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By email
Shona Robison MSP
Deputy First Minister and Cabinet Secretary for Finance
Scottish Government
Edinburgh

Dear Deputy First Minister,

Strategic Approach to Tax

The Scottish Retail Consortium (SRC) understands that Ministers will soon publish a refreshed Tax Strategy.

Scotland's retail industry has a real stake in debates on taxation. Decisions on tax can materially impact household disposable incomes and therefore the amount shoppers' have to spend. Retailers' outlays on tax can help or hinder their ability to keep down prices for customers and invest.

SRC has previously contributed to numerous Scottish Government and Parliament consultations, Bills, and inquiries on taxation, as well as government-appointed commissions including the Barclay Rates Review and Commission on Tax Reform. Indeed, SRC has been a vocal supporter of several of the administration's tax decisions over recent years, including more frequent commercial property valuations, reducing the time between valuations and implementation, retention of the Uniform Business Rate, and the pledge in the 2021 Framework for Tax to restore business rate parity with England for larger commercial premises.

SRC welcomed the thrust of the Framework for Tax and the six principles of good taxation it set out, especially around the need for a coherent and holistic approach, minimising surprises, and delivering greater predictability in tax policy making.

These principles should continue to apply, albeit we would suggest that some subsequent policy decisions failed to abide by the original principles. Examples include:

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- Levying a business rate of up to 55.9p in the pound in 2024-25 and at a 25-year high, and thus making it much more expensive for medium-sized and larger stores to trade, sits at odds with the administration's broader policy on reviving town centres and high streets.
- The spectre of a business rate public health surtax on grocers as revealed in the Scottish Budget. That such an arbitrary surtax is being countenanced came as a total shock, more so given it jars with the New Deal for Business commitments to involve business at the inception of policy development. Making Scottish grocery stores liable for the highest business rate in the UK and treating them like a milch cow would breach promises on business rates competitiveness and have real world implications for stores and customers.
- The consideration being given to making eligibility for business rate reliefs conditional on fair work similarly came out of the blue and with little apparent thought to businesses' operating costs and cash flow.

Hopefully, the revised Tax Strategy will signal a move away from ad hoc extra levies and surtaxes. Over and above this, we would suggest consideration be given to a further principle, namely competitiveness.

Competitiveness is necessary given the urgent need to stimulate greater levels of private sector investment and consumer demand, to ensure a strong economic recovery. Competitiveness was alighted on in the New Deal Implementation Plan, however the potential public health surtax, continuing disparity between Scotland and England on the Higher Property Rate, and lack of any commensurate Retail, Hospitality & Leisure relief compared to Wales and England, are but three examples of where it remains to be realised. Too often government gives the impression that business rates and perhaps tax more widely is viewed largely as a revenue generator instead of a means of encouraging investment and stimulating growth. The Tax Strategy can hopefully address that, including by reasserting the commitment to finally delivering a level playing field with England for firms liable for the Higher Property Rate.

We suggest the principles of good taxation be extended to parliamentary procedures too when it comes to tax policy making. For example, in February 2020 the Uniform Business Rate was under threat in Parliament without so much as a consultation or business and regulatory impact assessment (BRIA). It was profoundly troubling that a change of that magnitude could reach such a critical point and vote in Parliament with negligible consideration for the economic implications or for those affected. It's a deficiency that raises questions about whether the parliamentary mechanisms for making taxation changes of this magnitude are sufficiently rigorous. A comprehensive and coherent approach towards devolved tax policy making should equally apply to tax changes initiated in Parliament.

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This autumn SRC will set out our members' Scottish Budget recommendations. However, as set out as far back as our 2016 submissions to the Barclay Rates Review and Holyrood inquiry into Council Tax Reform, we believe Scottish Ministers should provide a clear road-map setting out the intended tax reforms and likely changes which are set to impact on individuals and firms over the next decade. This would enhance transparency and predictability on tax policy making. In the context of business rates, this would provide an opportunity to pursue a more ambitious and timetabled approach to lowering the poundage rate permanently and putting it on a more sustainable footing.

Such a tax roadmap should take account of the regulatory pipeline facing business too. There is a veritable gamut of new regulatory initiatives affecting Scotland's retailers either under development or in the pipeline. At a devolved level these include: in-store restrictions on the selling of products high in salt and sugar; in-store restrictions on the promotion of alcohol products; the administration associated with the increase in the alcohol minimum unit price; the ban on disposable vapes; the introduction of a levy on disposable drinks cups; personal licenses for selling fireworks. We understand that the Scottish Government is in the throes of mapping out the intended regulatory reforms which are set to impact on firms over the years ahead, and this should dovetail with the Tax Strategy.

There has been a plethora of new local taxes and charges pursued in recent years including workplace parking levies, a tourism visitor levy, and the doubling of council tax on second homes. More are potentially in the pipeline including a levy on disposable cups (e.g. for hot drinks or slushies) and a potential cruise ship levy. The devolution of these to local authorities appears to have been done in a piecemeal fashion. A more strategic approach to this area of tax policy would be helpful, ideally as part of the roadmap. A kaleidoscope of differing local taxes may help plug gaps in councils' finances. However, it can add complexity and cost to the operations of businesses and make budgeting trickier (the late decisions on council tax seen in recent weeks don't inspire confidence in that regard). It can also impinge on customers' disposable incomes. Any consideration of further devolution of taxes, levies and charges to councils should factor in the perspectives of business, the impact on firms' costs and on consumer spending, as we remain to be convinced this will be something councils themselves will be interested in.

This should equally apply to any proposed replacement of council tax, which could easily impact household disposable incomes as well as employers depending on the model used.

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Ministers have previously asked about alternatives to business rates. SRC is open minded about reform. However, we would want to better understand the implications, potential trade-offs, whether a replacement would be fiscally neutral, and whether an alternative would work in both good and bad economic times. The recent bumper £193 million hike in the business rate for medium-sized and larger commercial premises, a rise double that of CPI inflation, coupled with the mooted public health surtax, add to doubts about whether any replacement tax would be fiscally neutral.

Further to this we note the increasing complexity of Scottish income tax, which now has six bands compared to three elsewhere in the UK. The added complexity runs the risk of inadvertent incentives due to interactions between both Scottish and UK tax rates, and makes it potentially more expensive and challenging for employers in Scotland to attract and retain the specialist and senior talent they need. We would hope the Tax Strategy can acknowledge this complexity and bring a strategic focus to delivering a simpler approach.

Finally, tax is of course but one side of the equation. As SRC has previously advocated, there needs to be a commensurate focus on controlling devolved public spending and government running costs. Ideally, this ought to be the starting point before any consideration of the income which is required to be generated. We hope this will be addressed in the upcoming iteration of the government's Medium-Term Finance Strategy.

I trust this is of some assistance. If you would like to discuss it further do let me know.

Yours sincerely,

David Lonsdale
Director, Scottish Retail Consortium

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