

Budget 2021/22: Supporting the COVID-19 Recovery – Scotland’s Taxes and Fiscal Framework

Analysis of Consultation Responses

January 2021

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1. Executive Summary

The Scottish Government's 2020-21 Programme for Government¹ included a commitment to consult on our approach to tax policy in advance of Budget 2021-22, building on our strong track record of taking an open and consultative approach to tax policy.

On 3 September 2020, the Scottish Government launched 'Budget 2021-22: Supporting the COVID-19 Recovery – Scotland's taxes and Fiscal Framework'², a consultation that sought views on the role of our devolved taxes and the Fiscal Framework in the COVID-19 economic recovery, to inform decisions taken at the Scottish Budget 2021-22 and beyond.

The consultation closed on 8 October 2020 and received 64 responses. Of those, 36 were from individuals and 28 were from organisations. A list of respondents and a link to their responses is available in Annex A. We would like to express our sincere thanks to those that submitted a response to the consultation.

The responses to the consultation have informed policy development in relation to the Scottish Budget 2021-22, and continue to inform our longer term thinking.

Summary of responses

The consultation asked six questions, which can be broadly separated into two categories:

- Tax policy priorities in relation to the COVID-19 recovery, the Scottish Budget 2021-22 and beyond.
- The fiscal challenges highlighted by COVID-19, the Scottish Government's fiscal powers and the scope to change them.

There was broad recognition that COVID-19 has had a disproportionate impact on specific sectors of the economy and certain households, and although a diverse range of viewpoints were expressed on the use of tax powers, there was a notable theme on the need for tax policy to deliver certainty and stability, as well as support for targeted measures to protect and stimulate the economy. In addition, views were expressed that the impact of COVID-19 has reinforced the need for more progressive tax policies.

There was a mix of responses on how the Scottish Government should use its local and devolved tax powers, and commentary on the need to further develop the

¹ Programme for Government 2020-21: <https://www.gov.scot/publications/protecting-scotland-renewing-scotland-governments-programme-scotland-2020-2021/>

² Budget 2021-22: Supporting the COVID-19 Recovery: <https://www.gov.scot/publications/budget-2021-22-supporting-covid-19-recovery-scotlands-taxes-fiscal-framework/>

Scottish Government's approach to tax policy making and the interactions between the Scottish and UK tax systems.

Some respondents supported the further devolution of tax powers to the Scottish Parliament to facilitate the economic recovery from COVID-19. Responses in that respect focused on business taxes, VAT, National Insurance and wealth taxes (e.g. Capital Gains Tax, Inheritance Tax). Among those respondents who raised concerns over further powers, partial devolution was cited as a source of additional complexity in the tax system. The interaction between National Insurance and Income Tax was a commonly cited example, with some respondents calling for the full set of policy levers to be devolved in future.

The consultation also sought views on new taxes that respondents would like to see implemented by the Scottish Government, and received responses covering a range of topics (e.g. wealth taxation, land ownership, transport and environmental issues).

With respect to the Scottish Government's devolved powers under the Fiscal Framework³, consultation respondents noted a range of fiscal challenges faced as a result of COVID-19. There was strong support from respondents that increased borrowing limits are needed to allow the Scottish Government to support the economy in response to the COVID-19 pandemic. Some respondents supported greater fiscal autonomy on a more permanent basis, and some suggested more permanent changes to the Fiscal Framework that should be considered, while others noted that current arrangements were adequate.

On the fiscal rules the Scottish Government should follow, the key theme was that there should be clear rules and rationale for borrowing.

Next steps

We aim to develop a clear engagement cycle which underpins the Scottish approach to taxation and the Fiscal Framework. Working with stakeholders is at the heart of that approach, with a commitment to openness and collaboration aimed at ensuring tax policy is understood and informed by a diverse range of views and perspectives. We will aim to create engagement platforms that allow a wide range of ideas to emerge, including opportunities such as this consultation exercise, and deliver a transparent and outward-focused tax policy making process.

Fiscal Framework Review

The Fiscal Framework is due to be reviewed after the Scottish Parliament elections in 2021, and it will be informed by an independent report that will be completed before the end of 2021.

In the Scottish Government's view, the COVID-19 crisis has further highlighted the need for the review of the Fiscal Framework to have a wide scope. It should not only consider the case for revisions to the existing framework, such as increasing borrowing and reserve flexibility, but also to fundamentally examine whether the

³ Fiscal Framework factsheet: <https://www.gov.scot/publications/fiscal-framework-factsheet/>

Scottish Parliament's current powers are sufficient to manage the risks we face within our devolved responsibilities, and to support economic recovery in a post-COVID-19 world.

2. Introduction

2.1 Background

The *'Budget 2021-2022: supporting the COVID-19 recovery'* consultation⁴ ran from Thursday 3 September 2020 to Thursday 8 October 2020, and received 64 responses. Of those, 36 were from individuals and 28 were from organisations. A list of respondents and links to their responses is available in Annex A.

The Scottish Government believes this to be a crucial time to seek wide-ranging views on how we can best deploy our fiscal powers to support the COVID-19 recovery. We also sought views on how our current devolved fiscal arrangements could evolve, in order to build stronger fiscal foundations for Scotland's future.

The COVID-19 pandemic has triggered twin health and economic crises on a global scale. The Scottish Government has taken unprecedented steps since the beginning of the crisis to support the people and businesses of Scotland and we are continuing to do so.

The pandemic has underlined the importance of providing timely information about the decisions we are taking to support public understanding and provide opportunities for the public and stakeholders to participate in those decisions. This consultation exercise was an important part of our tax policy engagement activity ahead of the 2021-22 Scottish Budget.

Through this consultation exercise, which builds on our strong track record of taking an open and consultative approach to tax policy, the Scottish Government sought views on the role of our devolved taxes and the Fiscal Framework in the COVID-19 economic recovery. All responses to the consultation have helped to inform policy development in relation to the Scottish Budget 2021-22, and will continue to inform our longer term thinking.

About the analysis

As with all consultations it is important to bear in mind that the views of those who have responded are not representative of the views of the wider population. Individuals (and organisations) who have a keen interest in a topic – and the capacity to respond – are more likely to participate in a consultation than those who do not. This self-selection means that the views of consultation participants cannot be generalised to the wider population.

For this reason, the approach to consultation analysis is primarily qualitative in nature. Its main purpose is not to identify how many people held particular views, but rather to understand and consider the full range of views expressed.

⁴ Budget 2021-22: Supporting the COVID-19 Recovery: <https://www.gov.scot/publications/budget-2021-22-supporting-covid-19-recovery-scotlands-taxes-fiscal-framework/>

3. Tax Policy

3.1 How should the Scottish Government use its devolved and local tax powers to support the COVID-19 recovery as part of Budget 2021-22?

3.1.1 Devolved and Local Taxes

Respondents provided a wide range of perspectives on how the Scottish Government should use its devolved and local tax powers to support the COVID-19 recovery as part of Budget 2021-22.

A majority of respondents highlighted the disproportionate impact of COVID-19 on specific business sectors and/or low earners. Linked to this, a number of respondents commented that more focus was needed on the role of tax policy in tackling inequality. For example, the Scottish Human Rights Commission commented that:

“truly building back better means that tackling Scotland’s pre-existing inequalities must be at the heart of how we move forward as a society.”

Responses from individuals conveyed a diverse range of viewpoints on tax powers, including calls for more progressive taxation, the further devolution of tax powers to local government, the introduction of a universal basic income and lowering taxes to stimulate the economic recovery.

Furthermore, although the consultation did not set out to consider tax avoidance, a number of individuals (7) highlighted the need to minimise tax avoidance as a priority, and felt that additional revenues via this route could support the COVID-19 recovery. This feedback aligns with wider research on public attitudes to tax, where there is evidence that corporate tax avoidance is perceived to be widespread, and that the public are averse to taxes on individuals being raised when they perceive that additional revenue could be raised by tackling tax avoidance⁵.

Organisational responses were more focused on the need for tax policy to deliver stability, and recommended measures that would protect and stimulate the economy. Furthermore, one respondent (the Institute of Chartered Accountants of Scotland) underlined that the recovery from COVID-19 is subject to considerable uncertainties, and that tax policy is difficult to manage in such circumstances, as the tax base is subject to volatility and uncertainties commensurate with the wider economy.

⁵ Demos (2020) A People’s Budget: How the public would raise taxes: <https://demos.co.uk/project/a-peoples-budget-how-the-public-would-raise-taxes/>

Devolved Taxes

Income Tax

A mix of views were expressed on the role of Income Tax policy, with business organisations tending to focus on the need for policy stability, and individuals and third sector respondents communicating a broader range of perspectives on the need to both lower and raise Income Tax rates.

Respondents, individuals and organisations, highlighted the interactions between the Scottish and wider UK tax systems, and some cautioned against any further divergence from the UK's Income Tax rates. Indeed, a handful of respondents commented on alternative approaches to raise additional revenue. For example, Deloitte noted that:

“The Scottish Government may have greater success increasing tax revenues to support the COVID-19 recovery by widening the tax base rather than simply increasing the rates applied to the existing tax base.”

Furthermore, some respondents acknowledged that COVID-19 would understandably lead to calls for a more progressive Income Tax system with increased rates on higher earners, however, the Institute of Chartered Accountants of Scotland cautioned that:

“...there are tensions and challenges arising from the size, shape and potential mobility of the Scottish Income Tax base, which need to be factored in when developing the Scottish Budget Income Tax rates for 2021/22.”

One particular factor mentioned by two organisational respondents was the rise of remote working as a result of COVID-19. It was highlighted that this trend may provide an effective way of broadening Scotland's tax base if newly remote workers were to relocate to Scotland. A similar share of respondents gave the counter argument that this represented an increased risk to the Scottish Income Tax base, observing that newly remote workers would, in theory, have an increased ability to move between tax jurisdictions.

More broadly, two organisations commented that Income Tax is the Scottish Government's key tax lever, and that it is already a more progressive regime than the UK system. Therefore, if changes were made to Scottish Income Tax, respondents, in particular tax professional bodies, noted that it would be important that the interactions with the reserved aspects of Income Tax were carefully examined.

Fully Devolved Taxes

Consultation respondents expressed a range of views on Land and Buildings Transaction Tax (LBTT), and more widely on the role of land and property taxation.

Commentary on LBTT was wide ranging, and included submissions calling for greater alignment with wider UK policy, increased taxes on the most expensive properties and discussion on its future role in supporting a green transition to more energy efficient homes. On the whole, respondents from the property industry welcomed the temporary change to the residential nil rate band, highlighting the negative impact of COVID-19 restrictions on the residential property market.

However, not all respondents were supportive of the temporary nil rate band change, with Citizens Advice Scotland opposing any further extension, and urging any further changes to LBTT, and the Additional Dwellings Supplement, to be more focused on raising further revenue to support the Scottish Government's strategic priorities.

Respondents also commented on broader land and property taxation issues. A number of organisations (e.g. ESPC, Scottish Wildlife Trust, National Trust for Scotland, Scottish Land Commission) felt that tax and fiscal policy development in this space should be mindful of the broader landscape in relation to both land ownership and housing policy.

Two business organisations also commented on Air Departure Tax (ADT), in particular, noting that once the devolved tax is introduced⁶, they would support the use of ADT to boost international travel and support the economic recovery.

Local Taxes

Non-Domestic Rates

A majority of organisational respondents called for the continuation of support for those businesses most adversely impacted by COVID-19. There was also a range of perspectives on the need for further action in relation to Non-Domestic Rates (NDR), for example:

- UK Hospitality called for a fundamental review of NDR which should include the conclusion of the review of the Small Business Bonus Scheme.
- The Scottish Property Federation highlighted the empty property rates faced by commercial landlords; and called for Government to review NDR.
- Homes for Scotland has called for the domestic and commercial rates currently charged on show homes on developments of 25 or less homes to be waived.
- Reform Scotland called for the devolution of NDR to local authorities in full.
- Union of Shop, Distributive and Allied Workers (USDAW) encouraged a permanent reduction in non-domestic rates for all retailers; and protection against the 'reverse cliff edge' when 100% Retail, Hospitality and Leisure relief ends at the end of 2020-21.
- Alcohol Focus Scotland called for a public health supplement to non-domestic (business) rates, applied to retailers licensed to sell alcohol and linked to volume of sales, and the creation of a new local public health tax that applies a levy to the sale of alcohol in the off-trade.

⁶ The UK Government and Scottish Government have agreed that the introduction of ADT will be deferred to allow for a solution to be found to the Highlands and Islands exemption. In the interim, the UK Government maintains Air Passenger Duty (APD).

Council Tax

The consultation received a large number of responses (14), from both individuals and organisations, which commented on Council Tax and local taxation. These responses focused on the further devolution of tax powers to Local Authorities, and called for a fairer and more progressive way to collect local revenues.

A significant number of these responses referenced Council Tax, calling for a reformed system which was more progressive and tailored to local circumstances. In general, although there was broader agreement for those who commented on Council Tax that reform was required, there was limited commentary on what a reformed or renewed form of Council Tax would actually look like.

3.1.2 Overarching Priorities

In addition to feedback on specific tax powers, some respondents also commented on overarching priorities.

Business Support

A number of organisations (9) commented that tax policy should be aiming to provide certainty and stability as businesses deal with the consequences of COVID-19. For some of these respondents, business growth and consumer confidence were seen as key considerations, and there were several calls for Scottish Government action which would increase consumer demand, and protect and generate jobs. Several respondents also called for the use of fiscal powers to support those sectors hit hardest by COVID-19 (e.g. tourism, hospitality, culture sector).

In addition, three respondents observed that if existing tax powers were used to support the recovery, any policy choices should not work against other aims of the Scottish Government, for example, in relation to skills and retraining programmes, and the climate crisis.

Green Recovery

There was agreement across a handful of organisational and individual responses that the COVID-19 recovery should support and incentivise businesses to build back greener. For example, the Scottish Wildlife Trust commented:

“Budget 2021-22 must pave the way for the Scottish Government to deliver on its economic priorities for a green and transformative recovery.”

Views were expressed on the need to prioritise and fund green infrastructure, with, for example, the National Trust for Scotland noting that the Scottish Budget represents an opportunity to support investment in natural capital to the same extent as other forms of capital. When discussing a green recovery, several respondents also called for improvements to digital connectivity, especially in rural areas.

3.1.3 Approach to Tax Policy

Scottish Government Policy Making

Tax professional bodies (3) commented on the need to continue the work to develop the Scottish Government's tax policy and legislative processes, highlighting that such changes would have broader benefits. For example, the Chartered Institute of Taxation noted that:

“If anything, we think the pandemic has highlighted the importance of expediting the changes that have already been explored in the Scottish Government policy framework consultation⁷ or are in the process of being considered by the Devolved Taxes Legislative Working Group⁸. The implementation of the changes to the tax policy and legislative processes should also assist in improving engagement, scrutiny and flexibility in relation to tax policy-making and legislative activity.”

Four respondents also highlighted the importance of proactive and open consultation on any changes to devolved and local tax powers. The Scottish Human Rights Commission suggested that the Scottish Government should take a human rights-based approach to taxation which puts people's rights at the very centre of policies and practices. They emphasised that *“meaningful participation, and not only information, must be implemented throughout the policy cycle”*.

Scottish & UK Tax System Interactions

The interactions between Scottish and UK tax powers was highlighted by a number of respondents (11), with some stressing the importance of an aligned and coordinated UK-wide fiscal response to COVID-19. As an illustration of the somewhat complex landscape of devolved and reserved tax powers, a significant minority of individual respondents called for Scottish Government action on reserved tax matters.

The Low Income Tax Reform Group commented that close attention should be paid to the interactions between devolved and reserved parts of the tax system, and that failure to do this could result in well-intentioned policy not achieving its desired result. A number of other respondents, including the Institute of Chartered Accountants of Scotland and Deloitte, also proposed that any changes to devolved and local tax powers should form part of a long-term tax policy strategy, one which provides clarity and certainty on the Scottish Government's objectives.

⁷ Devolved taxes: a policy framework - consultation analysis:

<https://www.gov.scot/publications/devolved-taxes-policy-framework-consultation-analysis/>

⁸ Devolved Taxes Legislation Working Group: <https://www.gov.scot/groups/devolved-taxes-legislation-working-group/>

3.2 Are there any further tax powers that should be devolved to the Scottish Parliament to facilitate our ability to support the economic recovery?

A wide range of viewpoints were highlighted in response to this question, with respondents focusing on support for further devolution, tax policy approach and specific further powers (e.g. VAT, Corporation Tax, National Insurance and wealth taxes).

3.2.1 Support for further devolution

Support for further devolution of tax powers was mixed, though a higher proportion of respondents felt that more powers should be devolved. Ten respondents called for full fiscal devolution, or full independence from the United Kingdom, while five noted that powers should be handed back to the UK Government. A number of respondents (13) also noted that they believed that the current powers at the disposal of the Scottish Parliament were sufficient, however, some in this category felt that these powers needed refinement to operate more effectively.

Among those respondents who raised concerns over further powers, partial devolution was cited as a source of additional complexity in the tax system, using the interaction between National Insurance and Income Tax as an example, and calling for the full set of policy levers to be devolved in future. In addition, a view was expressed that the partial devolution of tax powers has led to the Scottish Government being overly reliant on Income Tax. For example, Reform Scotland commented:

“According to GERS 19/20, NSND Income Tax accounted for 66% of Scotland’s devolved tax revenue. To put that in context, for the UK as a whole, all of Income Tax accounts for only 24% of tax revenue income. This leaves Holyrood far too vulnerable to fluctuations in this one tax, and without other fiscal levers to offset any variations.”

In contrast, a minority of respondents thought that the challenges in the devolution of some taxes, for example, the deferred introduction of Air Departure Tax due to State Aid issues, suggested that timescales should be considered alongside the potential benefit of increased policy control. A similar point about potential complexity was made about the deferral of assignment of VAT revenues.

3.2.2 Tax policy approach

A number of organisational respondents did not offer views on whether specific powers should be devolved, however noted that a “principles based approach” should underpin any further devolution. For example, when considering which further powers to seek, the Scottish Government should prioritise purpose, transparency and administration.

In addition, while respondents supported the principles of fiscal devolution, such as those identified by the Smith Commission⁹, some felt that recent events such as COVID-19 and Brexit should warrant others such as:

- Tax powers should be used to support economic recovery.
- Avoid a “race to the bottom” or increased competition between Scotland and rUK which could be particularly detrimental to recovery.

Specific recommendations included:

“Any further tax powers devolved should be capable of being targeted to Scotland-specific factors or industries.” *Deloitte*

“If new tax powers are devolved, it is essential that there is a full and thorough consultation process, as has indeed generally been the case with Scottish taxes to date, such as Land and Buildings Transaction Tax and use of the powers over Scottish income tax.” *Chartered Institute of Taxation*

3.2.3 VAT

VAT was the most-cited of the existing taxes in support of “full devolution”, and a number of proposals were put forward to reform the tax once the levers were available to do so, such as allowing local governments to administer VAT to offset changes to Council Tax.

Of the 15 respondents who wanted VAT to be devolved to the Scottish Parliament, three were particularly concerned about the burden of VAT falling disproportionately on lower earners, calling it “regressive” and “unfair”. While individuals focussed on addressing inequality, organisational comments tended to focus on the opportunities to use VAT as a driver for behaviour change, particularly as lever for incentivising low carbon alternatives. Some respondents raised specific opinions that VAT assignment was “not a power as it is reserved to Westminster” and not the right approach – citing the lack of a “satisfactory methodology” for VAT assignment.

3.2.4 Corporation Tax

A number of respondents did not specifically mention Corporation Tax, but suggested taxing profits, industries, or businesses in Scotland. Within the subset of respondents generally in favour of devolution, there appears to be support for full devolution of Corporation Tax or “all business taxes” and “taxes on profits” as well as taxes on specific industries in Scotland. With respect to devolving a range of business taxes, some argued that this would establish greater resilience in the Scottish Budget which was described as currently relying heavily on Income Tax (disproportionately to the UK Government).

The arguments in favour of devolution of Corporation Tax followed several lines of reasoning:

⁹ <https://webarchive.nationalarchives.gov.uk/20151202171017/http://www.smith-commission.scot/>

- The perception that firms based in Scotland, especially those employing large numbers of people, are benefiting ‘by proxy’ from Scotland’s public services as the health and wellbeing of their employees contributes to their profits – the same argument applies to those benefitting from “public infrastructure”.
- With particular emphasis on resource-intensive industries, companies which benefit from being physically based in Scotland should be contributing “their fair share” to directly benefit local communities.
- With respect to economic recovery or stimulus packages, Scotland should be able to offer incentives or relief to companies in the form of regional corporation taxation.
- In direct opposition, others felt Corporation Tax as set by the UK Government is “too lenient” and does not reflect Scotland’s values which, they argued, are more in line with European approaches to Corporate Taxes.

Two respondents pointed to the example of Northern Ireland’s devolved Corporation Tax as a positive demonstration of divergence.

There were a number of specific references to gaining more direct control over tax revenues in relation to the oil and gas industry in Scotland. Most of the specific references to this industry advocated additional taxes in order to directly benefit the Scottish communities most reliant on this industry.

3.2.5 Income Tax and National Insurance

Generally, there appeared to be a correlation between support for fully devolved Income Tax and support for the transfer of National Insurance (NI) powers to Scotland. The arguments in favour tended to suggest that devolving “similar powers” and allowances could allow Scotland to further pursue a more progressive approach to Income Tax.

There appears relatively widespread support for NI devolution, among those who favour further devolution, with most pointing to the interaction between NICs and Income Tax. One respondent commented on the unfairness of the perceived “53% taxation band”, and that devolving similar powers in relation to unearned/ investment income and tax allowances could provide more flexibility to further develop a more progressive Income Tax regime in Scotland.

3.2.6 Capital Gains Tax, Inheritance Tax and other taxes on capital

Seven respondents raised Capital Gains Tax, with four of these in the context of “wealth taxes”, often twinned alongside Inheritance Tax, as powers to devolve to the Scottish Parliament.

There were also strong links drawn between these so-called wealth taxes and issues around land and property ownership as well as wealth disparity between Scotland and the rest of the UK. Generally, these taxes seem to be viewed as levers either to

redistribute wealth or to account for income differences between Scotland and the rest of the UK.

Similar to Corporation Tax, among those who support devolution of Capital Gains Tax, there is disagreement about whether the Scottish Government should then exercise powers to increase or decrease rates.

3.2.7 Other points to note

Using taxation to support green and resilient recovery from COVID-19, while continuing to support Scotland's climate, equality or other ambitions (as set out in the National Performance Framework¹⁰) was a common theme. For example:

“In some ways, the crisis presents an opportunity to address the problems and inequalities within the current system. As far as possible, the economic recovery should focus on achieving sustainable regeneration of the economy while also addressing strategic priorities which aim to reduce inequalities and create a more resilient economy.” *Royal Society of Edinburgh*

“...this budget represents an opportunity to secure a green recovery for Scotland... [and] better define what we consider ‘public goods’ and how these are funded. It also provides opportunity to use tax proposals to protect the creative industries and tourism sector, as well as encourage market activity and consumer behaviour that contribute towards carbon net-zero and biodiversity targets.” *National Trust for Scotland*

¹⁰ National Performance Framework: <https://nationalperformance.gov.scot/>

3.3 Are there any new tax proposals you would like to see implemented by the Scottish Government?

The consultation sought views on new taxes which respondents would like to see implemented by the Scottish Government, with responses covering a range of topics (e.g. wealth taxation, land ownership, transport and environmental issues). A minority of respondents also felt that all tax policy should be a matter for UK Government and that further devolution of tax powers is unwarranted.

3.3.1 Wealth taxation

Both organisations and individuals commented on their desire for differing forms of wealth taxation. However, views on this were predominantly from individuals with four making suggestions in the area, compared with only half this number of contributions coming from organisations. Respondents suggested a variety of wealth taxes, including the introduction of ‘local’ wealth taxes such as those used in Nordic countries, however, in general, there was limited detail on the specific form and operation of such taxes. For example, the Institute of Chartered Accountants of Scotland noted that:

“In the longer term, some commentators have been suggesting that additional tax revenues need to be raised and that these could come from a tax on wealth. It is not clear what the definition of wealth might be and, depending on this, whether such a tax would be a reserved matter or have devolved implications.”

More specifically, one respondent to the consultation called for the creation of a ‘mansion tax’, which coincided with references to the perceived regressive nature of Council Tax. Related to these calls were suggestions that there should be a greater focus on, and a more robust approach to, tax avoidance within Scotland.

3.3.2 Land and Home Ownership

Respondents who commented on this topic tended to focus on the need for a tax on land value. Land taxation was noted by six respondents, with various ways in which to approach the topic suggested. The Scottish Land Commission’s focus was on a specific ‘vacant and derelict land’ tax. Related to suggestions of land taxation were calls for a supplementary charge, outwith the LBTT and Council Tax regimes, on the ownership of second properties that were not the owners’ primary residence.

3.3.3 Transport and Travel

Responses relating to new transport and travel taxes were closely connected to support for a green recovery and pro-environmental change, and included suggestions such as a ‘road passenger duty’ to encourage people to stay local or use public transport. Linked to this were suggestions that existing powers, such as Vehicle Excise Duty, should further incentivise the purchase of smaller, more fuel efficient vehicles. It was also suggested by a number of respondents that Air Passenger Duty, at present a tax reserved to the UK Government, should be increased.

Though not an example of a new tax proposal, three respondents suggested a 'tourist tax' in relation to travel. Respondents who commented on this topic related travel to the notion of tourism or recreation as opposed to travelling to work or modes of transport. Respondents provided a range of views on a Transient Visitor Levy or Tourist Tax¹¹, with some organisational respondents, such as Scottish Land & Estates, commenting that a tax would negatively affect Scotland as an attractive holiday destination.

3.3.4 Environmental taxes

Suggestions for new environmental taxes focused on behaviour change interventions, with several respondents noting these taxes should not be aimed at revenue raising but to encourage pro-environmental behavioural change.

Outwith the above main themes there were some more specific suggestions such as an online sales tax; a future Public Health Supplement to raise additional revenue to support the economic recovery; business rates based on number of employees, instead of size and location of premises, due to home working; and tax reliefs for specific industries (e.g. creative sector).

¹¹ The Scottish Government has consulted on the principles of a Local Discretionary Transient Visitor Levy or Tourist Tax: <https://www.gov.scot/publications/principles-local-discretionary-transient-visitor-levy-tourist-tax>

4. Fiscal Framework

4.1 What particular fiscal challenges have been highlighted as a result of the COVID-19 emergency?

Of the 64 respondents to the consultation, only a subset of 40 responded to this question. This may indicate a somewhat limited awareness of the fiscal challenges faced by Scotland, including those related to the Fiscal Framework. Indeed, several of the issues raised by respondents regarding fiscal challenges were based around tax issues rather than the Fiscal Framework. The Institute of Chartered Accountants of Scotland drew attention to this overarching concern, noting that:

“In order to build trust in government, and to meet stewardship duties and demonstrate accountability for decisions, there needs to be clarity and an understanding of governance structures in the wider population. This is difficult in relation to the Fiscal Framework, which few people understand.”

4.1.1 Public Debt and Tax Receipts

While these are two separate issues, rising public debt levels and decreasing tax receipts, they are very closely intertwined as noted by the respondents that responded to this question. When these topics were raised, the main focus was on Income Tax and rising unemployment levels negatively impacting Scottish Government revenues.

Due to increased spending on health and the economy as a result of COVID-19, rising expenditure and increasing unemployment was noted as an issue by several respondents. For example, an individual noted:

“The biggest fiscal challenge is unemployment leading to lower income tax returns and higher spending on welfare.”

In addition, the Royal Society of Edinburgh commented:

“A need for increased spending on the health sector, significant rise in unemployment ... and any action to redress the significant inequalities that have been highlighted over the course of the crisis, will add further fiscal strain.”

4.1.2 Fiscal independence

A number of respondents recommended greater fiscal autonomy for the Scottish Government from the UK Government. For these respondents the Fiscal Framework should be revised due to the rigidity of the current agreement or there should be full independence for Scotland. Within these responses the suitability of UK Government policy for the Scottish context was questioned, for example, an individual commented:

“The UK Furlough scheme was pointless for the business I work for. Work

was still there, but just less of it and being a small business, it wasn't possible to actually furlough any workers. Matching similar scheme in other countries, where partial furloughing was allowed, would have greatly helped my business through the lockdown. Having this devolved to Holyrood, may have allowed a more dynamic scheme to suit businesses like mine.”

There were contrasting views with some believing that more fiscal independence could lead to an increase in debt levels in Scotland, with one response from an individual noting:

“If Scotland had more powers it would have more risk and the impact of this is very difficult to calculate. We have a fiscal deficit and it's difficult to see how more powers would reduce that.”

In addition, some respondents were of the opinion that either the current level of fiscal devolution should remain or some powers should be handed back to the UK Government.

4.1.3 The Operation of the Fiscal Framework

A viewpoint was expressed that the Fiscal Framework is not operating as intended. For example, respondents noted situations where the economic shock has disproportionate effect on the Scottish economy, and where a case can be made for more mitigation and recovery support to increase resilience in Scotland and support a strong recovery. Other respondents noted that the status quo can lead to a delay in the Scottish Government receiving funds, which slows down the delivery of COVID-related support packages.

4.1.4 Borrowing powers

Respondents highlighted that the current borrowing restrictions imposed by the Fiscal Framework were an issue. These restrictions were viewed as having a detrimental impact on the Scottish Government's ability to deliver adequate COVID-support packages. This included both support packages similar to the Coronavirus Job Retention Scheme and schemes to encourage spending to stimulate the Scottish economy. For Deloitte, COVID-19 has highlighted:

“the limited powers and flexibility of the Scottish Government to borrow, or use mechanisms such as transferring capital budget to resource (to support additional public services spending), or deferring tax forecast reconciliations or spreading them over a longer period (to enhance spending power in the short term).”

Again, it should also be noted that some respondents believed there were no issues with the Fiscal Framework in its current guise. For example:

“The process of Devolution has allowed the Scottish Government to respond to the Covid-19 crisis within Scotland with additional resources, knowledge and finance from UK Government. This demonstrates that Devolution is working.” *Coltart Earley Architecture*

4.1.5 Other challenges

A number of other fiscal issues were highlighted by respondents, including:

- The perceived lack of communication from the UK Government to the devolved nations.
- A lack of transparency relating to COVID contracts issued by the UK Government.
- The fiscal impacts of the coronavirus support programmes and how funding announced by the UK Government has translated into funds for the Scottish Government via the block grant.
- Calls for greater transparency about Scottish Government spending, with some calling for a particular focus on increasing transparency relating to support schemes for businesses.

4.2 What changes, if any, should be made to the scope of devolved fiscal powers under the Fiscal Framework?

4.2.1 Borrowing powers

Borrowing powers was the key theme to emerge from responses to this question. There was strong support from respondents that increased borrowing limits are needed to allow the Scottish Government to support the economy, especially given the need to respond to the COVID-19 pandemic. For example, one response from an individual noted that:

“The limits on the types of funding that the Scottish Government is able to spend should be lifted e.g. capital spending. This would allow necessary flexibility for the Scottish Government when it comes to public spending which is more necessary than ever given the current recession”

A number of respondents also commented that the Fiscal Framework is too restrictive, with many noting that the limitations of the current borrowing powers are hindering the Scottish Government response to COVID-19, as well as the ability of the Scottish Government to support the economy long term, with one response from an individual stating:

“The current fiscal framework is too restrictive, it is detrimental to our economy, hampers state support for businesses, and negatively impacts programmes which combat inequality and poverty.”

Respondents proposed a range of permanent further borrowing powers, including:

- Removing capital borrowing limits and allowing Scottish Government access to extensive resource borrowing powers.
- Borrowing interest free from HM Treasury with a limit of 8% of GDP.
- Borrowing directly from the public in the form of national savings, as is the case in Japan.
- In times of emergency Scottish Government should have the same access to borrowing as UK Government.
- Capital monies should be able to be used for resource spending.
- Scottish Government should have greater access to the National Loans Fund (initially during COVID-19, but this should also be considered for the long term).

There was strong support for powers to respond to COVID-19 as well as support for greater fiscal autonomy on a more permanent basis, however, some respondents noted that if powers are to be increased long term there needs to be a discussion on borrowing policy, with clear rules and rationale outlined by the Scottish Government. A number of respondents questioned what the cost of any further borrowing would be. The Royal Society of Edinburgh noted in their response that there should be transparency around the use of any further powers:

“A much more constructive and informed conversation is required on the rationale for borrowing, what the money would be spent on, what limits there should be to this borrowing, and the period of time over which it would be repaid.”

A small number of respondents were opposed to the Scottish Government being granted any further powers, noting that the current arrangements were sufficient, or that the current arrangements were too generous.

A small number of responses suggested more fundamental changes, including:

- Scottish Government should also have autonomy over setting up and funding new public sector agencies.
- The block grant should be removed and Scottish Government should retain all taxes raised in Scotland.
- Ability to implement a Scotland-wide Universal Basic Income scheme to help safeguard people who lose their job, or to support areas where there are local lockdowns.

4.2.2 Fiscal Framework Review/Implementation

A small number of respondents raised the issue of the Fiscal Framework Review. These responses noted that the Review should consider issues including:

- How the Fiscal Framework operated during the COVID-19 pandemic and whether UK Government funding has fully translated into the equivalent funds for the Scottish Government.
- Whether the Fiscal Framework provides sufficient flexibility for the Scottish Government to deal with the volatility from the Fiscal Framework.

The Institute of Chartered Accountants of Scotland also noted in their response that if there is a desire to continue with VAT assignment, a full analysis of the potential consequences should be undertaken to inform decision making.

4.3 What fiscal rules should the Scottish Government follow?

When discussing the fiscal rules which the Scottish Government should follow, consultation responses focused on COVID-19 related factors, borrowing conditions and broader considerations.

4.3.1 Responding to COVID-19

There was support amongst respondents for the Scottish Government being granted greater fiscal powers to respond to COVID-19, as well as a smaller number of respondents calling for further or full fiscal powers more generally.

A number of respondents were in favour of borrowing but only where there is a clear case for investment, suggesting a focus on capital, rather than resource, borrowing. For example, one response from an individual suggested:

“Any projects for which debt is issued must have a clear investment rationale (this doesn't have to be financial) and be beneficial to the country and its future.”

Multiple respondents focused on how the borrowing will be repaid, noting that this should be clearly outlined. The Low Income Tax Reform Group suggested that an examination of how the Fiscal Framework operated during COVID-19 should be undertaken:

“There should be an examination of the fiscal impacts of the support programmes and how UK government funding in response to COVID-19 has translated into funds for the Scottish Government via the block grant and whether the Fiscal Framework has operated effectively and appropriately.”

4.3.2 Borrowing conditions

A range of respondents suggested that although further borrowing is needed, this should be subject to limitations. For example, one response from an individual stated:

“More flexibility on borrowing should be in place to allow for economic growth to support Scotland through this tough time. But in comparison, capping that spending is important to prevent the country from owing more than what we have to give back.”

Consultation respondents also suggested a number of specific conditions. These included a deficit reduction condition; self-imposed borrowing limits to prevent overspending, with spending capped at a set amount to prevent overspending; and running a balanced budget by taking a strategic approach to infrastructure.

4.3.3 Broader considerations

Multiple responses noted the need for any new fiscal rules to take into consideration the environmental impact of fiscal policy, with one response noting that the Scottish Government should follow the ‘four capitals’ approach set out by the Advisory Group on Economic Recovery¹². The National Trust for Scotland outlined this in their response:

“The Scottish Government should commit to the environment being at the heart of fiscal decision making. Environmental considerations, guided by the Scottish Government’s commitment to tackle the twin threats of climate change and the biodiversity crisis, should help underpin all fiscal decisions.”

One response from an organisation suggested that when considering any new fiscal rules the Smith Commission principles should be considered:

“While any specific fiscal rules would clearly be a political decision, an important guiding principle could be the Smith Commission recommendation that Scottish borrowing powers should be subject to fiscal rules agreed by the Scottish and UK Governments based on clear economic principles, supporting evidence and thorough assessment of the relevant economic situation.”

The Royal Society of Edinburgh suggested that the issue of future fiscal rules should be considered during the Fiscal Framework Review. Responses also included a small number of suggestions for more fundamental changes, including a move towards taxing wealth, as oppose to income, and the introduction of a new currency, central bank, and building credibility on bond markets.

¹² Advisory Group on Economic Recovery: <https://www.gov.scot/groups/advisory-group-on-economic-recovery/>

5. Annex A

5.1 List of organisational responses

Alcohol Focus Scotland
Bord na Gaidhlig
Chartered Institute of Taxation
Citizens Advice Scotland
Coltart Earley Architecture
Deloitte
Homes for Scotland
Industrial Biotechnology Innovation Centre
Institute of Chartered Accountants of Scotland
Low Incomes Tax Reform Group
MCC Accountants (Scotland)
National Trust for Scotland
Reform Scotland
Scotch Whisky Association
Scottish Environment Link
Scottish Grocers Federation
Scottish Human Rights Commission
Scottish Land and Estates
Scottish Land Commission
Scottish Property Federation
Scottish Retail Consortium
Scottish Wildlife Trust
The Union of Shop, Distributive, and Allied Workers
TIGA
UK Hospitality

To view the responses to the consultation in full, please [click here](#).

Please note: Three organisations declined to have their responses to the consultation published in accordance with the respondent information forms they completed.



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This publication is available at www.gov.scot

Any enquiries regarding this publication should be sent to us at

The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-80004-617-7 (web only)

Published by The Scottish Government, January 2021

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS823346 (01/21)

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