

# TAXJUSTICE.UK

## Tax reform for an inclusive and green economic recovery for Scotland

**August 2020**

[Tax Justice UK](#) campaigns for everyone in the UK to benefit from a fairer, and more effective, tax system. Our role is to build the political pressure needed to translate good policy ideas into practice. We provide the crucial links between think tanks and academics on the one side, and the levers of power on the other.

This briefing note builds on the Just and Green Recovery [letter to the First Minister](#) signed by over 80 organisations calling for a radical coronavirus recovery plan that delivers a fairer and greener Scotland. As the letter sets out, “a simple return to business as usual is both unrealistic and undesirable”. This cannot happen without reform of the tax system. This is important both to raise money to help support government spending and to tackle deep seated inequalities in Scotland.

The report by the [Advisory Group on Economic Recovery](#) provides a good starting point for these discussions, but we would urge the Government to go further. There are constraints on what can happen within the existing constitutional framework, for example most taxes on capital are reserved. In addition, the Scottish Government’s room for manoeuvre is constrained because it lacks the ability to borrow, to control much of its tax base or consequent revenue, to create currency and to undertake quantitative easing. The Scottish Government also has to contend with the lack of consistency over which powers are devolved e.g. income tax rates, but not the personal allowance.

However, there are options available to the Scottish Government as outlined in this briefing. At the moment the Scottish Government is not using its existing tax powers to the full extent and so missing a key opportunity to move towards its [long term](#) objectives of “lower poverty levels, greater equality, inclusive communities and respected and enhanced realisation of human rights”.

### **Apply tax conditions for support to businesses**

The Advisory Group report recommends that the Scottish Government consider “targeted use of rates relief to incentivise economic recovery and greater use of conditionality in business support”. This provides the government with an opportunity to promote fair business practices as part of an equitable recovery from the crisis. The government should tie any provision of support (whether rates relief or Covid bailouts) to a clear set of conditions, which could include the [Business Pledge](#), [Fair Work First conditions](#), the [Living Wage](#) and becoming a [Disability Confident Employer](#).

The Scottish Government has already adopted a provision that would deny Covid bailouts to any companies registered in a tax haven. The Government should go further, and require a positive commitment to good tax behaviour from any business receiving support. This could include a requirement to adopt the [Fair Tax Mark](#), or equivalent standard, such as the [Global Reporting Initiative 207 standard on tax](#). However, in the [same session](#) that the tax havens’ provision was adopted, the Government voted against a proposal to introduce public country-by-country reporting. This is disappointing given the [SNP’s manifesto commitment](#) to increase transparency

around the tax affairs of multinational companies and aligns with Westminster's stalling on the question. The Government should set out a clear timetable for introducing greater transparency measures.

### **Reward responsible tax conduct in procurement**

The EU Procurement Directive and its subsequent implementation in the UK has meant that poor tax conduct is rarely, if ever, a meaningful factor in public procurement decisions. However, 'good' tax conduct can, and should, be a consideration given its contribution to enabling better identification and mitigation of financial and corruption risks by contracting authorities and the public desire to see good tax conduct rewarded. The reform of the UK's procurement rules, necessitated by Brexit, offers a unique opportunity to introduce measures that will encourage responsible tax conduct including the following areas:

- No artificial use of tax havens,
- Clear and transparent reporting of income, profits and tax, and
- Disclosure of who ultimately profits from and has significant control over a business.

### **Redistribute wealth through tax reform**

Wealth is deeply [unequally distributed](#) in Scotland, with the top 10% of households owning 41% of net wealth. The Scottish Government should use the powers it has on tax to raise revenue in a way that enables redistribution. While the measures introduced to date (e.g. on income tax and council tax) have made the Scottish tax system more progressive, they have been relatively marginal compared to the overall tax take. For example, these changes [represent](#) only two percent of the government's resource budget.

A key area for reform is taxes on land and property, where there is widespread recognition that the status quo is not sustainable. The Scottish Government has already introduced some changes, including a tourism and work parking levy. However, it should be more ambitious and replace the existing system with one that is more closely aligned with the value of the property and the underlying land as outlined in the cross-party report from the [Commission on Local Tax Reform](#) (and others, including [trade unions](#)). A 2019 report by the [Resolution Foundation for the Scottish Poverty and Inequality Commission](#) highlighted the current flaws with the existing approach and set out the case for reform. [Polling](#) by Tax Justice UK found 70% of respondents in Scotland supported reforming council tax so that it is more closely tied to a home's current value.

The Scottish Government should also look into reforming the business rates system. Building on the work of the [Scottish Land Commission](#), the government could replace business rates with a land value tax. The government also needs to look at the value of the £750m of reliefs granted under the current business rates regime. This would fit with the call from the [National Audit Office](#) for much better assessments of all UK tax reliefs to ensure they deliver value for money.

The Scottish Government should open up the land register, and ensure it captures older estates that are not currently listed. This would build on the work to date to [improve land registration in Scotland](#). No sustainable economy will be built on what is effectively anonymous ownership of most of the country. The [Register of Controlling Interests](#) should be launched before the end of Parliament.

In the longer term, the Scottish Government should consider innovative ways of using its existing local tax powers. IPPR Scotland's 2019 report, [Thinking Bigger on Tax in Scotland](#), set out a number of ways of doing this. The Government should commit to publishing an assessment of what taxes it could introduce and the impact that they would have on a fair recovery. This would allow the Scottish Government to show real leadership and commitment to tackling poverty.

### **Use the tax system to tackle the climate emergency**

[A report commissioned by PCS union and Platform](#) estimated that the cost of giving tax breaks to North Sea oil firms is £250bn. While this is a reserved matter, the Scottish Government should look at clawing back the significant tax subsidies to North Sea oil. Ideally this should happen retrospectively, but at the very least this should apply to future tax exemptions. Continued subsidy of such a polluting industry cannot be compatible with the Scottish Government's commitment to tackling the climate emergency.

The Scottish Government should also use its powers over aviation taxation to support its commitment to reach net zero emissions by 2045. One option is to introduce a [Frequent Flier Levy](#).

### **Support UK-wide tax reform**

There is increasing political acceptance that the UK government will have to raise taxes in the medium and long term to support the growing size of the state. This will lead to debates about the fairest and most effective way of doing this. [Tax Justice UK and 17 other organisations have set out](#) five principles that the UK government should adopt and we would encourage the Scottish Government to implement these reforms where powers are devolved and call for action at from the UK government where they are not:

- **No bailouts for tax dodgers:** [Require companies receiving large bailouts](#) to end artificial tax avoidance arrangements and tax haven structures, publicly disclose where profits are made and who benefits, and publish their tax policy.
- **Tax companies properly:** [Close down loopholes](#), end the tax subsidies many companies enjoy, bring in a higher effective tax rate and [require the publication of corporate tax affairs](#).
- **Tax wealth more:** Ensure that income from wealth is taxed at least as much as income from work. Reform areas where wealth is currently under-taxed, such as [property](#), [inheritances](#), [capital gains](#), [dividends](#) and [pensions](#). Actively consider a wealth tax, potentially following the recommendations of a [major multidisciplinary research project](#) into this issue that is currently underway. Many of these taxes would have to be introduced at Westminster. However, some versions of these could be introduced at a local level in Scotland.
- **Stop undermining the tax systems of other countries:** Argue that [tax loopholes and secrecy provisions](#) that deprive other countries of revenue should be shut down.
- **Enforce the rules:** Clamp down on tax dodging. Push for HMRC and Companies House to be properly funded and ensure that they have the tools so that they can enforce our laws. Where the Scottish Government has the power, it should lead by example by holding companies and individuals to account. Where the relevant powers are not devolved, the Scottish Government should condemn ineffective enforcement.

Tax Justice UK has published more detail on these UK-focused recommendations [here](#).

Please contact Robert Palmer if you have any questions - [robert@taxjustice.uk](mailto:robert@taxjustice.uk).