Scottish Government
Riaghaltas na h-Alba
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Framework for Tax

2021

Contents

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Ministerial Foreword

I am delighted to announce the publication of Scotland's first Framework for Tax, an important milestone in the development of the Scottish Government's approach to tax policy.

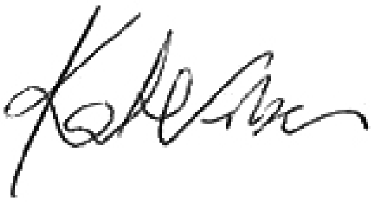
Our tax system plays an integral role in funding the public services we all rely on in Scotland. This requires careful and considered management and robust processes so that the tax system is ready to respond to events – such as COVID-19.

The Framework for Tax provides the foundation from which we can design and deliver tax policies that support the recovery, national outcomes and our pursuit of a fairer, greener and more prosperous Scotland for everyone.

In setting out our principles and strategic objectives, and guiding our approach to decision making, engagement and how we manage and sequence tax policy around the fiscal cycle, the Framework will help 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.

It is clear from the consultation exercise that the Framework has been warmly welcomed, and my thanks are extended to everyone who responded and provided such valuable and constructive feedback, which the final version of the Framework published here has benefited from, resulting in genuine co-production. We will maintain that ongoing dialogue and look to refresh the Framework over time to ensure it is up to date.

The Framework for Tax gives us a platform for best practice in tax policy making, to deliver our Scottish Approach to Taxation. That will be our work ahead, as we continue to pursue the programme of work over the course of this Parliament.



Kate Forbes MSP
Cabinet Secretary for Finance and the Economy

1 – Introduction

A Vision for Good Tax Policy Making

Taxes form part of the fabric of society and we should all be proud of the contribution they make. They are a key component of the social contract. How we develop and deliver tax policy is therefore of high, and growing, 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, underpinned by policy and delivery excellence, best practice, open government and transparency. This way, we can position tax policy 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, pooled 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.

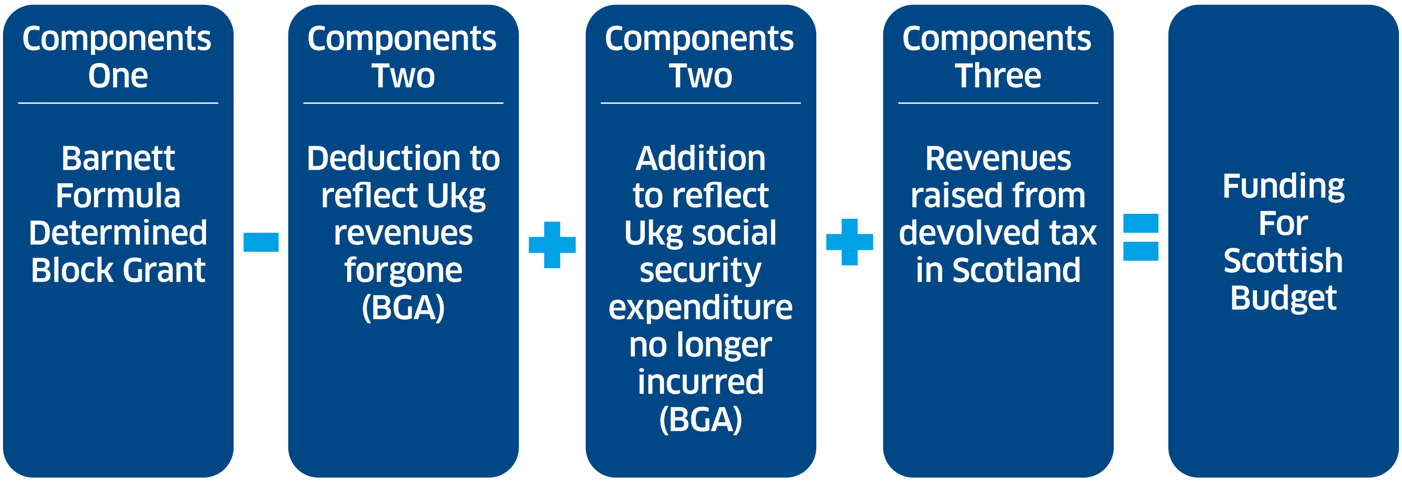


Figure 1: Funding for the Scottish Budget

- 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 revenue funding available to local authorities through the combined total of Non-Domestic Rates income and the General Revenue Grant, as an integral part of the Scottish Budget process.

In addition:

- Powers in relation to two further taxes have been devolved to the Scottish Parliament, 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, which will replace the Aggregates Levy when introduced.
- 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.
- The Scottish Parliament has the power to create new local taxes (i.e. local taxes 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 would likely depend 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. The formal record of tax receipts is often referred to as outturn data and the adjustments as reconciliations.
- 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, current powers remain limited in comparison to the scale of revenues and reasonable forecast error.

Bodies involved in the development and delivery of tax policy in Scotland

Scottish Parliament

All devolved and local tax powers operate based on the consent of the Scottish Parliament. Any changes to existing taxes, or the introduction of new taxes, will require the agreement of the Scottish Parliament to have effect. This is achieved through legislation (either primary or secondary).

Through the Scottish Parliament's Finance and Public Administration Committee in particular, MSPs provide scrutiny of the budget process and Scotland's public finances, and can undertake inquiries at their discretion, including questions regarding devolved and local taxation.

Scottish Government

The Scottish Government is responsible for the setting and developing devolved tax policy in Scotland. This includes changes to rates and bands of existing taxes; structural changes to the way a tax is designed; the introduction of new taxes such as a new local tax; and significantly reforming existing devolved tax powers. Changes can be announced at the Scottish Budget annually, or at other times throughout the year (more information on sequencing can be found in Section 4).

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, see Section 4 below) is essential for good tax policy making, as set out in the joint Scottish Government and Revenue Scotland statement on working together on tax.

Local Authorities

Local Authorities in Scotland are responsible for the collection and administration of local taxation, most notably Council Tax and Non-Domestic Rates. They also set Council Tax rates annually and administer the Council Tax Reduction scheme, which supports lower-income households. Much like Revenue Scotland and HMRC, they play a crucial role as tax authorities and data holders of taxpayer information, including on the performance of local taxes. Where changes or new proposals in relation to local taxation are being considered, early engagement is vital to ensure the potential effectiveness and administration of any measure is understood.

Scottish Fiscal Commission

The Scottish Fiscal Commission (SFC) is an independent statutory body, directly accountable to the Scottish Parliament, that produces official fiscal and economic forecasts twice every financial year. The Scottish Government uses those forecasts to inform the Scottish budget and its financial planning. When the Scottish Government publishes its Budget, the SFC publish the forecasts alongside it. This includes expected tax revenues and how much specific taxes and policies are likely to raise and cost. This allows the Scottish Parliament to properly scrutinise the Budget's policy and financial implications ahead of the new financial year. The SFC may also produce forecasts when primary or secondary legislation is proposed that will materially impact the funding available for the Scottish Government. The Protocol for engagement between the Scottish Fiscal Commission and the Scottish Government underpins working practices between the two organisations.

Tax Tribunals

The First-tier Tribunal for Scotland decides on disputes relating to Land and Buildings Transaction Tax and Scottish Landfill Tax. The Upper Tribunal can and does hear appeals on decisions of the First-tier Tribunal. In turn, decisions of the Upper Tribunal may be appealed to the Court of Session and, ultimately, the Supreme Court.

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. 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 straightforward and 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 (a meeting of Finance Ministers from the UK Government and Devolved Administrations in Scotland, Wales and Northern Ireland) 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 and social stimulus;
- promoting a more equal society through redistribution;
- encouraging taxpayers (businesses and/or individuals) 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 reflecting broader changes in technology and society. There are also times when tax policy can be used as a lever for economic and social stimulus. Taxes 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 the Scottish economist Adam Smith (namely: Certainty, Proportionality to the ability to pay, Convenience and Efficiency). We have added Engagement and Effectiveness 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 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 must balance the prospects for revenue against the potential for unintended behavioural responses. If such responses reduce economic activity – where, for example, a tax change prompts employees to cut back on working hours – they can create economic inefficiencies.

Certainty: Taxpayers must know if they are liable to pay tax, the amount to be paid and when it is to be paid. This allows businesses and individuals to plan and invest with confidence. 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 where they arise.

Engagement: People and businesses should be able to understand the tax system and governments and tax authorities play a critical role in relation to that. Governments must therefore be open and transparent about tax policies and their decision-making, consulting as widely as possible. This is crucial for accountability and trust.

Effectiveness: Design of the tax system should focus on ensuring taxes raise the expected revenues and achieve their intended aims. This includes designing taxes that minimise opportunities for tax avoidance. The vast majority of taxpayers want to pay the correct amount of tax, and do, but where taxpayers do engage in avoidance practices governments and tax authorities should respond quickly and proactively 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:

- The Scottish Government's economic strategy
- 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
- The Shared Policy Programme with the Scottish Green Party

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.

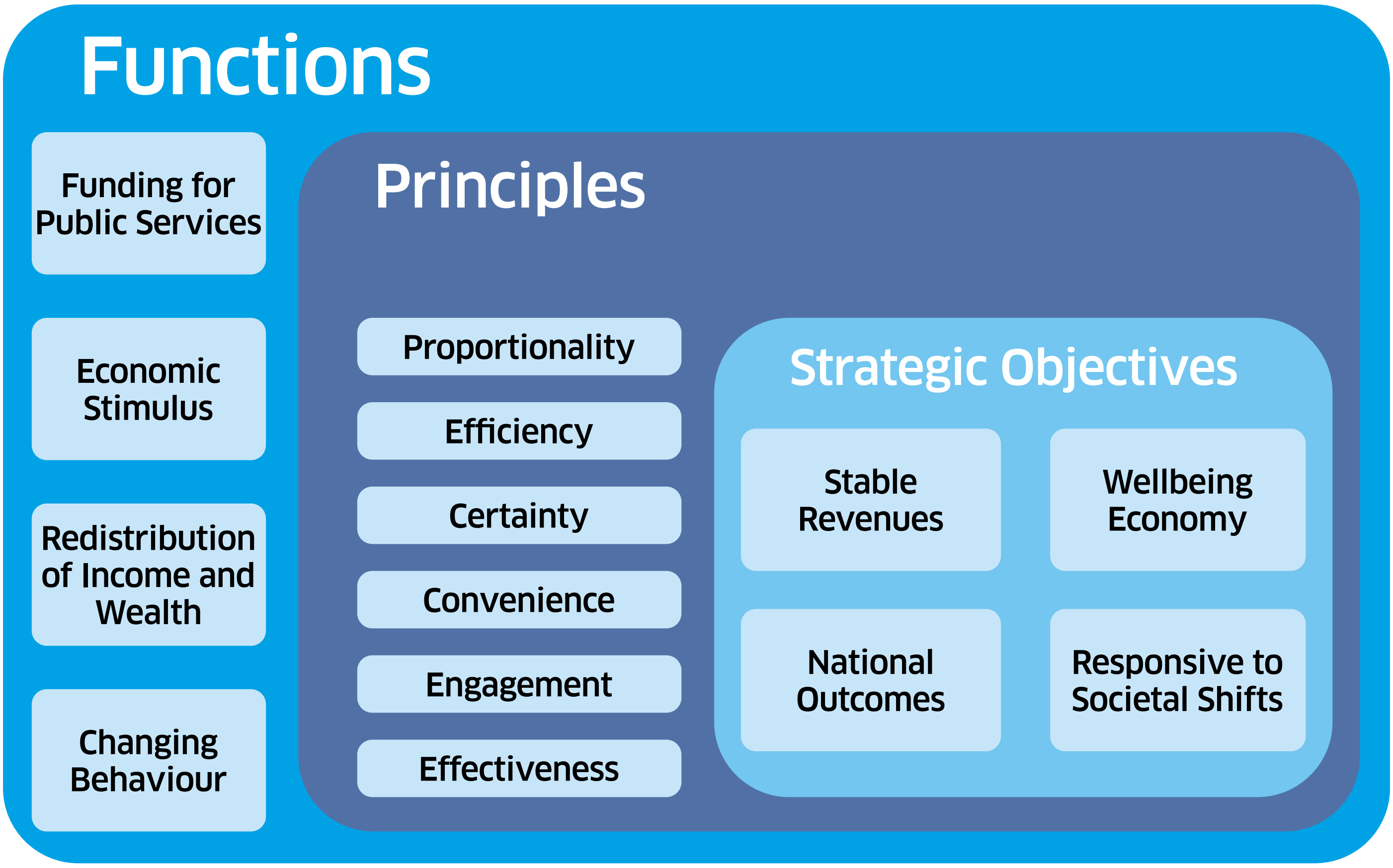


Figure 4: A coherent approach to tax policy

Strategic Objectives

In light of COVID-19, our public finances face 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 this 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 green 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, coherent and deliver against objectives. Our goal is therefore to ensure decisions are based on the best evidence available and taken in the round, and we are being transparent about how we seek to 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 a 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

Fiscal Impacts Proposals must be accompanied by a policy costing, including an estimate of the impact on our funding position and, where appropriate, an analysis of the distributional impacts. This should include the potential for long-term economic impacts, as well as any impacts on future budgets and the tax base.
Principles and Objectives Policy options should be considered against the Principles of Good Tax Policy Making, with a clear rationale for any deviation, as well as our strategic objectives and the core policy objectives of the proposed change, identifying any conflicts or trade-offs.
Policy Alignment Proposals should be considered in the round alongside: other devolved and local tax policies; our economic strategy; spending plans; social security commitments; wider devolved and local government policies; and UK tax and fiscal policies. Analysis should seek to identify any conflicts or trade-offs.
Affordability and Value for Money Policy costings should be assessed for affordability and value for money, particularly if tax reliefs or exemptions are being considered.
Impact Assessment 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.
Deliverability and Administration Issues pertaining to delivery, administration and collection should be identified and considered at the earliest opportunity, in consultation with the relevant tax authorities, including consideration of the administrative burden on taxpayers and other delivery partners. Assessment should also be given to 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.

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 this can be to differing extents 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, fiscal and macro-economic policies can all present challenges for the Scottish Government, particularly when legislation is required at short notice to protect revenues or prevent market distortions. For significant policy changes, policy development comprises the key stages of the policy cycle set out below.

The work of the Devolved Taxes Legislation 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 in 2022, to ensure that it can continue to inform our approach. This will build on the group's interim report, published in 2020, 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 proposed objectives and rationale. Building an evidence base and assessing potential delivery issues, including engagement with the relevant tax authority. Proposals may come from ongoing evaluation, feedback from stakeholders or specific consultation, in line with our commitment to an open approach to taxation.

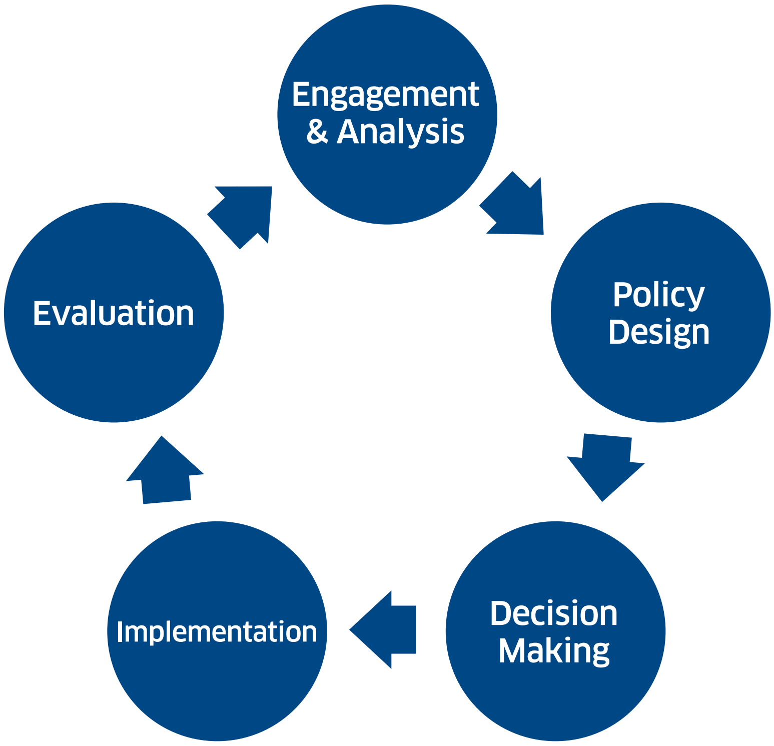
2. Policy design: Data and evidence analysed, proposals developed, appraisal in line with the approach set out above and any specific or wider commitments considered. For significant changes, this part of the cycle will usually be more extensive.

3. Decision making: Identification of lead options, ongoing engagement with the relevant tax authority, and in some cases ongoing dialogue with stakeholders, leading to the provision of advice to Ministers and timely decisions being taken.

4. Implementation: Delivering the necessary legislative changes and working closely with the relevant tax authority to ensure changes are implemented, clearly understood, and with efficient administration and collection (including taxpayers).

5. Evaluation: monitoring and assessing existing policy and any recent changes against intended aims and performance expectations.

Figure 5: The tax policy cycle



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). As far as possible, timing will align with the policy cycle.

Autumn UK Budget: UK tax changes announced as part of an Autumn UK Budget gives the Scottish Government notice of UK tax, fiscal and macro-economic decisions in advance of the Scottish Budget. The specific 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 an opportunity to announce consultations on other changes, such as changes to existing reliefs or new taxes (Types B to D).

Budget Negotiations: With the Bute House Agreement, there is majority support in this Parliamentary term (2021-26) for the Scottish Budget. However, due to the design and composition of the Scottish Parliament's electoral system, it is rare that the Scottish Government will command a majority in the chamber. As such, it is often necessary 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 will have been made without prior knowledge of UK tax, fiscal and macro-economic decisions. This creates a risk for our tax policy decisions and could lead to unintended impacts. 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	• Changes to account for inflation • Raise revenue, provide stimulus, or distribution. • 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	• 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	• 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	• Create new sources of revenue, stimulus or distribution. • 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 specific timing of the UK Budget and fiscal events, as set out above.

Sep – Nov	December	January	Spring
UK Budget?	**Scottish Budget**	**Budget negotiations**	**UK Budget?**
UK tax changes may be announced as part of an Autumn UK Budget	The Budget is an opportunity to announce tax changes, tax related consultations or other changes such as new taxes	Typically required to secure support for the Budget Bill, and may include tax policy commitments	UK tax changes may be announced as part of a Spring UK Budget. This may impact devolved tax policy

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. For new national taxes, this is in addition to negotiation and securing agreement of the UK and Scottish parliaments to devolve the requisite powers, which introduces further uncertainty over precise timelines.

5 – Programme of work

As part of the cycle for tax policy, our programme of work will be determined in large part by our strategic priorities, commitments made by the governing party or parties, 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, in line with existing commitments and the Shared Policy Programme. We will keep this under regular 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 communities, individuals and businesses need; generating sustainable revenues to fund our public services; and thus helping to build a greener, fairer and stronger economy, reinforcing our efforts to reduce inequality and child poverty.

Engagement

Our local tax system plays a vital role in supporting local communities and businesses to recover in the wake of COVID-19, building on the targeted support we have provided.

To achieve this we will:

- Communicate clear messages on tax;
- Connect with a broad group of stakeholders;
- Create opportunities 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. We will seek to 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 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.

Our approach to Income Tax and LBTT is set out in our manifesto commitments, to provide a stable platform for recovery from the pandemic, with flexibility to respond, as we build a greener and more prosperous future in Scotland.

Ensuring local taxation meets our future challenges and needs

Our local tax system plays a vital role in supporting local communities and businesses to recover in the wake of COVID-19, building on the targeted support we have provided.

We are committed to reforming Council Tax to make it fairer, working with the Scottish Green Party and COSLA to oversee the development of effective deliberative engagement on sources of local government funding, including Council Tax, that will culminate in a Citizens' Assembly.

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.

The Scottish Government very much recognises the overall impact of the pandemic on the tourism and hospitality sector in Scotland. We will therefore carefully review the work paused at the onset of the pandemic to develop legislation that would give Councils the discretionary power to apply an overnight visitor levy and undertake further stakeholder engagement as we consider the next steps.

Although not a tax measure, the Scottish Government and COSLA are committed to working together to develop a rules based fiscal framework to support future funding settlements for local government. This work had been delayed due to the pandemic, however Scottish Government and COSLA officials have now recommenced discussion and more substantive work will be taken forward in the first part of 2022. The development of a fiscal framework will have a direct relevance to the Scottish Government's Resource Spending.

A fiscal framework cannot be imposed by the Scottish Government, and as COSLA and the Scottish Government take this work forward, it will be important for local government to bring forward proposals that can then be explored in partnership. The development of a fiscal framework is also an important part of the ongoing work on the Local Governance Review, which considers how powers, responsibilities and resources are shared across national and local spheres of government, and with communities .

We will ensure that Scotland continues to offer a competitive Non-Domestic Rates package, which both supports businesses to recover from the pandemic and promotes a green recovery as we strive to meet our net zero emissions target. Commitments include to:

- reduce the combined poundage rate for the largest properties to match the equivalent rate in England over the course of the Parliament;
- maintain the Small Business Bonus Scheme for 100,000 properties for the duration of the Parliament;
- explore levying a higher poundage on properties registered in tax havens;
- explore tackling other known tax avoidance tactics;
- support district and hydropower generators with relief until 2032; and
- maintain the Business Growth Accelerator and Fresh Start reliefs for the duration of the Parliament.

Enhancing and deploying our devolved tax powers

Whilst it remains the position of the Scottish Government that devolution of the full set of economic and 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 Acts 2012 and 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 or other environmental taxes, in the context of the planned waste route map and the Climate Change Plan.

Consistent with our commitment to fiscal innovation, 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 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.

On 16 December 2021 we published an evaluation of Scotland's Income Tax policy in 2018-19. The evaluation has provided a unique opportunity to conduct an assessment of this scale, and its outcomes will have broader relevance to the approach to taxation in Scotland and beyond. We hope that the publication can contribute to improving public understanding of, and the level of discourse around, taxation in Scotland. In this respect, we intend to carry out a programme of engagement with stakeholder organisations and academic institutions in 2022 on the evaluation and its findings.

The Fraser of Allander Institute will publish their independent evaluation of the non-domestic rates Small Business Bonus Scheme relief (commissioned by the Scottish Government following the independent Barclay Review of Non-Domestic Rates) in early 2022.

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

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