

Inquiry on a Scottish approach to taxation

SCVO response

26 September 2016

Summary

We put forward the following five principles for a Scottish tax system below:

- **Tax should be progressive**, so that people pay what they can afford.
- **Tax should be used to encourage democratic engagement**, so that all opportunities to help people connect to their democracy are used.
- **Tax should encourage community- and environmentally-friendly behaviour**, so that we use tax to help us retain the best of our communities and natural landscapes.
- **Tax should be 'done' in a simple, transparent manner**, with particular care taken for those who have changing circumstances, or whose tax payments interlink with social security. We should also make sure that the tax owed and paid by corporations is clear, and have a debate around openness of tax for individuals too.
- **We should be careful of the language we use to talk about tax**, making sure that we do not stigmatise those who do not pay direct taxes; and ensuring we talk about tax as a positive contribution to society rather than a burden.

Finally, we also mention the tax digitalisation agenda which is being progressed rapidly by HMRC, as this will have implications for tax here in Scotland.

Our response

SCVO welcomes the opportunity to respond to this inquiry and would like to contribute the following:

Introduction

It is heartening to see this inquiry into a Scottish approach on taxation, and we are pleased that the Finance Committee is looking to initiate a debate on this subject. SCVO gave evidence to the Commission on Local Tax Reform in 2015 (<http://www.scvo.org.uk/long-form-posts/commission-on-local-government-tax-reform/>), and to the Finance Committee's own inquiry into SRIT in the same year (<http://www.scvo.org.uk/long-form-posts/finance-committee-inquiry-into-scottish-rate-of-income-tax/>). In both, we highlighted the principles that we feel are important for any tax system, and which have been developed in conversations with those in our sector who are also discussing this issue.

Whilst our own tax expertise lies in the realm of charity tax, the principles that some in our sector espouse cover the broad range of taxes, and so we highlight those here for the Committee. We hope that these principles will help inform discussions and will add to those principles already outlined by the Scottish Government.

Principles

In the following, we outline five principles for an improved tax system. These principles have been developed through conversations with those in our sector and wider civil society over the past couple of years.

1. Tax should be progressive

Any tax system, however much money it brings in, should be progressive when taken as a whole. That is to say, those who can afford to pay the most, do so. Given the support that

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so many organisations in our sector give to those who are affected by poverty, and who rely on a combination of third sector and state support, we suggest that the principle lying behind any tax system must be based on an ability to pay, so that taxes do not unfairly hit those who can least afford to pay them. We are pleased to see this principle within the Scottish Government's own principles for tax.

2. Tax should be used to encourage democratic engagement

Paying income tax has been linked to increased civic and democratic engagement in individuals, and this sense of civic engagement should be encouraged. Whilst income tax for some, in the current system, is unaffordable, everyone can pay some tax, with a refund on taxes given to those on certain benefits or with low incomes to ensure they still maintain sufficient funds to live on. This would ensure that the 'societal stake' associated with paying income tax is not lost.

Furthermore, through participatory budgeting, mini-publics and other means, we would like to see communities helped to greater engagement in the work of Government and Parliament. For example, by giving individuals a real say of where a proportion of public spending goes, we can ensure that citizens have a real voice in decision-making, and a greater understanding of how collective taxes are spent. We welcome the commitment made by the Scottish Government in terms of participatory budgeting, and hope to see greater role out of this and similar principles in the future.

Linked to this, and given the current discussions the parliament is having around local tax, it is worth considering too where the money required for participatory approaches comes from. The Scottish Government's Community Choices Fund for participatory budgeting is very welcome, but if participation is to become embedded in local communities then it needs to link fully into the system for funding local government – this implies a shift in how central and local governments negotiate their funding settlements.

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3. Tax should encourage community- and environmentally-friendly behaviour

Beyond a progressive tax system, many in our sector believe that tax should be used to encourage positive behaviours (for example, in relation to the environment such as is the case with the 5 pence plastic bag levy). Tax can be used to incorporate the costs of environmental, community or other damage into the price of the goods, services or activities.

As an example relevant to the new tax powers, a 50% cut to Air Passenger Duty (if introduced as proposed by the Scottish Government) would increase emissions by up to 60,000 tonnes of carbon dioxide per year. Stop Climate Chaos Scotland, a coalition of third sector and civil society organisations, point out that doing so would have a severe environmental impact and would fail to support Scotland's transition to a low-carbon economy (<http://stopclimatechaos.org/sites/default/files/SCCS-response-APD-Consultation-final.pdf>).

4. Tax should be 'done' in a simple, transparent manner

This will ensure that people understand what tax they will be asked to pay, when and how they will be able to pay it, and that the paying of tax will be straightforward. In particular, it is important that discounts, rebates, links to unpredictable working patterns, and links to benefits are all structured in such a way to be as clear and straightforward to individuals as possible, and easy for them to fulfil their tax duties. (Note that in this we are concerned with simplicity for the tax-payer; we understand that a system that takes proper account of the ins and outs of our social security system may well end up being complicated on the civil service side.) We hope that these ideas are what in part makes up the Scottish Government principles of certainty and ease of payment.

On the opposite side of this, tax loopholes should be closed and tax avoiders pursued, in order to ensure that everyone pays the correct amount of tax that they are owed, thus rebuilding trust in the tax system. The tax owed and paid by corporations must be made

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open and clear to all, with every company held to the same standards of payment whatever their turnover. Our sector has campaigned on this for a number of years, and continues to do so; see, for example, Oxfam Scotland's campaign on Scottish Limited Partnerships (<http://www.oxfam.org.uk/scotland/blog/2016/08/oxfam-expert-why-there-needs-to-be-action-now-on-scottish-limited-partnerships>).

We could also take this opportunity to have a debate regarding the opening up of tax affairs at an individual level too, particularly for high net-worth individuals who seem often easily able to escape the contributions they should be making. This could include making transparent the donations made by individuals to charities, trusts, think tanks and so on; whilst such donations should continue, would it be of benefit to society if there was more transparency for all in the payment of such monies?

5. We should be careful of the language we use to talk about tax

Tax is a positive thing for society and should be talked of in that way, with a recognition of the positive things tax brings to all in society. Therefore, it is essential that the language we use to talk about tax and taxpayers changes; for example, we should avoid referring to tax as a burden; rather, it should be described in positive terms. Similarly, the use of the words 'taxpayer value' give priority in the tax debate to the voices of those who pay 'the most'. There is a real danger that debates stated in these terms unfairly prioritise the needs and desires of the richest and side-line the needs of the poorest.

Moreover, the rhetoric of politicians regularly positions those who do not 'contribute' through the income tax system as less important in our society than those who do. However, people bring value to individuals, society and our communities in myriad ways, not just through paid work. So it is important that as we ask people who can afford to do so to pay income tax, we do not at the same time dismiss the value of those who cannot. It must be recognised that language can have real impacts on people experiencing poverty; the Poverty Alliance in particular have carried out much work in this area with their long-running 'Stick Your Labels' campaign (http://www.povertyalliance.org/policy_campaigns/syl).

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Tax digitalisation

The 'Making tax digital' agenda, led by HMRC, is due to deliver a fully digital tax service by 2020. This obviously has significant implications for how individuals will interact with the tax system. However, it also could have implications for people who do not have basic digital skills nor online access. Whilst we are sure the Scottish Government will be discussing this amongst many, many other things with their UK colleagues, we hope that Parliament members will also find time to contribute to work in this area.

Conclusion

To reiterate, we welcome this discussion around a Scottish approach to taxation, and we would like to put forward the following five principles which should be considered for the basis of any new tax system here:

- **Tax should be progressive**, so that people pay what they can afford.
- **Tax should be used to encourage democratic engagement**, so that all opportunities to help people connect to their democracy are used.
- **Tax should encourage community- and environmentally-friendly behaviour**, so that we use tax to help us retain the best of our communities and natural landscapes.
- **Tax should be 'done' in a simple, transparent manner**, with particular care taken for those who have changing circumstances, or whose tax payments interlink with social security.
- **We should be careful of the language we use to talk about tax**, making sure that we do not stigmatise those who do not pay direct taxes; and ensuring we talk about tax as a positive contribution to society rather than a burden.

Finally, we hope to see MSPs considering the implications of HMRC's 'Making tax digital' agenda throughout this inquiry and beyond.

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About us

The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the third sector. There are over 45,000 voluntary organisations in Scotland involving around 138,000 paid staff and approximately 1.3 million volunteers. The sector manages an income of £4.9 billion.

SCVO works in partnership with the third sector in Scotland to advance our shared values and interests. We have over 1,600 members who range from individuals and grassroots groups, to Scotland-wide organisations and intermediary bodies.

As the only inclusive representative umbrella organisation for the sector SCVO:

- has the largest Scotland-wide membership from the sector – our 1,600 members include charities, community groups, social enterprises and voluntary organisations of all shapes and sizes
- our governance and membership structures are democratic and accountable - with an elected board and policy committee from the sector, we are managed by the sector, for the sector
- brings together organisations and networks connecting across the whole of Scotland
- SCVO works to support people to take voluntary action to help themselves and others, and to bring about social change.

Further details about SCVO can be found at www.scvo.org.uk.

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