Finance Committee

The Scottish Rate of Income Tax

Submission from STUC

Introduction

The STUC welcomes this opportunity to provide views on the Scottish Rate of Income tax given that there has until now been insufficient consideration of how new tax powers should be used. In addressing the SRIT, the STUC also believes it is important to reflect upon the type of income tax system Scotland should ultimately aspire to.

STUC Position on SRIT

The STUC believes that SRIT should remain at 10p (i.e. neutral) for 2016-17 for two reasons:

- *Economic circumstances*: the recovery from the recession precipitated by the banking crisis and prolonged period of stagnation that followed is far from complete: unemployment is still some 40% above its 2008 level, underemployment remains high and the prevalence of precarious low wage has increased. The global economic outlook is highly uncertain as is the impact of raising interest rates on (still) highly indebted households. Although, in global terms, it is clearly a significant boost to demand the low oil price raises specific concerns for Scotland; and,
- *Fairness/distributional consequences*: while there is a very strong case for seeking to increase revenues from those currently in the higher and additional rate brackets, this cannot be achieved through the SRIT. The STUC is concerned at the impact of a tax increase on lower wage workers – particularly those in precarious employment - when wages, which experienced a historically unprecedented collapse between 2009-14, have barely started to recover. The STUC will continue to press the case for tax to be increased at UK level in a progressive fashion Low wage workers should, at least for the time being, be insulated from increases with the responsibility placed firmly on those in the higher and additional rate brackets.

However, the STUC would also stress that:

- it isn't credible to consistently highlight the impact of spending cuts on society's most vulnerable and not to consider raising taxes to support the delivery of the services upon which they rely most. The Scottish Government should accompany any decision to leave SRIT at 10p in 2016-17 with a comprehensive statement on tax policy in the future. As described above, the STUC's position this year is informed by the

prevailing economic circumstances as it is by the principle of tax progressivity. It is feasible that in future years the STUC will propose an increase in SRIT if the economic circumstances dictate that low earners could more easily bear an increase.
- In the longer-term, raising total tax revenues as a percentage of GDP is necessary to support, the more equal, fair and democratic society desired by both the Scottish Government and the STUC. This will involve higher income tax rates and lower thresholds for higher earners but will inevitably mean everyone contributing more through both income and consumption taxes. The STUC notes international evidence strongly suggests that the scale of taxation is more important for reducing inequality than progressivity. In this context, it is not credible for the Scottish Government to prioritise inequality while proposing only a series of tax cuts (SBBS, Air Passenger Duty, additional corporate reliefs).

Advocates of lower taxes will, as usual, claim that cutting the SRIT below 10p will boost growth and jobs in Scotland. There is very little evidence to support this claim:

- Taxes are not high by historical standards;
- There is mounting evidence that cutting the taxes of the highest paid is actually detrimental to investment and jobs as the incentive to boost pay and bonuses rises as the tax rate falls;
- Although there can be a case for tax cuts – particularly for the lowest paid who have a higher propensity to spend - in a recession to boost economic activity, the stimulatory impact of a cut in SRIT is very poorly targeted as everyone including higher and additional rate payers benefit; and,
- SPICe research indicates that the incentive effect of lowering SRIT will be extremely muted. However, the impact on revenues will be immediate. Income tax cuts in current circumstances will not pay for themselves.

STUC
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