



Poverty & Inequality Commission

Tax Working Group

Thursday 20 April 2023

09:00-11:30

Hybrid meeting by MS Teams and in-person at St Andrew's House, Edinburgh.

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

Sasha Saben Callaghan, PIC Experts by Experience Panel member

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

Andy Wightman, writer & researcher on land rights and democracy, former MSP

Arun Advani, Associate Professor at the University of Warwick and co-chair of Discover Economics

David Phillips, Associate Director, Institute for Fiscal Studies

1. Welcome and apologies

Shona Stephen welcomed group members and invited guests to the meeting.

2. Presentations and Q&A

The three invited guests were invited to present to the working group, with questions and discussion following each.

David Phillips from the IFS presented to the group on Scottish tax policy – both the impact of devolved policy decisions taken to date and options for the future. He spoke to recently published analysis from himself and his IFS colleagues which

showed that the impact of Scottish Government income tax and benefit changes had been progressive and revenue raising, with low-income households with children benefitting the most.

David suggested that there is likely to be a limit in terms of how much further the Scottish Government can go in terms of continuation of existing policy direction due to the increasing likelihood of behavioural responses to income tax increases, and cliff-edges caused by the interaction between devolved benefits like the Scottish Child Payment and the reserved benefits system.

He spoke to the group about some different tax options the Scottish Government has, including options like seeking to devolve savings and dividends income, capital gains tax, and VAT. He explained to the group that the case for devolving savings and dividends income and capital gains were better candidates (though not without their own challenges), while the administrative difficulties and likely behavioural responses for devolution of VAT and corporation tax made them less well-suited candidates. David also highlighted the strong case for both revaluing and reforming council tax in Scotland.

Group members asked David questions for his views on an increased extra band for Scottish income tax (as has been proposed by some recently), and the likelihood and scale of behavioural effects for any such policies in the Scottish context.

Professor Advani talked to the working group about his research on the return on investment of income tax compliance and audit work. Although his research group has not recently conducted detailed regional work or with devolved nations, from what they have done to date they would expect the return on investment (£6 to £8 return for every £1 invested) to be similar in Scotland.

He commented on some of the potential areas of tax for further devolution raised by David Phillips, mentioning that in his view capital gains could be a less preferred area to devolve, as a substantial portion of those who currently pay capital gains do so as a result of a single large realisation in gains – which individuals could potentially make arrangement to avoid paying tax on in Scotland.

Professor Advani discussed with the group the merits of examining the nature of the tests for being a Scottish taxpayer, how stringent it is, and the benefits that could be gained in establishing a tighter test of who pays tax in Scotland.

From his work as part of the Wealth Tax Commission, he shared with the working group some of the general principles of what would make both good, and poor, approaches to taxing wealth, including the process for establishing the wealth tax base and the setting of an appropriate threshold of wealth to consider taxing.

There was a discussion between the guests and the working group on the likelihood of behavioural effects in the event of freezing/reducing income tax thresholds around the middle of the income distribution, and the level of incentive and means that these type of income tax payers have to change their behaviour in response to threshold changes.

Andy Wightman presented to the group on the degree to which the tax system can reduce poverty – he described how the tax system itself can help contribute to reducing inequality, but the poverty reduction aspect must come from boosting incomes through both direct payments and reducing costs for low income households. He talked about how analysis of the extent of the progressive/regressive nature of tax must also include indirect taxation such as VAT.

Andy told the group about his experience as a legislator around tax, and the limitations and difficulties of devolving further taxes under the current constitutional arrangement. A key opportunity here was the ability, under existing powers, for the Scottish Parliament to legislate for any local tax, to fund local authority expenditure. He described how many policies and services intended to reduce poverty are delivered locally, and expansion of local tax powers could raise income that could in turn be offset by reduction in the block grant from the Scottish Government to local authorities, potentially freeing up national level resource for further redistribution through Scotland's social security system.

He talked to the group about the series of failures to deliver local tax reform in the past, and some of the reasons why reform has not been successful, including the level of political appetite for reform and the inevitable fact there will be winners and losers. Andy told the group about his work on land data and land reform, and the improvements he felt are required, particularly in terms of data about land in Scotland, including integrated and publicly available information about ownership, value, use, planning status and other factors. This is a further area where there have been previous government commitments to reform, but the current land information systems falls a long way short of original commitments.

Andy took questions from working group members on potential of reform on non-domestic rates. Andy told the working group that this was another highly politicised area, with a system of reliefs that are not coherently designed, and of uncertain economic benefit. He told the group that the first step should be to get everything on to the roll and valued accurately.

3. Open discussion

Working group members and guests had a discussion on potential for tax reform in Scotland based on the previous presentations, including:

- The feasibility of a single valuation process and system for council tax, non-domestic rates, and land.
- What an approach to assessing the tax base for wealth might look like in Scotland.
- Some of the limitations on survey and administrative data in Scotland that makes attempts to quantify the benefits and costs of reform difficult.
- Whether some of the proposals being considered by the group would fall foul of reserved legislation (e.g. the UK Internal Market Act).
- The recently announced “green freeports” and their expected impact.

4. Working group – next steps & AOB

Guests left this meeting at this point. Working group members then discussed the results of the tax attitude polling that had been conducted on behalf of the group, gave their reflections on the results and considered what further analysis of the results might be helpful to inform the group's thinking. The working group then considered the approach it should take to forming recommendations. It was agreed that a set of assessment criteria should be developed by correspondence in advance of the next meeting in order to assess potential recommendations against, and that agreeing the criteria and starting to apply it should be the focus of the next working group meeting.