



Poverty & Inequality Commission

Tax Working Group

Wednesday 8 February 2023

09:00-11:00

Virtual meeting by MS Teams

Attending

Tax working group members

Shona Stephen, Commissioner, Poverty & Inequality Commission (Working group chair)

Alex Cobham, Commissioner, Poverty & Inequality Commission

Bill Scott, Chair, Poverty & Inequality Commission

PM, PIC Experts by Experience Panel member

Professor Mike Danson, Heriot-Watt University

Joanne Walker, Low Incomes Tax Reform Group

Rory Morrison, PIC Secretariat

Invited guests

Martin Davidson, Head of Tax Strategy and New Revenues Unit, Scottish Government

Professor Mairi Spowage, Director, Fraser of Allander Institute

Howard Reed, Director, Landman Economics

Apologies

Sasha Saben Callaghan, PIC Experts by Experience Panel member

1. Welcome and apologies

Group members and invited guests were welcomed to the meeting.

2. Presentations and Q&A

The three invited guests presented to the working group in turn, with the opportunity for questions following each.

Martin Davidson from the Scottish Government presented an overview of Scotland's tax powers, the Scottish Government's "Framework for Tax" publication, tax policy in the 23/24 SG Budget, and areas where SG may look to in the future regarding taxation.

Working group members and other guests asked Martin questions on behavioural effects; the degree to which alternative taxation measures had been considered in the 23/24 Budget process; the appetite for the Scottish Government to go further on taxation and test powers on new taxes; and the potential challenges involved in introducing new taxes.

Professor Mairi Spowage, Director of the Fraser of Allander Institute, spoke to the group about the origins of how various parts of taxation had been devolved to Scotland and how some choices made at the time around what powers to devolve now appear somewhat arbitrary and difficult to justify/make use of. She highlighted how experience to date has demonstrated some unintended consequences around the interactions between devolved and reserved taxes (e.g. interactions between income tax and national insurance) and also emphasised that it was important to note the way behavioural effects around taxation take place across the whole income distribution, not just at the upper end of incomes. Professor Spowage gave some critique of the decisions in the 23/24 SG Budget, including the relatively small amount raised by the top rate income tax increases in comparison with the much larger amount forgone by freezing the poundage of non-domestic rates. The fact that income tax is not a relevant factor for around 39% of the adult population, and the potential desirability of broadening the tax base in Scotland was also discussed.

Questions and discussion followed on the eligibility criteria for second property taxes (the LBTT Additional Dwelling Supplement); frustrations around the lack of progress in council tax reform; and the fact that while some new taxes like wealth taxes could be competent in theory (from a devolution perspective), they could be very hard to administer in practice.

Howard Reed Director of Landman economics presented to the group on his work on options for increases taxation revenue in Scotland. He talked through the outcomes of his modelling work of short and longer term packages of tax reforms he was commissioned to do by the STUC. He shared with the group his assessment of how the SG 23/24 Budget tax package compared with his analysis.

Discussion followed on freeports, how Howard envisaged some of his longer term measures working in practice (e.g. determining the tax base for a wealth tax, the frequency of re-evaluation of property values required for a proportional property tax), and some technical features of his modelling work.

3. Discussion on opportunities and challenges for tax in Scotland

Working group members and guests had a discussion on various aspects of taxation arising from the presentations, including:

- **SG's Engagement and Effectiveness principles in its tax framework**, the degree to which these are adequately reflected in practice and what more SG could do to help citizens in Scotland see the effect of tax compliance and redistribution, especially given the complexity of the fiscal framework.

- **The relationship between SG and HMRC on tax collection**, the risk-based model HMRC uses for its compliance work and whether it would be possible to do more compliance work in Scotland.
- **Comparisons with federated states internationally and what has been achieved in renegotiations over fiscal frameworks there**, highlighting the challenges of doing that in Scotland where political appetite for departing from the Barnett formula may be limited.
- **Areas where the Scottish Government may particularly welcome recommendations** and that the most valuable are likely to be ideas on tax that can be done under current powers.

4. Working group – planning the next meetings

Invited guests left the meeting, and the working group discussed plans for upcoming meetings. Reflecting on the discussion at the meeting, group members noted that there appeared to be more scope for action on local taxation. Group members agreed to an approach of additional meetings between those with invited guests, with the secretariat to poll for dates/times following the March meeting, and also to conduct some meetings with guests outside of the main series of monthly meetings to speak to a wider range of contributors.

5. Any other business

There was no other business.