

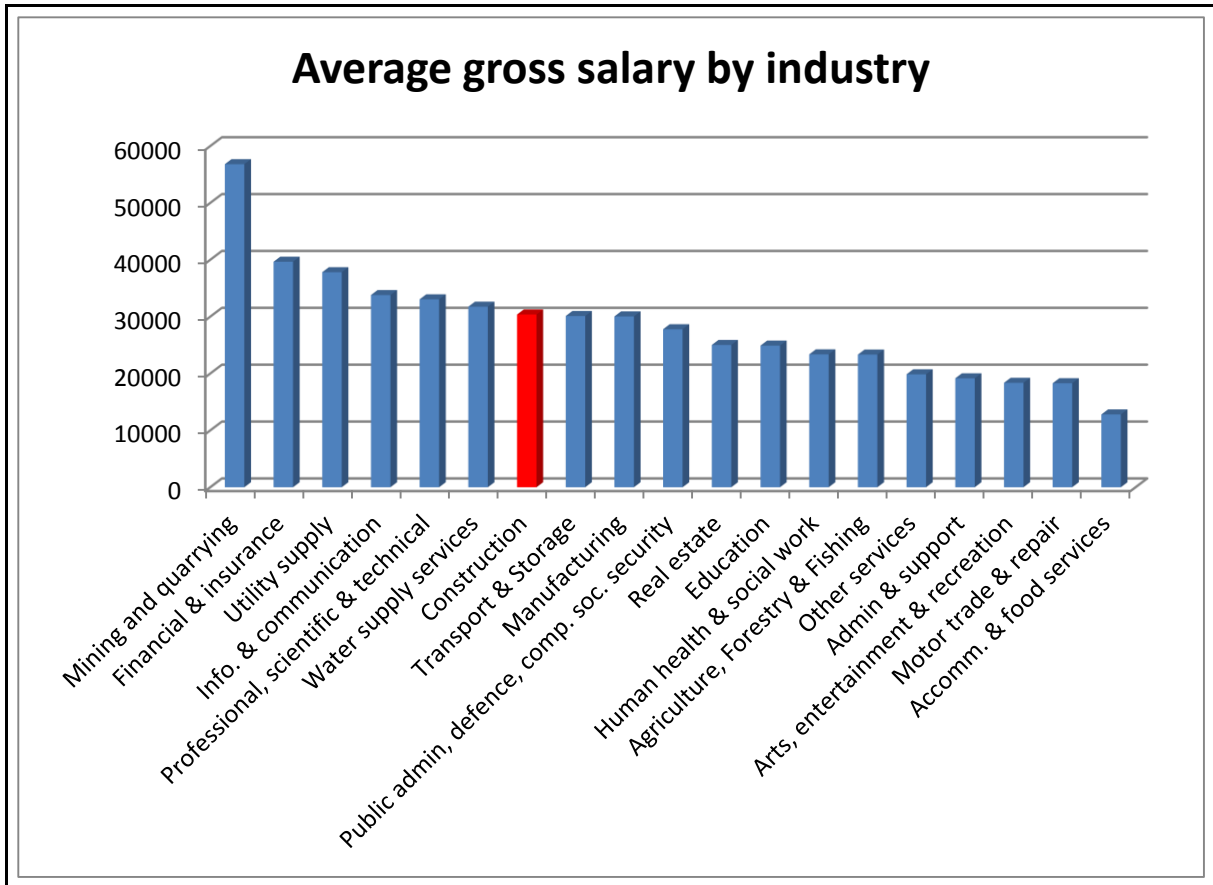
Finance Committee
The Scottish Rate of Income Tax
Submission from Scottish Building Federation

About the Scottish Building Federation

The Scottish Building Federation is the principle trade association representing employers in the Scottish construction industry. Our membership comprises hundreds of construction businesses located throughout Scotland from Orkney to the Borders and ranging from sole traders and local building firms through to major contractors.

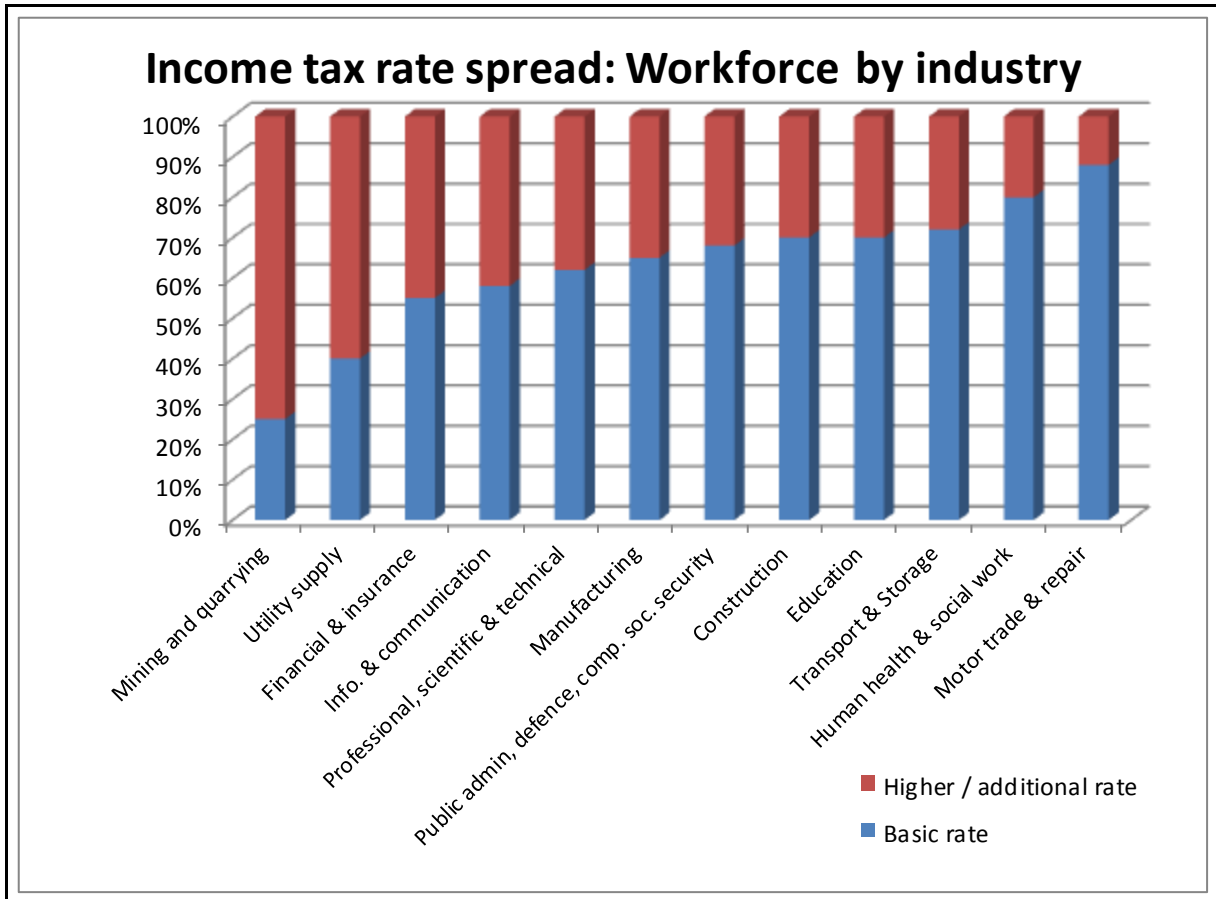
Tax profile of the Scottish construction workforce

Based on the most recently available statistics, the Scottish construction industry ranks relatively high amongst Scotland's main economic sectors in terms of the average gross salary of workers. In 2014, the average gross salary within the industry was £30,374, compared to an average for all Scottish workers of £27,271. The average salary within the industry ranks slightly ahead of transportation and storage and the manufacturing sector but significantly behind the financial and insurance sector, utilities and (most notably) the mining and quarrying sector, which includes the oil and gas exploration industry.



Source: ONS Annual Survey of Hours and Earnings (ASHE) 2014

Looking at the spread of income tax rates presents a slightly different picture. There are a relatively higher proportion of construction workers paying the basic rate of income tax in comparison with other prominent sectors of the economy. At around 70% of the total workforce, this is notably higher than manufacturing and broadly comparable to the education sector. As a comparison, almost 75% of all Scottish workers are basic rate income taxpayers.



Source: ONS Annual Survey of Hours and Earnings (ASHE) 2014

The Scottish Rate of Income Tax

From 1 April 2016, the basic rate, higher rate and additional rate of income tax will be reduced by 10% in Scotland and the Scottish Parliament will then be required annually to set a new Scottish rate of income tax (SRIT) which will apply equally to all rates.

The Scottish Building Federation’s view

If the Scottish Parliament were to seek to generate additional tax revenues by setting the SRIT at a level higher than 10%, we have grave concerns about the impact this could have on the Scottish construction industry given the relatively high level of basic rate income tax payers working within the sector. Firstly, it is anticipated that such a measure could result in inflationary pressures as hard working employees seek to sustain levels of net pay. Consequently, such a policy could drive up labour costs at a time when the industry is attempting to embed growth and sustain a degree of recovery following several years in which the sector endured a substantial contraction. This impact could be further exacerbated by a general shortage of

skilled labour due to a significant downsizing in the construction workforce as a result of the recession.

Secondly, with a flexible and often mobile workforce, it would be considered detrimental to the prospects of the construction industry in Scotland to set a basic rate of tax which is higher than that of the rest of the UK. It is expected that this would hamper the recruitment and retention of talented and skilled workers in the construction sector – placing Scottish employers at a competitive disadvantage in the labour market in comparison to their counterparts in the rest of the UK. In addition, the fluid nature of construction work, with Scottish based companies and workers regularly operating across the rest of the UK (and vice versa), could potentially exacerbate perceived ambiguities surrounding the appropriate rate of income tax to be paid given the prevailing circumstances.

Furthermore, an increase in the basic rate of income tax would in all likelihood encourage a degree of behavioural change towards self-employment (occasionally even ‘phony’ self-employment) as some parties may seek to avoid the additional tax burden. Finally, concerns have also been raised that an increase in income tax rates could stimulate activity in the black market as less scrupulous operators seek to avoid incurring additional tax liabilities by working cash-in-hand.

Conversely, at the current time, we would have serious concerns about any moves to set SRIT at a level lower than 10%, given the likely impact on Scottish tax revenues and the additional pressure this would place on budgets in key areas including housing and infrastructure.

Conclusion

We will observe with interest any future moves to devolve additional control over income tax to the Scottish Parliament as part of the new Scotland Bill 2015-16. In the meantime, we would caution against any moves to differentiate Scottish income tax policy from that applicable elsewhere in the UK for the reasons outlined above.

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