



## Poverty & Inequality Commission

### Tax Working Group

Wednesday 14 June 2023

09:30-11:30

Online by MS Teams

#### Attending

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

Alex Cobham, Commissioner, Poverty & Inequality Commission

Bill Scott, Chair, Poverty & Inequality Commission

Sasha Saben Callaghan, PIC Experts by Experience Panel member

Professor Mike Danson, Heriot-Watt University

Joanne Walker, Low Incomes Tax Reform Group

Rory Morrison, PIC Secretariat

#### Apologies

PM, PIC Experts by Experience Panel member

### 1. Welcome and apologies

Shona Stephen welcomed group members to the meeting.

### 2. Defining and assessing proposals

Following work conducted by correspondence since the last meeting on 10 May 2023, working group members further defined a series of proposals and potential recommendations and provided comments on these against the previously agreed assessment criteria. These proposals included:

**Registration and valuation of property and land** – Working group members indicated a preference for this to be a priority recommendation, as it is a prerequisite for further action in other areas (such as local tax reform), and an area where they felt too little progress has been made in the past. Working group members suggested that urgency was required and as such the group should recommend a completion date, and also recommend an ongoing process for obtaining accurate updated valuations after any initial round of registration/valuation has completed. It was also noted that some of the delays in registration to date appears to reflect a failure of property/land owners (including public sector owners) to register promptly.

This led working group members to conclude that, while the target completion date should be for the Scottish Government and related agencies, pressure needs to be put on property and land owners to fulfil their obligations to register. The need to address the concerns of low income households around council tax and the legacy of mistrust left over from the poll tax was also discussed.

**Income tax thresholds and bands** – Working group members gave their assessment of the potential for making adjustments to either the band structure or rates applied to Scottish income tax, under the current devolution settlement. Some working group members were in favour of introducing a further band of income tax between the current Scottish Higher and Top rates, as had previously been suggested by the new First Minister. On balance the group agreed that in the current context, income tax adjustments alone were not likely to be enough to raise the level of revenue needed for fiscal sustainability or to meet poverty reduction ambitions, and the suggestion was made to use this as framing context for the wider recommendations, pointing to the need for more radical reform in other areas.

**Extending the tax base to include wealth** – Working group members indicated their desire for the working group's output to be ambitious on the taxation of wealth. Working group members noted the unfairness and disparity in low income households being required to, for example, have every source of income taken into account while being assessed for means-tested benefits, whereas high income households have the ability to remove parts of their wealth or income from taxation with relative ease. A discussion followed on the detail of what could be included in scope for a potential wealth tax in Scotland, and at what level it could be implemented. Working group members raised points around the importance of being able to define the kinds of asset that could be included; the degree to which the assets or owner are resident in Scotland or mobile; and the extent to which wealth assets are already partly within the scope of existing taxes. Working group members discussed potential routes of avoidance, such as those that might be caused by only being able to apply a wealth tax to certain types of assets. Working group members also raised the issue of areas in Scotland that have less wealth and where, if the tax were applied at the local level, redistribution would need to be planned at the national level in order to be fair.

**Devolution of savings and dividend income tax** – Working group members discussed the potential benefits of devolving savings and dividend income. This would give the Scottish Government the ability to set rates and bands for all forms of income. Working group members believed that this was an important principle, bringing more sources of income into scope of devolved taxation. This would allow the Scottish Government to potentially raise revenue by equalising the rate of savings and dividend income with the more progressive Scottish rates of income tax. Working group members also noted that doing so could reduce the incentive for income tax avoidance among Scottish taxpayers who are in a position to take their income as dividends, which is currently subject to lower tax rates.

**Definition of Scottish taxpayer status and tax compliance** – Working group members noted that there was a close connection between tax compliance, and awareness and understanding of the tax system. They discussed actions that could be taken to improve the level of awareness among taxpayers in Scotland: 1) that

they pay Scottish tax; and 2) what it contributes towards. These included both compliance activity, but also accompanied by communications and engagement work to raise the salience of Scottish taxes. Working group members were conscious that the cost of living crisis will make some aspects of this challenging, and noted that when people feel they themselves are struggling, it can make conversations about changing people's feelings around tax and the social contract difficult.

### **3. Next steps and AOB (1120-1130)**

Following the discussion under the previous item, it was agreed that the secretariat would draft the material from the discussion and that previously contributed by correspondence into draft recommendations for the next working group meeting.

Working group members were updated on engagements with other groups working on taxation in Scotland. Working group members agreed that a PhD student researcher from the University of Glasgow could attend the next working group meeting as an observer as part of their research into participatory approaches to socio-economic decision-making.