



The Scottish Parliament  
Pàrlamaid na h-Alba



Scotland's Futures Forum  
Fòram Alba air Thoiseach



## Frameworks and Forecasts: Taxation in Scotland

**Scotland faces significant challenges over the next 20 years, with climate change, changing demographics and a pensions cliff edge among the issues. To raise the revenue needed for our public services, and to support behaviour change, our tax system must respond.**

**What makes a good tax system? How can we ensure that the Scottish system is doing what we want? And what kind of policies should the Scottish Government consider?**

**This event with the Scottish Parliament's Finance and Public Administration Committee explored Scotland's tax future.**

**MONDAY 21 NOVEMBER 2022, the Royal Society of Edinburgh**

## Introduction

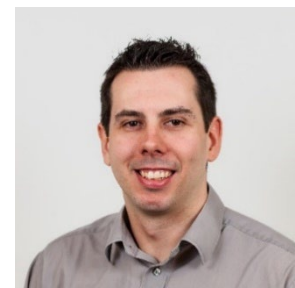
The session was led by Scotland's Futures Forum in collaboration with the Scottish Parliament's Finance and Public Administration Committee. It brought together MSPs and a range of participants from the Parliament and Government, academia and the public, private and third sectors to explore the long-term opportunities and challenges relating to taxation in Scotland.

## Panel

**Susan Murray** joined the David Hume Institute as Director in November 2019. She is committed to diversity of thought and was a founding Trustee of the ICAS Foundation, which aims to increase the diversity of young people entering the finance profession.



**David Phillips** is an Associate Director at the Institute for Fiscal Studies, where he leads on devolved and local government finance. He focuses on the distribution of funding and the incentives and risks that different funding regimes entail for sub-national government, as well as responses to these incentives.



**Jim Gallagher** is a civil servant who escaped over 10 years ago into academia and to non-executive roles in financial services and third-sector enterprises. As a public official, he was the UK government's most senior adviser on devolution, working in No 10 for Gordon Brown.



## Other resources

- [Finance and Public Administration Committee | Scottish Parliament website](#)
- [Why Scotland needs radical tax reform – Guest blog from Reform Scotland | Scotland's Futures Forum website](#)
- [UK Autumn Budget 2022 – Winter is coming – SPICe blog | SPICe Spotlight website](#)

## Partners



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## Convener's welcome

### **Kenneth Gibson MSP, Convener of the Finance and Public Administration Committee**

Kenneth opened by reiterating a main theme of the session: all Governments need revenue; the challenge is how that revenue is raised. He highlighted the conclusions of Sir James Mirrlees, in his 2010 review, that the UK tax system is characterised by a “jumble of tax rates”, a “lack of coherent vision” and “arbitrary discrimination”.

Kenneth also flagged up the Finance and Public Administration Committee's interest in promoting greater understanding of the tax system in Scotland. Research has shown that there are limited levels of public understanding of the new powers, with only one in two voters being aware that the Scottish Parliament's powers over taxation had increased.

## Chair's introduction

### **Professor Michael Keating, General Secretary of the Royal Society of Edinburgh**

Michael placed the session in the broader context of the Royal Society of Edinburgh's on-going work on public policy, looking in particular at the constitution and the relationship between constitutional issues and social and economic questions.

A series of conversations are taking place with the RSE, the Parliament and civil society in Scotland to discuss the future of taxation in relation to the devolved settlement. Michael noted that taxation and public spending was an especially salient topic for discussion, given that the UK has recently had several different regimes.

Michael noted that the RSE's vice-president, Professor Jeremy Peat, was unable to chair the session for personal reasons. In addition, Professor Sir John Kay had travel issues on the day and could not attend.

Michael went on to introduce the presenters: David Phillips of the Institute for Fiscal Studies and Susan Murray of the David Hume Institute, along with Professor Jim Gallagher, who would also be offering some observations.

## Presentation: What do we want? A good taxation system for Scotland

### David Phillips (Institute for Fiscal Studies)

David began by highlighting the [Mirrlees review](#), which had looked at how the UK could move towards a better, more efficient, fairer and more rational tax system. Mirrlees concluded that the UK should have a “progressive, neutral tax system”, and David stressed that each part of that phrase is important.

#### “PROGRESSIVE”

As David outlined, in a progressive tax system, the tax take from those with higher resources, income and consumption is greater than from those with lower income. To put it simply, the rich pay more as a percentage of their income.

David noted that direct taxes such as income taxes and national insurance are more progressive: in 2019-20, they represented about 20 per cent of the net income of the poorest 10 per cent of the UK population, and 60 per cent of the net income of the richest 10 per cent. Indirect taxes such as VAT are much less progressive: while there are zero or reduced rates for necessities, poor households’ spending is not excluded from these taxes entirely, although they are not in a meaningful sense “regressive” overall as is sometimes claimed.

Benefits represent 60 per cent of the net income of low-income households in the UK, whereas for the richest tenth, the figure is 2 or 3 per cent. David argued that the UK therefore has a pretty strongly progressive tax and benefits system

David stressed that the Scottish Government’s recent measures have generally tended to increase progressivity. For example, in looking at the impact of Scottish income tax, council tax and benefit reforms in the 2016-2021 session of Parliament, we see that those towards the bottom of the income distribution gained from the changes, whereas those towards the top of the distribution saw a fall in their income, largely because of changes to income tax and, to some extent, council tax. As David emphasised, the Scottish Government has used its tax powers to make the system more progressive and to raise a little more revenue.

As David pointed out, the question of just how progressive the tax system should be is one for politicians, but there are some important things to be considered in that regard. First, we need to think about how the different aspects of the system fit together as a whole. Secondly, we need to ensure that redistribution happens in the most efficient way.

David noted that not all taxes have to be redistributive in order to have a progressive tax system, but certain taxes may be redistributive because they are more efficient or more feasible, or because they create less of a distortion than if redistribution was attempted through other taxes.

#### “NEUTRAL”

David highlighted that the neutrality required by a good tax system generally means that similar activities are taxed in similar ways and there are no arbitrary distinctions between activities that look very similar. For example, different forms of work, or pollution, should be similarly taxed.

David emphasised that, in the context of progressivity, we need to think about how all the taxes and benefits work together for redistribution. Do they treat activities similarly or create artificial distinctions?

As David pointed out, there are huge differences between the amounts of tax that are paid on the same level of income depending on whether someone is employed, self-employed or running a small incorporated business. Unsurprisingly, the UK has experienced a big growth in the numbers of the self-employed and in small incorporated businesses, which has not been seen in similar countries. David argued that it is not only unfair but inefficient, because people choose not the best form of employment for them but simply what minimises their tax bill.

David highlighted that consistency matters in how the tax system treats similar activities. As he pointed out, that does not mean that we should never have different tax rates on different things; there can be strong reasons to put higher taxes on bad things such as pollution. However, he cited carbon taxes: different taxes across different activities such as flying do not incentivise carbon reduction as efficiently as they might. He suggested that, if air passenger duty was devolved to Scotland, there may be more effective ways to incentivise carbon emissions reduction.

### OTHER PRINCIPLES IN THE MIRRLEES REVIEW

David also identified the following principles arising from the Mirrlees review:

- **Simplicity.** Taxes that are simpler are less likely to be distortionary and more likely to be neutral.
- **Stability and predictability.** There should be no unnecessary changes to policy, with advance planning built into decision making.
- **Transparency.** This helps with predictability and enables evidence-based policy that considers how people respond to taxes and impacts on different populations.

### IMPLICATIONS FOR SCOTLAND

David outlined the suggestions and elements that he thought should be considered:

- **Fundamental reform of property taxes in Scotland.** There is an opportunity that has not yet been taken.
- **Reduce and ultimately abolish LBTT.** That would have benefits, although some people see it as a relatively unproblematic tax that exemplifies, in David's words, "plucking the goose where it hisses the least".
- **Replace business rates with a land value tax.** Rates discourage businesses from investing in and developing new property, which necessitates more complexity in the form of various reliefs that reduce revenues. A tax based on land value would not act as a disincentive in that way; it would avoid complexity and still raise the same amount of revenue.
- **Revalue and reform council tax** to remove regressivity in the current system, as part of a more fundamental review of property taxation in Scotland. David noted that it will be interesting to see whether the proposal for a citizens assembly on tax goes forward and whether that leads to actual change.
- **Make income tax in Scotland simpler and more progressive** by having a small zero per cent band above personal allowance, or devolving personal

allowance. That would benefit those towards the bottom of the distribution the most and avoid some of the complexity of having multiple rates.

- **Redesign the aggregates levy and air passenger duty to better tackle environmental impacts.** There are possibilities around testing a per-flight tax rather than a passenger tax, given that many of the environmental costs of planes are to do with the number of flights.
- **Produce a clear strategy based on consultation and evidence.** The Scottish Government's tax framework is a good start, but it focuses on new powers rather than on fully exploiting existing powers, especially on land and property tax.
- **Devolve more aspects of tax,** such as income tax on savings and dividends income. That would allow for reforms so that Scottish taxes apply on all income, which would not encourage distortions around forms of employment and would make the system fairer and more efficient.
- **Tackling the big issue of differences in tax rates across forms of work** would require substantial further devolution, including for national insurance contributions, capital gains tax and corporation tax. It would allow for reforms that would encourage investment, but it would require more co-ordination between the UK and Scottish Governments. It would also create many winners and losers and would therefore be politically difficult, which may hold back fundamental change.
- **Devolution of VAT and excise duty would be challenging and costly.** Excise duty would be more feasible, but it would still create an internal tax border.

#### IS MORE DEVOLUTION THE ANSWER?

David noted that, while Scotland can do some things itself, some of the big changes that would be required for a better tax system cannot be done because the areas are not devolved. He highlighted the various pros and cons of more devolution:

<b>Pros</b>	An opportunity to do things differently, and better.
	Extra revenue if the economy does well.
	More accountability in principle, if people understand the system; more devolution could lead to greater understanding of income tax in particular.
<b>Cons</b>	There are extra administration and compliance costs, which will vary across different types of tax.
	Distortions of behaviour if tax rates differ across Scotland, England and Wales; that can also lead to greater tax competition.
	If we can gain when the economy is going well, we can lose when it is going badly.
	Would the current system of funding via the Barnett formula continue?

#### CONCLUSION

David concluded that, overall, further devolution of taxes would give the Scottish Government the opportunity to fundamentally reform the tax system and do things better if it grasped the opportunity and was willing to take some political risks. However, that would come with some risks and challenges to the economy and the current fiscal architecture of the UK.

## Presentation: What is coming? Opportunities and challenges in the next 20 years

### Susan Murray (David Hume Institute)

#### CHANGE IS THE ONLY CONSTANT

Rather than homing in on individual taxes or suggesting magic bullets, Susan proposed to think more broadly about the challenges ahead.

Quoting the maxim that change is the only constant in life, Susan argued that our ability to adapt our tax system to the challenges ahead will determine our success as a society. As she noted, despite hours of thinking about possible changes and in-depth analysis by Mirrlees, Dilnot, Christie and Marmot, years have passed without the degree of change for which they advocated.

Susan raised a question: why is more change not happening? Do we have our heads in the sand or are we rabbits caught in the headlights, unable to act? Whatever the reason, on tax reform, the can should no longer be kicked down the road.

#### CHALLENGES AHEAD

There are big challenges ahead for our society and our tax system, and Susan highlighted a few:

- The impacts of **climate change** at home and abroad, as outlined in the UK Climate Change Committee reports and presentations by Chris Stark.
- Scotland's **ageing demographics**, as highlighted by the David Hume Institute in work by Professor Mike Anderson and Dr Esther Roughsedge, and in Martin Geissler's BBC documentary, "Who Lives in Scotland?"
- The forthcoming **pension cliff edge**, which is not discussed so much. A new generation of pensioners will not have the generous benefits accorded by previous pension schemes, will include fewer owner-occupiers and will have saved less for retirement—a situation that is magnified by stark differences in the size of pension pots by gender and mode of employment.
- It is unlikely that everyone will be able to continue working into their late 60s, with **healthy life expectancy several years below retirement age in many communities** in Scotland.

#### THE GREAT RISK TRANSFER

Susan highlighted research from the David Hume Institute, in partnership with the Institute and Faculty of Actuaries, on a phenomenon called the [Great Risk Transfer](#). Over many years, risk has gradually been transferred from the state and organisations to individuals. As Susan noted, an increasing number of people are living precariously with no savings and under extreme financial stress, and she highlighted in particular the long-term impact on people's health of lack of sleep due to worrying about their finances.

Overall, Susan highlighted that there is potentially another decade of economic stagnation, rising inequality and increasing instability. Nevertheless, she argued that, while there is a lot to get our teeth into, there is also opportunity. We have already

analysed the problems, we have a lot of evidence, and potential solutions have been proposed.

### AN HONEST CONVERSATION

In Susan's words, our tax system is our country wearing its values on its sleeve; it goes hand in hand with the state of our country. She described the current system as overcomplicated and confused, and pointed out that, despite some efforts to simplify it, we have not really had much change.

In arguing that we need an honest conversation about tax and society, Susan highlighted the Scottish approach to taxation, and the tax framework, as the start of that process.

Susan highlighted that the challenges ahead, both known and unknown, create a need for more resilience in our society and in the individuals that comprise it. We do not want to be lurching from one crisis to another when we know that the world is entering an unstable period.

As Susan asked, if we take business as usual off the table, where does that leave us? She identified that there seems to be consensus that we need to broaden the tax base, which lowers risk, and cited the recent lowering of the top tax band at Westminster to £125,000.

Susan also emphasised that taxes other than income tax can make a contribution. As she pointed out, the question of property tax and what to do with council tax has been analysed for years, and there is a great deal of evidence.

In response to David's point about a citizens assembly, Susan questioned whether cross-party consensus could be achieved to implement whatever the assembly came up with.

### IF NOT NOW, WHEN?

Susan noted that it can be easier to change in moments of flux such as we are currently experiencing. As she put it, the biggest opportunity for change lies with those with the knowledge in positions of power. She raised a question: will we kick the can down the road for another 10 years or rise to the challenge ahead?





## Reflections

### Professor Jim Gallagher (Royal Society of Edinburgh)

#### “WE DON’T JUST RAISE TAXES TO ANNOY PEOPLE”

Jim emphasised the reason why we raise taxes: it is not to annoy people, but to support public services. He argued that if we want to retain our health and pension system—for which there is a very good argument—and the services that the rapidly growing older population wants, the public sector needs to bring in more money.

Jim was clear that we cannot have a graph in which spending goes up and revenue remains flat. He suggested that the Scottish Government’s recent desire to make a lot of things free is going in the wrong direction.

#### “GRANNY IN THE BIG HOOSE”

Jim cited Thomas Piketty’s book “Capital” and its basic proposition that the rich tend to get richer. As Jim argued, if we want to get access to resources, we need to start thinking about capital and asset taxation, not merely revenue flows. In particular, physical assets are important, as they do not move around and are much easier to tax.

As Jim pointed out, however, that takes us back to the need to consider issues such as “Granny in the big hoose”, where someone is asset rich but cash poor and therefore unable to pay higher taxes on big assets. These human stories can prevent brave political decisions being taken.

#### “A TIME OF OPPORTUNITY”

Referring to a decade of constant crisis, economic and social stagnation, Jim argued that the UK is going to change because it has to. As he put it, something will have to give; it will almost certainly involve much greater decentralisation in England. As that will shift the plates of how the UK is run, he argued, it will be a time of opportunity.

#### “WE HAD BETTER UP OUR GAME”

Jim asserted that, in general, tax devolution is part of the solution, as we are not yet managing the taxes that we have well enough. However, he argued that it would make sense to devolve the personal allowance to enable Scotland to match the structure of its income tax with Scottish incomes, as it ought to do.

Finally, Jim noted that if devolution is the laboratory of UK public policy, where different things can be tried out and be shown to work or to fail, it is evident that the Welsh are doing better than the Scots, so we had better up our game.

## Q&A session

Picking up on the themes that were raised in the presentations and the earlier discussion session, participants discussed a range of topics including tax competition, the deterrent effect, inheritance tax and intangible capital.

### The value of audit

The discussion kicked off on the subject of money laundering and corruption. It was pointed out that National Crime Agency figures estimate that around £267 billion each year is lost to UK GDP, which translates into a loss of doctors and teachers, and that the proposed abolition of the UK Office of Tax Simplification will not help matters.

In response, Susan highlighted Dr Arun Advani's report on "[The dynamic effects of tax audits](#)", which looks at the long-term value and effect of auditing and how much additional compliance it promotes. She posited that there must be some correlation with the issue of lost revenue due to corruption.

David argued that we need to think about not only how we make the current system more robust and less open to avoidance and evasion, but how redesign of the tax system could affect that. He suggested, for example, shifting more of the tax burden on to taxes that are harder to evade or avoid, such as property tax. Taxing higher-value properties rather than higher incomes would make the system more robust and would have broader benefits in terms of fairness and efficiency.

### Tax competition

Participants discussed the issue of tax competition in the context of the Smith Commission's no-detriment principle, and it was posited that "One person's divergence is another person's competition." A question was raised: how can we do anything significant and different where competition is not allowed?

David reflected on the impact of the no-detriment principle in this context, noting that the fiscal framework agreement allows for compensation to be paid if Scottish policy has knock-on effects on Westminster's revenue. He highlighted that the former chancellor George Osborne was clear that he did not view the principle as applying to tax competition.

Jim strongly agreed, arguing that the no-detriment principle has been grossly overinterpreted, as it was meant to apply during transition to the new system, not for decades afterwards.

David noted that under the current tax devolution settlement, tax competition would be a possible concern only right at the top of the income distribution scale, where individuals tend to be much more mobile.

David suggested, however, that tax competition would become more of an issue, especially in respect of corporation tax. He suggested that this raised a further question: how far should Scotland go down the route of removing the current fiscal union? As he noted, there are hugely divergent views on that issue.

## Greater simplification

Picking up on issues such as the need to tax assets and to undertake a fundamental review of council tax and non-domestic rates, participants questioned whether two levies were necessary at all. It was suggested that if we want greater simplification, we should have some sort of unified land tax rather than property taxes for individuals and land taxes for businesses.

As Jim pointed out, the previous system of rates covered domestic properties. He noted that rates were quite a simple tax and that, despite being based on rental rather than capital value, they had worked tolerably well.

However, David highlighted a conceptual reason for the different treatment of residential and business property, referencing the Diamond-Mirrlees theorem, which says that inputs into production should not be taxed. He argued that if we tax the property that businesses are using, they will try to use less property, which is less efficient. For business property, a land value tax makes sense because the land exists already, and a tax does not discourage the use of the property.

David argued that residential property is different, because housing is essentially another form of consumption; council tax is essentially a proxy for VAT on housing. He concluded that it is best, therefore, to have a property tax for residential property and a land value tax for business taxation.

Susan pointed out that people have been talking about how to tax assets for years. As she said, we can still see evidence of the effects of the window tax in Edinburgh, which changed people's behaviour. She agreed with David that a focus on property would seem like the right approach, as there are many problems with taxing assets more generally.

Susan argued that property tax is important in relation to the economy, as those with assets are currently getting richer while those without are getting poorer. Property is therefore distorting other aspects of our society and leading to greater inequality.

Susan highlighted once again the David Hume Institute's report on the Great Risk Transfer. As she noted, research shows that people invest in property as a more reliable retirement income, which creates another distortion. Participants also highlighted that there is work to be done on the way that our means-tested benefits system penalises asset ownership. Susan emphasised that all these issues are interlinked, and the tax system is important in considering how we unpick them.

## A second income tax?

In the context of the need for greater simplification and a more straightforward taxation system, it was posited that we currently have two income taxes in the UK, in the form of income tax and national insurance, and that we might need to fix that before considering other changes.

Jim responded that national insurance is a form of social security contribution rather than another income tax, and that almost all countries in the world have social security contributions. He emphasised that, although there are issues with NI, it is important in underpinning the fiscal union and social solidarity of the UK.

David disagreed, however, noting that although the UK could have a system of social insurance, it currently does not, as such a system would involve some sort of link

between what people pay in and what they get out. He declared that in his view, NICs are basically a second income tax, and NI should either become a proper social insurance system or, if this is not done, be merged with income tax so that issues with different tax rates could be addressed.

Participants noted that contributory benefits are a key part of providing income stability and ensuring people do not fall into poverty. It was argued that the UK has moved entirely to a system of entirely means-tested benefits, which—although it reduces the cost of benefits and the tax needed to fund them—creates all sorts of problems.

### **A deterrent effect?**

An argument was made that businesses in Scotland cannot get international talent to work here or keep Scottish talent, largely for tax reasons. A question was asked: in that context, how can we even create a tax base, let alone broaden it?

David pointed out that until recently, Scotland was the beneficiary of net migration from the rest of the UK and the world, although that may have changed post Brexit.

On whether there is a perception that Scotland's high tax rates discourage people from moving here, David said that it is difficult to tell how much of an impact there has been so far. He noted that it would be useful to look at whether there has been a larger outflow than usual of people from Scottish addresses to the rest of the UK since changes have been made, and suggested that HMRC data be used to find out whether those people are affected by the higher tax rates.

David also reiterated that we can make the tax system more progressive in ways other than income tax—for example, via council tax, as that would not have an impact on Scotland's attractiveness as a place to live.

Susan agreed with David, highlighting that the evidence on migration shows that Scotland is still a net importer of people, in particular from England and elsewhere in the UK. She referred to anecdotal evidence of people moving to Scotland from England because they see Scotland as more progressive, although she conceded that that had not yet shown up in the statistics.

Nevertheless, Susan pointed out that Dr Arun Advani's research has looked at evidence from around the world which shows that, while people may threaten to move as a result of tax changes, they do not, on the whole, actually end up doing so.

### **The exception that proves the rule**

Inheritance tax was mentioned as a way to redistribute wealth. David pointed out that, although a surprisingly small share of people in the UK actually pay inheritance tax, it is disliked by UK taxpayers. As he described it, the rule is that if people think that businesses or rich people are paying, they like tax, and if they think it is paid by ordinary people, they do not like it, and inheritance tax is the exception that proves the rule.

Nevertheless, David suggested that focusing on inheritance tax could help in more ways than just raising revenues. Addressing things like the current higher allowance for a main residence would remove the distortion that encourages older people to live in houses that are too big for them and free up those houses for younger people to live in.

## **A more progressive land tax?**

In acknowledging the consensus among the presenters that a particularly suitable tax base is stuff that does not move, participants suggested that in Scotland, that means land, and more specifically the Highlands. It was suggested, therefore, that one option for a more progressive tax on land might involve taxing land that is not in agricultural or industrial use, especially sporting land.

David argued that if we wanted to discourage certain types of activity relative to other uses of land, a higher tax rate on that type of land would work, as it would reduce the land value. He noted, however, that the tricky thing about a land value tax is that many people would see it as potentially hurting the high street, because land value is often the highest share of property value in city and town centres as opposed to out of town. Nevertheless, he pointed out that, under a land value tax, it is the landowner rather than the occupier who pays it.

## **Everything is interlinked**

Participants raised the issue of online purchases in the context of the changing devolved tax landscape, and how that aspect might be taking over from the types of traditional retailers who might be subject to a land value tax. Jonathan Haskel's work on intangible capital was mentioned, and it was highlighted that such things are very difficult to tax without some international agreement. Participants questioned where devolved taxation sits in that setting.

David mentioned that the recent autumn budget statement had put paid to the idea of an online sales tax, which he believed would not have been a good idea, especially in the context of devolved taxation. Such a tax would raise questions regarding where it was applied and would, in David's view, actually tilt the playing field against online retail.

Susan argued that such issues take us back to considering the wider question of how we get an economy and society that thrives. Given Scotland's low birth rate, how do we ensure that we attract people to come and work here? She stressed that we need to think about much more than tax: policies are all interlinked, so we have to take a holistic approach. She asserted that while there is no magic solution, the current campaign promoting Scotland as a great place to live, work and play is a good starting point.

## Workshops

Following the presentations, the participants split into groups to explore the issues in more detail and work through three questions. The following section outlines the key points to come out in response.

### Q1: How good is the current approach?

#### The positives

##### TAX DEVOLUTION IS A GOOD THING

There was general agreement that devolving tax powers is a positive as it brings taxes closer to Scots and greater accountability. This can be seen with the transparency of council tax, in that the rates are all publicly available. The fact that there is scope, opportunity and flexibility within the system to make changes means that the powers are worthwhile, including, for example, the ability to have a greater number of income tax bands.

It was noted that the devolution of tax brings the raising of revenue closer to the wider devolved policy levers, and there is more attention on questions of taxation now within Scotland. There was some disagreement about how widespread the discussions are, but it was agreed that there is at least some public discussion and awareness of devolved taxation powers.

##### THE SYSTEM IS WORKING WELL

There was also general agreement that the tax system is working well in Scotland. There are positive interactions between HM Revenue and Customs and Scottish institutions, and there was praise for the work of both the Scottish Fiscal Commission and Revenue Scotland, which has effectively administered fully devolved taxes.

There were also seen to be positives in how tax is being administered, with praise for consultation processes and the greater evaluation of impact of policy changes, such as in the distributional impact. The availability of data, including through collaboration with HMRC and other devolved administrations, was also noted.

This is particularly important given that tax powers are now being utilised. There is policy divergence from rest of the UK, with the changes bringing about increased progressivity of tax. This also meets the ambition of devolution to increase innovation. As an example, the introduction of the land and buildings transaction tax effectively removed the previous slab approach of stamp duty. This policy has been subsequently replicated by the rest of the UK, which shows that devolution works well as a policy laboratory, with nations learning from each other.

##### OUR AMBITION IS CLEAR AND GOING IN THE RIGHT DIRECTION

Overall, it was noted that we have the beginnings of a good tax system. The Framework for Tax was described as a “solid starting point”, with clarity of ambition in putting tax in the broad context and its role to support a fairer, greener society.

Choices made in Scotland have made taxes broadly more progressive. There is a focus on the poorest in society, and a value placed on fairness and the ability to pay. There was also praise for the increased progressivity of the income tax system, although it was thought that more could be done.

## The negatives

### THE SYSTEM IS STILL TOO COMPLEX

Although there was praise for the direction of taxation in Scotland, there was general agreement that the system is still too complex. This means that the public do not always have a connection with what they pay in taxes and how that relates to public spending. Participants suggested that greater transparency is needed, especially in how tax works between tiers of government. In particular, the Fiscal Framework is overly complex.

The complexity in the current system also makes scrutiny difficult for both the Scottish Parliament and stakeholders more widely. The need for more public understanding of the system was identified, and some frustration was expressed with framework bills. There were also complaints about a lack of proper data collection at various points—not just to furnish the system as it is, but to enable policy decisions to be made.

### SCOTLAND COULD DO MORE

Many participants expressed the view that the system could be better. The fact that it isn't a broad-based tax system can mean that there is a disproportionate impact on some taxes. No real attempts have been made to bring in revenues from new taxes, and reform of non-domestic rates and council tax has been neglected. A lack of compliance was also noted.

There were some criticisms of the current system, with (contrary to some other feedback) consultation processes being described as tokenistic and a bit of a tick-box exercise. It was suggested that policymakers take a tax-by-tax perspective, rather than looking more broadly. It was also suggested that, although the Scottish Government calls for fiscal autonomy for itself, it denies that autonomy to local government.

As might be expected, there was a range of views on how the system could be used differently. Many thought that policy has not been radical enough, with suggestions including extending the 0% rate rather than tinkering with 19p and 21p rates of income tax, along with the introduction of land value taxes.

### THE CONTEXT CAN BE CHALLENGING

Participants commented on the vulnerability in the current system for the Scottish budget. The inability to change taxation in a given year, despite external changes like increasing inflation, can make scrutiny and accurate forecasting difficult. It was suggested that the Fiscal Framework should provide greater flexibility in borrowing for forecast error.

The system also means that there is limited scope in which to innovate. The discrepancy of income tax bands and thresholds in the UK and Scotland can lead to anomalies, such as the recent national insurance impact on middle earners. Political uncertainty in the UK Government also affects the tax system in Scotland.

The political context can also limit what is possible. For example, the wider constitutional debate can make tax discussions more political than in Wales. Likewise, proposals to reform council tax have been on hold for years despite support across the parties for change. Perhaps more needs to be done to present a positive case for tax and why it matters.

## Q2: What should Scotland do next?

### CONTINUE TO RUN THE SYSTEM WELL

A priority for action identified by all groups was the continued secure and trusted administration of the tax system in Scotland. This includes the better integration of data and work to improve compliance.

As part of running the system well, participants noted the importance of consultation. This linked to a proper assessment of the impact of tax policy on different groups in society, including the suggestion of an equalities assessment during policy development was suggested. A more compassionate approach for those on low income was also mentioned, including in relation to debt collection, as there is an inconsistency in approaches across Scotland.

### TAKE STOCK AND THEN LOOK FORWARD

Many participants pointed out the need for a stock take: a few years into the new system, it is time for a review of the whole system. This could include both what Scotland can do now (such as on alcohol and tobacco duties) and what more could be devolved (such as VAT). This also linked to the role of tax policy in supporting other Government policies and priorities and the aim of making the tax system more coherent.

There was some discussion on whether enough consideration is given to the level of revenue that Scotland needs and the levers that are currently used, before any thought is given to what needs to change. But not all were agreed on this point: some felt it was impossible to determine how much was needed and more would always be considered better.

Attendees supported the full exploration of our existing tax powers, including outlining a clear process for the development of new taxes. As with other issues, there was support for extensive and meaningful consultation and improved data.

### EXPLORE THE POLICY OPTIONS

Various policy options were suggested, both specific changes and more general approaches.

Environmental taxes were a consistent theme. This included both the ability of tax to encourage “good” behaviour as well as the need to respond to changing patterns of behaviour. Suggestions included the taxation of electric vehicles, incentivising green energy development, and a different use of air passenger duty powers to tax per flight rather than per passenger.

The use and taxation of land was also referred to. Welsh proposals for a tax on vacant land were mentioned, along with the idea, supported by many but not all, of a land value tax in Scotland. There was also the suggestion of make maximum use of Crown Estate revenue to promote development rather than just raise revenue.

Given the wider economic situation and the likely return of austerity and increased taxes, it was suggested that we should review the funding and provision of some universal services. The specific devolution of income tax personal allowance was also suggested.



### LOOK LOCAL

One overarching theme of the whole conference was the need to review and improve the approach to local taxation. The development of a robust tax base for local authorities was seen as a priority, with various suggestions made for reform.

In particular, the review and reform of council tax was highlighted: we need to “stop talking about council tax and just do it”. Given the political context, different approaches were suggested: gradual reform could start with indexing and tapering the tax, as well as revaluation.

A tourist tax was also discussed, with one issue being its different potential for revenue raising for councils across Scotland. As with many local taxes, some councils would have significantly more to gain than others. This, along with improving the ability of local authorities to improve compliance rates, would be an issue to consider in reviewing local taxation.

### Q3: How do we increase understanding of tax?

#### PROVIDE BETTER INFORMATION

To engage the public in a more meaningful debate on tax, it was agreed that we need trusted sources of engaging and accessible information. This openness would help improve transparency in tax policy and provide greater clarity over how the budget operates, including where the Government’s money comes from and how it spends it.

One specific proposal was for a “[Citizen’s Budget](#)”, which are designed to present key public finance information to a general audience. In particular, these budgets use good visuals to support understanding and interpretation.

Although views on how the system works can become politicised, it was suggested that better use of inter-governmental committees could help reach agreement on publishing information on tax and revenue.

#### ENGAGE THE EDUCATION SYSTEM

Such information could also be used within schools, as improving financial and tax literacy in schools was seen as vital. Giving the issues a higher profile in education would help work with young people, among whom the level of engagement and interest was described as surprisingly positive.

#### IMPROVE THE POLITICAL DEBATE

It was suggested that all stakeholders need to use better language to improve the debate. People tend to see tax as a bad thing, but if they want good public services, these need to be funded appropriately through taxation.

In particular, it was suggested that the drivers of tax policy should be more clearly communicated to people: is the aim of a policy to increase revenue or change behaviour?

This linked to encouraging more cross-party work on tax, making the debate less political, and the point that, although citizens assemblies can provide innovative solutions, they should not be used as an avoidance tactic.

Finally, it was suggested that to improve the scrutiny of taxation, changes should be implemented via primary legislation, not secondary legislation.