

Finance Committee

The Scottish Rate of Income Tax

Submission from Scottish Council for Voluntary Organisations

Summary

- Before we can have an open conversation in Scotland about tax rates, we should look at what tax is for and what language we use when talking about tax.
- In particular, the use of the terms 'taxpayer value' and 'taxpayer' in place of 'individual' or 'citizen' are unhelpful, and lead to a skewed set of priorities and a demonising of those who do not contribute through paid work and income tax.
- The tax system as a whole must be progressive, and alongside the discussion on SRIT it would be helpful to consider what impact any changes will have on people through the combination of all taxes, particularly those such as local taxes which are currently being reviewed in Scotland.
- Generally speaking, taxes should be raised at the level at which they are spent – linking into the principle of subsidiarity, and helping to improve accountability and transparency.
- If extra money is raised through the SRIT, it must be used to reduce inequalities and support social security and public services. As examples, it could perhaps be spent on preventative measures in recognition that we need to move to more preventative spend in coming years; or on improving the social security system as new powers come to Scotland.

Our response

SCVO welcomes the opportunity to respond to this consultation and would like to contribute the following, based on conversations with our elected policy committee, and with others across our sector and wider civil society.

Introduction

With new tax powers coming to Scotland, it is important that we begin by having a debate about the kind of tax system we want to see. Whilst some might feel that the tax system is not the remit of the third sector, without discussing what tax is for and how it can 'work' better we will not see the kind of society so many in our sector are working towards. From environmental levies, to taxes on financial transactions, to tax avoidance – it is clear that the tax conversation is important to the third sector.

We begin this response by looking at wider issues around what tax is for and what language we should use when talking about tax, before moving on to look at the specific options around the Scottish Rate of Income Tax (SRIT).

What is tax for?

We begin by asking the question 'what is tax for?'. Whilst this question may be an obvious one, we raise it here because without answering this question, it will be almost impossible for any political party to have complex discussions with the electorate about tax, and to build up support for changes to the current system. Without an understanding of what tax is for, the only sensible answer to the question of 'how much tax do you want to pay?' is 'as little as possible'. This is currently the conversation that is had regularly at UK-level politics, and is perhaps not one that should be emulated in Scotland.

It is worth noting that only 42% of Scottish resident adults at the last count wished to pay more tax in order to spend more on public services and welfare¹. So before or alongside any conversation regarding tax rates, there needs to be a wider conversation around income tax, the role it plays in public finances and what tax is used for. The mechanisms used by Calman and Smith to devolve some responsibility for this tax to the Scottish Parliament are welcome in principle but do unfortunately make understanding of tax more complex. The concern here is that such arrangements lack clarity, and are therefore likely to fail if they are unable to command public support.

Politically, raising taxes at the moment is unlikely to be a vote winner. Therefore politicians and others need to change the conversation around tax, in order to make sure that we can build a tax system that is sufficient for the needs of everyone in society. We need to make the case for what tax is for and the positive things it brings to our whole society – as a way to reduce inequality and to support social security and public services.

What language should we use around tax?

Linked to the comments made above, it is essential that the language we use to talk about tax and taxpayers changes. The question of 'taxpayer value' is often raised, without asking what that value means and to who. If value is defined simply as lowest cost, Scotland will never solve some of the complex problems in Scottish society nor provide proper support to those who find themselves in vulnerable situations.

The use of the words ‘taxpayer value’ also gives priority in the tax debate to the voices of those who pay ‘the most’, where ‘the most’ seems to be defined in actual rather than proportionate terms (the poorest in our society actually pay the most tax in proportionate termsⁱⁱ). There is a real danger that debates stated in these terms unfairly prioritise the needs and desires of the richest and side-line the needs of the poorest, despite the higher needs of the latter for robust public services and a supportive social security system.

Finally, there is concern in the sector around the constant insistence that taxpayers are the only valued members of society. The rhetoric of politicians regularly suggests the rewarding of so-called hard workers, and positions those who do not work and pay tax as less important in our society. Given that so much of the value of the third sector comes from those who freely give up their time for others, and that this is what supports and nurtures our society, and, indeed, is what often enables those 'hard workers' to go out and work in the first place, we find this language disturbing. People bring value to individuals, society and our communities in myriad ways, not just through paid work. For some, earning a living is never going to be an option, but this does not mean that they should be penalised nor demonised. So it is important that as we ask people who can afford to do so to pay tax, we do not at the same time dismiss the value of those who cannot.

For further information about our proposal to shift thinking to valuing people’s contribution to society in all its forms, see our public discussion paper on [employability, social justice and contribution](#).

Two principles for tax

Firstly, the tax system as a whole should be progressive. Whilst we recognise the restrictive nature of the SRIT powers, we know that more powers over tax are likely to come to the Scottish Parliament in future years, and we already have in Scotland powers over Council Tax. The Scottish Parliament must therefore ensure that the tax system is as progressive as we can make it under the current powers, looking at local taxes as well as the new SRIT, in order to ensure that people pay an amount that takes into account the proportionate amount they can afford to pay. With so many of our members supporting those who either require social security support, and/or who suffer from low pay, we recognise how vital it is that people are not asked to pay more than they can affordⁱⁱⁱ.

Secondly, SCVO supports the principle that each layer of government ought, generally, to be accountable for raising the money it spends. This links to the notion of ‘subsidiarity’, which speaks to many of our members in the third sector who seek to link democracy, community and individuals more closely. The hope is that by increasing accountability and transparency at each level of Government, citizens can have a real say in how collective money is spent and in how political decisions are made.

What rate should be set for SRIT, and what should the extra money be spent on?

Given the issues raised above related to both the conversation around tax as it has taken place in the UK to date, and the need to use tax to reduce inequalities and support social security and public services, the question that some of our members are asking is whether or not the Scottish Parliament will ‘grasp the nettle’ on income tax. With more new powers coming to Scotland under the Scotland Bill, and the Scottish Government’s Economic Strategy that gives significant weight to tackling inequality, how can we use the tax system

to directly tackle income inequalities, and to proactively tackle inequalities in terms of education, health, opportunities and more?

In terms of the new powers coming to Scotland in 2016, we see that an SRIT rate of 11p will increase an approximate block grant of £30billion by about 1.4%^{iv}, assuming only minor adjustments will be made to the block grant (although we understand that the finer details of this are yet to be fully worked out^v). This money should be spent in a variety of ways that would support the most vulnerable in our society, improve our economy, and help Scotland improve individuals' health and wellbeing.

We do not take a view on whether there should be an increased income tax rate or not. But if there is, we call for clear information to the public about what this money will or could be used for. It is vital that any increase in tax sends out a positive signal about the benefits that tax can bring to our society, particularly our poorest and those in vulnerable situations.

On the above basis, therefore, we would like to see these new powers coming to Scotland in 2016 as a way to change the tax conversation, to demonstrate the positive things that tax can bring to society, and to use tax as a way in for people to see and understand what money is spent where. As an example, the Cabinet Secretary for Finance could say, "yes, we are going to increase tax to make the SRIT 11p, but with this extra £400m we are going to take a specific stated action in order to improve the lives of these specific people across our society" – in this way the conversation around tax perhaps would or could change. After all, if the Scottish Parliament is going to ask all income-tax payers to contribute more, isn't it right that this extra money goes toward increasing preventative, person-centred spend, in order to prepare us for changing times ahead?

Another option would be to use any extra tax raised to move towards the kind of social security system many in the third sector would like to see^{vi}, beginning with those benefits which are already set to be devolved to Scotland. A supportive and person-centred rather than punitive social security system, that supports the health and well-being of claimants^{vii}, could give a real lift to those in need. Extra tax could even be used to explore the testing of a Citizen's Income^{viii} which allows for an unconditional basic level of income to go to citizens, and which seeks to address many of the issues faced by those who cannot work full-time due to caring responsibilities, illness and so on. (A trial of a Citizen's Income is soon to begin in Utrecht^{ix}.)

What about reducing tax levels?

Of course, some will no doubt argue for a reduction in income tax levels. Given the current challenges faced by the poorest in our society, the further challenges that will be faced with increase UK-wide welfare reforms and public spending cuts, and the impact that wealth and income inequality has on our society and economy^x, we do not support any reduction in income tax from current levels. Whilst some will argue that cuts will help stimulate the economy, given the hardships currently faced by so many our sector supports, those we have spoken to within our sector ahead of this submission do not support such a stance.

Conclusion

Tax is not an easy thing to talk about, and the new powers that Scotland had this year and then again will have next year means that national politicians have to open up a conversation with the electorate about tax levels. In order to reduce the likelihood of this becoming a 'race-to-the-bottom' conversation, it is essential that we seek to change how we talk about tax, with discussions about what tax is for, the positive contributions to society that tax can bring, and the collective benefit of contributing where we can. By doing this alongside being transparent about where funds are spent, we can ensure that Scotland is able to provide the infrastructure and services its people needs.

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About us

The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the third sector. There are over 45,000 voluntary organisations in Scotland involving around 138,000 paid staff and approximately 1.3 million volunteers. The sector manages an income of £4.9 billion.

SCVO works in partnership with the third sector in Scotland to advance our shared values and interests. We have over 1,600 members who range from individuals and grassroots groups, to Scotland-wide organisations and intermediary bodies.

As the only inclusive representative umbrella organisation for the sector SCVO:

- has the largest Scotland-wide membership from the sector – our 1,600 members include charities, community groups, social enterprises and voluntary organisations of all shapes and sizes
- our governance and membership structures are democratic and accountable - with an elected board and policy committee from the sector, we are managed by the sector, for the sector
- brings together organisations and networks connecting across the whole of Scotland

SCVO works to support people to take voluntary action to help themselves and others, and to bring about social change.

Further details about SCVO can be found at www.scvo.org.uk.

ⁱ Is it really all about economics? Issues of nationhood and welfare, NatCen 2013.

ⁱⁱ Tax for our times, Daisy Srblin, 2015

ⁱⁱⁱ See SCVO's submission to Commission on Local Tax Reform, 2015

^{iv} SPICe briefing, 5th Feb 2014.

^v SPICe briefing 4th Feb 2014.

^{vi} See SCVO's submission to the Smith Commission, 2014.

^{vii} See, for example, NHS Health Scotland's submission to the Economy, Energy and Tourism Committee's Inquiry into Work, wages and well-being, 2015.

^{viii} See, for example, An Economy for All, SCVO, 2014.

^{ix} <http://www.independent.co.uk/news/world/europe/dutch-city-of-utrecht-to-experiment-with-a-universal-unconditional-income-10345595.html>

^x Submission to EET Committee on Fair work, wages and wellbeing, SCVO, 2015.