West Lothian Council response to Call for Evidence: A Scottish approach to taxation

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

Response: The council recognises the changes to the funding landscape in Scotland with new devolved powers for taxation, including a Scottish rate of Income Tax, new borrowing powers for the Scottish Government, and powers for a number of former UK taxes. It is therefore an appropriate time to consider how Scottish taxation should be approached. The four principles set out by the Scottish Government are all relevant, and are supported by the council. Furthermore, it is worth noting that they correspond with some of COSLA's principles of local taxation, in that taxation should be fair and easy to understand, and should be administratively efficient and difficult to avoid.

To best achieve the four principles, it is necessary to consider the impact of all taxation impacting on taxpayers in Scotland, including taxes from the UK and Scottish Governments, and local government.

The council proposes that a Scottish approach to taxation should also take cognisance of local taxation, and therefore fiscal policy should take account of the current lack of fiscal powers at local level which places a significant limitation on local democratic choice and control. A local taxation system should have the freedom to raise additional resources in a way that recognises the local needs of communities. Therefore, in order to achieve its principles around ability to pay, certainty, ease of payment and efficiency, a Scottish approach to taxation should reflect the requirements for local democracy and community empowerment.

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

The current taxation regime and newly devolved taxes do not address the fiscal deficit that exists where over 80% of council funding is provided centrally. The impending change to the Council Tax multiplier for the top four bands does not provide a wholly progressive reform of local tax. Furthermore, the intention of the Scottish Government to ring-fence the additional £100 million raised from this taxation change to fund national policies removes accountability between local taxation and local communities. In addition the 3% cap on council tax increases, effective from 1 April 2017, does not facilitate local democratic decision making.

Is there scope for a fundamentally different approach to taxation in Scotland?

Response: The council proposes that there should be more tax raising powers devolved to a local level. As previously outlined by the Commission on Strengthening Local Democracy, there is a current lack of fiscal powers at local level which places a significant limitation on local democratic choice and control. Council Tax currently accounts for approximately 18% of the funding local government has available to invest in services for its communities, whereas across Europe the most empowered local governments can raise more than 50% of their own income.

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

Response: The council is not in favour of local taxation income being ring-fenced for a prescribed area of spend. In particular, the council is concerned that is it is the Scottish Government's intention to use local taxation to pay for central government policies, by distributing £100 million of taxation revenues raised locally by the changes to the Council Tax multiplier to fund educational attainment, in a way that will mean money received within a council area is not all spent in that area.

The ability of each individual local authority to set and collect a local tax is a key factor in effective local democracy and key to establishing a solid accountability relationship between councils and their local communities. The central distribution of funding raised by the Council Tax re-banding will seriously erode this link between local taxation and accountability to our local communities.

The Scottish Government should therefore look to its own central tax raising powers, such as income tax, to fund central policy decisions.

To what extent do potential behavioural responses limit options for tax changes in Scotland?

Response: The merits of any proposed tax changes in Scotland should be considered and an assessment made of the potential behavioural impacts of each change. However, the over-riding concept of any tax changes should be based on fairness and equity. A tax that is based on the ability to pay and treats all equitably is more likely to deliver stable revenues, not just because it will, by definition, be affordable, but also because it is likely to benefit from greater public acceptance.

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

Response: There is no reason why the Scottish Rate of Income Tax continuing to be administered by HMRC should limit the scope for a different tax system to develop. In terms of other administrative arrangements for tax collection in Scotland, local authorities have a good track record of administering and collecting local taxes such as Council Tax, Water and Sewerage charges and Non Domestic Rates and are well placed to adapt to any proposed local taxation changes. Similarly, Revenue Scotland is now established and well placed to administer and collect devolved taxes in Scotland.