

Tax Policy and the Budget

**Consultation on Scotland's first Framework
for Tax and tax policy in relation to the
Scottish Budget 2022-23**

August 2021

Overview

Building on last year's [Budget representation exercise](#), the Scottish Government has been exploring ways to enhance its approach to tax policy making at the beginning of this new session of the Scottish Parliament.

This consultation seeks views on our overarching approach to tax policy, through Scotland's first Framework for Tax, and how the Scottish Government should use its devolved and local tax powers as part of the Scottish Budget 2022-23.

Why we are consulting

The Scottish Government's approach to tax policy has been developed over time, and has grown in importance since the devolution of further tax powers to Scotland in 2016.

Changes to devolved taxes are underpinned by a set of principles, including Adam Smith's four principles of taxation (Certainty, Proportionality to the ability to pay, Convenience and Efficiency), which have been added to by a further two principles - a commitment to engagement and a firm approach to tackling tax avoidance.

The Scottish Government is now seeking to enhance the Scottish Approach to Taxation and communicate as clearly as possible the functions, principles and policy objectives that underpin how tax changes in Scotland are assessed and delivered.

In creating Scotland's first Framework for Tax, the Scottish Government is aiming to:

Be open and transparent about how we approach tax policy. Responding to the recommendations of the Citizens' Assembly, the Framework provides more information, in accessible language, on the purposes for collecting taxes; the principles that underpin our approach; our strategic objectives and our programme of work for this Parliament.

Exemplify best practice and embed continuous improvement by ensuring tax decisions are coherent, rooted in a defined set of principles and objectives and rigorously appraised; and by embedding a policy cycle, including evaluation, and putting proactive engagement at the heart of tax policy making.

Improve sequencing so that policy and Budget cycles align as far as possible, to ensure we take an organised and structured approach to tax policy.

Take a forward thinking approach especially in the wake of COVID-19, identifying medium to longer-term opportunities and threats to inform future work, new ideas and to be prepared should further tax powers be devolved to the Scottish Parliament. In addition to the development of an overarching tax strategy, the Scottish Government considers this to be a crucial time to seek wide-ranging views on how we can best deploy our devolved tax powers to support the ongoing economic recovery from COVID-19.

We remain committed to being an open and consultative government in relation to the immediate priorities of stakeholders. We are seeking views on how we use our devolved and local tax powers as part of the Scottish Budget 2022-23 in order to build stronger fiscal foundations for Scotland's future.

We welcome responses from organisations and individuals in line with the 'Call for Evidence' questions below (page 26).

Responding to this Consultation

We are inviting responses to this consultation by 26 October 2021.

Please respond to this consultation using the Scottish Government's consultation hub, [Citizen Space](#). You can access and respond to this consultation online [by clicking here](#). You can save and return to your responses while the consultation is still open.

Please ensure that consultation responses are submitted before the closing date of 26 October 2021.

If you are unable to respond using our consultation hub, please complete the Respondent Information Form at the end of the document and send it to:

A Framework for Tax Consultation
3-B North
Victoria Quay
Edinburgh
EH6 6QQ

What happens next

Following the closing date, all responses will be analysed and considered along with any other available evidence. The Scottish Government will publish responses where respondents have given permission for their response to be made public, and an analysis report will also be made available.

Responses to the consultation will inform policy development in relation to the Scottish Budget 2022-23 and longer term, with final tax policy decisions being set out within the Budget documentation. A final version of the Framework for Tax will also be announced alongside the Scottish Budget 2022-23.

Ministerial Foreword



Our tax system plays an integral role in the funding of the public services we all rely on in Scotland. COVID-19 has affected every person and business in Scotland and we are focused on doing everything we can to support our recovery from the pandemic and to create the conditions from which our economy can flourish.

As our powers over tax policy evolved over recent years and we embark on the new parliamentary term, the time is right to set out more about our Scottish Approach to Taxation. I am therefore delighted to announce the publication of our draft Framework for Tax for consultation. It will shape and support our response to the challenges we face now and in the future. It also demonstrates our commitment to open government and transparency in communicating our approach to tax policy.

The Framework communicates the principles that underpin our approach and the objectives we are aiming to achieve with our tax powers for the people of Scotland. It will help us assess, plan and deliver tax policies, manage our existing responsibilities and ensure we are prepared should further tax powers be devolved to the Scottish Parliament. It is the foundation from which we can design and deliver tax policies that support national outcomes and a fairer, greener and more prosperous economy for everyone.

The Framework will sit in a broader fiscal and economic landscape as we look to ensure Scotland's economy recovers from the unprecedented effects of COVID-19, most notably as we set out an ambitious 10 year National Strategy to drive Scotland's economic transformation, unleashing its entrepreneurial potential and growing Scotland's competitive business base, prioritising investment in the industries of the future and delivering new, good and green jobs.

Alongside the Framework itself, we also want to ensure that we hear the widest possible range of views on how we use our tax powers at the Scottish Budget 2022-23. I want to hear views from across the country on the actions we can take, through our tax system, to build an economy that provides a sustainable, inclusive recovery. Everyone has a stake in tax and fiscal policy; they are your taxes and they pay for your public services.

I would like to thank you in advance for taking the time to respond to this consultation.

Kate Forbes MSP
Cabinet Secretary for Finance and the Economy

A FRAMEWORK FOR TAX

2021

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1 – INTRODUCTION

A Vision for Good Tax Policy Making

Taxes form part of the fabric of society. They are a key component of the social contract. How we develop and deliver tax policy is of great and increasing importance to the Scottish Government. We have already taken significant steps to modernise the taxes that have been devolved to the Scottish Parliament, in line with our Scottish Approach to Taxation, and the Framework for Tax further enhances our approach. It embodies our ongoing commitment to, and vision for tax in Scotland; an approach that is underpinned by policy and delivery excellence, good practice, open government and transparency; and where tax policy is positioned to meet the challenges of today and tomorrow.

This is of fundamental importance to the people of Scotland, noting the vision for tax put forward by the Citizens' Assembly for Scotland:

Scotland should be a country where all taxes are simplified and made more proportionate so that everyone is taxed accordingly; taxation is transparent and understandable; measures are introduced to minimise tax avoidance: and companies are incentivised to adopt green values.

What the Framework does

The Framework broadly sets out the what, how, when and why in relation to our overall approach to tax policy making. One of the core aims is transparency. It is therefore designed to be accessible for the public and stakeholders alike. As far as possible, technical jargon is minimised or explained.

- Chapter 1 provides background, setting out the tax powers devolved to the Scottish Parliament and the fiscal landscape within which they sit.
- Chapter 2 sets out the principles that underpin the Scottish Approach to Taxation.
- Chapter 3 sets out our overarching strategic objectives and our approach to appraisal and decision-making.
- Chapter 4 looks at the policy and Budget cycles and how we plan and deliver tax policy around these.
- Chapter 5 sets out our programme of work for this Parliament 2021-2026, which will be updated around the mid-point in 2023.

Expected Benefits

In creating a Framework for Tax, the Scottish Government is aiming to:

Be open and transparent about how we approach tax policy. Responding to the recommendations of the Citizens' Assembly, the Framework provides more information, in accessible language, on the purposes for collecting taxes; the principles that underpin our approach; our strategic objectives and our programme of work for this Parliament.

Exemplify best practice and embed continuous improvement by ensuring tax decisions are coherent, rooted in a defined set of principles and objectives and rigorously appraised; and by embedding a policy cycle, including evaluation, and putting proactive engagement at the heart of tax policy making.

Improve sequencing so that policy and Budget cycles align as far as possible, to ensure we take an organised and structured approach to tax policy.

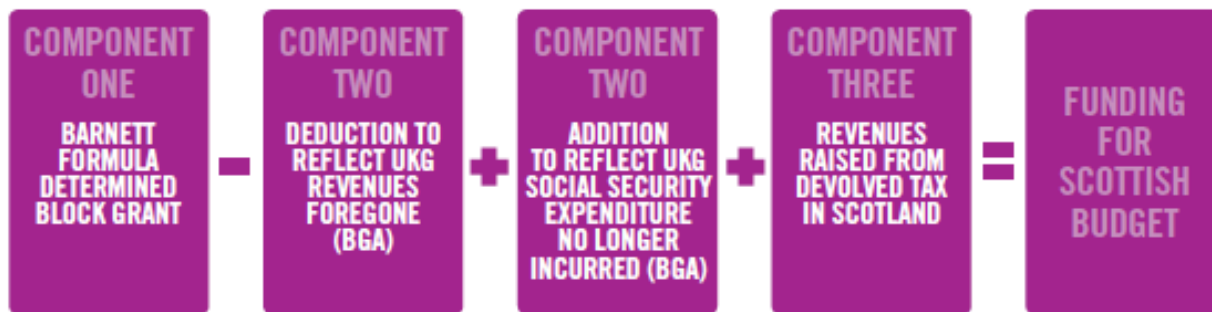
Take a forward thinking approach especially in the wake of COVID-19, identifying medium to longer-term opportunities and threats to inform future work, new ideas and to be prepared should further tax powers be devolved to the Scottish Parliament.

Background

Funding the Scottish Budget

The Scottish Budget is principally comprised of the Block Grant, local tax revenues, net devolved tax revenues and additional funding for devolved social security powers. The overall funding position depends in large part on the operation of the Fiscal Framework.

FIGURE 1: FUNDING FOR THE SCOTTISH BUDGET



- *Component One* – Barnett formula determined Block Grant – Barnett continues to determine the initial size of the Block Grant and block grant funding remains the largest component of the Scottish Budget.
- *Component Two* – Block Grant Adjustments (BGAs) – the Block Grant is adjusted to reflect the devolution of tax and social security powers. The size of the adjustment is based upon the performance of the corresponding UK tax revenues and social security expenditure.
- *Component Three* – Devolved tax revenues – the revenues from devolved local and national taxes, which contribute to Scotland’s funding.

Scotland’s Devolved Taxes

The Scottish Parliament has limited powers when it comes to taxation. Under the current devolution settlement the vast majority of tax powers remain reserved to the UK Government and Parliament. This, together with the operation of the Fiscal Framework, constrains what the Scottish Government can do in relation to tax policy.

The Scottish Parliament currently has devolved responsibilities in relation to five taxes:

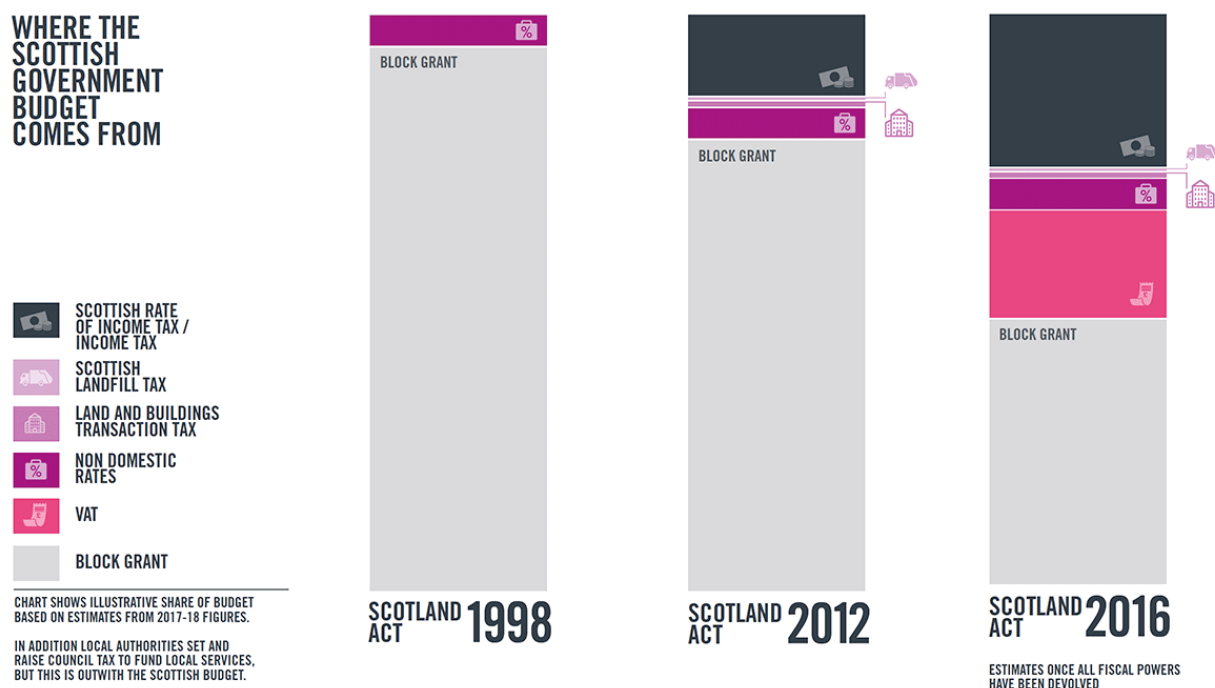
- **Scottish Income Tax** is partially devolved – the Scottish Parliament is able to set the rates and bands for Scottish taxpayers on non-savings and non-dividend income, e.g. earnings from employment, self-employment, pensions or property. The personal allowance, reliefs and the rates and bands for savings and dividend income all remain reserved to the UK Parliament. Scottish Income Tax is administered and collected by HMRC on behalf of the Scottish Government.

- **Land and Buildings Transaction Tax**, a tax paid in relation to land and property transactions in Scotland, and **Scottish Landfill Tax**, a tax on the disposal of waste to landfill, are fully devolved national taxes and are managed and collected by Revenue Scotland.
- The Scottish Parliament also has powers over local taxes for local expenditure. Currently, the two main local taxes are **Council Tax** and **Non-Domestic Rates** (also known as business rates), which are collected by local authorities. Council Tax is set and collected by local authorities and does not form part of the funding of the Scottish Budget. The Scottish Government guarantees the resources available to local authorities through the combined total of Non-Domestic Rates income (NDRI) and General Revenue Grant (GRG) as an integral part of the Scottish Budget process. Local authorities retain all NDRI raised in their area and GRG allocations are adjusted to ensure each council receives their formula share of the settlement.

In addition:

- The power, provided in Scotland Act 2016, to introduce two further taxes has been devolved to Scotland, but these have not yet been implemented and the relevant reserved taxes therefore continue to apply. These taxes are **Air Departure Tax**, a tax on all eligible passengers flying from Scottish airports, which will replace Air Passenger Duty when introduced, and a devolved tax on **the commercial exploitation of crushed rock, gravel, or sand**.
- A portion of VAT revenues generated in Scotland is due to be assigned to the Scottish Budget, referred to as **VAT Assignment**. This is not a devolved tax power, as VAT policy remains reserved to the UK Government, and its implementation is dependent upon agreement between UK and Scottish Ministers regarding the methodology for assigning VAT receipts. The Scottish and UK governments have agreed to postpone VAT Assignment and revisit the issue during the review of the Fiscal Framework following the 2021 Scottish Parliament elections.
- The Scottish Parliament has the power to create **new local taxes** (i.e. to fund local authority expenditure). There is also a mechanism allowing the UK Parliament, with the consent of the Scottish Parliament, to devolve powers for **new national devolved taxes** to be created in Scotland. This is unlikely to be a swift process and depends on the complexity of the new national tax and negotiation over devolution of the requisite powers.

FIGURE 2: WHERE THE SCOTTISH GOVERNMENT BUDGET COMES FROM



The Fiscal Framework

The funding arrangements agreed mean that Scotland’s budget position improves if tax receipts per head grow more quickly in Scotland than in rUK (and vice versa).

However, there are a number of factors which can affect Scotland’s **relative tax performance**, including:

- Growth in earnings, pensions, property income and house prices;
- Growth in the number of taxpayers or taxable transactions;
- Differences in the composition of the tax base;
- Policy changes and resulting changes to taxpayers’ behaviours.

The **operational constraints** of the Fiscal Framework also present additional challenges in the context of tax:

- The Block Grant Adjustment is based on forecasts, and the differences between forecasts and actual receipts do not come to light immediately. Differences in forecast and actual income tax revenues require adjustments three years later. For the fully devolved taxes, an in-year adjustment is made and a final adjustment is made two years later based on the outturn data.
- Borrowing powers are included in the Fiscal Framework to help manage the uncertainty of forecast errors and to fund the required reconciliations in future budgets; however, they remain limited in comparison to the scale of revenues and reasonable forecast error.

Better intergovernmental relations

With the vast majority of tax and macro-economic policy powers remaining reserved to the UK Government, UK policy decisions have a significant impact on devolved tax powers and performance. For example, the [Medium Term Financial Strategy](#), published in January 2021, included calls for further tax powers to be devolved to Scotland to strengthen the Scottish Parliament's economic levers in response to the pandemic.

More generally, the pivotal interaction between UK and Scottish Government policy is not yet adequately reflected in our governance arrangements. This is symptomatic of wider challenges in relation to intergovernmental relations between the UK Government and the devolved nations. It is therefore crucial that we increase our efforts to agree appropriate governance arrangements and improve trust, information sharing and collaboration at all levels.

The introduction of a formalised Devolved Administrations impact assessment for tax decision-making at a UK level would be a sensible starting point, together with appropriate governance structures that provide systems for policy development, consultation and advance notice and collaboration, allowing new or significant tax changes to be managed appropriately. The Finance Ministers' Quadrilateral should be strengthened and regularised, meeting more frequently and ensuring that devolved and UK Governments can participate as equal partners in relation to tax policy decisions. This is and will remain a key strategic priority for the Scottish Government.

2 – PRINCIPLES OF GOOD TAX POLICY MAKING

Every tax performs one or more of the following functions:

- raising money to fund public services;
- providing economic stimulus;
- promoting a more equal society through redistribution;
- encouraging people to change their behaviour.

Any tax system must generate sufficient revenues to support government spending, ensuring revenues grow in line with demographic and economic conditions and reflect broader changes in technology and society. There are also times when tax policy can be used as a lever for economic stimulus, as was the case in response to COVID-19. Taxes also play a role in the redistribution of income and wealth, especially through progressive taxation. Finally, tax can be used as a lever to increase the cost of harmful behaviours, or reduce the costs of desired behaviours, in order to incentivise change.

The Scottish Government's approach to tax policy has developed over time, particularly following the devolution of further tax powers in 2016. Our approach is underpinned by a set of principles, including the four principles of taxation proposed by renowned Scottish economist Adam Smith (namely: Certainty, Proportionality to the ability to pay, Convenience and Efficiency). We added Engagement and Anti-avoidance to embed a set of six guiding principles that will underpin tax policy in Scotland. We have set out below how each of those principles is interpreted and applied by the Scottish Government today.

This is not an exhaustive list. It reflects prominent attributes of good tax policy design; a set of values that can be identified in international good practice and tax policy literature, as well as the fabric of our approach to date. Nor is it a list of absolutes. There may be tension or conflict between certain principles in specific cases. Hence, these serve as a basis against which to assess tax policy and to promote system-wide coherence.

FIGURE 3: SCOTLAND'S APPROACH TO TAXATION (THE PRINCIPLES)



Proportionality: Taxes should be levied in proportion to taxpayers' ability to pay. The Scottish Government also believes that a fair tax system should be progressive, i.e. that the proportion of tax paid should reflect the relative income or wealth of the taxpayer. Equally, comparable circumstances should attract comparable tax treatment, in the absence of strong justification to the contrary.

Efficiency: The tax system should maximise economic efficiency, balancing revenue generation, behavioural responses and the effects of deadweight loss. In relation to tax deadweight loss refers to the impact of a tax on the market/s to which it relates, for example the increased price of consumer goods when VAT is added.

Certainty: Taxpayers must know if they are liable to pay tax, the amount to be paid and when it is to be paid. Changes to the tax system should be justified and, where possible, follow a predictable fiscal cycle or published roadmap.

Convenience: Taxes should be collected at a time and in a manner that maximises convenience for taxpayers. Tax policy should be as simple, clear and straightforward as possible and opportunities to streamline the tax system should be taken.

Engagement: The public and businesses should understand the tax system and governments must be open and transparent about tax policies and their decision-making, consulting widely. This is crucial for accountability and trust.

Anti-avoidance: Taxes form part of the fabric of society and we should all be proud of the contribution they make. The tax system should therefore prevent avoidance practices and governments and tax authorities should work proactively, and respond quickly to tackle them.

3 – STRATEGIC OBJECTIVES AND DECISION-MAKING

This chapter sets out the Scottish Government’s strategic objectives for tax policy and the factors we seek to weigh and balance when making decisions.

Context

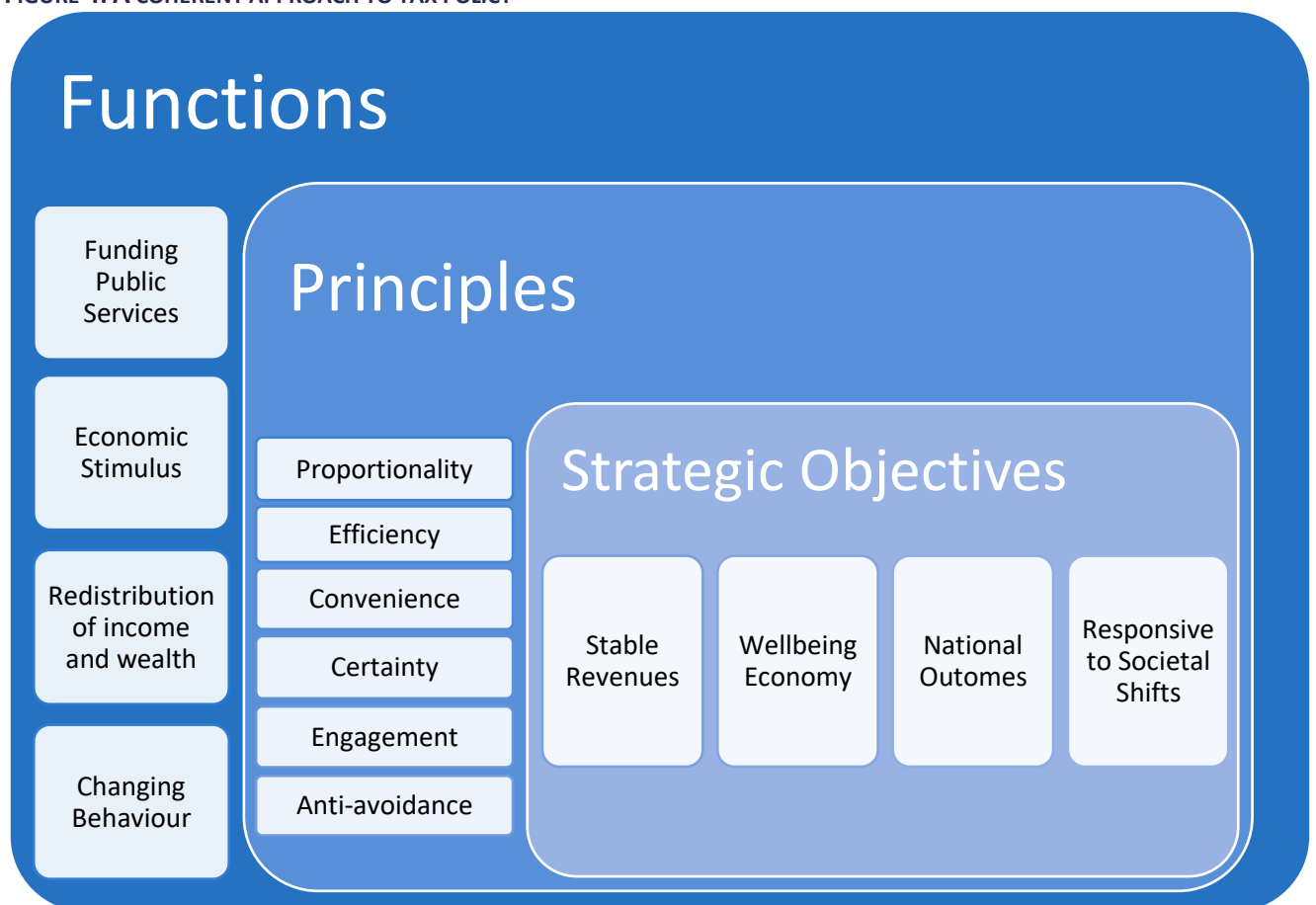
We will seek to align tax policies with the Scottish Government’s operating environment and have regard to key strategies which include:

- Scotland’s strategy for the economy
- The operation of the Fiscal Framework
- The Medium Term Financial Strategy
- Scotland’s spending, capital and infrastructure plans
- Scotland’s National Performance Framework
- The Climate Change Plan
- The Programme for Government

Visualisation of this Framework

Taken together, the functions of tax policy, our principles and our strategic objectives form a solid foundation for a coherent approach to tax policy in Scotland.

FIGURE 4: A COHERENT APPROACH TO TAX POLICY



Strategic Objectives

In light of COVID-19 the Scottish Budget faces unprecedented circumstances. Our ambition is to support Scotland's recovery and renewal towards a greener, fairer and more inclusive society. In the longer term, tax policy will also play a crucial role in ensuring fiscal sustainability, tackling climate change and reducing inequality.

To that end the Scottish Government is pursuing four strategic objectives for tax:

- *Generating stable revenues* to fund public services and support social renewal, ensuring Scotland's public finances are fiscally sustainable.
- *Supporting a wellbeing economy* by helping to deliver a sustainable and inclusive economic recovery and support new, good jobs, businesses and industries for the future.
- *Delivering national outcomes* by reducing inequality and funding the public services that promote and protect the wellbeing and rights of our citizens.
- *Delivering a tax system with the ability to respond to societal and economic shifts* by ensuring that tax policies and processes are robust and flexible.

Appraisal and Decision Making

Policy appraisal ensures existing tax policies and new proposals are balanced and deliver against objectives. Our goal is to ensure decisions are based on the best evidence available and taken in the round. We are being transparent about how we do that.

The table below comprises the key factors that guide our decisions on tax policy. It is not intended to operate as a mandatory checklist for every change to tax policy and, similar to our guiding principles, it is not a list of absolutes. It supports methodical and consistent approach to appraisal, identifying any tensions and conflicts to assess the relative merits of potential tax policy changes.

TABLE 1: MATRIX FOR TAX DECISION MAKING

<p>Fiscal Impacts</p> <p>Proposals must be accompanied by a policy costing, including an estimate of the impact on the Budget position and, where appropriate, an analysis of the distributional impacts. This should include the potential for long-term economic impacts, future budgets and the tax base.</p>
<p>Principles and Objectives</p> <p>Policy options should be considered against the Principles of Good Tax Policy Making, with a clear rationale for any deviation, our strategic objectives and the core objectives of the proposed change, identifying any conflicts or trade-offs.</p>
<p>Policy Alignment</p> <p>Proposals should be considered in the round alongside other devolved tax policies, our economic strategy, spending plans, wider devolved policies and UK tax and fiscal policies, identifying any conflicts or trade-offs.</p>
<p>Affordability and Value for Money</p> <p>Policy costings should be assessed for affordability and value for money, particularly if tax reliefs or exemptions are being considered.</p>
<p>Impact Assessment</p> <p>The policy development process should surface and consider potential impacts, including unintended consequences, and include applicable impact assessments – for example in relation to equalities, business and regulation, the environment, human rights and the Fairer Scotland Duty.</p>
<p>Deliverability and Administration</p> <p>Issues pertaining to delivery, administration and collection should be identified and considered at the earliest opportunity, in consultation with the relevant tax authorities, alongside any legal, operational or political concerns and impact on the Fiscal Framework or in relation to devolution. Timing of a proposed intervention should be considered in relation to fiscal and economic cycles.</p>

4 – SEQUENCING: THE POLICY CYCLE AND ENGAGEMENT

This chapter explores the timing and structure for tax policy development in the context of the policy and budget cycles respectively, identifying sequencing throughout the financial year.

Context

During every fiscal and budget cycle Scottish Ministers and the Scottish Parliament consider tax policy. This necessitates engagement, policy development, appraisal, decision making and delivery, although not always to the same extent depending on the particular tax, timing and nature of any proposed changes.

The operation of the Fiscal Framework, the timing of the UK Budget and UK tax and macro-economic policies can all present challenges for the Scottish Government, particularly when we are required to legislate at short notice to protect revenues or prevent market distortions. For significant policy changes, we would normally follow policy development comprising the key stages of the policy cycle set out below.

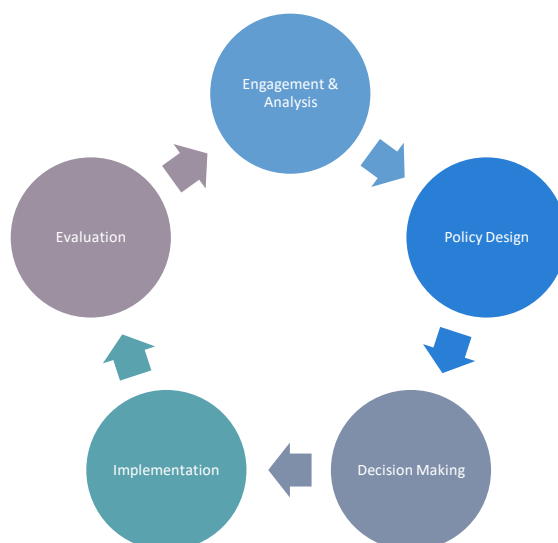
The work of the Devolved Taxes Legislative Working Group seeks to develop a more structured approach to the planning, management and implementation of legislative changes to the arrangements for the fully devolved taxes. We intend to reconvene the working group this year, to ensure that it can continue to inform our approach. This will build on the group's interim report, published last year, and separately the Scottish Government's [consultation](#) on the policy framework for the devolved taxes in 2019.

The tax policy cycle

The development of tax policy comprises five stages:

1. *Engagement & Analysis*: initial analysis of calls for policy changes, including their proposed objectives, rationale and evidence base. Ongoing evaluation, feedback from stakeholders and pre-budget consultation. In line with our commitment to an open and honest approach to taxation.
2. *Policy design*: data analysed, proposals developed, appraisal in line with strategic objectives, decision making matrix and any specific commitments. For significant changes this part of the cycle will usually be more extensive.
3. *Decision making*: identification of lead option/s, provision of advice and timely decisions taken.
4. *Implementation*: delivering the necessary legislative changes and working with Revenue Scotland, local government or HMRC to ensure changes are implemented and clearly understood, with efficient administration and collection.
5. *Evaluation*: monitoring and assessing existing policy and recent changes against intended aims and performance expectations.

FIGURE 5: THE TAX POLICY CYCLE



Revenue Scotland and HMRC

Revenue Scotland is responsible for the administration and collection of the fully devolved taxes in Scotland and HMRC for the devolved aspect of Scottish income tax. Tax authorities play a critical role in delivery, principally in relation to collection and administration, as well as providing a rich source of knowledge and expertise to inform policy development. They also play a crucial role as data holders of all taxpayer related information. As experts in the feasibility and efficiency of tax collection and the potential impacts on taxpayers, they are a vital component of a people-centred approach to tax policy making. Working closely at the earliest possible stage (Stage 1: Engagement & Analysis) is essential for good tax policy making, as set out in the joint Scottish Government and Revenue Scotland statement on [working together on tax](#).

The Scottish Budget Cycle

There are key times throughout the budget cycle where Ministers are required to consider tax changes, subject to the timing of the annual UK Budget (e.g. Autumn or Spring). Timing will align with the policy cycle, as much as possible.

Autumn UK Budget: UK tax changes announced as part of an Autumn UK Budget gives the Scottish Government notice of UK tax, macro-economic and spending decisions in advance of the Scottish Budget. Timing can present challenges for the Scottish Government if significant changes are announced with little time before the Scottish Budget is published. This can impact the decisions Scottish Ministers will take and may require rapid policy development.

Scottish Budget: Decisions are typically made around rates and bands (Type A, see Table 2, below) and how these can support spending and outcomes. However the budget is also a good opportunity to announce consultations on other changes such as changes to existing reliefs or new taxes (Types B to D).

Budget Negotiations: Due to the design and composition of the Scottish Parliament’s electoral system, it is rare that a Government will command a majority in the chamber. As such, it is often necessary for the Government to negotiate to garner Parliamentary support for the Budget Bill, which may include tax changes (this could include all decision types).

Spring UK Budget: a Spring UK Budget means that Scottish Ministers’ decisions on devolved tax policy are made without prior knowledge of UK tax, macro-economic and spending decisions. This creates a risk for devolved tax policy and impacts policy development. It may also mean that subsequent changes to devolved tax policy are required as a result of UK policies.

Types of tax policy change

The following table outlines the main categories of tax policy change:

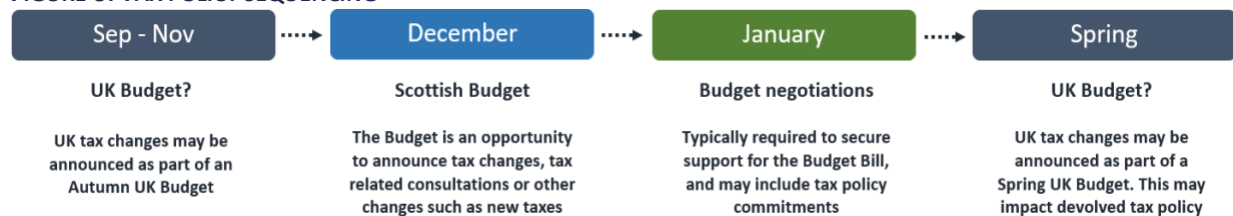
TABLE 2: DECISIONS FOR TAX POLICY CHANGES

Policy change	Approach	Typical purpose
A. Changes to tax rates and bands or reliefs: usually via secondary legislation	Typically announced in the Scottish Budget	<ul style="list-style-type: none"> • Changes reflecting inflation • Raise revenue or provide stimulus. • Incentivise/discourage particular economic or other behaviours e.g. forestalling. • Address impacts arising from UK Government announcements on tax.
B. Care and Maintenance: usually via secondary legislation, but some changes may require primary legislation	May require an urgent change or be addressed as part of a Budget or consolidation package	<ul style="list-style-type: none"> • Clarify devolved tax policy and legislation. • Address unforeseen consequences. • Protect revenue and/or strengthen delivery. • Tackle avoidance. • Ensure, where appropriate, a consistent approach across the UK.
C. Significant policy changes, including structural changes to a tax: likely to require primary legislation	Policy development, underpinned by the Framework for Tax and Programme of work	<ul style="list-style-type: none"> • Policy outcomes in relation to revenue, distribution and/or behaviours. • Address impacts, including those arising from UK Government announcements on tax. • Prevent any market distortion in Scotland or ensure a common UK approach, where appropriate.
D. Introducing a new tax: likely to require UK secondary and Scottish primary and secondary legislation	Policy development, underpinned by the Framework for Tax and Programme of work	<ul style="list-style-type: none"> • Create new sources of revenue. • Promote behavioural change. • Address particular challenges, e.g. shifting or eroding tax base, or to support emerging SG objectives. • Implement devolution, for example a new devolved tax.

Sequencing

We will normally approach our annual planning cycle as follows, although timing and policy development can be affected by the timing of the UK Budget and fiscal events, as set out above.

FIGURE 6: TAX POLICY SEQUENCING



Changes to devolved taxation will follow different cycles depending on the nature of the change. Type A and B decisions for change, i.e. changes to existing rates and bands or operational maintenance of existing devolved taxes are likely to take place either on an ad hoc basis, or most likely as part of the annual Scottish Budget.

Type C and D changes, i.e. major structural reforms to existing devolved taxes, or the introduction of new local or national devolved taxes are likely to be announced at the Scottish Budget and may span several budget cycles, given the requirement for evidence gathering, consultation, design and primary legislation that underpins good tax policy making. This is in addition to negotiation and securing agreement of the UK and Scottish Parliament to devolve the powers for a new national tax in Scotland, which introduces further uncertainty over precise timelines for new national taxes.

5 – PROGRAMME OF WORK

As part of the cycle for tax policy, our programme of work will be determined by our strategic priorities, the incumbent administration's manifesto commitments and the economic conditions of the day. Undoubtedly COVID-19 and our recovery is and will continue to be front and centre during this Parliament (2021-26).

This section sets out our high-level programme of work over the course of this Parliament. We will keep this regularly under review and are committed to refreshing its content at the mid-point during the Parliament (2023) and to ensure we deliver on all aspects by the end of the Parliament (2026), recognising the need for flexibility to respond to unforeseen developments.

Scotland's devolved and local tax policy will play a vital role in supporting our recovery from COVID-19, providing the certainty and stability that individuals and businesses need, generating sustainable revenues to fund our public services and thus helping to build a greener, fairer and stronger economy and reinforce our efforts to reduce inequality and child poverty.

Engagement

Through the Scottish Approach to Taxation we are striving for a best practice approach to engagement, ensuring that we deploy our tax powers through a transparent policy making process. This reflects our commitment to open government and collaborative working, as well as our desire to maximise understanding of tax policy and garner a diverse range of views.

To achieve this we will:

- Communicate clear messages on tax;
- Connect with a broad group of stakeholders;
- Create platforms for ongoing and proactive tax policy engagement.

We will establish a clear engagement cycle that aligns with the policy and Budget cycles set out above. We will create spaces for different ideas to emerge, to build trust and foster collective capacity to deliver tax policy. Central to this approach will be promoting a positive case for the role of tax in supporting public services in Scotland.

In pursuing this we will:

Consult, Convene and Listen: collaborating with stakeholders on policy development, new ideas and through consultation. Creating platforms to hear and understand citizens and stakeholders perspectives on tax, through set-piece events, calls for evidence and recurring engagements.

Engage and Inform: maximising engagement and communication with stakeholders and the public, through events and public messaging, seeking to increase understanding of, and participation in our approach to tax policy.

COVID-19 Recovery

As we recover from COVID-19 and in line with Scotland's forthcoming 10 year economic strategy, we will seek to protect and grow the tax base in pursuit of stable revenue growth, reflecting our commitment to fiscal sustainability and to ensure the funding of our vital public services.

We will pursue a greater understanding of the drivers of devolved tax performance, as well as threats and opportunities for the tax base, and use this to inform and implement improvements, aligned with the economic cycle.

While it is important for any government to have flexibility to respond to a change in circumstances, our aim is to maintain current Income Tax rates for the duration of the parliament and increase thresholds by a maximum of inflation.

We will also look to maintain current rates and bands for residential Land and Buildings Transaction Tax for the duration of the Parliament and continue the first time buyer relief.

This approach to devolved tax policy provides a stable platform for recovery from the pandemic, with flexibility to respond if we need to, as we build a greener and more prosperous future in Scotland.

Ensuring local taxation meets our future challenges and needs

A local tax system plays a vital role in supporting our local communities to thrive and our local businesses, economic recovery and social renewal in the wake of COVID-19, building on the targeted support we have provided.

We will ask a Citizens' Assembly to consider the way forward for Council Tax reform and remain committed to working with parties across the Scottish Parliament to find an appropriate solution.

In this Parliament, we will increase the age at which people become liable for Council Tax from 18 to 22 years of age, supporting our young adults.

We will ensure Scotland's non-domestic rates, which are the most generous in the UK, support (i) businesses to recover from the pandemic, (ii) local employment and prosperity and (iii) the transition to a net zero economy, helping to tackle the climate crisis. This includes:

- ensuring continued competitiveness including by gradually reducing the combined poundage rate for the largest properties to match the equivalent rate in England over the course of the Parliament;
- maintaining the Small Business Bonus Scheme for 100,000 properties for the duration of the Parliament;
- exploring levying a higher poundage on properties registered in tax havens;
- exploring tackling other known tax avoidance tactics;
- supporting district and hydropower generators with relief until 2032; and
- maintaining the Business Growth Accelerator and Fresh Start reliefs.

Enhancing and deploying our devolved tax powers

Whilst it remains the position of the Scottish Government that devolution of the full set of fiscal powers is the best way of delivering future economic prosperity for Scotland, we will continue to deliver the powers set out in the Scotland Act 2016.

This includes taking steps to progress the introduction of a devolved tax on the commercial exploitation of aggregates and the Air Departure Tax.

We will consider the role of Scottish Landfill tax and other fiscal incentives, such as a waste tax, in the context of the planned waste route map and the Climate Change Plan.

We will also explore the taxation of digital sales in Scotland, ensuring our high street retailers and town centres can recover from the effects of the pandemic and that online retailers contribute to tax revenues alongside our bricks and mortar businesses.

As part of the upcoming Fiscal Framework Review, we will call upon the UK Government to ensure the scope of the review includes the further devolution of tax and fiscal powers to Scotland; primarily full devolution of Income Tax, National Insurance Contributions and VAT. This will provide the Scottish Government with further levers to tailor taxation policy to Scotland's economic circumstances and the Scottish Government's policy objectives.

Specifically concerning VAT, it is apparent from the extensive work to establish a methodology for the assignment of VAT revenue to Scotland that intrinsic difficulties remain. We therefore propose the review should explore whether the devolution of full VAT powers would present a better alternative.

Delivering outcomes in line with Scotland's National Performance Framework

The challenges facing Scotland over the course of this Parliament are significant, and generating sustainable devolved tax revenues, along with spending and capital expenditure, act as vital fiscal levers to tackle the challenges we face.

For instance, we will consider how the tax powers that we have could help change behaviour supporting the transition to a net zero economy. Whilst the majority of green tax powers are reserved, we will pursue changes at every level to deliver on Scotland's climate and environmental ambitions, beginning with COP26.

We will undertake a full review of LBTT's Additional Dwelling Supplement, including consideration of its impact on homes in remote and rural communities. And as we set out in the Housing to 2040 route-map, we will continue to review the role of taxation in supporting our Housing to 2040 vision for both new and existing homes and our communities.

We must also ensure that our tax powers can sustainably generate revenues that contribute to our priorities, including the delivery of a National Care Service in Scotland, reductions in inequality and child poverty and the decarbonisation of industry, transport and energy generation in Scotland (including the heating of our homes).

The Scottish Land Commission (SLC) are expected to present proposed changes to local and devolved taxation in Scotland that can support Scotland's land reform objectives. They will be considered closely and in line with our strategic objectives. We will continue to support the SLC as they explore Scotland's longer-term options for reform of land and property taxation, ensuring our land reform aims can be met, and that vacant and derelict land in Scotland is brought back in to productive use and Scotland's natural environment is protected.

Continuous improvement and building our evidence base

We will continue to enhance our understanding and delivery of devolved tax policy and apply that learning to ensure continuous improvement is embedded in everything we do, putting engagement and policy excellence at the heart of our work.

This includes working with the Scottish Parliament to re-establish the Devolved Taxes Legislation working group to progress work to ensure a robust legislative framework for tax is in place.

In 2021 we will conduct an evaluation of Scotland's Income Tax performance in 2018-19 – the first year of the five band system. We also expect the Fraser of Allander Institute to publish their independent evaluation of NDR's Small Business Bonus Scheme relief (commissioned by the Scottish Government) in late 2021.

Future NDR evaluations over the course of the Parliament may include an evaluation of Nursery Day relief, Enterprise Areas relief and a broader review of Purpose Built Student Accommodation.

We will ensure that reviews and consultations draw on a diverse range of perspectives and apply the learning and insights drawn from those processes.

Annex – Call for Evidence

Scotland’s overall approach to tax policy: the Scottish Government’s Framework for Tax broadly covers the what, how, when and why in relation to our overall approach to tax policy making.

1. What are your views on the draft Framework for Tax?

Your response could include new areas that could be included or suggested alterations to existing elements of the Framework and your general reflections.

Scotland’s devolved and local tax policy this Parliament: The final chapter of the Framework for Tax provides a high-level summary of the programme of work over the course this Parliament.

2. What should the Scottish Government’s priorities for devolved and local tax be over the course of this Parliament (2021-2026).

Your response could consider what changes to devolved and local taxes in Scotland should be focused on in the next five years and what should be prioritised.

Scotland’s devolved and local tax policy at the 2022-23 Scottish Budget:

Thinking ahead to the next Scottish Budget and supporting Scotland’s recovery from COVID-19.

3. How should the Scottish Government use its devolved and local tax powers as part of Scottish Budget 2022-23?

Your response should contain policy proposals in relation to devolved and local taxes, with a focus on the Scottish Budget 2022-23.

FACTORS TO CONSIDER IN YOUR RESPONSE

In your response to the questions above, you may wish to consider the following factors, as set in the Framework for Tax:

- *What do you foresee the fiscal impacts on your proposal(s) being?* For instance, impact on the Scottish Budget; distributional impacts; revenue generation.
- *Is the proposal(s) you have set out consistent with the principles and objectives that make up the Scottish Approach to Taxation, as set out in the Framework for Tax?* For example, what is the rationale for the proposal; are there conflicts or trade-offs created by the proposed change(s).
- *How does your proposal relate to existing devolved tax powers or Scottish fiscal policy?* For instance, what are the anticipated economic impacts on the economy or spending plans or UK tax and fiscal policies.

- *Is your proposal(s) affordable and presents value for money?* Particularly if tax reliefs or exemptions are being considered.
- *What wider impacts may occur as a result of your proposal(s)?* For instance, unintended consequences, impacts on business and regulation, environment, human rights, equalities and the Fairer Scotland Duty.
- *What delivery implications may arise from your proposal(s)?* Who is the taxpayer; when should it be collected and how; is this within existing devolved and local tax powers.

Title: Tax Policy and the Budget: Consultation on Scotland's first Framework for Tax and tax policy in relation to the Scottish Budget 2022-23

RESPONDENT INFORMATION FORM

Please Note this form **must** be completed and returned with your response.

To find out how we handle your personal data, please see our privacy policy:

<https://www.gov.scot/privacy/>

Are you responding as an individual or an organisation?

- Individual
 Organisation

Full name or organisation's name

Phone number

Address

Postcode

Email

The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

- Publish response with name
 Publish response only (without name)
 Do not publish response

Information for organisations:

The option 'Publish response only (without name)' is available for individual respondents only. If this option is selected, the organisation name will still be published.

If you choose the option 'Do not publish response', your organisation name may still be listed as having responded to the consultation in, for example, the analysis report.

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Yes

No



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