

Scottish Government consultation: tax policy and the budget

Response from the David Hume Institute

Context

In August 2021 the Scottish Government sought views on the overarching approach to tax policy, through Scotland's first framework for tax, and how devolved and local tax powers should be used going forward.

About the David Hume Institute

[The David Hume Institute](#) is an independent Scottish think tank which continually challenges itself and others to ensure the future is prosperous, inclusive, sustainable and fair.

In our work, the Institute listens to and reflects on a wide range of sources. We engage with a wide range of people across Scotland including those who are seldom heard; from different ethnic and cultural backgrounds; different genders, ages and abilities.

In 2020-21 the David Hume Institute conducted the largest multi generational research project in Scotland in the last five years. [The Action Project](#) brought together people from across Scotland to consider the actions needed to move faster towards a more prosperous, sustainable, inclusive and fair country. Over 5,000 people identified actions they want to take to help Scotland *build forward better*.

The David Hume Institute worked with partners to reach people of all ages and backgrounds across Scotland. These included U3A, the Scottish Youth Parliament, the Children's Parliament and local organisations like InspirAlba in Campbeltown and Resonate Together in Alloa. The Institute listened to the conversations, then analysed themes and patterns. The website, [WhatsYourAction.scot](#) presents the findings and encourages others to have their say.

Throughout the Action Project research many people commented on elements of the tax system. Often the issues raised were related to complexity or perception of fairness or unfairness.

DHI supports the call from ICAS for more "**honest public debate about who should pay tax and how much they should pay**". We hosted Charlotte Barbour of ICAS and Dr Arun Advani in conversation to discuss his research which looked at the complex relationship of different taxes when individuals are able to restructure income. A [recording of the event](#) can be viewed on our website.

Consultation Response

1. What are your views on the draft Framework for Tax?

- We welcome the Framework. Clear, accessible language is critical to create more understanding about the important role tax plays in society. Research conversations as part of the Action Project emphasised the lack of understanding of Scotland’s tax powers even as people recognise its potential to transform the country.
- Having a coherent narrative that joins up tax policy with the National Performance Framework and Climate Change Plan helps businesses and investors plan for the medium term direction of travel.
- Simplification and public understanding are rightly identified as important factors to underpin a fair tax system and are critical to accountability.
- We welcome the tone which moves away from limiting and old fashioned language like “tax burden” where the modern meaning has changed. Historically a burden meant duty but today carries the negative association of being weighed down.
- The document sets the direction for tax decision making and commits to the principles of simplicity and consistency. It is important to avoid the complicated connections between different tax reliefs. Introducing tax reliefs in order to drive behaviour change can be problematic and other mechanisms may be more suitable. If a relief is found not to drive the desired behaviour or has unintended consequences it can be hard to remove once in place.
- Timing of budgets and sequencing is rightly highlighted in the consultation document. Multi-year spending plans help public sector services and bodies in receipt of public funding to plan effectively but this has been difficult for the Scottish Government to achieve. Effective resource planning across all of the Scottish Government will create a more coherent picture. The steps and policy implications of this is covered in the David Hume Institute briefing on [multi-year spending plans](#).
- The commitment to post implementation review of any tax changes is welcome.
- The Framework mentions an intention to reduce tax avoidance. There is significant research on this area including Dr Arun Advani’s work on [who does and doesn’t pay tax](#) to ensure effective targeting of tax audit. Dr Advani has also researched the [Dynamic effects of tax audit](#) which investigated the long run effect of tax audits on taxpayer compliance behaviour.

- Going forward, is there opportunity for the intelligence gained from the new HMRC powers be shared with devolved nations?

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

- In recent years, a significant proportion of Scotland's working age population has been migrants. With Covid and EU-exit affecting migration patterns this creates risk in the labour market and has the potential to have a larger adverse effect on Scotland's total tax take than elsewhere in the UK.
- Ensuring tax policy does not disincentivise PAYE employment is critical to the Scottish exchequer.
- We welcome the proposed Citizen Assembly on council tax - this is an area that is widely recognised as needing reform but has become highly political. It came up consistently in Professor Duncan Maclennan's work [A Scotland of Better Places](#). Continuing the status quo indefinitely should not be an option and this work should be expedited.
- The pace of change to a cashless society has been accelerated by Covid. It is not clear if the Framework for Tax has considered if this will impact on its approach or ways of working.

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