



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

### FINANCE COMMITTEE

Wednesday 23 September 2015



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**FINANCE COMMITTEE**  
**23<sup>rd</sup> Meeting 2015, Session 4**

**CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

\*Jackie Baillie (Dumbarton) (Lab)

\*Richard Baker (North East Scotland) (Lab)

\*Gavin Brown (Lothian) (Con)

\*Mark McDonald (Aberdeen Donside) (SNP)

\*Jean Urquhart (Highlands and Islands) (Ind)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Charlotte Barbour (Institute of Chartered Accountants of Scotland)

Hazel Gough (Chartered Institute of Taxation)

Lucy Hunter Blackburn

Helen Jones (Scottish Government)

Douglas McLaren (Scottish Government)

Gwyneth Scholefield (PricewaterhouseCoopers)

Fiona Taylor (Scottish Government)

Ben Thomson

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

The David Livingstone Room (CR6)



# Scottish Parliament

## Finance Committee

Wednesday 23 September 2015

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

### Draft Budget Scrutiny 2016-17

**The Convener (Kenneth Gibson):** Good morning and welcome to the 23rd meeting in 2015 of the Finance Committee of the Scottish Parliament. I remind everyone present to turn off mobile phones and other electronic devices.

Our first item of business is to take evidence on the Scottish rate of income tax as part of our scrutiny of the 2016-17 draft budget. We will hear from two separate sets of witnesses. First, I welcome to the meeting Ben Thomson and Lucy Hunter Blackburn.

Members have received copies of a briefing note by the budget adviser with written evidence that our witnesses have submitted. We will therefore go straight to questions from the committee.

Ben Thomson has been to the committee on a number of occasions; it is good to have him back. I do not think that Lucy Hunter Blackburn has been to the committee before. Have you been before, Lucy?

**Lucy Hunter Blackburn:** No, I have not.

**The Convener:** Welcome to the committee.

I will ask some opening questions, and we will then go round the table for colleagues to ask questions. I might ask Ben Thomson and Lucy Hunter Blackburn to comment on each other's submissions, as they are not diametrically opposed but significantly different. We will have a wee look at how you respond to each other's submissions as well as how the committee responds.

Ben Thomson made a suggestion in his submission. I am pleased that you have made concrete suggestions, as many people who have given us evidence have shied away from that. At least you have made suggestions. We will soon find out whether the committee or the Scottish Government ultimately agrees with them. Ben Thomson suggested that

"a 2p reduction ... would reduce the tax burden on all Scottish Income Tax payers by £660mn".

I wondered how we would make the reductions in spend and so on to fund that, but he went on to suggest that that £660 million could be raised by

raising the council tax by an average of 33 per cent. That seems to me to be a fairly whopping rise. Will you talk us through your thinking on that?

**Ben Thomson:** On which bit of it?

**The Convener:** On the balance between reducing the Scottish rate of income tax by 2p in the pound and correspondingly raising council tax by 33 per cent in order to compensate for that so that there is no effective revenue loss to the Scottish Government.

**Ben Thomson:** Sure. The thinking behind that is that, having spent so much of my time over the past six years arguing that different levels of government should have fiscal responsibility, it would be a great disappointment if all the Scottish Government and the committees and the powers in the Parliament did was mirror what happened in the rest of the United Kingdom. There seems to be an immense opportunity to do something with the taxes that we have and to use them to provide a better tax service. After all, a tax service raises revenues only to create good public services. Reducing tax—I suspect that the committee has not received many submissions to reduce the rate of tax—would give a really good message that you are doing something positively.

Lucy Hunter Blackburn and I may disagree a bit on my second point. She would see the SRIT as a progressive tax, but it would be much more progressive if we were allowed to vary the bands. That will potentially happen later, once the effects of the Smith commission come in. However, at this stage, the 10p rate is across all bands, so it is quite an inflexible tax. If we look at it as a percentage of how much tax increases, it will hit the people on lower taxes more as a percentage of the total tax that they pay than people on higher rates, although those on higher rates will pay more in absolute terms.

In the next few years, there will be a choice for a percentage of people to decide where they want to pay their taxes. I know that the rules on that are being devised. A lower tax rate will encourage people to be designated as Scottish residents and pay tax in Scotland. If the Scottish rate of income tax were to go up, that might push some people who have a choice to decide to pay tax south rather than north of the border. Lastly, the reason that I am suggesting a reduction in the SRIT is that it would send out a fantastic message that Scotland is open for business and is not all about paying more and more taxes.

As I set out in my submission, using Treasury figures, a 2p reduction in tax rate is about £660 million—the Treasury says that the revenue is about £330 million per 1p of tax. In a presentation that the economist John Kay gave a few months ago, he said that the figure is about £400 million.

The Scottish Government has its own economists who can do the numbers, but that seems to be about the ballpark figure. Obviously, the public sector has to be funded from those taxes. There are a few things that Scotland could do with its taxation system to replace the £660 million.

First, council tax is something of a guddle—I think that Lucy Hunter Blackburn would agree with me about that. The bands have been in place since 1991, but they do not make sense. Someone like me, who lives in a reasonably expensive property, pays the same as a person whose property was valued at £220,000 in 1991, but property values have changed significantly. It is a fairly regressive tax, in that people who have wealth pay a lot less as a percentage of their property value than people who are at the bottom end of the scale and paying in band A. So the first thing about council tax that needs to be addressed is that the banding is a guddle.

The second thing is that the council tax freeze has distorted things. It is a nice political policy to have the fact that a tax has been frozen, but actually it just had to be funded by the Scottish Government, and it has taken away responsibility from local government. I looked through statements by all five parties in the Scottish Parliament and found that, in the past six months, all of them have made reference to their commitment to localism and passing powers down to a local level. The introduction of the SRIT is a fantastic opportunity to do that, by reducing the level of tax that Holyrood gets and empowering local government through pushing down more responsibility for taxes to a local level.

The analysis that has been done so far suggests that, if the tax had been unfrozen since 2008 and allowed to grow with inflation, it would have brought in about £570 million. That in itself would pretty much offset the effect of reducing the SRIT. Rettie & Co have put forward the proposal that rebanding would raise about £750 million of additional revenue. If that was included, one can see that the figure lost through the 2p cut could be matched by addressing the issues with the council tax.

I am not saying that council tax is the only tax that should be looked at. Some taxes would change real behaviour in Scotland. One that I have suggested before is a tax on sugar. Why do we not do things differently, in the way that we did when it came to smoking? People around the UK said, “Well done,” over that. Sugar is now a major problem and the national health service is suffering from a huge increase in cases of diabetes. By treating sugar in the same way as we treat tobacco and putting the same rate of tax on sugar as we do on tobacco, we would again raise about £700 million.

I am not saying that council tax is the only way to offset a reduction in the SRIT. The heart of what I am suggesting is that we should do some creative things with the tax powers that we have, rather than just keep the SRIT exactly the same as the rate south of the border.

**The Convener:** Thank you very much for that. Both today and in your written submission you suggested that people who were offered a lower SRIT might organise themselves to pay their income taxes in Scotland. However, when we took evidence from Professor Bell, he said that, at that level, it does not make any difference at all and that no one is going to decide to change their domicile on the basis of a 2 per cent tax differential. They might do that if it was 10 per cent or possibly 5 per cent, but there is no real evidence that 2 or 3 per cent makes any difference when people decide where to reside.

**Ben Thomson:** There is no real evidence either way, but it will be our attitude towards taxation that will make the difference. When all the Smith proposals come in, that will be the point at which people might get nervous about what will happen with major tax changes.

If you send the message now that the Scottish Government will be different, innovative and exciting, and that all those tax changes are going to come in, people who have a choice between dual residences south and north of the border—some people do—will look at organising their affairs and, if they think that the taxation system in Scotland will be worse than it is in England, they will start having their residence in England. Once people start having residences in different places, it is more difficult to check. If you say that you are going to lower the SRIT, I suspect that a number of people will think that, if you are going to take that attitude, that will flow through for later tax changes that might happen once we get greater powers after Smith.

**The Convener:** Lucy Hunter Blackburn, you want to raise the SRIT by 1.5 per cent to release money for spending on services that, you say, has been taken out because of the council tax freeze. You say that it has “caused a hole” in the Scottish budget. Is not the hole in the Scottish budget there because the UK Government has cut funding by 10 per cent in real terms? You have talked about local government funding falling about 10 per cent in real terms.

**Lucy Hunter Blackburn:** You are right that the big pressure facing the Scottish budget is what is coming through the Barnett formula. However, the council tax freeze funding means that we are choosing to spend £560 million on the council tax freeze rather than on addressing the pressure that is created on the budget through the Barnett formula. The council tax freeze costs money; it is a

substantial spending commitment on the part of the Scottish Government. It has also crept up over time. When it started, I do not think that anyone would have expected it to reach a point at which it was costing something equivalent to the further education college system, but it is.

I was pleased that the committee put out the call for evidence and let everyday people like me give their views, because it is a chance not to challenge the council tax freeze but to talk about how we fund it and to see the connections. I wanted to invite the committee to see a connection between the new powers that are available through the SRIT and the funding of the council tax freeze. That is the point that I want to make, but you are right that the pressures on the Scottish block are large, and that is why it is important to look again at how we use those powers.

**The Convener:** Frankly, the reason why I invited you to come along was because yours was the most interesting of all the submissions that we received. No offence to Ben Thomson, but it is good to have some challenging evidence like that in your submission and I really enjoyed reading it.

You talk about people on higher bands saving more through the council tax freeze, which is true. However, as a proportion of their income, who saves the most?

09:45

**Lucy Hunter Blackburn:** That is interesting because it cannot be mapped back to income. It is a crude measure to look at the scale of properties. We know that the very poorest people save nothing from the freeze, because the council tax reduction scheme means that there is no council tax payable. There is a zero effect.

I looked for a simple way of summarising what is happening, because it is a complex set of data, but we know that one in five households are in the council tax reduction scheme. That is a large number of low-income households. We also know that 15 per cent of the potential tax take from the council tax is met through council tax reduction because, when council tax benefit was abolished, the Scottish Government took the view that it would maintain a low income safety net.

The easiest bit around income is that we know that the very poorest save nothing. I know that not everyone in the council tax reduction scheme gets 100 per cent, but the average saving is about £660 per household. That figure, which is based on statistics that came out this week, suggests that, if someone is getting a council tax reduction, they are probably getting 100 per cent or a high percentage. We know that the very lowest incomes have not really been affected either way.

You are right in that, if the data was there—I am not sure that it has been published—and we could do the numbers, we would probably find that, as a proportion of income, the savings on council tax for low earners, above the council tax reduction, will be higher. My point is that that is £560 million that we are spending in a way that gives proportionately, out of income, a bit more to the poorest, but still means that more than half the benefit goes to higher band properties, from band D and above. We cannot do the sums precisely, but it is probably more than half of that £560 million.

The question is not really whether the council tax freeze is or is not progressive, although given the council tax reduction it is only progressive for a limited group; rather, the question is whether that £560 million could be spent more progressively than on the council tax freeze. My arguments are that, if we look at the way that public spending cuts have fallen—we can maybe come back to that—there is a better use for that money. The £560 million is effectively being paid for disproportionately by people who do not benefit from it in the same way.

**The Convener:** We will take on board the point about spending progressively in a wee minute. In terms of the effect on people's income, one thing that Ben Thomson put in his submission was the point that, when we increase taxation—whether it is by 1.5, 2 or 3 per cent—across the board as a proportion of people's incomes, lower-paid people who are effectively on the margins will be most adversely impacted. They get a disproportionate saving in terms of the council tax freeze, because council tax is a higher proportion of their income, but you suggest that they should pay an extra 1.5 per cent in income tax, and so they would pay a higher proportion of their income. That seems to be the opposite of what you suggest in terms of progressive taxation. Even if the spend is more progressive, the income distribution is not.

**Lucy Hunter Blackburn:** This is where I differ with Ben Thomson on the progressive-regressive argument. It is an important point on which the committee will want to take a view. When Ben Thomson talks about the impact by income, he is looking at how much a person's tax goes up. It is absolutely right to say that, under the Scottish rate, as a percentage of the current tax, the extra penny will be more for those on lower incomes. However, that argument does not pick up the point that, at lower incomes, people pay much less of their income as tax full stop.

The committee has put an immensely helpful calculator on its website and I commend whoever had that idea. When you run the figures through that calculator—I put some numbers in my submission—and look at the tax increase as a

proportion of all income rather than as a proportion of the tax that people already pay, you find that the Scottish rate is progressive. It increases the proportion of income that people pay as tax. If you put a penny on everyone's income tax above roughly £10,000, people will pay a larger share of their income as tax, because they will pay more of their income as tax, generally. That is progressive.

The NHS submission helpfully made the point that raising the Scottish rate of income tax would lead to a very slight—not huge—narrowing of income inequality. That does not make sense unless it is progressive.

**The Convener:** Does Ben Thomson want to come back on that?

**Ben Thomson:** I agree with the analysis that has been done. It is fair to say that people's wealth is made up of their income and the wealth that is mostly held in property. The two are not necessarily the same thing—some people have high levels of income and low property wealth and vice versa. The two cannot quite be equated, which I think is what you are trying to do, convener.

With council tax, those on the bottom bands pay approximately 1 per cent of the value of their property each year, because of the way that the banding works, whereas even someone at the bottom of the higher bands pays about 0.3 per cent of the property value. With income tax, we are all happy that people should pay a higher percentage as they earn more, whereas exactly the opposite argument seems to apply to council tax. My point is that, if Scotland really wants to have some interesting discussions on tax, we should be brave and address those issues. We should look at the guddle that is council tax and decide to do it properly. We should take the opportunity to do something about it. Lucy Hunter Blackburn and I agree that this is the opportunity.

I made my submission on the basis of what the committee asked for, which was about how a reduction or increase in tax could be matched. I am not making any statements about whether the overall tax take should be higher or lower, because that is a slightly different argument. My final point on Lucy Hunter Blackburn's submission is that I think that she is making an argument that we need more tax revenue to pay for more public sector costs. My arguments are not looking at that particular question, because I felt that that was not what the committee was asking for in relation to this meeting.

**The Convener:** We were looking for people to make all sorts of suggestions about taxation—increasing the levels, lowering them and maintaining them.

Lucy Hunter Blackburn is in favour of abolishing the council tax freeze. What impact would that have? Assuming that your proposal were to be funded by a 1.5 per cent increase in tax—or whatever is required to meet the gap—is it your view that, subsequently, council tax should simply be allowed to rise as necessary? Obviously, given your experience, you will be aware of the gearing effect, which means that a 1 per cent rise in a local authority's spending can mean a 5 per cent increase in council tax, because of the 80:20 funding arrangement—actually, it is more than that now, but we will use those figures for the sake of argument.

**Lucy Hunter Blackburn:** It might be my fault for not being clear enough, but I am not arguing for immediate cessation of the council tax freeze. That cannot be done, for exactly the reasons that you give. The gap is too big, and it is not possible to begin to ratchet back from where we are. I argue that we should go on funding the freeze and add the money into the Scottish rate of income tax; that would generate the money and give us about £560 million more than we currently have, which would mean that we could plug the gap in spending. In the short term, the council tax freeze remains part of the picture. I suspect that it would cause a crisis of legitimacy were you to try to push up council tax quickly and sharply.

I hope that the current review of local taxation will this autumn come up with something substantial to which we can move. However, it will take time to move to whatever is proposed. Local councils and local politicians do not want to find themselves suddenly confronted with having to issue a 10 per cent or 20 per cent bill increase; most people would find that not to be a comfortable budgeting position.

I am suggesting that Parliament could see the SRIT as a bridge. We have lost £560 million of revenue that we would have raised through council tax; we should bring that money back in using income tax, which I agree is fairer than the current council tax. Once we have got that space in our budget, we can begin the transition. Ben Thomson and I both agree that we want to get out of this very acute gearing and push more tax raising back to the local level. If that were done, you could bring the Scottish rate of income tax back down over time.

**The Convener:** I have a couple of points to make. Tax is not going to come from thin air; it is going to come from people's wages. The Scottish Retail Consortium's submission suggests that, with retail being fairly fragile at the moment, any increase in taxation would impact adversely on the money that people have to spend in shops and businesses, which would have an adverse impact



on the Scottish economy. What is your view on that?

**Lucy Hunter Blackburn:** I do not have expertise in that macroeconomic side of things. The committee will have its view on that issue, but I do not bring expertise on that part of the debate to the party. I am here simply to voice the argument that there is concern across the political spectrum about the impact of large public spending cuts at local and national levels. I cannot give an evidence-based response to the question.

**Ben Thomson:** My proposals would not increase or decrease the overall cake. The public have to pay the tax in the end, so the money is coming from them. The public in general would not be made richer or poorer, although the burden might be redistributed differently among people.

However, what is important is the message. The public look at headline rates; they always look at income tax. It is an incredibly important issue in terms of public confidence—although confidence is not something that can be measured particularly well. To combine the message with an approach that reduces income tax would make people confident that you feel confident about the future. That is the case even though, at the end of the day, under my proposals the same amount of tax will be raised from the public.

**The Convener:** I will not ask many more questions, because a lot of colleagues want to come in and I need to give other people a chance.

Lucy Hunter Blackburn suggested that the funds that are raised from extra taxation should be spent on local services and student grants. One might think that that is because you have a history, or vested interest, in those areas. You have been head of local government finance distribution at the Scottish Office and head of higher education in the Scottish Executive. One might suggest that it is because of your background that you have not suggested, for example, the NHS, justice or whatever. Would you comment on that?

**Lucy Hunter Blackburn:** I also worked in the justice department and Historic Scotland, so they may be rather hacked off that I did not mention them.

I am speaking about what I know. Student grants are what I know about and I want to put that evidence in front of the committee. If a family with a student in full-time education is on a household income below £17,000, it has lost £900 a year in student grant in the past two years. That is a substantial cut in household income. It is important to say that the student can borrow to fill that gap, but that is, in effect, tax that he or she will pay in the future. I wanted to make the point about grants, because I know about them, but the local

government point is the one that I would like to press more.

The Scottish Parliament information centre produced an immensely helpful note yesterday about council tax and the funding of councils. I picked up from the note that, in the past seven years, even though the council tax freeze itself is funded and that bit is the right size for the job it is doing, SPICe quite clearly said—

**The Convener:** SPICe said that the freeze is overfunded.

**Lucy Hunter Blackburn:** It said that the freeze was overfunded over the period: there have been years, for example 2010-11, when it was overfunded.

In the current financial year, there is a de minimis £4 million gap. Five hundred and sixty million pounds is about right to compensate for where council tax would have been, as Ben Thomson said, had it been increased in line with the retail prices index.

At the same time, SPICe has identified a £756 million real-terms fall in the total grant that is provided to local government.

I spent last night catching up on what we know now about local government budgets. The Joseph Rowntree Foundation said two years ago that the reductions in local government grant were £90 a head higher in the most disadvantaged areas than they are in the most advantaged. I spent a bit of time going through the City of Edinburgh Council's budget document for the past year. I will not dwell on the detail now, but there are endless examples of salami-slicing of services for vulnerable families. The City of Edinburgh Council is a Scottish National Party-Labour coalition. It sits outside a lot of the conventional political debate in Scotland. As a parent in Edinburgh, I would say that the City of Edinburgh Council did a very good job of a big public consultation on its budget last year. I do not get any sense that the council took its decisions lightly.

If the committee is looking for where additions might be made, I urge that they should be for local government, which is where the most vulnerable families, young people and old people are supported most. That is where the cuts need most to be ameliorated.

**The Convener:** Thank you for that.

**John Mason (Glasgow Shettleston) (SNP):** To build on some of the points that have already been raised, can the question of whether the SRIT is a progressive or regressive tax not be answered yes or no? Is it basically about how one looks at it?

**Ben Thomson:** The answer can be relative or absolute. In absolute terms, the people who pay

more tax will pay a greater amount, but people at the lower end will pay a greater percentage.

**John Mason:** It is therefore really not possible for anyone to say that the SRIT is a progressive or regressive tax.

**Ben Thomson:** The SRIT is a much more progressive tax than council tax at the moment. In council tax terms, people at the bottom pay a much higher percentage of the wealth of their properties than do people at the top end.

**Lucy Hunter Blackburn:** I will put the counterargument to the committee. The SRIT is a progressive tax. The technical definition of a regressive tax—I have checked—is one that takes a higher proportion of income, not tax, at lower incomes.

Forgive me if I read the figures from paragraph 17 of my submission. At an income of £15,000, 1.5p on the SRIT would represent 0.5 per cent of post-tax income. At £125,000, the Scottish rate would represent 2.3 per cent of post-tax income, and the proportion rises in a not linear but straightforward fashion. There is no contest over whether the SRIT is a progressive tax. I disagree pretty strongly with Ben Thomson, but he knew that I was going to do so.

As I have said, the NHS submission very helpfully points out that raising the SRIT would decrease income inequality, which is an effect only of a progressive tax—a regressive tax could not have such an effect—and cites evidence, that I must confess I have not read, by Comerford, Bell and Eiser of the University of Stirling, where some work on this has been done. I can argue with complete confidence that the SRIT is progressive taxation.

10:00

**John Mason:** The figure that struck me in the table in paragraph 17 of your submission was the comparison that you make between tax on taxable income of £25,000 and £125,000, which is exactly five times £25,000. The tax on those amounts is £216 and £1875—or, in other words, someone who earns five times the salary is actually paying 8.5 times the tax. That seems to me to be pretty straightforward.

**Lucy Hunter Blackburn:** Absolutely. The arithmetic is simple. If we say for simplicity's sake that the amount that one does not get taxed on is £10,000, a person who earns £15,000 will be taxed on only a third of their income while someone who earns £100,000 will be taxed on 90 per cent of it. That is how we get the effect.

**Ben Thomson:** I will use the same numbers. I note that on an income of £15,000, the total tax would be £880. If the Scottish rate of income tax

were to be increased by 1p, the tax would go up to £924—a £44, or 5 per cent, increase. With an income of £100,000—I think that the figures will be the same for an income of £120,000, but I do not have the £120,000 figure with me—a person would pay £29,400 in tax, and a 1p increase would mean that they would have to pay an additional £894, or an increase of 3 per cent. That is the difference between the relative and the absolute.

**John Mason:** That is if you base things on the tax that you are paying. I take the point.

It has been suggested that given that it is a temporary power and that we will, we hope, get fuller tax powers that will allow us to be seriously progressive—as I would like—we should not use this power in the meantime. Can such an argument be made?

**Ben Thomson:** I think that you should start as you mean to go on. If you want to send the message that you are going to do really interesting things with taxation, you should start when you have the powers. One of the big criticisms that is made of the Scottish Government is that it had 3p tax-raising and lowering powers for ages, but it never used them and the public asked, “Why do you want all these powers if you are not going to use them?” Given certain differences in Scotland and the problems in our taxation system, Scotland could lead the way and be seen as really innovative. Why not grab those opportunities? It might not mean doing something with council tax—which, nevertheless, Lucy Hunter Blackburn and I agree needs to be changed—but there are other taxes that we could be innovative with.

**John Mason:** Let us just stick to the tax that we are discussing at the moment.

Ms Blackburn, what are your thoughts on the argument regarding the temporary nature of the power?

**Lucy Hunter Blackburn:** I can see why the argument has been made. As a former public servant, I know that such people like things to be tidy, and I can understand the tidiness of waiting.

However, this is genuinely a matter of urgency. I note that for 2015-16 the City of Edinburgh Council has reviewed the family solutions service in order to save £200,000, which means reducing the service by 10 per cent. It is important to be concrete about what is going on out there: 400 vulnerable families are currently supported by the service and, according to the report that sets out the proposal, reviewing that service

“Will have an impact on the number of families that can be supported with the risk that this could lead to an increase in the number of Looked After Children”,

and the service will work more with “high-tariff” families “to mitigate” that effect. The Joseph

Rowntree Foundation has made it clear that that approach can be found right across the local government world. Services are not being absolutely killed; instead, they are being pulled back and targeted, which means that people who are just on the edge of being vulnerable—in other words, some of the people whom it would be most sensible to help—are being lost.

As I have said, this is a question of urgency; I see the political debate about austerity and public service cuts as an urgent issue. The argument that we should wait has validity, and if we were not living in these times I would consider the argument to be very sensible from a public administration point of view. The complex balance that politicians such as yourselves and those in Government need to strike is how far those technical administration arguments outweigh what is happening to budgets, and what we can see is going to happen to budgets next year.

**John Mason:** You have highlighted the political aspect. My question is this: if we raise the tax by, say, a penny, how do we sell that to the public? I am not sure that the argument that local government would get more money will particularly grab them, and neither, I am afraid, will the suggestion that you make in paragraph 20 on page 6 of your submission, that it could be a “bridge” to saving tax in the future. Do you think that people would be grabbed more if we said that the increase was for schools, teachers and general practitioners?

**Lucy Hunter Blackburn:** You are more the experts than I am on what works in talking to a wider community. I agree with the suggestion by the Scottish Council for Voluntary Organisations that we should have a conversation about tax.

One thing that I did not say in the submission, but which I am clear about, is that I can see that it would be almost impossible for a single party to put forward such a proposal on its own. It would be much more easily done if a coalition of parties that are concerned about public spending cuts were to put up a united front. There will, in the debate, always be legitimate voices, including Ben Thomson’s, saying that there are other ways to think about the matter. However, as soon as we get into the political debate and contest, it becomes harder. If you are going to sell this, I suspect that it would have to be as something that more than one party is signed up to.

**John Mason:** Ben Thomson said that he was not pushing for an overall increase or decrease in the tax take, but he also said—

**Ben Thomson:** That is what the committee asked in its request for evidence. It asked us to say how we would balance the books if we were reducing the tax. I answered that question.

**John Mason:** Okay. You have used terms such as “open for business”, “different”, “innovative”, “exciting” and “boosting confidence”, which all seem to be linked to reducing income tax. Maybe I misunderstood that.

**Ben Thomson:** At the moment, the public probably think that the powers that are going to come down will result in higher taxation. I do not know whether that is true, but anecdotal evidence from reading the papers seems to suggest that the likelihood is that taxes will either stay the same or go up.

This is a huge opportunity to revamp taxes. The argument is that we use the powers that come down to change the tax mix to make it more sensible throughout the system, and that we take on board some of the different parties’ comments about how the powers that are coming down to Holyrood should be passed on down to local government so that the process does not necessarily stop at Holyrood. The message would therefore be that we are changing tax rather than just increasing or decreasing the overall take.

**John Mason:** There is a danger that we are getting get too wide here. I am keen to keep our focus. I presume that to go either way sends a message. If we take a penny off tax, people know that schools, hospitals or something else will get less money. Meanwhile, if we put a penny on tax, we will get slightly better schools and general practitioners. Do both ways not send a message?

**Ben Thomson:** I totally agree. There is an argument to be made for increasing taxes, and that argument can be made by Lucy Hunter Blackburn saying what we could do by increasing taxes. I have put a counterargument, which is to ask whether it would be refreshing if the first thing that we did with the Scottish rate of income tax was to decrease it and use it to do two things: the first is to empower local government and the second is to sort out some of the other taxes to make a better tax mix. I would much rather see the tax go up or down than stay the same, because that would send out a message that the Parliament is empowered to do something. If we are going to do something, I would argue for a lower tax, which is more interesting and more exciting.

**John Mason:** I take your point. You have now expanded on it a little bit.

The comment has been made somewhere that our taxes here are relatively low by European standards and that we could quite safely increase them a bit. Is that your opinion?

**Ben Thomson:** It depends who you look at. Reform Scotland did the figures on percentage tax takes across the board. The figures have changed in the past three years, so I am not totally up to

date, but the figures for how much tax European countries take as a percentage of gross domestic product showed that the UK was pretty much in the middle. We can always look at the Scandinavian countries and say that their percentage is much higher, but it has been falling. Of course, much more of the Scandinavian countries' taxation is at a much more local level than is the case in the UK. That was a huge question, if you wanted to be specific: you have now broadened the discussion right out.

Different societies have very different attitudes to how much tax they take. One can make all sorts of arguments about that. The Scandinavian model, which I think is the one that has significantly higher taxes than the rest of Europe, demonstrates that people feel more comfortable about paying greater taxes if they feel that there is greater community engagement and that the taxes relate more directly to local spending. That seems to be a trend that all parties believe in at the moment, because their statements are towards empowering local government and communities.

**John Mason:** That is fair. Does Lucy Hunter Blackburn want to comment on how we stand in comparison with other countries?

**Lucy Hunter Blackburn:** That is not my area of expertise; I think that you will find that other people are willing to comment.

**John Mason:** Okay.

My last question is on an issue that the convener touched on. Can we get any kind of grasp on how elastic or mobile everything is? We have heard it suggested that a penny on or off the rate will not mean that a lot of people will start moving around. Do you have any feeling about the level at which people would start moving? Does anybody have an idea? We would have to make a judgment on that.

**Lucy Hunter Blackburn:** The mobility of populations and the sensitivity of individuals to economic signals is certainly an area that people study. I do not know, in the tax world, what the evidence in which you are interested would look like. Each society is slightly different, and the issues that would allow or constrain mobility vary from country to country.

I cannot give you the evidence, but if the committee is interested there are people who would know about that—for example, in the United States. It is very common in federal countries for devolution of income tax to operate at sub-federal level. There will be places in the world with such evidence, although the geography will be different. Germany, for example, might have it; I do not know.

I know, from looking at student funding, which I know more about, that mobility is massively complex. The island of Ireland is a nice example because there are different funding regimes, so it is cheaper for people to go south than to go north, or whatever. People who study population mobility find that it is driven by all kinds of things that have nothing to do with economic signalling.

It is very easy to pick out that one aspect, and I am quite sure that Ben Thomson is right that there would be a point at which it would matter more substantially. However, the economic aspect always plays off against family ties, where people can go to get the job they want, where their kids are, where they want to live and their quality of life—all sorts of things. I am sceptical about the effect of small tax increases. David Bell has done more work in that area, but I find it hard to see from any evidence that you will get a big mobility effect through relatively small changes in income tax.

**John Mason:** Okay. Mr Thomson, do you want to comment on that?

**Ben Thomson:** Lucy Hunter Blackburn has summed it up very well. A very small increase or decrease—of 1 per cent, say—will not influence people's actual choices, but it will send out a message about the intentions behind the direction of travel. As with all such things, one cannot quite put one's finger on it; it is a question of confidence, and a tipping point is reached at which it certainly does make a difference. Mobility is therefore the result of an accumulation of a lot of things rather than being the result of one particular thing.

**John Mason:** That confidence, as Ms Hunter Blackburn said, will relate to quality of life and family as well as to the tax rate. Even confidence is made up of a number of factors.

**Ben Thomson:** Absolutely.

**The Convener:** I just want to clarify something with regard to the questions that Ben Thomson was asked. The questions were on what the rate should be for the SRIT and why; how, if the SRIT should be above 10 per cent, the additional funding should be allocated; and how, if the SRIT should be below 10 per cent, the reduction should be funded from existing public expenditure. You have the freedom to say what you want. You are not restricted to a zero-sum game, as you seem to have suggested.

I will bring in Jean Urquhart now.

**Jean Urquhart (Highlands and Islands) (Ind):** A number of my points have been covered, and I thank the witnesses for the interesting discussion. I want to go back to Ben Thomson's argument about the image of Scotland. You used the phrase "open for business". I take the other view that all

the other reasons, such as welfare and public spending on public services, make the country more attractive. Why do you see reducing income tax as such a key factor?

**Ben Thomson:** The reason for suggesting it is that it sends an interesting message and it is different. John Mason asked about change—it is important to have change. With regard to the phrase “open for business”, I think that business and the general population are fed up with how complicated tax is and with the illogical nature of a lot of taxes. I think that they want more engagement at a local level.

If you want to be really radical, why not say—as I think Kezia Dugdale mentioned in a *Guardian* article last month—that a lot of the powers that come to Scotland should be passed on to local government? That relates to the idea of being open for business—how do we empower people right down at the community level? If we were being really radical, perhaps we could take all 10p and let local authorities have their own income tax rates. Rather than raising 20 per cent of what they spend through council tax, they could be responsible for the majority of what they spend. That is what I mean by being open for business. It means that government, which is a provider of public services that we all understand have to be funded, starts thinking about how to do that in a way that is simpler and engages us more.

10:15

**Jean Urquhart:** I agree with all of that, about being creative in how we use tax, but the Scottish Government is going to be fairly limited in its ability to do that. In his opening remarks, Ben Thomson talked about thinking differently about taxes and mentioned putting a tax on sugar, but the powers to do that are not with Scotland. Do you think that Scotland should have power over all its taxation?

**Ben Thomson:** As you know, and as I have said on many occasions, I was a huge advocate of devo plus, which says that each level of government should be broadly responsible for raising the money that it spends—at local government level, at Holyrood level and at Westminster level—because it makes politicians responsible and accountable if they have to do that.

Someone mentioned the United States, where the difference in state taxation and how states go about raising their taxes and making sure that they are right for their local communities is huge. Some states have no income tax and raise it all through property taxes and sales taxes, and some have no sales taxes and raise it all through property and income taxes. They have a very different attitude, and they embrace the difference. It would be

slightly sad if all that we did if we got those powers for tax was to mirror everything else that happens in the rest of the UK, if we kept all the tax rates the same and did not use the opportunity to make the Scottish taxation system better. The Smith proposals suggest that quite a lot of taxes can be more flexible, so I am not sure that it would prevent us from having a sugar tax or from radically revising council tax, while balancing that with passing the Scottish rate of income tax down to more localised taxes.

**Jean Urquhart:** Do you agree that one of the issues just now is that people want fairer taxation? We use the word “fairer” a lot when talking about taxation in Scotland and we say that we want to close the gap so that people at the lower end are much better off and to tax people who are high earners a bit more. However, it seems that to reduce income tax by 2 per cent, perhaps using Lucy Hunter Blackburn’s table, but to increase council tax by 30 per cent would not achieve that. As everybody says, taxation gives with one hand and takes away with the other, but the impression that I get is that a lot of people think that we should pay more council tax because they feel, rightly or wrongly, that that is directly related to diminishing public services, so that—

**Ben Thomson:** So what do you want me to agree?

**Jean Urquhart:** My question is, should the basis of any rethinking on taxation be about being fairer?

**Ben Thomson:** Fairness is a difficult word that is used a lot at the moment, so we have to ask what we mean by “fair”. I would step back and say that if, from the very start, Scotland wants to be seen as progressive, let us have a more transparent, simpler taxation system. It has been said that, in the past 15 years, Tolley’s tax guide has not only doubled but seen its font size shrink from 12 to 8 so that it can get all the information in.

The taxation system has become very complicated. Eighty-five per cent of taxes are raised through property, income and sales taxes of one sort or another. Why do we not accept that and devise a much simpler taxation system that recognises that and shares it equally, rather than having a complicated taxation system and the welfare system that goes with it? People struggle with the system. I was speaking to someone this morning who was struggling because they had to fill in a tax self-assessment form for the first time. It is really quite difficult for people to understand our taxation system. Reform Scotland has been looking at the welfare programme, which is also difficult. If you want fairness, why not start by having a taxation system that is transparent and that people can understand? Fairness starts with

people understanding what is going on and being able to vote on it.

**Jean Urquhart:** I can see the newspaper headlines for a 2 per cent reduction in income tax and a 30 per cent increase in council tax not being politically acceptable apart from anything else. I agree with you about the local tax but, taking a wider view, given that how we fund local government is under review at the moment, I think that the Scottish rate of income tax might be looked at on its own.

We have talked a lot about Scandinavian countries' tax rates and public services. Do you think that, since the referendum, the public mood is far more accepting of the idea that there needs to be an increase in income tax together with an increase in wages? Would that suit the public mood? Perhaps Lucy Hunter Blackburn has an opinion on that.

**Lucy Hunter Blackburn:** The only evidence that I have seen of that is in opinion polls. If you are arguing the case, I am arguing that—this is depressing—it is a hard sell to the public. At one level, people will embrace and talk about having better public services, but it is a constant battle to persuade people to accept higher taxes.

With my former civil servant's hat on, I suggest that the political classes in Scotland do something rather brave—that is advice that ministers do not generally welcome. I think that it is case of hard selling. It is important to differentiate between the arguments that one sees in social media and the press and what people out there think. If income tax went up even by 1p or 2p, you would have to sell the idea and persuade people, and you should not underestimate how serious a job that would be. There would be voices on your side—there should be advocates among the people who are unhappy with public service cuts and who ought to be on the side of the tax raisers—but organisations find themselves split between their interest as service providers and their interest as representatives of workers. You see that in the Scottish Trades Union Congress submission. The case is compelling to those who are worried about public service cuts, but you should not underestimate how difficult that job would be.

**The Convener:** I remain haunted by the phrase "a penny for Scotland".

**Mark McDonald (Aberdeen Donside) (SNP):** The discussion has strayed into other areas of taxation, some of which are not the responsibility of the Scottish Government and are not likely to become its responsibility any time soon. Leaving the hypotheticals to one side for the moment, what is the vulnerability of the SRIT to policy decisions that are made at Westminster? I am thinking, in particular, about decisions on the personal

allowance, which would have a direct impact on the amount of money that could be raised as a consequence of changes to the SRIT.

**Lucy Hunter Blackburn:** That is an immensely important question. In an interactive system, when a lever is pulled in one place it affects something elsewhere. A great deal hangs on the extent to which there is open and proper discussion and on what mechanisms are being used behind the scenes, because taking 10p away affects the underpinning financial transfers. There was a story this week about what might happen to gift aid. It is a complex system, and you are absolutely right to say that other bits of it might get changed.

I do not know the answer to your question. The question is not precisely what would happen in those circumstances but whether we have the mechanisms to ensure a fair adjustment to any underlying financial transfers. That is the key issue, and I am sure that, at some point, the committee will explore what the underlying financial transfers are. It is all doable, but a lot hangs on the rationality of the liaison systems underneath.

**Ben Thomson:** As I have set out to the committee previously, matching fiscal powers with spending powers is important. If Scotland is to have fiscal powers, it should have full fiscal powers, including control over all the banding and the thresholds at the bottom, and as we also advocated when I was at Reform Scotland, welfare should be devolved to the area that has the responsibility for providing the welfare. If a holistic welfare system is to be created at a particular level for a particular part of government, it is necessary to be able to match what happens with taxation in that area with what happens with welfare. When it comes to the bottom area—the one involving the lowest taxpayers—having the ability to match welfare with the personal allowance is an important tool to have to enable policy decisions about the low paid to be implemented.

**Mark McDonald:** You have mentioned the adjustment mechanisms that will exist. As part of the on-going discussions on the Scotland Bill, discussions are taking place on developing the fiscal framework that will determine allocations and adjustments. That will not be in place at the point at which SRIT will be enacted, so those fiscal rules will not apply.

Let us consider the two possible scenarios that you have highlighted. Ben, in your submission, you said that a reduction in the SRIT would increase spending, which would result in a boost in income through, for example, an increase in VAT. There are proposals on the table in relation to the Scotland Bill for assignment of VAT and discussions are taking place on how much of that

should be assigned, but that will not have happened at the point of transfer of the power to collect the SRIT.

Turning to Lucy's submission, I note that a concern that has been raised previously is that if we have control of tax on income but not of tax on dividend, there is the potential for some people at the higher end to transfer their income to dividend income, which would result in a boost to the Treasury rather than a boost to the Scottish Government. How do you envisage those risks being managed? If the VAT income has not been assigned at the point at which SRIT comes into play, it will not be the Scottish Government that gets the benefit of the increased spending initially. In addition, there is the possibility of transfer of income, which those on higher incomes might choose to do to avoid the tax increase that may come.

**Ben Thomson:** In my submission, I do not make any allowance for an increase in the economy, in which case we would want to get a benefit from the economy to come through. Had I made such an allowance, I would agree with your argument that the proposal does not really work if some money is not got back from the improvements in the economy, although some money would be generated through things such as business rates.

As you know, I am not a particularly great fan of assigned taxes in general, as they provide only half the benefit. They cannot be used as fiscal levers; it is only possible to get the benefit or the disadvantage of what happens with the economy in the country.

In my submission, I have not factored in the fact that we would get the benefit of the economics of a rising Scotland, if that happened. We would get a bit of benefit through things such as business rates. I agree that when we come to the next step—when we look at the Smith proposals and how they get implemented in the Scotland Bill—those arguments will become quite prevalent.

**Lucy Hunter Blackburn:** Behavioural effects are an unknown, as we have not been here before. It is possible that there could be an income-to-dividend switch at the top end, but I make the observation that, as long as it is still in tax, that is still taxable income being taxed somewhere. Spending from the Treasury still underpins a great deal of the welfare system and a great deal of public spending in Scotland. I would be more worried if an evident way were opened up of taking income right out of tax, in which case there would be a net loss to the public purse. I see the issue more from the perspective of the public purse; the money will be spent.

From the point of view of the Scottish Government, the big issue is how predictable things will be if a penny is put on income tax. The Government would need to know, from the point when it made that decision, what the tax threshold was going to be, and it would want the best possible predictions of what the take would be. There is quite a lot of variation in the predictions of the take. That has been one of the toughest things in all this.

10:30

**Mark McDonald:** My final question is directly to Ben Thomson. In your submission, you have spoken about considering other ways of raising the money that would be lost to the Scottish Government through a reduction in the Scottish rate of income tax. Two things have struck me from listening to the evidence—aside from how intrigued I am by the sellability of a significant hike in the council tax.

Leaving that to one side, the other thing that you have mentioned is a tax on sugar products. First, how applicable would that be, given that I could by a box of All-Bran cereal, the second ingredient of which is sugar, but it is not the first thing that people come up with when they think of a sugary product? Secondly, where do you think the effect of such a tax would fall? I suspect that it would fall disproportionately on people on lower incomes, because those people tend to be in the areas where we have problems with the intake of high-sugar products. Is it not, essentially, a regressive indirect tax?

**Ben Thomson:** The analysis that I have seen shows that this applies fairly widely across society. An average adult in Scotland eats between 60g and 80g of sugar a day, and that brings a lot of problems. You point out that that is buried in cereals, for example. Yes. If you start putting the tax up, however, that will encourage manufacturers to consider other ways to make their products without using so much sugar—we are getting a huge amount of sugar.

Taxes can be used for two things: first, to raise money, and also to change behaviour, as we have seen with taxation on smoking. Cigarette tax is about 77 per cent of the face cost of a packet of cigarettes. It is the same with alcohol. We have to face up to the fact that Scotland has a significant health issue in this respect. Diabetes and illnesses that are related to obesity are causing the NHS real problems.

It has been said by a number of parties that we want a healthier society to live in, and we can use some taxes to change people's behaviour. Sugar tax would seem an obvious one. That would send

an interesting message out, and it would also help to raise some revenues.

**Gavin Brown (Lothian) (Con):** Like the convener, I like the fact that both of you stuck your necks out and came out with concrete proposals, from differing sides.

Ben, you have been specific in speaking about a 2p tax cut, which I personally quite like. What was behind the choice of 2p? Why was it not 1p or 3p, for example? Was there anything specific about 2p that drew you to it?

**Ben Thomson:** Not really, to be honest. It is more psychological than anything else. If you are going to do something, 1p looks a bit pathetic, really; if you made it 100 per cent, people would say that you were not being credible. There is an argument to say that all the Scottish rate of income tax could be given to local government, allowing local government to fund itself through income tax. I thought that the public would probably regard 2p as significant, but it is not outrageous.

**Gavin Brown:** I have a similar question for Lucy Hunter Blackburn. You have spoken about a 1.5p tax increase. Why not 1p or 2p? Was it purely to fund the council tax area, or was there something more behind the 1.5p figure?

**Lucy Hunter Blackburn:** I was entirely looking at what I thought the revenue base loss was since 2008—the £560 million figure—and, across the range of predictions, 1.5p seemed to be roughly the amount that is needed to fill that gap. I was looking at restoring the lost tax income to the Scottish Government since 2008.

**Gavin Brown:** Thank you. I am keen to understand your position on the council tax freeze. You feel that to reverse it in its entirety in one go would be unsustainable, so you are not suggesting that. However, you propose using the extra money collected from income tax to offset the freeze. What is your view on the council tax freeze as it stands? Should the freeze continue in its current form for now, or are you saying that council tax should now increase by the rate of inflation, assuming that there is any inflation? Should council tax increase annually from now on, with the £560 million mainstreamed to offset that, or should the freeze remain in its entirety?

**Lucy Hunter Blackburn:** I agree with Ben Thomson that the gearing becomes more and more acute the longer there is a freeze on council tax and that that is a bad thing in terms of the relationship between spending and local choice. I would therefore be in favour of unfreezing the council tax. I also think that the longer it is frozen, the bigger the task that lies ahead to get local taxation back on to a sustainable footing. At the moment, we are educating the population in not

paying tax for local services in a visible way, which worries me. I would be inclined to let the council tax go up in the coming year as part of the process of transition. I agree that it is unfortunate that we cannot do that by elongating the bands at the top, for example, but it would not be practical to do that.

**Ben Thomson:** There are basically two taxes that are based on property: business rates and council tax. If I remember the latest numbers correctly, council tax raised £1.9 billion in Scotland and business rates raised about £2 billion, which comes to roughly £4 billion out of the £56 billion in total that was raised in taxation in Scotland. That is a very low percentage, because we have a very low percentage of tax on property.

For a modern society that is much more global and in which people move around more, linking taxes to the guardianship of property or land—whether in Scotland or anywhere in the world—makes a lot of sense. I think that we have got our taxation mix wrong. As we increasingly go global and people increasingly do things, such as run their businesses, in a global way, the things that remain very localised are where people live and have property. The 8 per cent or whatever that is raised through property tax is low, so we should start to reassess property tax in the overall mix of taxes.

**Lucy Hunter Blackburn:** I agree with that point.

**Gavin Brown:** Many of the questions that I had have been covered, but I have a final one for Ben Thomson. I am personally attracted to the 2p tax cut, but obviously you would offset that with an increase in the council tax, so the measure would become revenue neutral. In terms of your open-for-business argument, do you not have some concern that the council tax offsetting that you propose might counteract the open-for-business argument on income tax? People would read a headline about a 2 per cent tax cut, but then would read about a 30 per cent tax increase. Although the overall money would be the same, people would see 2 per cent versus 30 per cent and potentially draw a negative conclusion. That would particularly be the case because one tax is taxed at source and people sometimes do not notice it as much as they notice the council tax physically coming out of their bank account, although I accept that that is now done by direct debit and so on. Have you given much thought to that aspect?

**Ben Thomson:** We are talking about spin, which is probably more your area than my own. [Laughter.] However, it seems to me that another headline could be, “Isn’t it great that Holyrood, instead of being centralist, is actually passing down to local government the new powers that are coming in?” In my view, if local government decided not to continue with the council tax and



instead decided to have a different tax—an income tax, a bedroom tax or whatever—it should start to take some responsibility for fiscal management, rather than the Government taking business rates away from local government or capping council tax. In doing that, the Government sends out messages that say, “We don’t trust you to run your own fiscal affairs.” If you really want the message to be that you are empowering local government, you should give local government proper fiscal responsibility. I think that both Lucy and I are saying that you should use this opportunity to empower local government. I have statements from all your political parties about how they want to empower local government—this is an opportunity to do that.

**Gavin Brown:** Thank you.

**The Convener:** Jean Urquhart has a brief supplementary question.

**Jean Urquhart:** You suggest that that message is sold alongside a 30 per cent increase in council tax, which you have acknowledged would balance the budget. However, surely the argument falls, because no more money will be spent on public services without a further increase.

**Ben Thomson:** The argument that I am making is that, rather than changing the size of the cake, you would be empowering local government by giving proper powers back to it. The message that I would send is that you will use the new tax powers not to form a mini-Westminster at Holyrood, but to empower communities and local government to do more. That is a strong message that people would identify with. You are an Independent MSP and I have not seen your statements on localism, but I would hope that you, too, would support empowering local communities and local government.

**The Convener:** But it would not empower local government and local communities if poorer local authorities had a lot less money. Without equalisation, local authorities such as Edinburgh would have a much stronger tax base than the surrounding local authorities. If we compare North Lanarkshire with Glasgow, we can see that huge amounts of money are spent in Glasgow for people who live in North Lanarkshire—or, indeed, North Ayrshire, which is my own area. The more prosperous areas would become more prosperous and the poorer areas would become poorer, because the tax base would be weaker.

**Ben Thomson:** I disagree, convener. One of the real responsibilities of central Government is to manage that level of wealth redistribution. In Europe, people accept that the net £6 billion will help poorer countries in Europe. In the same way, at a Westminster level, money is being redistributed. One of Holyrood’s jobs is to use the

money that it raises to help those areas that need economic regeneration or which suffer from—

**The Convener:** Have you not been arguing against that all morning?

**Ben Thomson:** No, I have not been arguing against that. I am saying that one of the responsibilities of central Government is an element of wealth redistribution, but not by raising all the tax and then passing that taxation down. Let me give you an example of why that is a problem. If you said that each Administration in Scotland, Wales, Northern Ireland and England should raise its own money, you would need about £10 billion to rebalance all the books so that they were the same as they were when the money was raised centrally. Rather than have all the money go to Westminster to be redistributed by the Barnett formula, you could have a situation in which all the individual areas raised money, but in which there was an extra element of redistribution if they needed it—the Welsh proposals on this are quite good—to help areas that needed economic regeneration or which suffered from deprivation.

**The Convener:** Lucy Hunter Blackburn is desperate to comment on that.

**Lucy Hunter Blackburn:** I want to build on Ben Thomson’s comment. For my sins, the first job that I was given in Scottish government in 1995 was to work out how to break up the regional councils’ budgets, or the government funding that underlay those budgets. Therefore, I spent a lot of time taking apart the Strathclyde money and so on. In such a process, as Ben Thomson says, it becomes apparent that there will never be equity of tax base. The tax bases of Inverclyde and West Dunbartonshire are radically different from those of Edinburgh or East Renfrewshire.

I could not subscribe to the radical view that everyone should raise their own money, because there would be fantastic amounts of inequity. Where Ben Thomson and I converge is that there could be a better balance than we currently achieve. You would still need a system of quite substantial financial transfer—central Government would retain that role—because without that some communities would suffer disproportionately. However, we could achieve that without such a high degree of Government funding—we could give local communities more freedom to raise money. We agree that the balance is not being struck in the right place at the moment.

It is massively important that we look further at property taxation. In his work on that area, Thomas Piketty brings out the point that property is where global wealth and equity are increasingly concentrated. We need to think about that, and using local taxation powers would be one of our strongest levers in Scotland.

**The Convener:** Thank you.

10:45

**Jackie Baillie (Dumbarton) (Lab):** I will resist the temptation to go into property taxation. I think that Ben used the words “exciting” and “taxes” in the same sentence at least three times. I will have to check the definitions of those words in my dictionary.

Clearly, you felt constrained by the committee’s questioning. If you had not felt that constraint, would the proposal on the table be just to reduce taxes by 2p?

**Ben Thomson:** No.

**Jackie Baillie:** You would have made the same proposal about increasing council tax.

**Ben Thomson:** I will say what I said to the committee three years ago: we delude ourselves if we do not think that public finances are in a very difficult position. In the UK, we have had a deficit of more than £100 billion since 2007, and we raise just under £600 billion in taxes. We still have not got to grips with that substantial deficit. We cannot just tinker with it. To deal with it we will have to have a mixture of raising more taxes and being more efficient in the public sector. There must be a balance.

While we are in these difficult times we should not reduce the overall amount of revenue; in fact, we might have to increase it. That is important. However, we also need to make the public sector more efficient. The public does not quite appreciate that we are still running a very high level of deficit and that therefore we have to use lots of levers to get us back on track.

**Jackie Baillie:** So you would not advocate a tax cut. You recognise that we need, at the least, a cost-neutral budget, because anything else would contribute to the deficit.

**Ben Thomson:** Yes.

**Jackie Baillie:** You suggested that we were responsible for spin, but—forgive me—what you suggest looks like a bit of smoke and mirrors. Is that fair?

**Ben Thomson:** No. My suggestion is based on two things. First, I really believe in the localism agenda—I cannot stress that enough. Lucy Hunter Blackburn feels the same on that issue. We have a huge opportunity to empower local government, which increasingly has been denuded of fiscal powers, particularly with the cap on council tax and the removal of business rates.

Secondly, the taxation system in this country is hideously complicated and not fit for purpose. We are getting a more—I hate this word, but I am

going to say it—glocal world. People want more local responsibility, but at the same time our business and personal interests operate at a much more global level. Our complicated tax system will not suit how society will work in the future.

We have an opportunity to start to look at imaginative ideas. The point about having powers at the local level is that that will allow us to explore different ways of doing things. There will be some mistakes, but there will be some good things. Other people will pick on those things and start to have a proper debate.

**Jackie Baillie:** I agree with Jean Urquhart that local government would not regard having to start off by making up a gap in revenue as empowering, but I absolutely agree with your principle of pushing for things to happen more locally.

Will you explain your council tax proposal a bit more? Would it be a 33 per cent rise across all the bands? Are you aiming at the higher bands—I can feel Gavin Brown shivering beside me already—and the properties that are worth more than £220,000? If you are, how many households are in those bands, and what proportion would they pay?

**Ben Thomson:** I am going against myself—I would end up paying more tax under my proposals. Property tax is unfair and must be simplified and made fairer. Band H, as set in 1991, does not take account of people who sit in huge properties and should be paying more. Such people might not even pay any income tax, and they pay very low rates of council tax. That is fundamentally unfair. We should have a fair property tax across many more bands. Even if we were to take bands away, the fact that we now have much better valuation systems means that we could start to progress towards a system that was based on a fixed percentage of property value.

**Jackie Baillie:** Let me push you further on that, as you have not answered my questions. Would there be an across-the-board 33 per cent rise? Would you move people in some bands completely out of paying anything and load that on to properties that are worth more than £220,000?

**Ben Thomson:** If you want to push me to be radical, I would much rather see a flat percentage of property value right the way across. Currently, a person with a property in band A will pay more than 1 per cent of their property’s value, so a person in a £100,000 flat in Edinburgh will pay council tax of more than 1 per cent of the property’s value per year. For a person who has a £1 million-plus property, the figure is lower than 0.3 per cent.

Relatively speaking, a person would therefore pay three times more at the top end than at the bottom end. I have adjusted that—people would

not pay three times more in absolute terms because of the way in which the numbers work—but we would see much more of a spread, which would shift the burden to people with more expensive homes.

The next question will be about people who have very little income and sit in very expensive homes. There will have to be a process of transferring to my proposed approach, because elderly people in particular might have low incomes and high-value properties. However, we have the kilter and the balance wrong, so we must find a way of moving from the current system, which is unfair, to a system that better reflects people's underlying property wealth.

**Jackie Baillie:** The commission is currently grappling with that.

**Ben Thomson:** I may have to give evidence there. I wait to see the commission's evidence.

**Jackie Baillie:** Indeed.

I want to ask Lucy Hunter Blackburn a general question. You acknowledged that you have some sympathy with the Scottish Government's emerging position, which is that the next tranche of Smith commission powers will be more nuanced. However, you feel that austerity is a pressing issue—indeed, that is also the political rhetoric. If the Scottish Government did not use its powers now, would you regard that as a completely wasted opportunity?

**Lucy Hunter Blackburn:** Yes, once we start to look at the reality of what is being removed from the public sector and who is affected, I would.

**Jackie Baillie:** Thank you.

**Richard Baker (North East Scotland) (Lab):** I will be brief, as we have covered a lot of ground already.

My first question is for Ben Thomson. You have proposed a very neat and, in many ways, attractive package of cutting income tax and giving far more powers to local authorities to raise their own revenue. Obviously, we all support that. I presume that that would be a one-off relationship between the SRIT and local government taxation.

You have talked about sending out a signal for Scotland in those tax measures. If the Scottish Government's first act is to cut the rate of income tax by 2 per cent, is there not a danger that it will create long-term problems for its revenues and therefore further pressures down the line for Government spending? How do you foresee that working out in the longer-term direction of travel on taxation?

**Ben Thomson:** I do not quite understand the question. I understand the bit about sending out a signal on the direction of travel, but I do not see

why that affects the long term, because you will balance the—

**Richard Baker:** If the Scottish Government's first act is to cut tax by 2 per cent, that will be embedded from the beginning, so everything that is raised after that is from a lower base. There may well be political pressure to remain in a tax-cutting situation or to maintain a lower tax base; in the meantime, what happens at the council level will be outwith the Scottish Government's control. It seems to me that the pressure there is that income for Government as a whole across Scotland is reduced rather than increased or even maintained.

**Ben Thomson:** I see where you are coming from now.

I see the messages that are put out now as important in showing that localism is being addressed and that taxes will be used to do something different and to create simplicity. You have a very limited range of taxes, and they are a pretty blunt tool. More taxes are coming in—Mark McDonald touched on the other taxes that are coming in—and I hope, and have always argued, that having a whole toolbox of taxes will enable interesting things to be done in terms of how we address both taxation and welfare and create something that is fit for purpose.

When all the bands start coming in, I fully expect that you will start looking at how they work—their size, where they start and so on—in order to ensure that they suit Scotland. Doing something now sends out a message that, when you get the new powers, you will start talking about actually doing things with them that make a difference. I think that that is the point that Lucy Hunter Blackburn is making, too. That direction of travel will ensure that you test things out so that, when you get more powers, you will end up doing something that fits Scotland and works for it.

If you reduce the Scottish rate of income tax by 2p, that does not mean that you are locked into a 2p reduction for ever more; it merely sets out a direction of travel that sends a message that, when you get the new powers, you will be able to do things that will make Scotland a really interesting place. You will be doing things differently with the aim of achieving a range of things, such as addressing problems with sugar consumption or empowering local councils.

**Richard Baker:** That is a fair point.

You see a situation in which we use the powers for specific actions but the overall tax take is pretty similar. In the longer term, do you think that taxation for individuals in Scotland will be higher than it will be for individuals in the rest of the UK, or will it be pretty similar, with the only difference being that the money is raised in different ways?

**Ben Thomson:** That comes back to Jackie Baillie's question. Scotland—like the rest of the UK and the rest of Europe—must try to do things to ensure that we create a vibrant economy and a public sector that finances itself without a deficit. We cannot run a deficit of the size of the one that we have, so we have to address that problem. That means creating a mix of all sorts of different things. However, unless we can be open about exploring how we can address the issue, we are never going to get anywhere. We need a real change of culture to address the problems that we face. For me, that change of culture involves getting people to do things at a local level—engaging them at that level—to address the issue. I believe that the level of political activism that we have seen over the past year is a result of people feeling engaged at a local level. We must draw on that to help us solve the problem by empowering them more at a local level.

**Richard Baker:** My final question is for Lucy Hunter Blackburn. For a long time, the committee has been interested in preventative spend. It struck me that what you said about the current situation with local government spending was almost the opposite of that. I think that you said that some of the City of Edinburgh Council's recommendations have meant that those who are on the edge and are the most vulnerable are losing out on services. With regard to making the arguments about why you would want an increase in existing taxation to invest in those services, presumably you would say that we are storing up some long-term problems that will put severe pressure on the public purse rather than making Government more efficient.

**Lucy Hunter Blackburn:** I point to the much greater expertise of the Joseph Rowntree Foundation, which produced a report in June 2013 that made the point that, as budgets tighten and services are pulled back, the most vulnerable are the most affected. Edinburgh has cut the number of education welfare officers so that the threshold for integration has fallen from 85 per cent to something lower—the equalities report that I read did not say how low it is going to fall. Fewer people will be helped and we will be slower to catch children who are beginning to fall out of the system. That pattern will be replicated across the public sector. There is absolutely an argument for prevention and intervention.

**Richard Baker:** Coming back to Ben Thomson's important point about localism, are difficult decisions having to be made at a local level, with little flexibility, because those decisions are not being made at central Government level? Is that perhaps too political a point for you to make?

**Lucy Hunter Blackburn:** I worked around government funding for a long time. If you do that, you become a little bit hardened to some of the tales of woe that councils tell. I am not completely Pollyanna about everything that comes through the press at budget-setting time. However, if you read the comments that are made by councils, as I did in preparation for today, they are quite striking. For example, the leader of West Dunbartonshire Council said,

"This has been the most difficult budget process in the Council's history",

and Highland Council has expressed huge concern about its £21 million cuts.

There is a high degree of noise in the system about difficulties. Glasgow said that the budget-setting process has been one of its toughest decisions and Edinburgh has found it tough, too. That is becoming the language of local government spending.

In some ways, it should be tough. I am not against putting councils under pressure. Everybody has their pet hate, or the bit of council spending that they think should be cut. We all do it, but you have to watch for that prejudice making you deaf to messages of real strain in the system. That is what I feel when I look at the numbers and the messages and, more importantly, the hard budget choices of a place such as Edinburgh. That is where I see an urgent issue that requires some sort of action.

**The Convener:** That concludes questions from members. Do the witnesses have any final points on issues that have not been touched on?

**Ben Thomson:** Councils south of the border have already had to address a lot of issues that, to some extent, councils up here have yet to face in relation to the cuts that have been made. We need to change the culture and get people engaged, because we all need to get involved with and share the problems. There is a real opportunity to start the empowerment of local authorities by making them more fiscally responsible. As Lucy Hunter Blackburn said, we need to do that urgently. The direction of travel is a local agenda in which powers are passed down. This is a huge opportunity. I would love to see you, as politicians, challenging the decisions that are going to be made about what the rate is and being brave. Go on, be brave. That is we want from you.

**The Convener:** So says a man who is not coming up for election next year.

**Lucy Hunter Blackburn:** I also ask you to be brave—I am not coming up for election—in a different way.

I emphasise that Ben Thomson and I differ on a lot, although we clearly share a similar view on the

importance of using the powers that you have got, both symbolically and practically, and on the localism agenda. Like Ben, I am keen to encourage you to look at the Scottish rate of income tax alongside council tax.

The point that I really wanted to finish on was about who is around the table and whose voices you are going to hear in the debate. You have heard me talking about tax increases, and there is the issue of what happens if you do something as difficult as recommend a tax increase. I looked at the range of people who replied to the committee's call for evidence and, of course, the committee is in the hands of whoever replies. In a debate about tax, you get a lot of tax advisers and you get the voices of the wealthy. They tend to pop up more—they are more numerous and present, and they pay people a lot of money. I did this in my spare time on my sofa. I am an amateur here. I have a bit of past professional history but I am not a tax expert, and I am no longer an expert on public services and spending. I really hope that the committee recognises that there are people whose voices it does not have round the table or on its list. You have not got the Poverty Alliance, Citizens Advice Scotland or the Joseph Rowntree Foundation. I was surprised to see that you have not got the Convention of Scottish Local Authorities. There are plenty of people out there—I do not know why they are not at the table.

**The Convener:** We have to have submissions that are worth interrogating people on.

**Lucy Hunter Blackburn:** Absolutely.

**The Convener:** If folk have not got anything to say, there is not much point in asking them to give evidence. All of those organisations have been contacted as a matter of course and we are having a number of panels on the issue. We have to interrogate what we have in front of us. I take on board your point but you might want to ask some of these organisations why they have not made any submissions. We could have asked them instead of you but we would not have had such an interesting discussion.

**Lucy Hunter Blackburn:** You can only deal with what you have got. I am just asking you to notice the absence of those voices on your list. The committee works with what it gets. I am incredibly grateful to have had the chance to come here today but I want to flag up that there are all kinds of voices who are not there in your submissions—please notice that they are not.

**The Convener:** Thank you. As a matter of interest, last night I met Mr Jonathan Le Tocq, the Chief Minister of Guernsey—a microstate of 63,000. He told me that Guernsey has no debt, an International Labour Organization unemployment figure of 1.2 per cent, a flat-rate tax of 20 per cent

and no VAT. We have a wee bit of progress to make.

**Jackie Baillie:** Are you moving, convener?

**The Convener:** I am hoping that you can fund that for me. There are no by-elections coming up, sadly. Thank you for your time this morning. We appreciate it.

11:04

*Meeting suspended.*

11:10

*On resuming—*

**The Convener:** We will continue taking evidence on the Scottish rate of income tax. I welcome our second panel of witnesses: Hazel Gough of the Chartered Institute of Taxation, Charlotte Barbour of the Institute of Chartered Accountants of Scotland and Gwyneth Scholefield of PricewaterhouseCoopers.

Members have received copies of all the relevant submissions, so we will go straight to questions from the committee. Some of the witnesses have been here before, so they will know what happens. I will start with some questions, and I will then move on to take questions from colleagues.

You may have seen some of the previous evidence session, which lasted for a good 90 minutes. We had a bit of to-ing and fro-ing over tax rates, but I note that you have in your submissions all more or less taken the fifth on the level at which the Scottish rate of income tax should be set.

**Gwyneth Scholefield (PricewaterhouseCoopers):** We are not up for election.

**The Convener:** Yes, indeed—I was beginning to wonder about that.

ICAS states:

“as a matter of policy, ICAS does not comment on the quantum of ... tax that may be raised by governments”.

The Chartered Institute of Taxation states that it “does not generally comment on the setting of rates of tax”.

I will start with Gwyneth Scholefield from PricewaterhouseCoopers. Along the same lines as the others, you say that you do not want to comment on taxation levels, but you do in fact comment a wee bit. Your submission states:

“The existence of the rate-varying power, rather than its use, has prompted the changes, but administering a rate that is different to the rate prevailing in the rest of the UK ... will add complexity and administrative costs.”

I suggest that that indicates that PwC supports the status quo on taxation. That seems to be the message that comes through in your submission. You state:

“Decisions on setting the SRIT should not, in our view, ignore the potential fiscally-induced behavioural responses that Scottish and indeed rUK taxpayers may have following a change in SRIT.”

Is PwC basically saying that the rate should not be changed?

**Gwyneth Scholefield:** We are saying that the area is complex, and awareness across the population is relatively low. We engage with a number of employers from a range of industry sectors, and we find that awareness is very low. The details of administration and what will be required are still not abundantly clear, and guidance for cases on the borderline has still not been finalised.

Individuals who are more mobile can move if the rate fluctuates, and that drives investment and the economy in Scotland to a certain extent. We are therefore saying that you should be mindful in what you do.

The changes post Smith are coming relatively quickly. You perhaps need to embed the idea of who a Scottish taxpayer is in the minds of Scottish taxpayers before you change—

**The Convener:** I am sorry to interrupt you—I will go on to those issues, but I am more interested at this point in teasing out a view. In your submission, you hint—nudge nudge, wink wink—that you do not really want a change in the 10p tax rate. Am I more or less right in saying that?

**Gwyneth Scholefield:** Keeping the status quo would probably be better while you are trying to embed a new tax regime in Scotland.

**The Convener:** So you are not ruling out a change, but you are saying that we should see how things go in the first year and then seek to be a bit more radical one way or the other, whether that involves raising or lowering taxes, in the years ahead. Am I more or less right in saying that?

**Gwyneth Scholefield:** Yes—you should see how you go in the first year while you let the new regime embed. What you do with future powers post Smith will obviously need careful modelling, but you could perhaps do something differently then.

**The Convener:** On behavioural responses, you state in the “Impact on tax revenues” section of your submission that

“There may be no significant increase in revenues associated with higher taxes due to the ability of high income earners to relocate within the UK.”

That follows on from your other comment on behavioural responses, which I quoted a minute ago.

Some months ago, Professor Bell told us that there was no evidence that a 2 or 3 per cent change in the tax rate would lead to any behavioural change or to people selling their houses in Edinburgh and moving south of the border. Does PwC have any idea of where the margin might be in lowering tax to get, say, high earners to come here or in raising tax to a level that would have an adverse impact?

11:15

**Gwyneth Scholefield:** We have not done any specific modelling or gathered evidence on that, but I suspect that you as the Scottish Government will probably be modelling that yourselves. However, it is clear from the clients with whom we engage—the higher-rate and additional-rate taxpayers—and from history that there is mobility in that section of the taxpaying population, so it is likely that some of them would move, depending on what you do with the rate.

**The Convener:** I should point out that we are clearly not the Scottish Government.

**Gwyneth Scholefield:** Sorry.

**The Convener:** I turn to Charlotte Barbour. I know that you have decided not to comment on the rate itself, but can you give us ICAS’s view on behavioural responses? Do you have any anecdotal evidence on what threshold would have an impact?

**Charlotte Barbour (Institute of Chartered Accountants of Scotland):** We have no statistical evidence but, probably like Gwyneth Scholefield, we have anecdotal evidence about some of the more mobile, top-end taxpayers. What we have heard anecdotally about the rate lends itself to the idea of it going up, and we hear stories that, if that happened, houses would be bought in Berwick, elsewhere in Northumberland and what have you. However, I have no idea how much strength there is in that.

As for behavioural responses, I have found in my years as a tax practitioner that some of them are more quirky than we might automatically expect—in both directions.

**The Convener:** That is fine. What is the CIOT’s view on behavioural responses to an increase or decrease in the tax?

**Hazel Gough (Chartered Institute of Taxation):** The committee should be mindful that, if the status quo is not maintained, taxpayer behaviour will need to be considered. Taxpayers might accelerate or defer income if they are in a

position to do so, and they might base themselves either north or south of the border—whichever suits them—for the determination of whether they are Scottish taxpayers in the first instance. Those are the more complex cases in which it is not particularly straightforward to work out whether the person in question is a Scottish taxpayer, and such people are likely to be the most mobile in our employment sector.

**The Convener:** Do you have any idea of where the threshold might be? Would it be 1, 2, 3, 4, 5 or whatever per cent?

**Hazel Gough:** We have no evidence on that.

**The Convener:** That is fine.

In the section of the CIOT submission headed “Advisers and agents”, paragraph 5.7 refers to the need for a series of campaigns by Her Majesty’s Revenue and Customs and says:

“We think HMRC have adopted a sensible approach in terms of the order of campaigns: firstly advisers and agents, followed by employers and pension providers, and finally taxpayers (the general public).”

However, in the following paragraph, you say:

“We are concerned, however, that not enough has been done to publicise the SRIT among advisers and agents or to provide them with sufficient information at an early enough stage. While professional bodies like the CIOT can reach their members, this is only a proportion of advisers and agents.”

Can you tell us a wee bit more about your concerns? I will ask the other panellists to respond, too.

**Hazel Gough:** We are starting from a very low base on publicity. We have not undertaken any surveys, but comments that we have received from members suggest that there is very low awareness of the introduction of the Scottish rate of income tax from next April.

**The Convener:** Does ICAS share that concern? I note that in its submission it says:

“There is as yet, very little detailed information for taxpayers about the SRIT.”

**Charlotte Barbour:** Again, all that we have is anecdotal evidence. As I have said in my submission, it is quite difficult for HMRC to get the timing right; if it does anything too soon, it will be no use, and if it does anything too late, it will be no use. It is difficult to make these things chime.

Lots of our members seem to be getting a bit twitchy that they ought to know about the Scottish rate of income tax but, once they know about it, they will realise that not much needs to be known. The worry is that we have not quite crossed that boundary. Broadly, the system will follow pay-as-you-earn procedures—or, as far as agents are concerned, there will be a relatively

straightforward process through self-assessment—and once folk know that, they might relax slightly. However, the SRIT seems to have got completely lost in all the noise about Smith.

**Gwyneth Scholefield:** I agree with Charlotte Barbour and Hazel Gough. HMRC has taken a pragmatic approach to agents and advisers and has engaged in Scotland as well as in the rest of the UK. Awareness is relatively low. It is at a low base in Scotland and I would say that it is at an even lower base outside Scotland. People in that area will be affected, so something probably needs to be done. However, as Charlotte Barbour points out, it is about timing.

On Hazel Gough’s points about the deferment of income and about mobility, I think that HMRC is still finalising some nuances in the guidance, which we understand will be published towards the end of this month. That will help to calm people and show them that there is not a lot for individuals to do. The majority of people will either be in or out; that is how I describe it.

**The Convener:** Paragraph 18 of the ICAS submission says:

“There also appears to be a lack of awareness amongst employers outwith Scotland”,

as has just been said. However, the paragraph before that says:

“A number of our members, in their capacities as agents and as employers, have expressed concerns about their role in the collection of SRIT and the lack of operational information about SRIT collections.”

Will you expand on that?

**Charlotte Barbour:** Lots of employers and, to a certain extent, agents have concerns. Employers generally tend to operate PAYE, so what will their role be? Will they have to identify Scottish taxpayers? Will they have to explain what that means? Will they have to do something completely different through PAYE? When they get there, they will see that they will not have to do that, because HMRC will issue the S codes. Employers might be encouraged to assist in the process, but their role will be to be an informal stopgap to help out, because people tend to go to human resources before they phone HMRC.

Employers will not have to do a lot but, if they do not know that, they will all be slightly twitchy, for want of a better way to put it. In the past few weeks—now that the holidays are finished and people are looking at what is ahead—there has been a massive increase in interest in the SRIT. Quite a few courses have been run for the profession. Perhaps things are beginning to pick up.

**The Convener:** Paragraph 5.16 of the CIOT submission says:

"We are disappointed that HMRC and the Scottish Government have jointly agreed that it is not necessary to show the SRIT separately on form P60 ... The CIOT had called for details about the SRIT to be shown on the form P60 as a minimum—we have also raised the issue of SRIT being on payslips too."

Will you expand a wee bit on why you feel that way? I will let the witnesses comment and then open out the session to colleagues.

**Hazel Gough:** It is important that taxpayers know how much tax they are paying and who they are paying it to. The only information that many taxpayers have is on their P60 and, if the details are not on that form, they will not know how much they are paying under the SRIT.

**Gwyneth Scholefield:** I can see Hazel Gough's point of view—that individuals like to know where their tax is going—but, because there is a limited time before the introduction of the SRIT, the complexity of breaking it down at this stage might be a complexity too far. I understand why we are where we are.

**The Convener:** So you are saying that the proposal is not necessary for this year anyway, if there is no change, but perhaps you would like to see it happen in future years.

**Gwyneth Scholefield:** Yes—that would probably make sense, provided that there is guidance about how that should be done.

**Charlotte Barbour:** Once we get the tax powers under Smith, the whole lot will be Scottish, so the question will be academic. At the moment, the information would be nice to have but, to be realistic, how many people look at their payslips and P60s? We have attended a number of workshops on the process and mechanics and I completely understand why the decision has been made. Another thing to remember is that PAYE was never designed to highlight how much tax anyone is paying.

**The Convener:** You think that the idea might be a sledgehammer to crack a nut.

**Charlotte Barbour:** It is difficult to put out strong tax messages when using PAYE, because they all go together.

**The Convener:** That is interesting.

I will now open out the session to colleagues round the table. The first to ask questions will be our deputy convener, John Mason.

**John Mason:** I will be brief, convener.

Instead of seeking the panel's opinion on rates going up or down, I want to ask about the technical side of things. Is it progressive or regressive to add a penny to or take a penny off the 20p tax rate? Basically, the argument is that somebody who is earning more will pay

proportionately more. However, if you add a penny to all the bands—20p, 40p and 45p—the increase would, as a proportion, amount to 5 per cent for the bottom band while a penny on 45p would be less than that. I do not know whether you use the terms progressive and regressive, but can you comment on who will be hit more or hit less if we add a penny on to the rates?

**The Convener:** Who is that question for, John? Anybody specific?

**John Mason:** I am happy for anyone to answer it. I should, by the way, have declared that I am a member of ICAS, so perhaps Charlotte Barbour can respond.

**Charlotte Barbour:** As a fellow member of ICAS, I will give you my answer.

I think that the discussion is an interesting one. There are different ways of cutting the issue; indeed, some of David Bell's work in this area is really interesting. It depends on whether we are considering the individual or everyone. David Bell suggests that at the bottom end of the income distribution very little income tax is picked up. I do not know; to be honest, there are different ways of arguing the matter.

**John Mason:** Perhaps I was unfair to ask that question. I will let it go.

It has been suggested that, compared with other countries, we in the UK do not actually pay all that much tax. Is anyone on the panel able to comment on that?

**Gwyneth Scholefield:** No.

**Hazel Gough:** No.

**Charlotte Barbour:** No.

**The Convener:** Do you want to focus on the submissions, John?

**John Mason:** Okay, convener. I will try again.

With regard to the administration of tax, we have been told that other countries have a variety of income taxes. The previous panel pointed out that that is the case in the United States, and I think that Switzerland is another example of a country with different tax rates. I know that PricewaterhouseCoopers has offices all over the world, although I accept that it does not do the payroll all over the world. I presume that international businesses cope relatively easily with a variety of income tax rates, even within a country and probably between countries. Is the administrative side really a big problem?

**Gwyneth Scholefield:** There are challenges, internationally, with administering different tax situations. The United States is an interesting example—if, as I assume, you are referring to the



state, federal and city situation. The last time we gave evidence to the committee, we alluded to the situation in the New York metropolitan area, where a person's tax position is driven by where they work, as opposed to that in Washington DC, where it is driven by residence. There are complications around that. The rationale that has been used in those states has led to winners and losers, and there have been challenges with the administration of that. That situation has been embedded for a long time now.

I think that you are right to highlight the issue; the administrative complexity should not be underestimated. For individuals who are mobile or who can work across Scotland and the rest of the UK, for example, there could be challenges. There is a lot of legislation behind the position in the United States, in Switzerland and elsewhere, and we should not underestimate the impact of the tax changes on administration.

The other point that I would make is that it will all depend on whether the onus of the administration is on the employer or the individual. That will drive some of the behaviours, too.

**John Mason:** In other countries, then, is there more of an emphasis on the individual employee filling in a tax return, whereas here there is more of an emphasis on PAYE?

**Gwyneth Scholefield:** Yes. In the countries where I would say the situation is more complex, the individual has a greater role to play.

**John Mason:** That is helpful. Thank you.

**Jackie Baillie:** I hope to ask questions that the panel can answer. *[Laughter.]*

The position that you have outlined is quite a cautious one. We want certainty—we all do—and we want the system to succeed and be easily understood. I get all of that, from your perspective. However, are you not in a year's time likely to be saying the same thing to us when the post-Smith powers confer on us a more nuanced, perhaps even more complex, system? Is it not your natural default position to argue for certainty, for transparency and for the system to bed down for employers and taxpayers?

11:30

**Gwyneth Scholefield:** In a year's time, there will be a greater awareness of who does and who does not pay the Scottish rate of income tax, and there will be an awareness among employers and employees of how the tax is administered, what it looks like and how it works. You are correct in saying that, post-Smith, there could be a more complex tax-rate band and taxation system, but for me the issue is about how that is communicated and taken forward, given that the starting point is

awareness of who does and who does not pay the Scottish rate of tax.

**Charlotte Barbour:** I support that view. There are two points to make on this matter. First, as far as the messages are concerned, I am not sure that it is the responsibility solely of HMRC to determine who is a Scottish taxpayer, as that ties into accountability as well as operational matters, which is where HMRC sits. There is only so much that can be done on the operational side and, once people know who a Scottish taxpayer is, that will be fine.

Secondly, on the operational side, you will know what big Government information technology projects are like. We might always be slightly cautious because we are accountants; nevertheless, it is a really big undertaking to make payroll run smoothly. A lot of money comes out of it, and I think that you will need it to run at least once without its being jiggled about too much.

**Jackie Baillie:** The arguments that you have just made will apply to the second range of powers that we are going to get.

**Gwyneth Scholefield:** Yes.

**Charlotte Barbour:** Yes.

**Jackie Baillie:** I have described it as natural caution, but it is more about making sure that the systems are right.

Let me summarise what we have been told HMRC is doing. A letter will be sent to Scottish taxpayers in December in order to identify that cohort, and there has also been dialogue between HMRC and employers. I think that somebody said earlier that the guidance has not been finalised yet. Has there been any slippage in the timetable? Is there anything that HMRC has not been doing that you would want them to do?

**Charlotte Barbour:** We had a big meeting with HMRC last week, and over 100 members turned up for a joint discussion group, which was really helpful. HMRC has done a lot to come and meet the professions and employers. Nevertheless, I understand from some of the conversations that we have had that there might be restrictions on the budget for advertising the change and questions about who is paying for all of it. I do not know whether the advertising will be paid for out of HMRC's pocket or whether it will be funded by the Scottish Government. That might need to be looked at. We asked HMRC whether the broader message about who is a Scottish taxpayer might be broadcast during "Coronation Street", "The Archers" or whatever, but we were told that there is no budget for that. I do not know whether that sort of thing will be necessary, but it would help to promote the message, as happens with bigger HMRC campaigns.

**Jackie Baillie:** I am sure that we can have a word with the people at “River City”, who are filming their December episodes just now.

Let me push you slightly further on this issue. In HMRC’s written submission, we are told:

“HMRC’s focus is on communicating the operational aspects of the Scottish rate and what this will mean for those who are Scottish taxpayers, and this will be linked to the Scottish Government’s communication of decisions on the level of the Scottish rate in the Scottish Budget.”

The level of the Scottish rate is likely to emerge in February, because the whole budget process has been delayed as a result of the chancellor’s statement in November. A consequence of that is that the scrutiny period will be short. Nevertheless, we hope that those decisions will be set out in February. In your view, is that sufficient time for scrutiny, given that HMRC will be hooking what it now does to what the Scottish Government announces?

**Charlotte Barbour:** I think that February will be a bit late, given that most of our members are getting a bit twitchy about this now. For taxpayers more broadly, the communication needs to start cranking up, otherwise this will come out of nowhere in February. It strikes me that February is a bit late to start putting the main comms out.

On the other hand, HMRC has done research into putting the communications out. What is the point in telling somebody about the Scottish rate of income tax if we do not know what the rate is? I realise that the issue is a difficult one to manage.

**Jackie Baillie:** Did HMRC communicate to you that budget restrictions will curtail its advertising?

**Charlotte Barbour:** I do not know whether that is a formal HMRC pitch but that is certainly where we were in our discussions last week.

**Jackie Baillie:** That is helpful to know.

**Mark McDonald:** From the submissions, it seems as though information about SRIT is now percolating to the professionals, but the witnesses’ view is that there needs to be wider public awareness of the tax. Let me use the sausage analogy here: how much of the process leading to the end product do people need to know about? What messages do the public need to hear? Obviously they will be different from what the tax advisers and other professionals need to know.

**Hazel Gough:** The public need to know what the Scottish rate of income tax is, whether they are Scottish taxpayers, what their responsibilities are as taxpayers and how SRIT will affect them financially.

**Mark McDonald:** Some of those messages are easier to communicate at an earlier stage. The question about the February timescale is really

about our consultation on the budget rather than the ability to do any publicity about the mechanics of SRIT. It would be more about how much people will pay under SRIT.

There is another question that links to the convener’s question about taxpayer behaviour. How early do we pull the rabbit out of the hat with regard to the tax rate itself? At Westminster, we tend to be told at the dispatch box what the rate is and, in many instances, that it will apply immediately. How early should people be aware of what the tax will be, and what impact could that have on taxpayer behaviour?

**Charlotte Barbour:** Perhaps that is a slightly different conversation that needs to be had. Because the rate is new and because it is a Scottish rate of income tax, the question people are asking is: what is it and why are we going to have it? Even it is 10p in the pound—even more so if it is 10p in the pound—the question some might ask is: if it is just the same as what we had before, why bother? However, that is not right, because SRIT is fundamentally different and gives the Scottish Parliament and Government their own money. That is the part of the message that is perhaps missing.

**Mark McDonald:** I agree, but the other point that Hazel Gough made was that one of the other messages that needs to be communicated is how much people will pay, which is all about the rate that will be applied. There is a tension between how early we communicate the rate that we intend to levy and the impact that that might have on taxpayer behaviour. After all, a decision to put up the rate could lead, for instance, to deferral of income. The longer the lead-in period from when we announce the rate to when it comes into effect, the more time and opportunity individuals have to make those behavioural changes to defer income and avoid paying tax at that rate.

**Gwyneth Scholefield:** Any change of rate, whether it be up or down, has a different administrative burden attached to it. Something will need to change in the payroll mechanism to deal with that rate and, generally speaking, at least three months are needed to allow such changes to run through a payroll. From the point of view not of driving behaviours but of delivering the payroll, we need at least that lead-in time.

**Gavin Brown:** This question is for the whole panel. From your discussions with HMRC, stakeholders, clients and so on, are there any banana skins other than those you have mentioned in your submissions that you think the committee ought to be aware of that could affect the smooth operation of the Scottish rate of income tax? Is there anything that you are nervous about or that you think ought to be put on the table now?

**Gwyneth Scholefield:** There is nothing outside what has been highlighted in the submissions. For me, the main thing is to raise awareness of who is a Scottish-rate taxpayer and what that actually means. I am not necessarily talking about the rates, but there is a need to get that message out earlier. It would be almost a matter of drip-feeding the information to give people a chance to take it on board a bit more easily. We need to be mindful of that.

You should not be driven by whether the rate should go up or down or should stay flat—or whatever it is you decide to do—but you need to make people aware that it is coming. It is a big step change, and that kind of awareness raising, if it happens, will be helpful.

**Charlotte Barbour:** As far as operational aspects are concerned, I might be getting a bit nervous about the fact that HMRC is going to write to everybody who it thinks is a Scottish taxpayer. That is fine, but what happens to all those folk who might be Scottish taxpayers and who do not get written to? Do they have a duty to come back to HMRC and say, “You forgot about me”? I do not know. At the moment, payroll is not driven by addresses, and there is quite a gap there. There needs to be a sea change in taxpayer mentality with regard to whether people want to tell HMRC that they are Scottish taxpayers or that they have changed their address. Is there a mechanism in place for that as yet, Gwyneth? I do not think so.

**Gwyneth Scholefield:** It is not clear. From the discussions that I have had, it is not clear at all whether there is such a mechanism. It is therefore important to highlight who is a Scottish taxpayer and, as has been pointed out, what people's obligations are, whether or not they are Scottish taxpayers. That is before we even get to the rate.

**Gavin Brown:** That was very helpful. Thank you.

**Hazel Gough:** The other side of that is an issue that we have not really spoken about: reliefs for taxpayers who make donations under the gift aid scheme or who make pension contributions. Relief is to be given at the Scottish rate of income tax, but the systems that are in place at the moment, and which will be in place from next April, only give relief at the 20 per cent tax rate, so a taxpayer's liability will have to be adjusted to give the correct relief overall. We do not know how smoothly that will go.

**Gavin Brown:** Have you raised that issue with HMRC?

**Hazel Gough:** My understanding is that it is looking at updating systems so that it can give the correct relief, but that might take two years. HMRC might accelerate that or give further consideration

to it if the Scottish rate of income tax diverges significantly from the UK rate.

**Gavin Brown:** That, too, was helpful. Thank you.

I have a couple of sweep-up questions. We have spoken a bit about behavioural response, and you have all indicated that you have anecdotal evidence about that, but no firm evidence. Behavioural response is not something that the committee, the Scottish Government or the Parliament has considered in great detail, and the Scottish Fiscal Commission has pointed out that it is a weakness on the part of the Scottish Government that we do not yet have this capacity. If you were advising the committee, the Scottish Government and the Parliament, what would you tell us about the sort of capacity we should have to examine behavioural responses to income tax?

**Charlotte Barbour:** That would be quite difficult to judge.

**Gwyneth Scholefield:** Yes, it is very difficult to judge. Depending on where your mind is with regard to rates, there is modelling that people far more intelligent than I am could probably help you with. That sort of thing needs to be driven by the facts and figures.

**Gavin Brown:** Let me put it another way. From the anecdotal evidence that you have, are we talking about a handful of people who might move to Berwick, in which case you would probably not invest a huge amount in building up your capacity, or do you think that the effect could be a lot wider, which would mean investing in some capacity to ensure that you got the sums right? What is your gut feeling from the anecdotal stuff that you have?

**Charlotte Barbour:** To use a different analogy, I think that my gut feeling is that I would not rely on what I say, because I did not think that there would be as much behavioural reaction as there was to the land and buildings transaction tax rates last year. Given how taken aback I was by their impact, I would not like to rely on anything that I said about behaviour. It is quite strange how people behave with regard to taxes, and it is not always predictable.

11:45

**Gavin Brown:** You talked about people starting to get a bit twitchy, and you are involved in some stakeholder groups and are liaising with HMRC. I do not know whether you have yet seen the guidance that is coming out at the end of this month, but might that reduce some of the nervousness? Clearly, HMRC will do more than issue guidance, but do you think that that guidance will go some way towards reducing people's nervousness?

**Charlotte Barbour:** Draft guidance is already out, and anybody who is interested in it has had a look at it. It is helpful and provides a good start, and we are fine-tuning it at the edges, which is grand. I would say that the twitchiness is among those who have not quite had the time to look at the guidance—in other words, those, especially in small to medium-sized enterprises, who say that they have their day jobs to do without rushing about, looking at draft guidance.

**Gavin Brown:** You have already been asked about the P60. It has been argued that some people want to know this information, but the counter-argument is that this particular system is likely to be around for only a couple of years and will become redundant at some point when the Smith proposals are enacted. Obviously some work would have been required, but, technically speaking, how difficult would it have been to include that information on the P60? Is it a case of the amount of effort not justifying the ends, or could it actually have been done quite easily? Is there an easy answer to that question?

**Gwyneth Scholefield:** Software providers were finding it challenging from a payroll admin perspective, so I suspect that you might be right in your suggestion that it was going in the “too hard” basket. As Charlotte Barbour has quite rightly pointed out, things will look different in a year or two years’ time, whenever Smith is implemented and all of these spending powers come to the Scottish Government. So if you are asking whether handling that for a two-year period was seen as being too hard, the answer is probably yes.

**Gavin Brown:** Thank you.

**The Convener:** I see that committee members have no further questions. Do the witnesses want to mention any points that have not been covered, or are you happy to let things lie?

**Gwyneth Scholefield:** I am fine, thank you.

**Charlotte Barbour:** I have nothing to add.

**The Convener:** Thank you for your time this morning and for your evidence, which is much appreciated.

I suspend the meeting for two minutes to allow a changeover of witnesses.

11:47

*Meeting suspended.*

11:50

*On resuming—*

## **Land Reform (Scotland) Bill: Financial Memorandum**

**The Convener:** The next item is evidence on the Land Reform (Scotland) Bill’s financial memorandum from the Scottish Government bill team. I welcome Fiona Taylor, Helen Jones, Douglas McLaren and Fiona Leslie. Members have received copies of a briefing note and all written evidence that has been submitted, so we will go straight to questions. We will try not to be too brutal.

First, I want to touch on the submission from the Convention of Scottish Local Authorities, which states:

“A report by SOLACE has highlighted the potential costs involved in requiring local authorities to register all their land and buildings within the next five years. Initial investigation by the Improvement service estimates that the total cost to Scottish local government is likely to exceed £150m.”

It goes on to say that

“the cost of preparation ... includes locating the deeds, accessing market values and providing plans for each title to be registered.”

Do you have any comments on that?

**Fiona Taylor (Scottish Government):** The completion of the land register is a separate part of the wider land reform programme that is not immediately relevant to the bill, so our Registers of Scotland colleagues would be best placed to address that point and comment on the costs that the Society of Local Authority Chief Executives and Senior Managers refers to. I am happy to get them to feed into the committee if it would be helpful.

**The Convener:** I would appreciate that, because I realise that it was not in the financial memorandum but it is clearly related to it, so more information would be useful.

**Fiona Taylor:** Certainly. We will take that away.

**The Convener:** As for what is in the financial memorandum, you will obviously be well aware that one or two organisations have specific concerns, so you will not be surprised that I am going to touch on the submission from the British Association for Shooting and Conservation, which states:

“we do not feel that the FM accurately reflects the costs that will be borne by Local Authorities with respect to ‘billing, collection, enforcement and determination of rates relief’.”

It also refers to

"Negative unintended consequences of the non-domestic tax rate for shoots".

It says that the statement on page 73 of the financial memorandum is "misleading" in respect of part 6, which is:

"Application of non-domestic rates to shootings and deer forests—to remove the exemption from business rates for shootings and deer forests, in order to help fund local services and to place shooting and deerstalking businesses on a level playing field with other rate paying businesses."

The latter part of that might be true but does the BASC not have a point about the funding of local services? As its submission points out, the financial memorandum goes on to say:

"The additional receipts from ratepayers will accrue to local authorities"

and will then go

"to the Scottish Consolidated Fund. The effect will be a corresponding reduction to the general revenue grant".

Is it not slightly misleading for the financial memorandum to say that those moneys will go to local services, the implication being that there will be additional funding for the area where the shoots are, when in fact it will just go to the Scottish consolidated fund for potential redistribution?

**Fiona Taylor:** I will pass that across to Dougie McLaren to answer.

**Douglas McLaren (Scottish Government):** We have read the BASC's points and I will address the ones that you have raised in reverse order. On where the money goes, the rates revenue accrues to local authorities. It is pooled via the Scottish consolidated fund and then effectively returned to local authorities, so in following the public pound, the rates revenue goes to the local authorities and will be spent by them.

Under the way in which the local government finance settlement is agreed, the two main components of the revenue settlement are rates revenue and the general revenue grant. If one component such as the rates revenue rises by X per cent, the general revenue grant from the Scottish Government will, all else being equal, fall by X per cent. That effectively eases pressure on the wider Scottish Government budget and allows equivalent funding to be directed not to the general revenue grant but to something else. It is not directly the same money because the rates revenue goes to the local authority, but the effect that it has on the Scottish Government budget enables us to direct equivalent funding to something else, which the First Minister has said will be the Scottish land fund.

**The Convener:** I think that every member of the committee will be fully aware of the process, but it

does not tie in with what the financial memorandum says about the revenue going

"to help fund local services".

Surely the wording could have been rephrased to make things clearer. The implication in the financial memorandum is that the money will go to assist in the areas in which it is raised, but that is not really the case.

You could be raising money on the island of Arran, where there are shooting estates, and the money could be spent in Aberdeen or Edinburgh on something completely different. Is that the case?

**Douglas McLaren:** We have tried to set out factually what happens with the money and the effect that it has on the Scottish Government budget. We have not tried to say that the rates revenue will, in terms of following the public pound, go to something like the Scottish land fund, but there will be an impact on the wider Scottish Government budget because of the local government finance arrangements.

**The Convener:** I will stick with that issue and the impact on country sports tourism. The British Association for Shooting and Conservation states in its submission:

"Recent independent research into Scottish country sports tourism revealed that 88% of shooting and stalking providers said either that their shoot roughly broke even or ran at a loss."

Is there any concern that the removal of rates relief will have an adverse impact on employment—as the Scottish Gamekeepers Association has also suggested—and that it might put some of the shoots out of business? Has any work been done to see whether that will be the case?

**Douglas McLaren:** We will certainly listen to all the stakeholder evidence. We accept absolutely that taxes can have impacts on taxpayers and, in some cases they will be adverse impacts that can affect their employment decisions. It is very hard to model the way in which a change in property tax cumulatively affects employment decisions because that will be just one factor in a business's decision. It would be difficult enough if we knew accurately the rates liability.

At present we have still to go through the process of having the assessors value the tax base. As we have acknowledged, therefore, we cannot accurately predict rates liability; we can give only a broad estimate at this stage. Even if we had accurate knowledge of the rates revenue—as we do for other sectors that pay non-domestic rates—it would be very hard to model accurately the effects on employment, such as rural job losses, because property tax is just one

factor in a business's decision. However, we accept that there are impacts.

**The Convener:** Negative impacts.

**Douglas McLaren:** In some cases, yes. That is tax, I am afraid. If you pay out money, of course—

**The Convener:** Of course, but what would be the positive impacts? I am not talking about the Scottish consolidated fund but about local communities where the measure will be implemented.

**Douglas McLaren:** It is a revenue-raising measure. Business rates are obviously a revenue-raising measure. As I said, the money will be used to help to fund local services, and the indirect benefits will allow the Government to direct funding to other things such as the Scottish land fund.

**The Convener:** I will quote from a submission from my own local authority, North Ayrshire Council. I often quote the council because it sends in a submission in response to almost every call for evidence; I wish that more local authorities would do the same. It states:

"this Bill will have limited financial consequences for local government. However in some areas this is dependent on the definitions applied to key terms within the Bill and how these will be implemented. An example of this is within Access and Core Paths which places a responsibility on local authorities to make reasonable enquiries into land ownership when ownership information is not readily available."

That takes me back to what I said initially.

The council goes on to state that

"Enquiries into land ownership can be expensive and the cost implications of ... the Bill will be dependent on what Ministers define as reasonable",

and it refers to savings being

"dependent on the definitions applied to key terms within the Bill."

Has there been any real analysis of what the impact of that will be on individual local authorities?

**Fiona Taylor:** In terms of the core paths specifically?

**The Convener:** Yes.

**Fiona Taylor:** Helen Jones will address that point.

12:00

**Helen Jones (Scottish Government):** This part of the bill is concerned with new core paths. At the moment, Scotland has complete coverage of core path plans. This section addresses what happens when a local authority carries out a review of a core path plan and decides to add a new core

path. In that situation, a local authority would be required to serve notification on the owner. We expect the local authority to make an inquiry through the registers of Scotland in the first instance and, if that proves to be difficult, the bill envisages that the council will put a notice or notification on the land in question. It is designed to make the process a little bit fairer to the landowner so that they know that a core path is proposed to cross their land. Under the current procedure there is wide consultation with local access authorities and other people, through public events, as local authorities think fit. We hoped that local landowners would be among those people, but this provision makes that more explicit.

We do not know the costs because we do not know which local authorities will make major revisions to their core path plans in the future. It might be only one or two extra paths. We will issue guidance to local authorities. We already have guidance on part 1 of the Land Reform (Scotland) Act 2003 and we will update the guidance on the type of inquiries that need to be made.

**The Convener:** I understand that you do not know what the costs will be, but do you have any ballpark figures? Do you have a minimum and maximum?

**Helen Jones:** We do not because we do not know how many paths the local authorities will want to add and we cannot gaze into a crystal ball to find that out.

**The Convener:** If you are bringing in legislation that will have an impact, surely you have some idea what sort of financial impact it will have on local authorities, especially if they will have to pay for it out of existing budgets, as I imagine they will?

**Helen Jones:** Three of the local authorities that gave evidence said that there might be a cost but they did not really know how much that would be. One local authority—Stirling—said that the cost can

"be easily subsumed into current service provision."

**The Convener:** Our job is to interrogate the bill on behalf of people who have concerns. In the submission from South Ayrshire Council, the word "Yes" is the answer to every question apart from the final one on future costs, to which it says,

"Not anticipated at this stage."

I fully appreciate that there is a balance in the submissions, but we have to ask on behalf of those who have particular concerns.

South Lanarkshire is concerned about financial costs. It says,

"in the current climate there is no spare capacity within the budgets of local authorities to meet any additional burdens as a result of new legislation."

Surely if additional burdens are to be imposed by the Scottish Government they should be funded by the Scottish Government?

**Helen Jones:** Let us assume, for example, that South Lanarkshire Council decides to review its core path plan and put in two or three extra paths—I do not know what the plans are, so I am making this up. If the council went to the registers of Scotland, my understanding is that it would cost about £20 to carry out a search for the landowner. If that search failed to find the owner, the council could do as the bill suggests and post a notice on the land. That does not suggest that the costs would be huge.

**The Convener:** That is no doubt why some local authorities have said that there will be no financial implications.

I will now open out the session to my colleagues around the table.

**Gavin Brown:** Pages 74 to 77 of the financial memorandum have charts of the likely costs. Is it possible to get a chart that sets out the total cost of the bill to the Scottish Government, to local government and to other organisations? You have set out some of those costs individually, but I had to do a lot of calculating to ensure that I was getting the total costs. I do not need the chart right now, but do you have one with you or can you send it to the committee? I would like to have something in black and white that sets out the total cost of the bill under each of those three headings.

**Fiona Taylor:** In drawing up the financial memorandum, we filled in the pro forma. It might be difficult to separate the costs across the three sectors in some places, because of the ranges in some of the areas within the 10 parts of the bill and the uncertainties over some of the costs. If it would help, we can certainly attempt to put something together for the committee's consideration.

**Gavin Brown:** Most financial memoranda that I have dealt with have done what you have done but have also given the cumulative total, and that has not happened here. Can it be done for the sake of completeness?

**Fiona Taylor:** We can certainly look at supplying that to the committee.

**Gavin Brown:** My second question is about the Scottish land commission, which will have running costs of £1.321 million a year. Should we view those costs as new and additional costs? In policy terms, is the commission replacing some work that is already being done, which will mean that the net

cost is not quite so high? Or is it all new work and effectively all new money?

**Fiona Taylor:** My understanding is that it is new money in principle, but it will be accommodated within existing budgets.

I emphasise that the costs are very much illustrative at this point. We made some assumptions in order to come up with the cost headings to get to the £1.321 million.

We now have in place a small project team that is starting to look at the critical milestones when decisions will have to be made on public appointments, location, the set-up of the office and those sorts of things. There may well be some movement between the cost areas.

**Gavin Brown:** I understand that it is a best estimate. I want to be clear about whether the commission is replacing anything else. If it is carrying out some functions that government already does, the net cost could be said to be a bit less. You are saying that it is all new functions.

**Fiona Taylor:** It is all new functions.

**Gavin Brown:** Thank you. The convener asked you a few questions about the valuation roll for shootings and deer forests. The financial memorandum says that you estimate costs at £4 million "subject to rates relief." I would like to be clear whether that is officials covering all bases, or there are firm policy commitments to create rates reliefs for that area. The main rates reliefs now are charities and the small business bonus and it appears that they do not apply.

Are you thinking about other rates reliefs specifically, are there new policy options, or have you just put that phrase in to cover yourselves?

**Douglas McLaren:** We are proposing that shootings and deer forests will be eligible for the prevailing rates reliefs, in the same way as other non-domestic properties. We are not proposing a new rates relief in this area. We are open to suggestions, but after our considerations so far we are not planning a new relief. Quite a few of the smaller-scale shootings, such as those on farms, for example, would be likely to get the small business bonus rates relief and that is why we have set out the memorandum in that way.

**Gavin Brown:** You think that some would be eligible but you have not worked out how many would be covered. Do you have rough estimates?

**Douglas McLaren:** That is the crux of the question about valuation and being able to protect revenue. The assessors value the tax base so that is what the bill does: it is a valuation provision.

In the absence of a valuation of the tax base, our best estimate at the macro level is the £2 million from 20 years ago projected forward. There

was not much rates relief 20 years ago. Projecting the £2 million forward and saying that, as total Scottish rates revenue has broadly doubled, the figure might be £4 million, subject to rates relief, is about the best that we can do.

**Gavin Brown:** You have agreed to look at what the total costs of the bill would be across the three categories of Scottish Government, local government and other organisations, businesses and individuals. That would be standard practice for a financial memorandum.

On the third category, is there any way in which you could provide a bit more information? I am looking at the 10 or 12 categories in the table that starts on page 74. We have

"Part 3 – Right of access to information on persons in control of land"

and

"£129.80 for disclosure of information for businesses".

Is that a one-off, or might businesses have to meet that cost several times over?

There is then

"Engaging communities in decisions relating to land ... preparation of guidance ... Costs will depend on the scale of landownership".

For right to buy, there is a host of potential costs but no figures. Other examples are:

"deer management measures, but these cannot be quantified"

and

"Agricultural Holdings ... not quantifiable".

Most of the boxes for the third category in the table either say that costs cannot be quantified or outline what the costs might involve but do not give figures. Is there any way of being more specific than that?

**Fiona Taylor:** When we draw up the table that you have requested to show the costs across the sectors, it will look a little bit messy; some of the costs are up front and some are on-going but might initially be quite high and then drop off. It is not an exact science and there are difficulties in doing it across the board across the 10 parts of the bill. However, we could certainly attempt to do it.

**Gavin Brown:** I have a bit of a sense of what the costs will be to the Scottish Government and to local government but, when I look at the totality of the boxes for the third category, I have a sense that you are basically saying that the cost cannot be quantified. I accept that that is sometimes the case, but are you saying that the cost cannot be quantified but that you are pretty sure that the number is low, or are you just making a blanket

statement that the cost cannot be quantified? That is where I am struggling a bit with the bill.

**Fiona Taylor:** The financial memorandum explains as best we could for the different parts—maybe it could be a bit clearer in some parts—what sectors the costs may impact on, and how and when the costs may bite. Maybe it would be helpful to clarify within the third category what sectors we are driving at. Would that be helpful? I do not know.

**Gavin Brown:** What is important to me as a parliamentarian is whether anyone will be clobbered by the bill. Sometimes we might say that although the cost cannot be quantified, we can say categorically that the number is pretty low so it will have minimal impact. The most important thing to tease out is whether there are potential big losers, and if so who they are and to what extent. That does not come through in the financial memorandum. Maybe there are no big losers and that is why it does not come through, but I would want some security that that is the case.

**Fiona Taylor:** I do not think that there are any big losers that we have not identified in the financial memorandum. I am not sure exactly what else we can provide to reassure the committee. Where we have said that costs cannot really be quantified, we think that the impact will usually be reasonably minimal. However, the bill has 10 parts and if the committee feels that the financial memorandum is not specific enough in certain parts—in terms of the sector that we identify as being affected or the range of costs that we give—we could try to address that. However, to do that we would have to tease out in a little more detail the specific parts that are being referred to and what the issues are. As I said, it is not an exact science.

**Gavin Brown:** You have said to the committee that you have looked at this in depth and that, in the view of the bill team, there are no big losers. Although there are bits that you cannot quantify, in financial terms you have not identified any big losers. Is that a fair summary of your position?

**Fiona Taylor:** That is a fair assessment of our overall position. Obviously, where there are potentially bigger losers, we have been a bit more specific about the detail of the impact that we have been able to establish.

**The Convener:** Rule 9.3.2 of standing orders refers to

"a Financial Memorandum which shall set out the best estimates of the administrative, compliance and other costs to which the provisions of the Bill would give rise, best estimates of the timescales over which such costs would be expected to arise, and an indication of the margins of uncertainty in such estimates."



Do you think that the financial memorandum achieves that? In many bits of the memorandum, it seems to be like asking how long is a piece of string.

**Fiona Taylor:** On the whole, we feel that we have done our very best to try to meet the requirement in standing orders, so if the committee has concerns about specific aspects of the financial memorandum, we would be very keen to address them. Clearly, with a bill as big and disparate as this one—it contains 10 distinct policy areas—there may be some inconsistencies in how much detail is in the financial memorandum. If the committee feels that particular bits do not fully address the requirement in standing orders, we would be only too happy to look at them and address the issue.

12:15

**The Convener:** The committee is concerned about potential elephant traps, such as the £150 million potential cost to Scottish local government, which is what the Improvement Service estimates that it will cost local authorities to register all their land and buildings. You say that the financial memorandum does not look at that directly, but it is part of the bill. It is a concern if all aspects of the cost of the bill have not been covered in the FM.

**Fiona Taylor:** I reiterate to the committee that the completion of the land register is very much a separate, free-standing project.

**The Convener:** But the point is that it leads on from the bill.

**Fiona Taylor:** Yes, it is part of our wider programme and we would be happy to come back to the committee to address SOLACE's point, but it would not be appropriate to address it in the financial memorandum by providing the costs for the completion of the land register, because the FM is very much about what is contained in the bill. There are no provisions in the bill that directly facilitate the completion of the land register.

**The Convener:** COSLA might disagree on that.

**Jackie Baillie:** I agree with you, convener. I think that that information would certainly be helpful.

The Scottish Gamekeepers Association and the British Association for Shooting and Conservation are not normally organisations that I have much to do with, but they have raised serious points about the robustness of the estimates. You said to the convener that you had simply rolled forward the data from 1994 and doubled the amount, based on what has happened elsewhere. Apparently, the Scottish Government's first estimate was £7 million. I am curious about where that came from. What happened to reduce that estimate to £4

million? If we accept that estimates will not be absolutely accurate, what will happen if you have got this badly wrong?

**Douglas McLaren:** In response to your first question, as far as I am aware we did not produce an estimate of £7 million. I think that that was inferred by some stakeholders from wider comments that were made about the rates revenue enabling funding to be directed to helping to increase the Scottish land fund from £3 million to £10 million. I do not think that we said that that £7 million would come from the rates revenue. I suspect that that is how some stakeholders might have inferred that the figure was £7 million.

**Jackie Baillie:** Where is the money coming from if it is not coming from the rates revenue?

**Douglas McLaren:** As I understand it, ministers made a proposal to increase the Scottish land fund from £3 million to £10 million. Ministers had said that the increased rates revenue would help to make possible that increase from £3 million to £10 million, so I think that some stakeholders might have inferred that that £7 million was going to come from the additional rates revenue, but we have not said that. I hope that that clarifies that.

**Jackie Baillie:** I want to press you on where the balance will come from.

**Douglas McLaren:** That is part of the budget decision-making process. That will have to be found from within the Scottish Government's budget.

In response to your second question, as the committee probably knows, most non-domestic rates legislation is either valuation legislation or rating legislation. It is valuation legislation that we are proposing in the bill. The assessors will value the tax base and record it in the roll. The bill does not provide for the rating; other legislation does that—I think that section 7 of the Local Government (Scotland) Act 1975 is the relevant provision. Ahead of implementation in 2017-18, ministers will have information from the assessors on the emerging valuations of the shootings and deer forests, which they will take into account when they set the poundage. At that stage, they will have options.

You asked what will happen if the estimate is wrong. The bill is only part of the equation. It simply provides for the tax base to be valued and for that to be recorded in the valuation roll. Once the draft valuations have started to emerge, we will have a clearer idea of the tax base and ministers will have options when it comes to setting the poundage. They will also be able to consider whether a new rates relief scheme, which Mr Brown asked about, would be appropriate.

**Jackie Baillie:** So there is no evidence that you could have brought to bear bar the evidence of what happened in 1994—20 years ago. Is there nothing that you can offer people by way of reassurance in that regard?

**Douglas McLaren:** The assessors are asked by legislation to value non-domestic properties, which can be quite complex. In other instances, it is more complex than valuing shootings and deer forests. For us to attempt a kind of proxy exercise now would be very difficult. There are probably thousands of possible entries out there and the assessors would have to identify them, decide on the valuation methodology and value them. Anything that we try to do at this stage could compromise the assessors' independence. It could also be problematic if we came to a value that was lower than one that the assessors subsequently make when they carry out a formal valuation, as it could be cited in an appeal hearing.

We should just try to get the best estimate. We have cited our evidence sources. If anybody has other proposals, we will of course look at them. Some stakeholders have called for better, more robust estimates, but I am not aware of any actual proposals on how to get them.

**Jackie Baillie:** I have a final question. I do not know whether it is an appropriate question for the witnesses before us, but let me ask anyway. A number of claims have been made about the loss of jobs; I do not know whether they are real. Has an economic impact assessment been completed?

**Douglas McLaren:** We have published a business and regulatory impact assessment, but as I said in remarks to the convener it is very difficult, even when we know the revenue from property tax, to model and analyse its effects on jobs.

We accept the point that stakeholders are making, and we will assess the evidence and make a judgment on whether the reintroduced rates liability is sustainable. However, the bill is only one part of the equation. Ministers will have options to set the tax liability further down the line, including through the non-domestic rate order, which will go through Parliament.

**Jean Urquhart:** The final paragraph in the BASC submission highlights recent independent research about the job losses in shooting estates and the fact that some estates currently run at a loss. Have you had access to that research? Has the BASC made it public?

**Douglas McLaren:** We read the reports by the Public and Corporate Economic Consultants. They are very informative and we certainly take them into account, but they can help us only so far in understanding and judging the effects that a rating liability would have on the sector.

**Jean Urquhart:** That is fine, but I wondered whether the research had been made available and, if it is available, whether it is in the public domain.

**Douglas McLaren:** I think that the PACEC reports are published. I have seen numerous PACEC reports, including that one.

**The Convener:** To what extent do you take those reports into account? Has there been any change in policy following receipt of a report? How have they been taken into account?

**Douglas McLaren:** I am in the local government finance unit, and I work closely with wildlife management colleagues who work closely with the deer management sector. It is hard to analyse the effects quantitatively, so it becomes more of a qualitative assessment and a judgment, in dialogue with the industry.

An important step in understanding and in making that call is getting the tax base valued, and that is what the bill does. As things stand, and all other things being equal, other legislation will start to bite once those things are on the valuation roll in 2017. However, as I said, ministers have options, so a better appraisal and assessment will be made once the tax base is valued.

**The Convener:** That is clear. Thank you very much. That concludes questions from the committee. Does the bill team have any further points to make before we wind up?

**Fiona Taylor:** No, thank you.

**The Convener:** Thank you for your contributions.

*Meeting closed at 12:23.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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