

Finance and Public Administration Committee

11th Meeting, 2021 (Session 6), Tuesday 22

March 2022

Scottish Government's Framework for Tax 2021

Purpose

1. The Committee is invited to take evidence from the Minister for Public Finance and Community Wealth, Tom Arthur MSP, in relation to the Scottish Government's [Framework for Tax 2021](#).

Overview of Framework

2. The Scottish Government produced this, its first Framework for Tax, on 16 December 2021. This followed a consultation which ran from 31 August to 26 October 2021 seeking views on an overarching approach to tax policy and how devolved and local tax powers should be used as part of the Scottish Budget 2022-23. A week before (on 9 December), the Scottish Government published the Scottish Budget 2022-23, the fourth Medium-Term Financial Strategy, and a Framework for a Resource Spending Review.

3. In her foreword to the Framework, the Cabinet Secretary for Finance and the Economy states that it “provides the foundation from which we can design and deliver tax policies that support the recovery, national outcomes, and our pursuit of a fairer, greener and more prosperous Scotland for everyone”. She goes on to state that the Framework “gives us a platform for best practice in tax policy-making, to deliver our Scottish Approach to Taxation”, adding “that will be our work ahead, as we continue to pursue the programme of work over the course of this Parliament”.

4. The Framework sets out six guiding principles that will underpin the Scottish approach to taxation. These include its four existing principles¹ of:

- certainty,
- proportionality to the ability to pay,
- convenience and
- efficiency,

and two new principles of:

- engagement, to promote public understanding, and
- effectiveness, with a view to minimising tax avoidance.

¹ The so-called ‘Adam Smith’ principles of taxation.

5. The Framework recognises that “in the longer term, tax policy will also play a crucial role in ensuring fiscal sustainability, tackling climate change and reducing inequality [and] to this end, the Scottish Government is pursuing four strategic objectives for tax:

- generating stable revenues to fund public services and support social renewal, ensuring Scotland’s public finances are fiscally sustainable,
- supporting a wellbeing economy by helping to deliver a sustainable and inclusive economy recovery and support new, good green jobs, businesses and industries for the future,
- delivering national outcomes by reducing inequality and funding the public services that promote and protect wellbeing and rights of our citizens, and
- delivering a tax system with the ability to respond to societal and economic shifts by ensuring that tax policies and processes are robust and flexible.”

6. The Committee noted in its report on the Scottish Budget 2022-23 that if the latest Scottish Fiscal Commission forecasts on income tax receipts should come to pass, Scotland’s future fiscal sustainability could be put at risk.² These December 2021 forecasts noted that, for the first time since devolution, Scottish income tax revenues are forecast to fall behind the Block Grant Adjustment (BGA), with a shortfall of £190 million forecast in 2022-23, rising to a shortfall of £417 million by 2026-27. At the same time, social security spending by 2024-25 is forecast to increase beyond the Social Security BGA by £764 million (due in part to Scottish-specific welfare programmes), which the Scottish Government would need to source from elsewhere in its budget. The SFC’s next forecasts are due in May 2022.

7. As referred to above (paragraph 5), the Framework categorises the use of tax policy in tackling climate change as a longer-term aim. However, as the Committee heard during evidence on 15 March 2022 from Callum Blackburn, author of research on Environmental Fiscal Measures, there are actions, for example, around landfill, general waste and land management that could be taken now.

Devolved taxes

Background

8. The Framework goes on to highlight the five taxes currently devolved to Scotland:

- **Scottish income tax** (partially devolved): the Scottish Parliament is able to set the rates and bands for Scottish taxpayers on non-savings and non-dividend income, e.g. earnings from employment, self-employment, pensions or property.
- **Land and Buildings Transaction Tax**: a tax applied to residential and commercial land and buildings transactions.
- **Scottish Landfill Tax**: a tax on the disposal of waste to landfill.

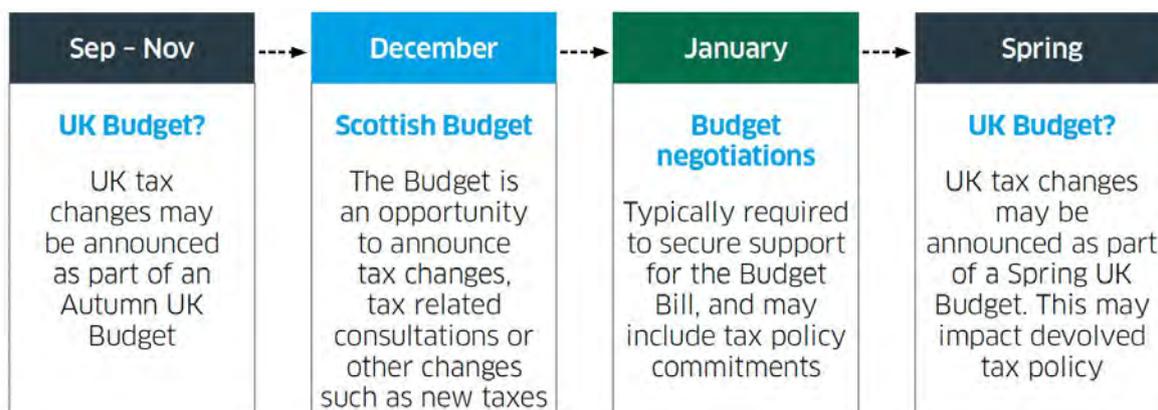
² <https://sp-bpr-en-prod-cdnep.azureedge.net/published/FPA/2022/1/21/b329180c-398e-4bd8-ba2d-5448286bd75c/FPAS622R1.pdf>

- Local taxes to fund local expenditure: currently the two main local taxes are **Council Tax** (a tax on residential properties) and **Non-domestic Rates** (a tax on non-domestic properties, often referred to as business rates), which are collected by local authorities. The Scottish Parliament has the power to create new local taxes.

9. Two further taxes devolved to the Scottish Parliament through the Scotland Act 2016 have yet to be implemented. These are **Air Departure Tax** (a tax on all eligible passengers flying from Scottish airports), which will replace UK Air Passenger Duty, and a **tax on the commercial exploitation of crushed rock, gravel or sand**, replacing the UK Aggregates Levy. Discussions on **VAT assignment** of a portion of VAT revenues generated in Scotland are due to resume between the UK and Scottish governments following the review of the Fiscal Framework expected to start later this year.

10. The UK Parliament, with the consent of the Scottish Parliament, can also devolve powers for new national devolved taxes in Scotland, though this process can be lengthy due to the level of complexity and negotiation required,

11. The figure below, reproduced from the Framework document, shows when in the budgetary cycle decisions around setting taxes might arise. This is based on the more usual UK/Scottish budget cycle not in place in the last few years.



Scottish Budget 2022-23: Tax policy

12. In terms of tax policy, the Scottish Budget 2022-23, did not change Scottish income tax rates, but starter and basic rate bands increased by CPI inflation, whilst the remaining three thresholds remained frozen. Land and Buildings Transaction Tax rates and bands stayed at 2021-22 levels, including those for the Additional Dwelling Supplement. Standard and lower rates of landfill tax were increased to maintain consistency with rates in the rest of the UK. The council tax freeze on rates agreed for 2021-22 end in 2022-23 so councils have flexibility to set their own council tax rates for the first time since 2007. There will be a 50% rates relief from business rates (Non-Domestic Rates or NDR) for the first three months of 2022-23 for properties in the retail, hospitality and leisure sectors, capped at £27,500 per ratepayer, and NDR basic rate poundage will be 49.8p, a below inflation rise.

Scottish Income Tax: 2018-19 policy evaluation

13. Alongside the Framework for Tax on 16 December 2021, the Scottish Government also published [Scottish Income Tax: 2018-19 policy evaluation](#), the purpose of which was to review the impact of significant reforms made to Scottish income tax introduced in 2018-19. These reforms were to add two new bands to split the previous basic rate band and 1p to the higher and top rates. The impacts were assessed to have met the four tests initially set out in the discussion document [The role of Income Tax in Scotland's budget](#) (published in 2017) of: the revenue test, progressivity test, protecting low earners test, and economic growth test. It also found that the processes and procedures put in place by HMRC to administer Scottish income tax “are robust and enable it to be collected efficiently and effectively”, and that the use of software lessened the complexity for taxpayers.

High-level programme of work

14. Finally, the Framework for Tax sets out the Scottish Government’s “high-level programme of work over the course of this Parliament”, as follows:

- engagement with a broad group of stakeholders,
- recovery from Covid-19, seeking to protect and grow the tax base in pursuit of stable revenue growth,
- ensuring local taxation meets future challenges and needs, with a commitment to reforming council tax, developing effective deliberative engagement on sources of local government funding, culminating in a Citizens’ Assembly,
- enhancing and deploying devolved tax powers, including making progressing the two remaining taxes listed in paragraph 9 above,
- delivering outcomes in line with the National Performance Framework (NPF),
- continuous improvement and building an evidence base, which includes “working with the Scottish Parliament to re-establish the Devolved Taxes Legislation Working Group³ to progress work to ensure a robust legislative framework for tax is in place”.

15. A refresh of the content of the Framework is due in 2023.

16. There is scope at this session to explore a number of issues such as: how the principles in the Framework underpin a Scottish approach to taxation and how current tax policy aligns under both these principles and the Framework’s strategic objectives, which include ensuring Scotland’s public finances are fiscally sustainable and delivering national outcomes. Priorities in the high-level programme of work might also be of interest, such as steps being taken to grow the tax base, enhance devolved tax powers, and reform council tax, along with how to foster a greater public understanding around taxation in Scotland. Finally, issues around how the Framework will influence decisions and policy-making and how the Scottish

³ The Committee previously agreed that the Committee clerks should, as with Session 5, sit on this Working Group. This has yet to meet this parliamentary session.

Government will measure the extent to which the objectives as set out in the Framework are being met, may also be raised.

Next steps

17. The Committee will consider next steps in relation to its work in relation to taxation at a future meeting.

**Committee Clerks
March 2022**