in implementation and practice—the regulation part.

If that is what the bill ends up doing, that is progress. With the passage of time, other things happen and it is easy to bring in extra bits of legislation that say, “You can’t do this,” or “You must do that,” and if the principles are not laid out, that can become a muddle. Separating the principles from how things will work means that the simplicity will last longer.

Crawford Beveridge: That is right. Getting the principles in primary legislation is one thing, but flexibility reduces as the principal legislation becomes more specific, because changes will require another bill later. Doing most of the stuff in regulations is much wiser than putting it all in the principal legislation.

Gavin Brown: Do you have a view on the balance that has been struck in the bill?

Crawford Beveridge: I honestly do not.

Professor Hughes Hallett: I can give you any views that you like, but we are not expert enough to give you a useful view.

Gavin Brown: The general anti-avoidance rule is the measure in the bill that has attracted the

most discussion. Will you give me your views on how it is framed in the bill or more generally, if you cannot comment on the specifics?

Crawford Beveridge: As I said in response to the convener, the bill does as good a job as can be done to lay out the principles. However, the position is difficult, because this is a bit like dealing with hacking in computer systems. If somebody is bound and determined to get round the law, they will do everything that they can and spend lots of money to do that.

You cannot stop everything that tries to avoid tax. All that you can do is lay out what you are trying to achieve and ensure that that is written with enough scope so that, if somebody goes definitely against the spirit of the rule, there is an opportunity to tackle them on their avoidance. Is that fair, Andrew?

Professor Hughes Hallett: Yes—that is fair. I find it difficult to comment. In general terms, the rule seems fine, but I am left wondering what specifically will be done. That question probably cannot be answered in the context of framing a bill on revenue Scotland.

The one issue that has caught my attention is whether there is scope and whether it is sensible to have a set of guidelines, when revenue Scotland is up and running, on its view about what can and cannot be done. I hesitate about that because we do not want to get to the point at which it looks as though *ex ante* deals are being done for best friends. I imagine that it would be helpful if general guidelines came from revenue Scotland about whether something was okay, rather than it being known as a matter of practice that a firm got away with something, which means that people think that they can try the same thing. However, the guidelines might be a bit difficult to craft.

Crawford Beveridge: I will use a slightly different example from elsewhere. Some years ago, California, which is one of the other places where I live, introduced a landfill tax with the intent of getting people to recycle more, which I assume is similar to the intention in the bill. However, people in California incinerated waste more, which caused all sorts of environmental problems. The legislation there had to be changed to ensure that its purpose was met.

Unintended consequences often arise from what we do. As far as I can tell from reading the bill, the Government has tried its best to ensure that that does not happen, but some people will always say that there is an easier, cheaper and better way for them to do something, so they do not have to do exactly what the bill says.

Gavin Brown: In relation to the general anti-avoidance rule, it has been suggested to us that a

formal pre-transaction clearance procedure should exist. That is not universally agreed on; some people think that it should be used and some do not. From your business experience, what is your view on such a formal procedure?

Crawford Beveridge: The good news is that such a procedure provides a degree of certainty and means that people know that they can go ahead without running foul of the authorities. The bad news is that, as with planning processes, if the procedure turns into a fairly lengthy bureaucratic process, that can start people down the road of saying, “Maybe we don’t want to go there—it’s just too complicated.”

A balance needs to be struck whereby people understand that they might take risks if they proceed without pre-approval. However, if everything is put into a stack and we have to wait for somebody to look at it and say, “I’ve taken all the legal advice and you’re absolutely clear,” that can cause problems.

Gavin Brown: So, on balance?

Crawford Beveridge: On balance, the more guidance we can give about those things that are not likely to draw contention the better, but I would be cautious about pre-approval for everything.

Gavin Brown: I just want to make sure that I heard you right at the start. Did you say that the bill has not been formally discussed by the fiscal commission working group?

Crawford Beveridge: That is correct.

10:15

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): I will start with the bill, to keep the convener happy.

Do you believe that the bill, as it stands, will be flexible enough to accommodate a wholesale transfer of tax powers, or do you think that such a transfer would require a new piece of primary legislation to embed the kind of principles that you have articulated in your policy paper?

Crawford Beveridge: I will let Andrew Hughes Hallett speak for himself, but my suspicion is that more legislation would probably be needed, just because of the number of taxes involved, their breadth and the amounts that we would be talking about. We need to remember that we would have to take on a lot of things immediately and that there would be a lot of things that we would not be able to change immediately; it would take time to decide how to shift and change the tax system. I do not know enough about the way that the legal system works here to tell you that it would definitely need primary legislation, but I would think, given the range of existing UK taxes that we

would be likely to inherit, that the bill is probably a shade lighter than we would need to be able to tackle all of them. However, as I have said, I am not an expert.

Professor Hughes Hallett: I am not an expert, either, but I agree with that. The two taxes that we are talking about at the moment are quite specific, and you might want to have new legislation to alter the balance between the different criteria that you are trying to satisfy if you want to adopt a more general approach, so I imagine that more legislation would be needed.

Malcolm Chisholm: That is interesting. There has been some tension in the evidence that we have had so far about the extent to which the bill is focused on the limited tax powers and the extent to which it could be used for a much wider range of taxes. We will undoubtedly pursue that with other witnesses.

You mentioned that the Scottish Government should take a whole-systems approach and should take into account key interlinkages with wider policy objectives, which is quite an interesting area in itself. For example, you say that you want a tax system that helps to increase productivity and economic growth, and one that is a key lever for tackling inequalities, which are fairly high-level principles. Do you think that, in practice, those two objectives are often contradictory?

Professor Hughes Hallett: Not necessarily, but maybe. You will know the joke that goes, "For heaven's sake, find me a one-handed economist." It is a bit like that.

Malcolm Chisholm: Did your colleague Professor Stiglitz not go on about growth not necessarily leading to more equality?

Professor Hughes Hallett: He is very concerned about the equality angle. Growth may lead there, but it depends what else you do with the system.

The productivity angle has a lot to do with trying to help investment in the right places, which does not in itself do anything for inequality because, again, it is a question of what the other parts of the system are doing. What your question underlines is the general need to look at those links and to ensure that the taxes are joined up, in the sense that the spillovers—or in the case of growth and equality, the lack of spillovers in the right places—are taken care of and are built into the system.

Normally, you do not fiddle around with the taxes with which you aim to create productivity growth or to address equality pressures; you build in extra movements in other taxes that are not directed at that to take care of the spillovers from growth to greater inequality and take them out.

You need something of that nature. You need the overview.

Crawford Beveridge: If you read Joe Stiglitz's book, you will see that he makes a cogent case that inequality holds back growth anyway, so there is not always an incompatibility. You need to have a discussion at a more political or policy level, and then design the tax system to try to meet the objectives set out at that level. Economic growth and equality are not always incompatible. In fact, Professor Stiglitz would argue that they are inextricably linked and that we need to solve one to solve the other.

Malcolm Chisholm: I am not suggesting that they are incompatible. It is just that at certain times they could be, depending on what kind of business investment it is or whatever.

The other issue that is very topical is oil taxation and climate change, on which we just accept that we have to have spillovers, which we make up for in other ways. I presume that that is what you think.

Professor Hughes Hallett: Yes, that is the general principle.

Malcolm Chisholm: This has already been covered by John Mason to some extent, but another recommendation in your report is that

"The government should put the issue of globalisation at the heart of its tax system".

I have no doubt that we will ask Professor Kay about that but, to summarise, are you basically saying that we need to have international co-operation and that you do not think that the tax advantages will persist? Is that what you are suggesting?

Crawford Beveridge: There may well be pieces of taxation that could enhance your economic competitiveness and which would not impinge on other people. For example, if you moved towards a set of taxes that pushed people towards a much greener economy here, there could well be industries that found that particularly attractive, even though there could be some higher taxes on other areas that they run.

However, in general, what I was saying to Mr Mason was that I have never worked for a company that has not had very sophisticated tax help to make it take its revenue in places that lowered its taxes, irrespective of which countries they happened to be in. Unless you get some degree of co-operation globally, you will never be able to solve that.

Professor Hughes Hallett: The other side of the coin is that other countries on the outside may do something and, without co-operation, you will have no handle on them.

However, if you have some sort of formalised co-operation, you can talk to them and say, "It would not be very helpful if you did that; we might be able to do something that is more helpful to you." Those are the standard co-operation arguments. It is probably feasible to do that within groups of countries, but to do it worldwide is more difficult. I am thinking of Singapore, the Cayman Islands and so on. I imagine that some co-operation could be very usefully introduced, but it may not involve absolutely everything.

Malcolm Chisholm: Okay. Thank you.

You recommend establishing one or more fiscal rules. Do you have any suggestions about what they should be?

Professor Hughes Hallett: Oh, yes. I could go on at length. There are a range of possible fiscal rules. If you want specifics, I would favour something that put some controls on the public sector debt ratio, although that is not necessarily what everybody else would favour. I do not want to get technical about it, but that has implications for your ability to set the primary surplus—that is the surplus that exists before the budget balance and before interest payments are made.

You might well want to have a rule that says that on average—across the cycle or some other specified period of time—you need to balance the current budget, as opposed to the capital budget that you borrow for capital purposes. That used to be known as the golden rule and used to be used in London, but it is not any more. It is still used in Germany to good effect.

I only mention those because they are very specific sets of rules that are easy enough for me to dream up. Whether they are acceptable in the particular form of government is another matter.

Malcolm Chisholm: Okay. I could pursue that, but I will not.

In your report, you identify four principles for an independent taxation system: simplicity, stability, neutrality and flexibility. Others have suggested proportionality. Is there any reason why you have not included that principle?

Professor Hughes Hallett: I think that Jim Mirrlees went over that at some length and he is better than me at this, as I remember. I was a graduate student once.

The debate was between proportionate and proportionality. I think that we would probably all agree on proportionate, but we might disagree on whether it is a good idea to have a proportional tax, which implies no progressivity or something of that kind. We would prefer not to have that.

Crawford Beveridge: We could have been more explicit about that point, to tell you the truth.

It was certainly in the back of people's minds that there ought to be some system—whether we call it proportional or proportionate. It would have been helpful to have something about it in the report.

Michael McMahon (Uddingston and Bellshill) (Lab): I hope that the witnesses will bear with me, because I want to connect some of their comments today with the paper that they submitted. Malcolm Chisholm talked about the connection between growth and inequality, but I note that the third aspect of the recommendation that he mentioned is competitiveness. In light of some of your other comments, there are real questions in my mind about how advantageous it would be to try to be competitive, based on the bill that is before us and the taxes that it affects.

Mr Beveridge, one of the concerns that were raised when we were considering the Landfill Tax (Scotland) Bill highlights the issue of unintended consequences, to which you referred in discussing incineration in California. The concern was about whether a particular rate would drive waste south to England or attract waste from England to Scotland for disposal. However, you said that we should not fiddle with the small bits. Is that an argument for having an all-or-nothing attitude to the transfer of taxation?

Crawford Beveridge: No. First, I would ask what the Parliament was trying to achieve through the landfill tax. Were you trying to ensure that we did not have an excessive amount of landfill and to drive people towards being more thoughtful about recycling, or were you trying to build a waste management industry in Scotland, or both? That might affect the way in which you decided to set up the tax system.

In one way, you might—as you say—have made the system attractive enough that people started moving waste here. If that was what we really wanted—although I suspect that it probably was not—we could build that type of business in Scotland. Some countries in the world have done that, as you will know, particularly in areas such as computer recycling. Parts of Africa have decided that they would be willing to take the risks that are associated with some of the very bad materials that bleed out of computer systems in order to bring enough work to their people, and so they import all the dead computers from around the world. Some other countries say, "We simply want to ensure that our waste is recycled to the maximum extent, and we are putting in place the tax regimes that will allow us to do that, as we do not want to build a waste management industry." You need to start by considering what it is that you want to do.

Michael McMahon: That leads on to the idea of co-operation. I understand why we would want co-operation to be as wide as possible in terms of

preventing tax avoidance but what would be the extent of the co-operation that would be required to set a tax rate?

We have had political arguments about whether we would put Scotland at an advantage or disadvantage if we had a lower rate of corporation tax. When we considered the LBTT, we looked at whether people in London who were seeking to invest would base their investment decisions on whether the tax rate in Scotland is higher or lower than in England. How extensive does co-operation have to be in order to create a situation in which Scotland is neither advantaged nor disadvantaged as a result of setting tax rates that are different from those of our nearest neighbours, who could become our greatest competitors?

Crawford Beveridge: Andrew Hughes Hallett knows more about that than I do, but, in my opinion, the biggest area of co-operation that we should start with is corporation tax. That is the area in which the biggest fiddles go on with regard to where people take revenue and how they move it around the world.

If you try to achieve co-operation across the board, you will not be able to do so, but in principle you should start by asking what you are trying to achieve for Scotland and then think about the tax system in that regard. You should then think about what effect the system would have on our neighbours and whether there is a competitiveness issue that would cause them to cry foul and say, "These people are setting up an avoidance scheme and we are not going to co-operate with them any more on such things."

You do not need to have a levelling of tax everywhere; I think that everyone understands that you need to be competitive in such things. However, there needs to be some way by which people understand that no totally unfair advantages have been built into the system that might cause a war and a rush to the bottom as a result of people trying to set up avoidance schemes. Is that fair?

Professor Hughes Hallett: That is reasonable. I would start from the same point as Crawford Beveridge: you have to decide what you want to achieve.

Having said that, I think that Michael McMahon's point is valid, as other people are worried about that sort of thing in other contexts. When the North American free trade agreement was set up between the United States, Canada and Mexico, those countries were worried that what used to be called the dirty industries would all go to Mexico, which had a comparative advantage in cost terms. Although such a move would, of course, have got rid of pollution in the US, legislation was introduced to try to prevent that from happening by

trying to persuade the Mexicans to introduce rather better labour protection laws, which would have meant that costs in Mexico would not have been so low. It was a back-handed way of addressing the issue.

In the event, that turned out not to be so terribly important, which suggests that the differences that have to exist to make differential rates a serious problem are probably larger than one might imagine. That is my supposition from reading the evidence.

10:30

Finally, I do not wish to belittle anything, but the effects on the overall economy of the two taxes that we are discussing are not going to be huge. It is possible that you might worry about that sort of thing when another tax comes along that might have a much larger effect, which brings us back to the point that we want the framework to be open enough to deal with other potential taxes that might be introduced later on. That is my forward-looking point.

Michael McMahon: When we considered the two previous bills, people expressed to us concerns about differential rates of landfill tax or land and buildings transaction tax in Scotland compared with England. Are you saying that the difference would have to be quite extensive before there would be a huge disadvantage or advantage?

Crawford Beveridge: I think that that is right.

Professor Hughes Hallett: Yes.

Michael McMahon: So the same would apply if there were a differential rate of corporation tax between Scotland and England. The difference would have to be quite vast before it would have an effect.

Crawford Beveridge: That is what I believe. A marginal change of 1 or 2 per cent would probably not cause a company to say, "Oh, let's up sticks and move everything."

Michael McMahon: Would 3 per cent make a difference?

Crawford Beveridge: That is something that you ought to look at, but, as Andrew Hughes Hallett says, the other interesting point is that the tax rate is not the only factor; there is also what you do inside that rate in terms of giving people allowances, exemptions and so on. It is very hard to sit down and say, "How does Ireland compare with Germany, France or Indonesia?" You have to understand the systems at a fairly detailed level.

In principle, I agree that it would take a fairly big shift in the actual rate of tax that people have to pay, rather than in the headline rate, to make a

company want to move its operations in some way.

Professor Hughes Hallett: There are several points to make in that regard. As I am not a lawyer, it is difficult for me to know how I would frame the question of how large is large in that context. Of course, the level of difference that would have an effect will be different for different taxes, but I think that the difference would have to be quite large. Obviously, you can make it large enough so that it makes a difference.

For example, on corporation tax, the difference between a rate of 30 per cent in Germany and 12 per cent in Ireland might be large and a number of firms—of a certain type, anyway—might have moved but, coming back to Crawford Beveridge's second point, the headline rate will be quite different from the effective rate once all the allowances et cetera have been taken into account. It is a complicated issue.

Such an advantage is being set against other costs all the time. For example, it costs a company to move physically, as it would have to move its offices or its factory, employ a new labour force and get used to a new place. That would not have such an effect on companies moving between Scotland and England, because people have been doing that for years, but on a wider scale those considerations must be taken into account.

The mobility issue must be considered. The competitive differentials between Scotland and England are one thing, but the situation is different if we compare countries across the European Union, where there has not been as much mobility as some people had expected. That said, for someone is working in a car factory in Spain that collapsed, there is more mobility than they would like. There are a lot of factors to consider.

Michael McMahon: Certainly. I am not sure whether that has been helpful in understanding whether the bill is fit for purpose, but it has certainly been helpful in enabling us to understand some of the other arguments that have been made elsewhere about taxation differentials.

The Convener: We are not talking about those arguments.

Michael McMahon: I know.

The Convener: There are also issues about the size and type of business and whether a company would set up a new operation or shift an existing one. However, we are not dealing with those issues.

Jean Urquhart (Highlands and Islands) (Ind): To a certain extent, my question, which is on the globalisation issues that we face, has been answered, but are there examples of other countries setting different rates? Given that we—

or some of us—are expecting to have a very different type of control of tax-raising powers, how would Scotland address those issues? Should we be looking at other examples? Do you have examples of small countries that have negotiated terms with other countries in order to stop that type of tax evasion? Is that actually possible?

Crawford Beveridge: Andrew Hughes Hallett might know of some countries that have done that, but I do not know of any. I have heard a lot of people talk about it. There is a lot of discussion here, in the US and in parts of Europe about how we stop people moving moneys around the world and avoiding paying taxes, but I have not heard anybody say, "Let's sit down and put together a treaty to deal with all of this, so that we can make it happen."

As Andrew Hughes Hallett has alluded to, there are places such as Singapore and the Cayman Islands where it is their living. That is how they make a lot of their income, so they will not be wildly enthused about getting involved in such talks. We might well find it easy to bring EU people together to talk about these things and we might be able to get a deal with the Americans and possibly the South Americans, but there will still be places in the world that will say to businesses, "Forget all of that—we can fix this for you." Unless people are very smart about the legislation that they put in place, such places will always be used as a means of avoidance.

Professor Hughes Hallett: It is difficult—that is for sure. The issue surfaces all the time in the EU. For example, many EU countries would like Luxembourg to change its tax arrangements, because too much money such as savings and things disappears into Luxembourg outside the tax net of the home country. I do not know the details; there must be some arrangements but clearly they are not very effective. It is not easy in the EU and it would be even more difficult if you started doing it on a wider scale.

In answer to Jean Urquhart's question, I am sure that I can dream up some examples, but whether I can dream up examples of where such moves have been very effective is another matter. You have to bear in mind the incentives that people face. I heard of an example in relation to money laundering and the Bahamas—not the Cayman Islands this time. If you are a small country, you can come home with co-operative arrangements to stop something and then find that other countries are doing it anyway. The incentives are as Jean Urquhart's question implied. What do they sell? They sell the incentive plus holidays. It is very difficult in a lot of cases.

I imagine that that will increase over time. Lots of countries are concerned about this. An example of something that is not quite what you meant but

which is worth thinking about is the way in which the Americans try to stop things, particularly corporation tax, shifting between states by saying that individual states can have their own corporation tax rates but that firms will pay in aggregate a weighted average of the tax rates in the different states in which they operate. The weights are usually something like employment; in other words, firms can go to a cheap place but they have to employ a lot of people there. If a place is cheap because it is not very good, firms will not go there. There are some things that you can do.

Jean Urquhart: Regardless of any constitutional change that might happen in Scotland in the next couple of years, there is an expectancy that there will be a drip-feed of different taxes coming here. Is the bill fit for purpose to deal with that?

Crawford Beveridge: It will depend on the taxes. If something like a passenger tax or transport tax came along, the bill could probably handle it very well. If everything from income tax to corporation tax was suddenly dumped on you, the bill might not be robust enough to handle it.

Professor Hughes Hallett: That is why I said that it would be a good idea to make the bill as forward looking as possible, so that you do not get hit by a problem that you have not yet had time to think about.

The Convener: I have a question that follows what Jean Urquhart was talking about. If the bill is not robust enough to take on those additional taxes, what weaknesses in it could be remedied to change that? We want a framework bill that is ready for all eventualities.

Crawford Beveridge: Again, I am not expert enough to know how you would need to change the bill in order to do that. The question is whether that is necessary at this point. As I understand it, even if there were a vote to become independent, you would have another couple of years in front of you before you would be asked to take on all those complex problems. It would be easy to start the transfer with the simpler taxes and figure out along the way whether the bill was robust enough. You would certainly have time to amend it in some way before you were asked to take on more complicated taxes.

The Convener: Thank you. That concludes questions from committee members. Would you like to make any further points before we wind up the session?

Crawford Beveridge: No. We are very surprised that we have been able to talk about as many things as we have. Thank you very much for putting up with us.

The Convener: Thank you very much. Committee members were fairly well behaved, for the most part, in terms of the areas that they were asking questions about, but politics always intrudes in such matters. Thank you very much for your time and for answering our questions so frankly.

10:40

Meeting suspended.

10:46

On resuming—

The Convener: We will now take evidence from Professor John Kay as part of our scrutiny of the Revenue Scotland and Tax Powers Bill. I re-emphasise that we are taking evidence on the Revenue Scotland and Tax Powers Bill. I welcome Professor Kay once again to the committee. Good morning. We have your written submission. Do you wish to make any opening comments?

Professor John Kay: I have very little to add to what I put in the submission. I suppose that I am assuming in the background to all this that we are not just here to talk about the landfill tax and the land and buildings transaction tax. We are really thinking about defining issues for taxation in Scotland looking forward. The particular taxes that we are concerned with are quite small in terms of revenue and are not inherently very interesting. However, they are in a sense an opportunity to think more generally about the principles of taxation, which is the purpose this morning.

On taxation principles, there are many ways of organising our thinking. For historical reasons, the Scottish Government has wanted to start with Adam Smith; I can quite understand that, but as I have pointed out the world of Adam Smith was rather different from the world that we live in today. A couple of differences are quite important, one of which is that the amounts of money that Governments raised then were actually inconsequential relative to the amounts of money that Governments raise now.

That takes one into the implication—we need to think about this looking forward—that tax systems around the world depend principally for their revenue on three large sources of taxation: income tax; tax on earnings, which is some kind of social security or national insurance tax; and a general sales tax. Therefore, if we are looking at taxation in Scotland, unless we are talking about a degree of control over at least one or other of those, we are not talking about amounts of revenue that are consequential in terms of the aggregate of the tax system.

That is one large general point. The other is to say that we need to think about jurisdiction on a Scotland and the world basis. The committee has already been doing that in the part of the discussion that I heard with Crawford Beveridge and Andrew Hughes Hallett earlier. First, we have to implement taxes in a global world, which creates issues with regard to tax administration. However, there is also a key issue that we need to think about. When we think about fairness in taxation, it is quite important that we think about fairness in relation to the tax system as a whole rather than in relation to individual taxes.

The example I give, on which you can elaborate as much as you like, is to say that we can achieve a degree of progressivity, for example through differential rates of value added tax. We do that by having lower rates on food, children's clothing and things like that. Actually, differential rates of value added tax is a terribly inefficient way of achieving fairness compared with achieving the same degree of progressivity through differential rates of income tax. That is what I mean by saying that if we think about fairness issues on a tax-by-tax basis, we do not do the job very well.

One of the implications of that is what happens when, as is bound to happen in the modern world, different layers of government exercise tax-raising powers. If they all try to achieve those objectives differentially and they all have different views on it, we are liable to get a mess of people devising tax structures that conflict with one another. In the previous discussion, I heard the suggestion that that might mean that you have to have all the tax powers being exercised at a particular level. There is plainly an argument for that, but there are also arguments against it because, as far as possible, you really want the levels of government that are spending the money being the ones that are raising the revenue. The issue has no simple resolution. We need to flag it and discuss it and, as we think about more tax powers being devolved to Scotland in the future—whatever the constitutional arrangements are—that is one of the many things that ought to be in our minds.

The Convener: Thank you. I notice that you talked about the size of the two taxes that the bill covers, which represent between 1 and 2 per cent of our revenue. I am sure that I speak for the committee, but having lived, eaten, slept and breathed those taxes for a number of months, we are still a bit wounded by those comments, but never mind. [*Laughter.*]

Professor Kay: I am sorry. Perhaps you could think of it as practice, convener.

The Convener: The first sentence of your submission is:

“Revenue Scotland’ is a grand title for a body that administers two modest taxes.”

That goes to the nub of it. This is a framework bill that will hopefully enable further taxes to be administered as they are devolved or whatever the case may be, depending on possible constitutional change.

Your submission says:

“My second general comment is that experience suggests that the level of government at which it is most efficient to raise revenue tends to be higher than the level of government at which it is most efficient to plan expenditures.”

Will you talk us through that and the implications for Scotland, particularly in terms of the further progress of the bill?

Professor Kay: Everywhere in the world there are different levels of government. That is appropriate, because some things are best done at very local level. To take the extreme case, you want parish councils or similar levels of government to decide what will be in the village hall or the town square. At the other end, climate change is a global issue on which you want decisions to be made at some kind of global or multinational level. The functions of government are tiered in that way.

When we allocate expenditure to appropriate levels of government, we tend to find that the levels of government are lower than the ones at which revenue is naturally collected. Almost everywhere around the world, where we have these multiple ways of government, the top levels of government collect more and then distribute part of what they raise to the lower-level authorities.

In Britain today, we have taken that very far because getting on for 90 per cent of the money that our local authorities spend comes down to them from central Government rather than being raised from people locally. That is too high for us to get efficient and responsible decision making that works well at lower levels. We must therefore have some sort of compromise between distributing the revenue downwards and giving people the authority and revenue-collecting powers that they need to match the level at which revenue is raised with the level at which expenditure is incurred.

The Convener: Under the Scotland Act 2012, the share of revenue that will be raised in Scotland will be about 15 per cent. Is that too low a figure? What would be the optimal range, for example?

Professor Kay: Optimal would be getting on for 100 per cent, but if we were to get to 100 per cent, we would have to talk about some of those big taxes being levied separately in Scotland by this Parliament. That is a very different world.

It is also a difficult world because some of those big taxes do not lend themselves well to being administered at as low a level, if I can put it like that, as Scotland; I think that I described that in my submission. Frankly, VAT would be best levied and collected at the European level rather than by the member states.

The Convener: Absolutely. I noted your comments on that, and I am sure that members around the table hold a variety of views on it.

Your submission says:

“In the UK today”

there are

“income tax, VAT and national insurance. For a government to raise significant revenue ... it needs to be involved with at least one of these.”

What do you consider to be “significant revenue” as a percentage? That is a difficult question to answer specifically, but what would you consider to be a significant tax?

Professor Kay: We have the three dominant taxes, as I said, and then we have the smaller ones, such as those that are covered by this bill—the landfill tax and the land and buildings transactions tax. As you have said, those represent 1 or 2 per cent of the total revenue.

There are two or three taxes in between, such as corporation tax and ad hoc excise duties on particular elements. There is also the special regime, which we might want to talk about and which is clearly very relevant to Scotland, with regard to North Sea oil. Those are not small taxes of the kind that are covered by the bill, but nor do they make it into the big league of taxes. There are not very many of them; there are about three or four of that kind.

The Convener: If this is a framework bill and additional taxes are to be devolved, which ones would be the simplest to add to the list of those that are already devolved? I am asking for the economist’s point of view.

Professor Kay: The simplest would be those that do not have much consequence, such as the air passenger duty. If we are serious about this, we should be talking about one of the other two groups that I mentioned. The intermediate group—North Sea oil, corporation tax and perhaps excise duties—all have their own problems. It might be feasible to add excise duties, but corporation tax and North Sea oil have their own special problems.

We are talking about the first three, and mainly national insurance or income tax.

The Convener: Thank you. I open up the session to colleagues around the table. Malcolm Chisholm is first, to be followed by Jamie Hepburn.

Malcolm Chisholm: I want to start with the point that the convener started with. I might not have totally understood it and I am slightly confused. In your opening remarks, you talked about the level of government that spends money also being the level that raises it, and you then said that the optimal level would be 100 per cent. That seems to contradict the most striking statement in your submission, which was:

“the level of government at which it is most efficient to raise revenue tends to be higher than the level of government at which it is most efficient to plan expenditures.”

Is the distinction between what actually happens and what you would like to happen? When I read your submission, I assumed that you were saying that that was an efficient and good thing.

11:00

Professor Kay: We have two contradictory considerations. One is that, if you ask who is good at raising taxes, you tend to be looking at higher levels of government. Therefore, from the point of view that is regarded narrowly as efficiency in taxation, you tend to want to go to highish levels. If you want efficiency in determining expenditure, you go to lower levels, and if you want people to manage the expenditure well, you have to match the tax-raising capability with the expenditure responsibility. So, you have two desiderata that, basically, conflict with each other. On the one hand, you want to raise taxes well and, on the other, you want to have responsible government that is responsive to local people and is responsible for raising its own revenue.

Malcolm Chisholm: For you, efficiency is not an overriding consideration. In fact, you tend to think that raising the money that is spent is a more important principle.

Professor Kay: They are different aspects of efficiency. One concerns how good you are at raising revenue and the other concerns how disciplined you are when it comes to spending it.

Malcolm Chisholm: You suggested that you would like local government to raise more of its money.

Professor Kay: When we are talking about striking a balance, all that we can say is that, in some respects, we have gone too far in one direction, or not far enough. In terms of local government in the UK, it is fair to say that we have gone too far towards centralising the collection of revenue and that we would have better, more responsible and more responsive local government if it collected more of its own revenue. Incidentally, I think that the same is true of the Scottish Government. I think that it would work better if, within the current constitutional

framework, it raised more of its own revenue and received less of it in a block grant from Westminster. I think that, now, almost everyone agrees with that observation. The post-Calman reforms are pushing in the direction of making that more possible.

Malcolm Chisholm: In terms of multinational companies, with regard to corporation tax and perhaps some other taxes, is it your position that the balance has not gone far enough and that it needs to go higher because of tax evasion? Is that correct, or are there other reasons?

Professor Kay: It is because of tax evasion and avoidance, basically. It is too hard to strip out, on a country-by-country basis, the origin of the profits of complicated multinational businesses. That is one problem. The second problem is that we have had a bit of a race to the bottom in terms of corporation tax rates, with countries trying to attract either economic activity or the appearance of economic activity—in some cases, that economic activity is not particularly real—by setting a lower corporation tax than their neighbours.

Malcolm Chisholm: There are already quite a lot of European constraints on VAT, but there is also a lot of nation-state discretion, so it is not obvious why you would want to eliminate the discretion that the nation state has with regard to VAT and so on. I am not sure why that would be desirable.

Professor Kay: The single market implies common tax rates on goods and services. At the moment, we have a rather messy regime of payments and refunds, some of which apply in some circumstances but not in others, in relation to transactions across borders.

Malcolm Chisholm: So you think that that is an implication of the single market.

Professor Kay: Yes.

Malcolm Chisholm: Does that have implications for other taxes? Obviously, there is quite a lot of discussion about more physical harmony in the EU. Would there be other taxes that would be caught by your principles?

Professor Kay: VAT and corporation tax are the ones that the principle of efficiency in collection would suggest should be administered at higher levels.

Malcolm Chisholm: That is connected with the point that you made about VAT on the final page of your submission. Are variants such as zero rating for certain goods specific to the UK? I do not know how things work in other countries.

Professor Kay: Yes. As you know, zero rating is a particular UK dispensation. One of the questions in independence discussions has been

whether that would be acceptable in the different framework.

Malcolm Chisholm: Yes, that has come up recently. You also made the more general point that, irrespective of the EU dimension, you would rather not have such complexities in the VAT system and you would prefer a progressive income tax system. I suppose that a counterargument is that zero rates of VAT help people who are not in work.

Professor Kay: Yes, they do. When we talk about the tax system we must think about the tax and benefits systems together.

Malcolm Chisholm: Right. There would need to be compensating action in the benefits system.

Professor Kay: Yes. Lower-rate taxation on clothing for all children is a fairly inefficiently targeted way of helping poor households. I am not sure that the food that I eat needs to be zero rated, either.

Malcolm Chisholm: That leads us into a much wider argument, which we will not visit at the moment.

I thought that this statement in your submission was interesting:

“‘Ability to pay’ is not a precise, and perhaps not a helpful concept.”

I am not sure whether that is related to your comment that Adam Smith’s

“‘proportionate to ability to pay’ is inadequate even as a starting point for vertical equity.”

Will you fill us in on that? Are the two comments complementary?

Professor Kay: At its simplest, I do not think that ability to pay is a concept that has the same meaning in today’s world as it had in Adam Smith’s world, when the vast majority of the population lived on subsistence incomes, in essence. My general point is that we must remember that really until the second world war most people in this country paid no direct tax and did not pay much tax at all. Today, everyone pays quite a substantial amount of tax, which is inevitable if we are spending 40 per cent of our national income on public expenditure.

Therefore, we should think about the matter in terms of fairness of the distribution of the overall tax burden. Do we feel that the overall result is right in terms of the relative tax burden on different households? Even there, I have elided something: do we mean individuals or do we mean households?

Malcolm Chisholm: I am struggling slightly, because fairness and ability to pay seem to me to be in the same territory.

Professor Kay: They are in the same territory, but I am not sure that they have the same meaning. I do not want to get into that argument, because I am not sure that we would be arguing about substance rather than the words that we use.

Malcolm Chisholm: We will leave that sticking to the wall. Thank you.

Jamie Hepburn: We have touched on the principles that you think are the hallmarks of a tax system: efficiency, fairness and administrative feasibility. How will the Revenue Scotland and Tax Powers Bill achieve those ends?

Professor Kay: The land and buildings transaction tax and the landfill tax are not too difficult to administer, as long as we do not complicate them. Indeed, the land and buildings transaction tax does not have many merits other than that we can administer it. It is not the way in which we would tax the occupation of land and buildings in the ideal world, but it is the way in which we can do so in a less than ideal world.

What I am suggesting—and now might be the moment to spell it out—is that talk about fairness in relation to taxes that raise 1 or 2 per cent of revenue is something that has fairly limited applicability. They are not going to be the ones that contribute to the fairness of the tax system as a whole.

In relation to the land and buildings transaction tax and the landfill tax, fairness is primarily a matter of ensuring that people in similar circumstances are taxed in similar ways. That is why the slab system of collecting tax is a bad idea, because it taxes in materially different ways people who are in not very different circumstances. However, I think that that is a relatively minor part of the total.

Jamie Hepburn: Of course, fairness can also be about how people are treated by the tax authority. Do you think that what is envisaged in terms of revenue Scotland will go some way to meeting the general principles of efficiency, fairness and administrative feasibility?

Professor Kay: Yes.

Jamie Hepburn: You referred to an area that I want to explore further. You said that the two taxes are boring, which raises the interesting question of what would be an exciting tax—I struggle to think of one. You have started to touch on the successor to stamp duty—

Professor Kay: I wrote a book about taxation that several people said was the only interesting book about taxation that they had read. I think that most subjects are interesting once we get into them. I am sure that this committee has found that about these taxes.

Malcolm Chisholm: Not yet. [*Laughter.*]

Jamie Hepburn: I have to confess that I have not read your book, but I shall endeavour to do so.

You said in your written submission that stamp duty

“is a bad tax by most criteria”,

and

“a poor mechanism for achieving progressively”.

You also spoke earlier about the slab structure, which we know will not apply to the LBTT. Do you think that what we are doing on that tax is progressive?

Professor Kay: Do I think that we are doing the right thing on that in Scotland? Yes, I do. I am surprised that it has gone so long without the UK coming to a more sensible position on it.

Jamie Hepburn: On landfill tax, you said in your written submission:

“I hope the Committee will resist the thought that ever more elaborate attempts at engineering its complexity would make it better still.”

What did you mean?

Professor Kay: At the moment, we have broadly two categories of landfill. I think that it would be very easy for people to sit in this room and devise more elaborate theoretical structures that differentiate between different kinds of activity according to how toxic they are, how quickly the stuff that is put to landfill degrades and—as was discussed earlier—whether we want to encourage or discourage particular industries. My experience also makes me very conscious that when politicians get involved in taxation they are often keen to have discussions on those matters and are often lobbied by particular business groups to have such discussions.

I think that such matters are the source in general of a great deal of complexity in our tax system, with rather little benefit and often disbenefit. They are also often a very elaborate, fruitful source of avoidance, because as soon as you create more complications you give people incentives to put things into one category rather than another. That is why I say that “First, do no harm” is my rule of taxation. We should be quite modest about the ways in which we think we can make things better by tax elaborations.

Jamie Hepburn: Okay. Thank you.

John Mason: On your final point, Professor Kay, we thought about doing that with the LBTT because there was quite a demand, for example, for very energy efficient houses to have a special rate, but we resisted.

I was interested in your paper generally, but I found this point particularly interesting:

“Tax is efficiently collected when the payment is combined with some other beneficial transaction”.

We have not looked at that issue terribly much, but it is common sense that, if people pay tax with their salary, VAT on their shopping or tax when buying a house, they just accept it, but that it is more unpleasant when they actually have to write a cheque.

I am wondering how you feel that point fits in. I remember people saying in the past that taxation on new motor cars was the most easily collected in the UK—it was about £1,000 on a new car, I think—and yet it was dropped. Are there other areas that we should be considering? Inheritance tax and capital transfer tax are two others. We do not have capital transfer tax any more, but in a sense that is an example. Is that the kind of thing that you are thinking of?

11:15

Professor Kay: Yes. The biggest example involves the transactions tax in relation to property. A couple of weeks ago, Professor Mirrlees told you—and I would agree with him—that it would be much better to have an annual tax on the value of property. We have had annual taxes on the value of property, and we have discovered that they are pretty much the most unpopular taxes around, because people have to write out cheques for them. In truth, inheritance tax has a similar problem, although it need not if we collected it slightly differently.

As you have pointed out, if the money just goes out when their salary is coming in, or if it is paid over when they are buying something that they want in a shop, people pay the tax without really resenting it. When they have to write out a cheque and get nothing directly in return, they think, “I don’t want to pay that.” The issue is not just one of the political resentment that people get from that; there are consequences in people resenting the overall level of taxation and trying to think of things that they could do to avoid it.

John Mason: That is an interesting point, and it has made me think slightly differently about a whole range of taxes to which it applies.

You also made the point that, in many cases, it is better to collect tax at a higher level. We discussed corporation tax earlier. I have sometimes thought that one way of helping local authorities to raise more tax as a proportion of what they spend would be to allow them to start their own taxes. For example, if Edinburgh or Highland wanted to do a bedroom tax for tourists, let them do it, but Glasgow and Dundee might not want to do that. Is that a bad way of thinking,

because the system then becomes very bitty and inefficient?

Professor Kay: No, I do not think that that is a bad way of thinking. However, the arrangements that you describe would mean having a very variable capacity to collect tax in that way. You are pointing out—correctly, I fear—that Edinburgh has a lot more tourists than Dundee, and that tax would give Edinburgh a double benefit. With more tourists, the City of Edinburgh Council could impose such a tax without deterring people from going there. I guess that Dundee would rather like more tourists than it gets—actually, I am going to Dundee tomorrow and I realise that there are some attractions in Dundee that I want to go and see.

I think that we should give local authorities more scope to raise revenue for themselves. However, in doing so we would encounter what is one of the key difficulties in all of this—and it is one reason why we have the phenomenon of tax being better raised at the higher level—which is that it is difficult to pin down the place that we associate with a particular economic activity.

That is why a tax on tourist bedrooms works—we know where the bedroom is. A tax on land and buildings works, because we know where the land and buildings are. You do not do too badly when you have a tax on people’s work because, in the main, you know where they are doing it. For a tax on capital income it gets more difficult, and for a tax on corporate profits it gets more difficult still. It is a question of how easy it is to identify the economic transaction with a particular place. The harder that is, the more difficult it is to push that tax down to a lower level.

John Mason: Malcolm Chisholm touched on the ability to pay, and I am still struggling a bit to get my head around that issue. VAT takes no account of ability to pay but, obviously, it is a major tax not only in the UK but throughout Europe.

Professor Kay: It does in the sense that, the more that someone spends, the more they pay.

John Mason: Yes, but that means that, if a well-off person buys a shirt—

Professor Kay: He pays the same VAT—

John Mason: As the poor person buying the shirt. Is your argument that we just live with that and compensate for it through the income tax and benefits systems?

Professor Kay: Largely, it is. We do it much better that way than by differentiating between, for example, expensive shirts and cheap shirts. We have gone down that route and madness lies at the end of it.

John Mason: It becomes incredibly complicated.

Professor Kay: Yes. It is the world that we got into in the 1970s when the Government decided to keep down the price of cheese and then we had to decide which cheeses were luxury cheeses and which were everyday cheeses. My strong view is that we simply do not want to go there.

John Mason: I have to say that I am personally sympathetic to the idea of maximising simplicity in the whole system.

Another idea that you did not specifically mention in your submission, but which came up in the evidence from the previous witnesses, is making only small changes in tax rates and the tax system, which reassures taxpayers—individuals and companies—that the country is stable and will not do anything silly, compared to introducing a windfall tax when we see somebody making a big profit. What is your thinking on that?

Professor Kay: In general, windfall taxes—moving around from time to time to pick and impose a tax on whoever happen to be the bad guys of the moment in popular perception—are undesirable. On the other hand, especially in corporation tax, which is difficult to collect appropriately on commodities, there is something to be said for ad hoc regimes of taxation on particular products.

Two examples of that come to mind in relation to Scotland. One is oil, in which we do that at the moment. To deal with the problem that oil is developed by companies that operate multinationally, we have a ring fence around North Sea activities. We tax them just on what happens in the North Sea as far as corporation tax is concerned and we have a variety of special taxes on North Sea activities. We say that it is a uniquely profitable—or specially profitable—activity that deserves to be taxed in a special way for that industry because we can collect it.

We do the same with one or two other industries, such as gambling, in which we tax casino and bookmakers' profits on the same kind of basis. It is a mobile industry and a specially profitable one for which we have a special regime.

When one thinks about Scotland, there is another commodity that falls into a similar category. That is whisky. I put out that thought for the committee.

John Mason: Yes, as you were speaking, I remembered that you had suggested that before.

The Convener: Does the bill provide the correct framework for the addition of further devolved taxes or, indeed, taxes should Scotland vote for independence in future? Does it have the capacity to do that?

Professor Kay: It is going in the right direction, but the revenue Scotland that you are creating will not have the capacity to administer one of the big taxes that we are talking about. It would need to be a very different organisation before it could.

If we were to have the capability to administer a genuinely separate income tax within Scotland—if I talk about administering one of the three big taxes that I described, it must be income tax, national insurance or a social security tax—rather than, as we will do under the Scotland Act 2012, having a Scotland-administered element of income tax that is really just a subset of the UK income tax, we would be talking about an organisation with a very different capacity and staffing.

The Convener: Capacity would obviously be an issue, and we would expect revenue Scotland to expand its capacity. However, does the legislative framework need tweaking as opposed to the number of personnel? Is the structure itself the problem?

Professor Kay: It looks okay to me, but other people will talk to you who are more expert on that side of things than I am.

The Convener: Another point in the bill is the general anti-avoidance rule. One of the concerns that is expressed about the UK taxation system is that it runs to 11,400 pages and there is probably no one on earth who understands it comprehensively—how could anyone unless they had the mind of a computer and did nothing else but read the stuff? It has become a bit of a Hydra in the way that it has developed, as whenever loopholes are closed others apparently open.

What are the benefits of introducing a general anti-avoidance rule in the new legislation? The legislation is new and we are, in effect, starting from scratch. What opportunities does that present?

Professor Kay: I support the idea of general anti-avoidance provisions, but my sense is that, where they have been implemented, they have generally produced rather less than people had hoped for.

I am not sure that, if we were really serious about avoidance, we could not do a great deal more to deal with it under existing frameworks. We have talked this morning—both in the previous evidence session and in this one—about avoidance and evasion of corporation tax. I think that a lot of what is currently happening is happening because of a consensual attitude that has built up over many years towards what people are allowed to do. If we were a lot more aggressive about avoidance, we could have a very different set-up.

It seems to me that, for example, a lot of profits are not being earned in any ordinary sense of the word in the Netherlands and that a lot of sales are not in reality taking place in Ireland. If we were to challenge them on the basis of economic and commercial reality rather than the way in which the transactions are being formally described, we would be able to challenge them under the legislation that we have at the moment. We just need the willingness to do that.

The Convener: In terms of taxation law, we are all lay people apart from our distinguished adviser Professor McEwen, and a lot of us think that, if the money is earned here, the tax should be paid on it here—full stop. A lot of us struggle to understand why that does not happen. We realise that there are all sorts of complexities involved, but that seems a pretty obvious and straightforward statement and there seems to be a lack of willingness in the Government at a UK level to address that.

Professor Kay: It is not quite as simple as your description implies, but it is not quite as complicated as the other side describes it, either.

The Convener: I appreciate that it is not as simple as I imply. I realise that the balance is in the middle somewhere.

John Mason: Is that because the UK—although it is probably not just the UK—has taken a very legalistic view of the transactions? Similarly, have the courts tended to look not at the principles as you have described them—at where a transaction has taken place—but just at the letter of the law? We seem to have got very bogged down with the letter of the law, and tax experts, including accountants, have benefited from that. Is that the key problem?

Professor Kay: I am not sure that it is. First, it is a general problem and not a particularly British problem. Secondly, not many cases go to court. I know of odd cases that have gone to court and the courts have taken a more robust view than the Inland Revenue or Her Majesty's Revenue and Customs have been naturally used to taking.

I am not sure that a legalistic problem is the source of the difficulty. A lot of it is down to the fact that it is easier for HMRC, or revenue Scotland in the future, to take a conciliatory view and negotiate an agreement with a large company than to spend years fighting it in the courts.

The Convener: Is that the case even when it costs the taxpayer millions or billions of pounds? It has been argued that some cases have cost that—Vodafone being an obvious example.

Professor Kay: In individual cases, a simple cost benefit analysis might show that the costs of litigating make it not worth it, or it might be not

spectacularly worth it but worth it in terms of the aggregate impact.

The Convener: I think that we have all been hunted at some time because we have been a tinner short in our tax for the year, and I know people who have received a letter when they have allegedly underpaid by 45p or some ridiculous amount of money.

Thank you for your contribution this morning, Professor Kay. As always when you come to the Finance Committee—which is not as often as we would like—you have been thought provoking in your deliberations and your evidence to us. Do you want to make any final comments?

Professor Kay: No. We have had a useful discussion this morning. Thank you for having me.

The Convener: Thank you very much. We hope to see you again before too long.

11:31

Meeting continued in private until 11:42.

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