

Scottish Aggregates Tax Bill Advisory Group – Meeting 3
Wednesday 19 April 2023, 1400-1630 hrs
St Andrews House, Edinburgh

Note of Meeting

Attendees

- Eric Brown - Chartered Institute of Taxation
- Alex Doig - Scottish Government (Chair)
- Jocelyne Fleming - Chartered Institute of Building
- Alan MacKenzie - Mineral Products Association Scotland
- Mike Phillips - British Aggregates Association
- Chantal Robertson - Institute of Chartered Accountants of Scotland
- Ed Turner - Scottish Environment Protection Agency
- Derek Yule - Convention of Scottish Local Authorities

Apologies

- Grahame Barn - Civil Engineering Contractors Association Scotland
- Lauren Darby - British Ceramic Confederation
- Joseph Mankelow - British Geological Survey
- Paul Percy - British Glass
- Kat Quane - Transport Scotland
- Justine Riccomini - Institute of Chartered Accountants of Scotland
- Lucas Scally - Zero Waste Scotland
- Kathy Wormald - Scottish Environment Link

Secretariat and Official Support

- John Fotheringham – Scottish Government
- Robert Souter – Scottish Government
- James Lindsay – Revenue Scotland

Summary

The third meeting of the Scottish Aggregates Tax Bill Advisory Group discussed the potential tax treatment of imports and exports of aggregates to and from Scotland, and prospective approaches to the setting of Scottish Aggregates Tax (SAT) rates.

1 Welcome and Introduction

- 1.1 Alex Doig (Deputy Director, Tax and Revenues Directorate, Scottish Government – Chair) welcomed members to the meeting. This was to focus on potential approaches to taxing imports and exports and the process for and approach to setting of SAT rates.

2 Agreement of Note of Meeting 2

- 2.1 The Chair invited members' feedback on the draft Note of Meeting 2: there were no comments, so the Note was taken to be agreed. However, it was observed that the term 'unusable' in paragraph 5.6 may not be entirely accurate and that 'end of waste' might be more appropriate; it was agreed to discuss this offline.

3 Proposed Treatment of Imports and Exports in a Scottish Aggregates Tax

- 3.1 The Chair invited Robert Souter, Senior Policy Adviser, Scottish Government, to present the paper on approaches to imports and exports in a SAT. Following an outline of the aggregates sector in Scotland, and what we know about volumes of imports and exports, members discussed the limitations of the available data. It was noted that the figures represent the best baseline we currently have, but that they are likely to underestimate volumes by some margin. It was, however, agreed that Scotland is a net exporter. The Chair thanked members for relevant data that they had provided or may be able to share in future.
- 3.2 Options for the tax treatment of intra-UK movements, including details of the practical operation of each approach – Source Country Relief (SCR) and Destination Country Relief (DCR) – were presented. The Chair invited members' initial reflections on these: it was observed that SCR was in keeping with relevant Scotland Act 2016 (SA16) provisions and potentially administratively simpler, because DCR could result in companies having to wait for tax authorities in other countries to grant tax credits. This would necessitate close inter-authority working relations.
- 3.3 The potential revenue impacts of each approach were discussed, along with the implications for aggregates producers. Members also discussed the complexities involved in relation to the Fiscal Framework and the baseline year. There would be value in developing the data and evidence base to ensure discussions and decisions were as well-informed as possible.
- 3.4 The practical administration and compliance issues that could arise from each approach were considered, including how it could be proven that aggregate had been exported. It was concluded that this would likely rely on replicating existing arrangements, such as weighbridge and shipping tickets that show relevant data. The data that would need to be recorded was discussed, including the likelihood that Revenue Scotland will capture more information on taxpayers' returns than is currently the case; the Chair closed by advising that returns will be amongst the topics discussed at the next meeting. It was noted that 'VAT Notice 703' outlines current UK export reporting and recording arrangements.

- 3.5 The Chair invited members' further thoughts on the SCR and DCR approaches and asked if anyone saw issues with taking the former as the starting position. It was observed that the SCR fits with the measures put in place by the SA16, which could be brought into force by UK regulations as the SAT goes live. Consequently, there is little scope for issues to arise in that regard. It was noted that the DCR would require more work from the legislative stage forwards and could generate some operational complexity.
- 3.6 It was commented that imports may require further consideration as volumes may be larger than current data suggests. It was also suggested that ways in which the tax could help to influence markets, and using the concept of reciprocity as a lodestar, may merit further consideration. The resources available for Revenue Scotland to administer the SAT, and the need for accessible points of contact for those seeking guidance or raising compliance issues, were discussed.
- 3.7 The Chair invited further reflections on each approach given the policy objectives of the SAT. It was observed that the DCR could be said to be more in keeping with the primary objective of the tax, i.e., supporting circular economy aims, because the tax would be due in the country where there had been an environmental cost arising from extraction. That was also more consistent with the underlying purpose of devolving the powers. However, it was noted that the DCR approach could significantly increase the tax payable by producers who mainly export, as well as creating new compliance issues if imports were not subject to the tax.
- 3.8 The Chair invited members to signal which approach they supported. It was felt that the SCR approach would be clearer and simpler and more practicable (given current production trends). It would also reduce legislative and other preparatory work, though it would require a robust compliance to address any existing issues and avoid incurring disadvantage. The question of where a 'sale' truly takes place in legal terms was briefly discussed, given this is one of the points where 'commercial exploitation' is deemed to have occurred for the purposes of the UK levy.
- 3.9 Aspects of aggregates extraction and production were discussed, including that unlike many other sectors the 'just in time' model is not practicable. Operational practicalities mean it is necessary to produce and have a stockpile of material ready to sell, rather than extract and process on demand; the Chair noted the value of recognising such details and being able to explain them to Ministers. It was suggested that members may find seeing quarries helpful in developing their understanding of operational practicalities. Emerging trends and markets for aggregates and production by-products were discussed, including bioremediation, soil improvement and carbon sequestration (CO₂ capture).

- 3.10 The potential to adopt both approaches, one for exports to the rest of the UK and the other for those out of the UK, was discussed. The consensus was that a DCR approach for the former, and an SCR one for the latter, would probably be the best approach. But this would require further work, including discussion with the UK Government, to develop provisions, amendments to the SA16, and work in other areas, including consideration of the practical arrangements and impacts especially if the SAT rate differed from that of the UK levy.
- 3.11 Following a short break, the Chair invited Robert Souter to present the section of the paper on options for taxing international exports. The potential use of tax reliefs for these was discussed, as were the implications of increasing the amount of tax due to be paid by exporting producers. It was noted that an increase in operating costs could make some quarries uneconomical, with consequences for jobs and local economies. Industry representatives cited some nervousness amongst producers about the advent of a SAT and suggested that it may be helpful to canvass further views on the topic.

4 Prospective Approaches to Scottish Aggregates Tax Rate Setting

- 4.1 The Chair invited John Fotheringham, Aggregates Tax Bill Team Leader, Scottish Government, to present the section of the discussion paper on possible approaches to setting SAT rates. After explaining the role of Scotland's Framework for Tax in policy design and delivery, John outlined the approach to UK levy rate setting and historic rates. Members briefly discussed these topics.
- 4.2 It was highlighted that the rate of the SAT will be set via secondary legislation, with the rate anticipated to be announced in the annual Scottish Budget. John gave an overview of research, published by the Scottish Government in 2020, that modelled different SAT rate scenarios and projected revenues. Members reflected on these, noting that only one was forecast to increase revenue.
- 4.3 It was suggested that having a SAT rate different to that of the UK levy could be at odds with the Scottish Approach to Tax, and there would be a need to clearly communicate the rationale for any divergence. The potential impact of the rate in driving behavioural change, and how it might consider demand elasticity, were also discussed, as was the contribution quarries make to communities in terms of jobs and wider economic activities.

5 Any Other Business

- 5.1 The Chair invited members to raise any further issues. The limitations of data presently available on import and export volumes were discussed again, along with projected demand trends. Members agreed on the importance of developing the evidence base. Alan Mackenzie offered to seek import and export data directly from Mineral Products Association member producers, given responses to the Scottish Aggregates Mineral Survey are voluntary so figures in this will likely not be fully representative.

6 Closing Remarks and Date of Next Meeting

- 6.1 The Chair thanked members for their contributions and expressed his hope that they will be able to attend the group's next meeting, which will discuss the potential to develop a SAT sustainability fund and the prospective approach of Revenue Scotland to tax administration, management and compliance.
- 6.2 **Afternote:** the next meeting will be from 1000-1230 hrs on Friday 5 May, with the option to attend in person in St Andrews House, Edinburgh, or via MS Teams; invites were sent on 25 April).