Tax policy and the budget: Consultation

Response from Scottish Chambers of Commerce Network, October 2021

INTRODUCTION

The Scottish Chambers of Commerce (SCC) network welcome the Scottish Government consulting on the development of Scotland's first Tax Framework and seeking the views of businesses on how Scotland's devolved tax making powers should be used within the context of the 2022-23 Scottish budget.

SCC recognise that the impact of the global COVID-19 pandemic and the UK's departure from the EU has created significant challenges for the Scottish Government and the Scottish economy. Similarly, businesses have been deeply impacted by these twin challenges and remain in recovery, and in some cases, survival mode.

As Scotland's economy begins to recover from the shock of the past 18 months, it's vital that the Scottish Government and the 2022-23 budget not only promotes, but actively supports pro-growth tax policies that preserve Scotland's pro-enterprise reputation and enhance the ability of businesses to grow, invest and create jobs.

Investment in Scotland has been hit by the impact of COVID-19 and EU exit and businesses are still seeking to rebuild supply chains and consumer confidence. It's vital for Scotland's economic recovery that businesses are able to operate in an environment that allows them to attract and secure investment, which will in turn stimulate the wider economy and return Scotland's GDP to pre-pandemic levels.

Scotland's first Tax Framework should also offer an opportunity to look at how public and private sector investment can be incentivised to support the decarbonising of Scotland's economy, reflect the outcomes of COP26 and deliver the Scottish Government's net-zero ambitions.

Climate change is a risk to our way of life and how we do business but it is also an economic opportunity with the potential to create high value jobs as well as skills and innovation that can be world-beating and it's important the right competitive, innovative and investment climate is created in Scotland through its tax system to support this.

Looking outward and building international links will also help address the challenges facing businesses. The opportunities presented by new trading partnership and trade deals with other parts of the world which will provide new markets and customer bases for Scottish businesses must also be supported. It is essential that business and government at all levels work together to send a clear signal that Scotland is open for business and remains a great place to invest with competitive tax rates.

In our response to this consultation, SCC are clear that businesses want the Scottish Government to set out a long-term approach to taxation, which incentivises investment and job creation, and which moves beyond short-term revenue raising measures.

The tax approach should also incentivise business investment and attract people to re-locate to Scotland to live and work, which is essential to plugging the emerging labour market challenges facing Scotland and the skills gaps facing several Scottish growth sectors.

The Scottish Government must place a moratorium on all policy measures that increase business costs for the remainder of this parliament and finally deliver fundamental reform of our broken business rates system.

Whilst SCC note that public finances are facing considerable challenges in the immediate future, it would be short sighted to increase the tax burdens on Scotland's businesses at a time when business growth is essential to rebuilding Scotland's economy and creating new employment opportunities.

Instead, the Scottish Government should use its tax powers to give businesses the boost they need to return Scotland's economy to health and create a solid foundation on which to make Scotland one of the best places to do business in the UK, Europe and globally.

SCC remain available to discuss this response in greater detail with Scottish Government Ministers and officials.

KEY RECOMMENDATIONS:

1. Work with businesses and commit to making the Scottish Budget for 2022-23 a ***'Budget for Business Growth'***.

2. The Cabinet Secretary for Finance and the Economy should urgently confirm that the Non-Domestic Rates (NDR) Revaluation that is due to take place in 2023 will go ahead as planned.

3. Oppose any further divergence between Scotland and the UKs tax regimes which place Scotland's businesses at a competitive disadvantage.

4. Place a moratorium on all policy measures that increase business costs for the remainder of this parliament.

5. Prioritise business recovery in Scottish Government Budgets for the length of this Parliament.

6. Slash upfront business costs and create a pro-business and pro-enterprise tax and trading environment for Scotland's businesses.

7. Improve Scotland's Fiscal Framework and Budget cycle sequencing during the upcoming review.

8. Invest in the skills, training, infrastructure, and connectivity that businesses need to support a Just Transition and bolster green economic growth.

SCC Response to the Call for Views:

Views on the draft Framework for Tax:

The Scottish Chambers of Commerce (SCC) Network want Scotland to develop the most competitive business environment in the UK to allow businesses to grow, create jobs and drive forward economic growth and prosperity.

The Scottish Government now has the powers to support this aim and should work with business and industry to develop a tax and regulatory landscape that allows businesses to meet the challenges of this coming decade and make Scotland an internationally competitive and attractive prospect for investment.

SCC are broadly supportive of the principles that sit behind the Scottish Government's draft Framework for Tax.

Scotland's tax landscape is an increasingly complex one with increasing divergence and Scottish only taxes that have arisen from the devolution settlement. With this increasingly complex system, it is essential that businesses and individuals are adequately informed and engaged with Scotland's tax framework to allow proper scrutiny and consideration of Scottish Government decisions regarding taxes.

Improving public and businesses understanding of Scotland's budget and tax process is important and the frameworks vision for improving sequencing will also be welcomed by businesses in all sectors. Any changes to Scotland's tax framework that will provide greater certainty and clarity over taxation which will allow businesses and individuals to properly plan is welcome, and the potential for improved sequencing between policy and budget cycles will be beneficial.

Scotland and the UK's tax systems and the way they interact should be simplified and made as transparent as possible so that individuals and businesses clearly understand which government is setting rates, collecting taxes and where spending and business support originates from, particularly for businesses that operate across the whole of the UK.

With 40% of the Scottish Budget coming directly from devolved revenue, since the devolution of further tax powers in 2016, SCC acknowledge the additional pressures this places on Ministers when it comes to decisions over where to raise revenue, however, businesses are concerned that further business taxes or higher Scottish rates will put businesses in Scotland at a competitive disadvantage and drive down much needed inward investment.

Where businesses have the greatest concern is over the framework's vision for the medium to longer term and the potential of additional tax burdens being placed on businesses. Where taxes are devolved to the Scottish Parliament, if there is to be divergence in rates between Scotland and the UK, it is essential that this is positive divergence that will place businesses at a competitive advantage.

Businesses in Scotland are already experiencing the impact on their ability to attract and retain talent due to the negative divergence with the rest of the UK on Scottish Income Tax rates and the potential devolution of further tax powers to Scotland has the potential to damage businesses further if rates are higher than in other parts of the UK.

SCC support the re-establishment of the Scottish Government's Devolved Taxes Legislative Working Group and support the introduction of a formalised Devolved Administrations impact assessment for tax decision-making at a UK level, as well as looking at improving governance systems around policy development, consultation, advance notice and collaboration, which would allow for new or significant tax changes to be managed sensitively in collaboration with business.

Improving inter-governmental relations between the UK and Scottish Government is important for business and is likely to lead to greater certainty in the tax and policy environment and avoid Scottish businesses being placed at a disadvantage through disputes.

The Scottish Budget Cycle and improved alignment with the UK budget cycle will also be welcomed by businesses and provide greater clarity on the impact of budget decisions on business from both Scottish and UK Governments.

SCC have been engaged with numerous Scottish Government consultations and businesses wish to see better joined up policy making and delivery when it comes to tax and decisions affecting Scotland's businesses.

There is potential for Scotland's first Tax Framework to support improved, joined up policy making and the delivery of better relationships with business. Regular engagement and dialogue can lead to a more workable and fair tax environment that supports business and enterprise in the Scottish economy.

The Fiscal Framework:

The Fiscal Framework remains a key element of the Scottish budget and SCC acknowledge that updating the Fiscal Framework is key to developing a successful Tax Framework for Scotland.

Separate to this consultation SCC are engaging with representatives from the Scottish and UK Government in advance of the forthcoming review of the Scottish Government's Fiscal Framework, which was originally agreed in 2016 and is due to be jointly reviewed by the Scottish and UK Governments now in 2022.

As the Fiscal Framework has such a significant impact on the Scottish Budget, set by the Scottish Government, we believe that the review should be used as an opportunity by both governments to improve the current arrangements to support businesses in Scotland and the wider economic recovery from the impact of the COVID-19 pandemic and exit from the EU.

In support of sound financial management, and to ensure that resources can always be allocated in the most effective way, SCC believe the review should consider the expansion of the Scottish Government's ability to manage funding uncertainty and to carry forward funds between financial years, including through an increase in the limits placed on the Scotland Reserve.

If the Scottish Government wish to support Scottish businesses competitiveness, then there should also be discussions around improving capital allowances for businesses to claim against taxable profit.

The prospect of the introduction of a Scottish Digital Sales Tax as proposed in the SNP 2021 Holyrood Manifesto could push up prices on services and goods across the whole economy and further discussions with the UK Government and businesses are necessary before any further consideration of the proposals takes place. A Scottish only tax in this area would be an additional burden on Scotland's businesses and any negative divergence in this area would further disadvantage Scotland's competitiveness.

If the pandemic has taught us anything, it is that Government at all levels must be agile and able to adapt to the needs of business and rapid changes to our economy.

We therefore believe that it is critical for businesses and the Scottish economy that the scope of the review is far reaching and reflects the economic realities facing Scotland's devolved administration and the current constraints placed on it.

SCC welcome any further consultation on Scotland's Tax Framework that may take place following the review of the Fiscal Framework next year to ensure that both remain relevant and consider the needs of businesses.

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

The Scottish economy has been able to rebound better than predicted from the impact of the COVID-19 and EU exit thanks to the resilience and ingenuity of Scotland's businesses.

With the Scottish Fiscal Commission now projecting a return to pre-pandemic levels of growth as early as Q2 of 2022 (subject to there being no return to COVID-19 restrictions on businesses), it's clear that the gradual lifting and eventual removal of most economic restrictions on businesses has benefited Scotland's economy, unleashing pent-up consumer demand and driving growth forwards once again.

However, the overall economic picture remains uncertain and many businesses are concerned about the looming threats of a return to restrictions, ongoing COVID-19 and Brexit related trade and supply chain issues, coupled with inflation, rising material prices and the emerging energy crisis will impact on recovery.

The Scottish Government must ensure that the Scottish Budget for 2022-23 is a budget for business growth.

SCC welcomed the confirmation in the 2021 Scottish Government Programme for Government that businesses will continue to receive a 100% business rates relief for this financial year, and that the Fresh Start Fund, Small Business Bonus and Growth Accelerators will continue for the length of the whole Parliament. This was particularly welcome and will give businesses a firm footing from which to rebuild.

However, to deliver a budget that works for business, it's essential that the Scottish Government prioritise a return to economic growth by supporting Scotland's businesses and slashing upfront business costs and reducing the tax burden on Scottish businesses as they continue their recovery into the next financial year.

Non-Domestic Rates:

As Non-Domestic Rates (NDR) remains the main tax burden on Scotland's businesses, providing clarity and certainty around its future is key. Scottish businesses remain concerned that they don't have this much needed certainty now and are alarmed at the potential introduction of more barriers and new appeal processes which will be detrimental to businesses and Scotland's economy.

The Cabinet Secretary for Finance and the Economy should urgently confirm that the Non-Domestic Rates (NDR) Revaluation that is due to take place in 2023 will go ahead as planned.

Specific transitional rates relief schemes as introduced for the North-East were welcome, however, the SCC Network believe these schemes are now effectively inaccessible, and it means that businesses across Scotland are now facing rates bills which can far exceed those for comparable properties in another part of the country.

The Scottish Government should therefore seek to refresh the regional relief scheme, which ensures that firms get rates bills that reflect reality whilst they await re-evaluation to level the playing field.

Cutting the headline poundage rate could be another method that the Government considers to reduce the burden on cash-strapped businesses and the Scottish Government should also consider a phased and proportionate reintroduction of business rates, when the time comes, for the hardest-hit sectors which are currently exempt, such as retail, hospitality and aviation.

In the meantime, the Scottish Government should seek to immediately evaluate current NDR reliefs to ensure effectiveness and economic impact, with a view to completing this ahead of the 2023 revaluation.

SCC also wish to see a review of the business growth accelerator relief regulations to ensure that clarity is provided to Councils that relief can be granted in cases where existing properties are substantially redeveloped.

In addition to NDR reform, the 2022-23 Scottish Budget should also commit to reduce the Large Business Supplement.

As part of the development of Scotland's first Tax Framework, the Scottish Government should undertake to review the Barclay Review of the Non-Domestic Rates system outcomes, by convening a Specialist Ratepayers Assembly.

This Assembly should be empowered to produce a report – led by ratepayers – on the effectiveness of the Barclay Review and NDR Act.

SCC believe this process should be wholly independent of Government and the last Barclay review members and provide essential scrutiny of the Barclay Review reforms.

Devolution of non-domestic rate policy to councils:

We support the conclusion (C.5) in the Barclay Review that one of the defining features of Scottish Government policy on non-domestic rates has been to ensure a high degree of consistency with policy in England.

Ratepayers do value this consistency and SCC agree this consistency would be lost in Scotland if each local authority was to set a local poundage rate for its area. The Scottish Government should make clear that this proposal will not be tabled for the duration of the current Parliament.

The Scottish Government and Scottish Green Party shared policy programme also commits to developing a fiscal framework for local government and the devolution of empty property relief on 1st April 2023 and we expect businesses to be fully consulted on this proposal before introduction.

Non-Domestic Rates COVID-19 Appeals Bill:

We continue to be dismayed at the Scottish Government's removal of the rights for businesses to appeal and the retrospective removal of the material change of circumstances mechanism which will penalise businesses at a time when industry requires as much support as possible.

The Scottish Government proposals are completely at odds with key principles of certainty and fairness in a modern taxation system and goes against the main aim of the Barclay review to design a rates system that better reflects changing marketplaces.

This Bill could burden the Scottish business community with hundreds of millions in Non-Domestic rate charges which it would otherwise not have had to bear, and which will not be offset by the consequential funding promised.

The Scottish Government should scrap this bill now to give businesses the certainty they need and send a signal that Scotland's tax framework is meaningful and that policy proposals match the values the framework proposes to establish.

SCC have provided written evidence to the Scottish Parliament's Local Government, Housing and Planning Committee sharing our correspondence with the Scottish Government over these proposals and recommending the Committee reject the Valuation and Rating (Coronavirus) (Scotland) Order 2021 and we will continue to oppose the Bill if it is brought forward.

Air Departure Tax:

SCC believe that the Scottish Government should commit to the introduction of the long-delayed Air Departure Tax (ADT) at reduced rates, to protect and renew Scotland's connectivity to the world.

We also continue to call for swift progress on the development and implementation of a Scottish Aviation Strategy. SCC note that the Scottish Government have recently launched a consultation on developing Scotland's national and international connectivity that seeks to allow Scotland to enjoy all the economic and social benefits of air travel whilst reducing our environmental impact and we will work with industry and aviation sector stakeholders to influence this strategy which should include long term plans for ADT.

The recovery of Scotland's aviation sector is the slowest in the UK and continues to lag behind the rest of Europe, making clear the need for this recovery strategy.

We endorse the report from Edinburgh Airport on *'The Importance of Aviation to Scotland's Economic Success'*, published over the summer which sets out where the sector's recovery currently is against competitors in the rest of the UK and Europe, and hope that the recommendations made in that documents will be reflected in the new strategy.

Scottish Income Tax:

The Scottish Government and the Tax Framework should seek to avoid any further divergence with the rest of the UK on Scottish Income Tax rates to attract talent and protect household incomes.

As previously set out in this consultation response, further negative divergence between Scotland and the UKs tax regimes will make it increasingly difficult for businesses based and operating here to attract the necessary skills and talent when other parts of the UK offer a lower income tax rate.

Scotland's Income Tax rate should return to and equalise with UK levels to create a level playing field for businesses and their employees and improve Scotland's competitiveness at a time when businesses need to be able to attract new employees to live and work in Scotland to allow businesses to grow and develop.

Upfront Business Costs:

Businesses remain in recovery and survival mode after 18 months of restrictions and economic disruption. To support Scotland's economic recovery SCC believe that no new taxes or levies should be imposed on business for the lifetime of this Parliament, including the scrapping or deferring of additional business taxes such as the workplace parking levy and transient visitor levy.

Land and Buildings Transaction Tax (LBTT):

The Scottish Government should equalise Scotland's LBTT rates and bands with UK SDLT equivalents to support recovery and transactions by, for example, extending the zero-rate banding for an extended period of time.

Supporting Business Development:

The Scottish Government should support additional Tax Incremental Financing (TIF) programmes as a way of securing infrastructure investment that unlocks regeneration and inclusive economic growth across Scotland.

The current and proposed TIF projects across Scotland demonstrate the private sector investment and job creation opportunities that can be generated through this sort of investment.

SCC believe the Scottish Government should engage with businesses to support more projects to develop enabling infrastructure which will generate additional public sector revenues to repay the financing requirements of the infrastructure.

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

Developing Scotland's Green Economy:

Scotland's businesses recognise the threat posed by climate change as well as the opportunities afforded by Scotland's drive towards Net Zero. A commitment to tackling climate change can provide significant benefits for companies willing to innovate and it's vital the Scottish Government's budgets support this.

Climate change is a risk to our way of life and how we do business but it is also an economic opportunity with the potential to create high value jobs as well as skills and innovation that can be world-beating.

The transition to Net Zero presents' opportunities for operational efficiencies, innovation and growth for existing sectors as well as those emerging to meet new challenges. Businesses can broaden their customer base, reduce high-intensity energy costs, enhance brand reputations and attract talent – all as a direct result of working collaboratively to achieve Net Zero.

It's vital that the Scottish Government recognise that businesses stand ready to help Scotland meet its climate change targets, but it is vital that they get the right level of support from government to allow them to do this in a manageable way that protects jobs, communities and regional economies.

Carbon intensive industries remain integral parts of Scotland's overall economic picture and the Scottish Government should prioritise investment in ensuring a Just Transition enables businesses and employees to successfully pivot.

The Scottish Government budgets should seek to build on initiatives such as the current Scottish Government's Energy Transition Fund to invest in our strategic strengths, leveraging our expertise in areas such as oil and gas into new technologies like carbon capture and hydrogen.

It's vital that businesses are not left behind in the race to Net Zero and appropriate support for employers and employees is provided by the Scottish Government to ensure Scotland's economy can ultimately benefit from the move away from oil and gas to green technologies and renewables.

Business Growth:

The overarching priority for the Scottish Government budgets throughout the course of the current Parliament must be on helping businesses recover and grow following the impact of the COVID-19 pandemic and EU exit.

Like the economies of most developed countries around the world, the UK economy has been significantly damaged by the coronavirus pandemic.

According to the Office for National Statistics (ONS), the economy is "in the doldrums", having contracted by 24.5% since February 2020.

If Scotland is to return to pre-pandemic levels of growth the Scottish Government must give businesses the support they need by slashing up-front business costs to empower them to grow the economy again, create jobs and wealth and power Scotland's investment potential.

Town and City Centre Recovery:

The Scottish Government should recognise the extensive damage that office, retail and hospitality closures have had on Scotland's town and city centres. Leading to the loss of thousands of retail sector jobs and premises through reduced footfall and the move to on-line work and retailing.

Ensuring that our town and city centre economies can recover should also be a priority for the Scottish Government and SCC would encourage the Scottish Government, COSLA and local authorities to all work together to support business recovery.

International Trade:

Growth in exports drives job creation, boosts productivity and strengthens business resilience.

The growth of world markets, the rapid adoption of e-commerce, increasing logistics options, and free trade agreements have made exporting more viable than ever before, even for the smallest of companies.

That's why the national economic strategies of both the UK and Scotland need to keep pace with the realities of how globalisation is changing and the implications for our ability to trade, attract talent to work and study here, and attract investment flows. We should play to our strengths and play to them globally.

Scotland's international travel and trade sectors are also vital to the Scottish economy and SCC want to see a new Scottish Aviation Strategy developed to support the aviation and tourism sectors recover. Even today with the remaining restrictions on international travel many businesses have been unable to re-open fully or return to pre-pandemic levels of operating capacity and it's vital that those businesses in this crucial sector are adequately provided with specific, targeted support to enable the industry to fully recover.

Even at the height of the pandemic, SCC continued to operate our international trade service and in 2020 -2021 delivered 25 virtual trade missions, securing £3.3 million worth of sales to date and £8 million worth of sales in the pipeline. Exporting Scotland's goods, services, and produce to the world is a vital part of growing Scotland's economy and the Scottish Government should also prioritise support for international trade over the next 4 years, particularly as businesses seek out new and emerging markets and make the most of new free trade agreements and international trade deals following the UK exit from the EU.

Invest in Scotland's Workforce and Skills:

Our people are at the heart of our businesses. We need access to the best talent to drive business growth and a clear plan to upskill and reskill our workforce at all levels. Productivity growth is the sustainable way to secure effective growth in quality jobs and increase our output.

Successive governments have struggled to make a meaningful improvement and our view is that the single most important contributing factor is education, training & upskilling at all levels.

The impact of the pandemic and EU exit have laid bare the workforce and skills challenges facing Scottish businesses with shortages of staff emerging across a number of sectors.

It's essential that the Scottish Government works with industry to support Scotland's workforce to upskill and reskill to match the needs of business.

It's also essential that Scotland is an attractive location for employees so that Scotland's businesses can pull in the necessary skills and talent they need to help them succeed and this is why any further divergence in Scotland's tax landscape should be avoided to enable Scottish employers to remain competitive domestically and internationally.

Investing in Scotland's talent and skills pipeline is vitally important, however, to meet the demographic challenges facing Scotland and to provide businesses with the talent and skills they need now and in the future, it's also important that the UK immigration system breaks down barriers and becomes increasingly flexible to enable it to meet the demands of business, industry and the wider economy.

Infrastructure and Connectivity:

Scotland's businesses want to see the development of infrastructure and connectivity as a top priority for the Scottish Government and further investment.

By rebuilding and renewing Scotland's infrastructure for the future, the Scottish Government can provide businesses and the economy with a much needed shot in the arm that will speed up Scotland's economic development and turbocharge growth, particularly in remote and rural areas, unlocking the potential of Scotland as a world leader in green technology.

Infrastructure connects people to jobs, businesses and trading opportunities locally, nationally and globally. Investment in new transport technologies, digital connectivity, energy transition to Net Zero, rail expansion and more will also play a critical role in allowing Scotland to reach its Net Zero targets by 2045.

ENDS

ABOUT SCC: The Scottish Chambers of Commerce Network sits at the heart of local business communities, representing over 12,000 businesses in Scotland. With 30 local Chambers rooted in communities across Scotland, the Chamber Network provides practical advice and support to Scottish companies through unrivalled expert leadership, business-to-business connections, mentoring/coaching, business support services and international trade support.