

## **Call for Evidence: A Scottish Approach to Taxation**

**Organisation: North Lanarkshire Council**

### **1. How can the Scottish Government's four principles to underpin Scottish taxation policy best be achieved?**

The Council is supportive of the Government's four taxation principles. However, the Council also believes the Scottish Government should ensure that taxation policy is easy to understand for those who pay it, will provide funding stability in order to promote targeted and planned investment in public services and provides limited opportunity for tax avoidance.

The Government can best achieve its principles by consulting with those liable to pay tax as well as relevant public bodies. Local Government has wide ranging experience in administering and collection of tax and its expertise should be utilised in creating the new Scottish Taxation system.

### **2. How does the current taxation regime and proposals for newly devolved taxes align against these four principles?**

Not applicable to the Council.

### **3. Is there scope for a fundamentally different approach to taxation in Scotland?**

With the devolved powers to Scotland for both Tax and Welfare the Scottish Government does have the scope to meet the differing aspirations and needs within a Scottish context. Consequently the Scottish Government should consider the scope within these responsibilities to ensure that both the financial support provided (welfare) and the burden of financial contribution (taxation) are aligned to aid the poorer members of our society and that appropriate contribution is made by those who are better off.

For any taxation changes, local government should be informed as soon as possible in order to understand its potential impacts. The Council supports progressive approaches to new devolved taxes. However, any move towards using taxes to change behaviours, for example, should be developed in partnership with Local Government.

Consideration may be given to permitting additional taxes to be introduced by individual local authorities. It should be recognised that Scotland, and the individual Local Authority areas, are relatively small and there may be adverse impacts of introducing varying types of taxes in different Councils or, indeed, within parts of the same Council. Consideration should be given to the scope, complexity, tax base, and the potential revenue raised in determining if such powers should be provided and operated. The operation of BIDs (Business Improvement Districts) within NDR may provide a model for such schemes if they are to be introduced.

Local Government will be formally consulted on exchanging a fixed proportion of general revenue grant for the assignment of a fixed proportion of income tax receipts, distributed to individual councils by existing needs based formula. The Government believes this would allow councils to directly benefit from economic growth and also provide local authorities with incentives for growth. Clarification will be required to ensure the needs basis applied is fair for all councils, as well as promoting funding stability.

It is important for the operation of local democracy that the powers and responsibilities of Local Authorities are evident and demonstrable to the electorate. That responsibility is intrinsically linked to both the decision making powers and fiscal management of local service delivery. Therefore, any changes to taxation approaches should not lead to additional centralisation of powers.

The future governance across Scotland needs to develop a greater level of fiscal freedom for Local Authorities allowing them to respond to local needs and provide Local Authorities with the powers

to raise and be accountable for the revenue funding required to meet local needs. The remaining financial support needed by Councils would continue to be provided through government grant. This would allow Scottish Government to continue to support and develop national priorities and address any financial support / equalisation which would be needed to compensate between authorities for any disparity in the tax raising base.

#### **4. Should future tax changes be ring-fenced and if so, how? If not, why?**

Forecasting will play a vital role in the transfer of taxation powers. Scotland-specific forecasts for the taxes and welfare to be devolved have not been required whilst revenue and spending has been pooled at the UK level. The new powers will add complexity and uncertainty to the budget process, including potential volatility in the aggregate level of funding available. For example the first set of annual receipts for Land and Buildings Transaction Tax and Scottish Landfill Tax show returns have exceeded projections by around £74m.

It is evident that the current ability of Revenue Scotland and the Scottish Government to forecast tax projections needs to be refined and improved. As responsibility and experience grows in this field then the credibility of the projections may provide a basis for ringfencing. In the short to medium term the focus should be on developing a broad tax base providing sustainable tax yield. The Scottish Government should consider the scope for new taxes, and changes to existing taxes, which ensure coverage of earnings, assets, savings etc. The first priority therefore should be to ensure that the Scottish Government draft budgets are fully provided for as budgets will be set in advance, before tax revenues and welfare spending are known. The Government should therefore ensure it is able to smooth out resources based on current priorities, utilising its borrowing and reserves powers. It is imperative this is managed effectively to build confidence and credibility in the Scottish Parliament's ability to manage devolved powers.

Future tax changes should therefore not be ring-fenced, with forecasting utilised to inform the Scottish Government's draft budget. Draft budgets should be based over three to five years in order to promote certainty and funding stability. As responsibility and experience grows in this field then the credibility of the projections may provide a basis to set additional funding against portfolios but without specific ring fencing in order to support local decision making.

#### **5. To what extent do potential behavioural responses limit options for tax changes in Scotland?**

Behavioural responses can limit options for tax changes, especially in light of any alterations between the Scottish system and the rest of the UK. According to the Institute for Fiscal Studies, evidence suggests that the incomes of additional rate taxpayers can be very sensitive to changes in the rates of tax that they pay, whereby increases may lead to, for example, relocation. As noted behavioural change can have negative connotations with avoidance strategy to the tax. There can also be positive behavioural changes which are the goal of certain taxes (e.g. "carrier bag levy" to change usage and achieve environmental improvements, Landfill Tax to change recycling behaviours etc.). In these instances the tax yield may be secondary and have an uncertain and unsustainable yield in that the achievement of the behavioural change may reduce the payment of the tax / levy.

Uncertainty around taxation systems can have a negative effect on the confidence of stakeholders. It is therefore important that some certainty is brought into the system and tax changes are communicated well in advance.

The effect of taxation on welfare must also be analysed as there are many interactions between the taxation system and the benefits system.

Therefore it is vital that effective forecasting takes place, in conjunction with scenario planning to ensure that the effects of any potential changes are fully understood. This should include the effects, not only on taxpayers, but on funding for other public bodies including local government. Within the Council's long term financial plan, it prudently sets out scenarios based on an optimistic,

pessimistic and envisaged position.

**6. To what extent do the mechanisms for administering the Scottish income tax system via HMRC limit the scope for a different tax system in Scotland to develop?**

The operation of tax collection through HMRC has a well-founded basis and could continue to service the needs of Scotland. This is dependent on the scope within the HMRC processes and systems to have a flexibility to deal with, for example, changes to rates and thresholds. As with any such project, consideration would need to be given to the benefits such as stable systems, recognised brand and a single collection agency etc and the demerits. Demerits include timescale for delivery, any apparent inflexible approach, confusion for the payee re differing rates, dependant on geographical location of payee and complexity needed to deal with the differing rates throughout the period being taxed.

**7. Are there any other administrative limitations to the emergence of a Scottish tax system?**

Not applicable to the Council.