

Finance Committee
The Scottish Rate of Income Tax
Submission from the Scottish Retail Consortium

INTRODUCTION

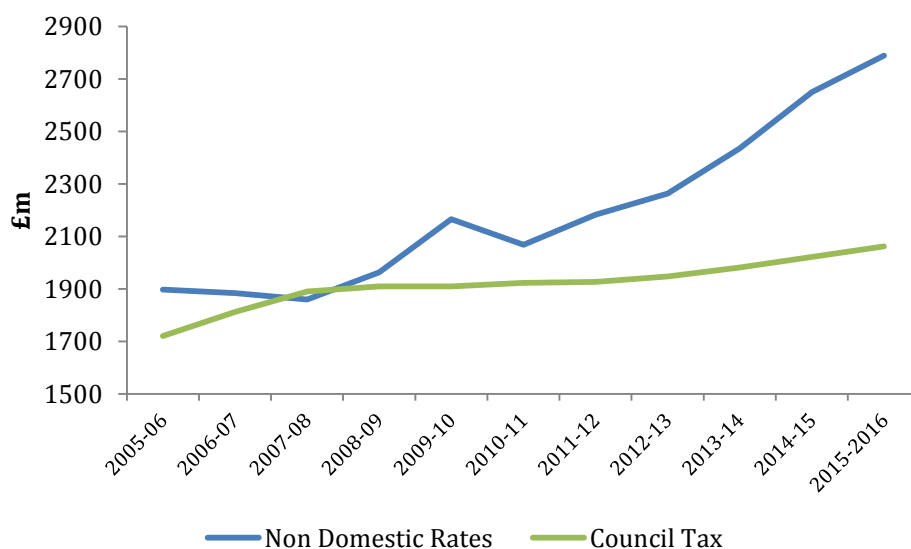
1. Retail is an exciting, diverse and dynamic industry undergoing transformational change. The SRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the retail industry and to the customers it serves. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture. The SRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry’s success – our 3Cs.
2. In addition to publishing leading indicators on retail sales, footfall and shop vacancies in town centres, our policy positions are informed by our 255-strong membership and determined by the SRC’s Board.
3. The retail industry employs 257,000 people across every part of Scotland, 14 per cent of the total private sector workforce. Earlier this year the SRC published ‘Retail Pay & Benefits’, a research paper into the pay and benefits packages offered by retailers. Since then we note that the UK Government has unveiled plans for a new National Living Wage and a new Apprenticeship Levy, with further statutory increases in employers’ pension contributions scheduled.
4. The SRC welcomes the opportunity to contribute to the Finance Committee’s deliberations on the new Scottish Rate of Income Tax (SRIT) which will be paid by Scottish based taxpayers from April 2016. The retail industry takes a great interest in personal taxation issues¹ for several reasons, including:
 - The potential impact on customers’ discretionary spending and disposable incomes (given that SRIT is expected to generate approximately £4.3 billion in revenues initially before rising to £10.9 billion annually once the Smith Commission Agreement is enacted in the new Scotland Bill);
 - The potential impact on retail industry employees² and retailers administrative systems;
 - The potential knock on implications for other taxes that affect households or businesses.

¹ The SRC set out positions on personal and business taxation in its June 2014 paper on the Scottish Government’s 2015-16 Budget.

² Income tax receipts in Scotland from retail industry staff totalled £335 million in 2011/12, with a further £351 million from employee and employer national insurance contributions – p11, ‘Scottish Retail: The Economic & Social Contribution’, SRC January 2015

KEY MESSAGES

5. The Scottish Parliament has an expanding range of taxation and fiscal powers and is set to exert significant influence over take home pay, the amount of money in people's pockets and the competitiveness of firms operating in Scotland. Of course the amount of money consumers earn and have to spend is influenced by a wide range of factors including their income and the cost of living, which can be affected by broader public policy decisions over housing supply and transport costs and more directly through duties and charges (e.g. charges for water and sewerage, carrier bags, deposit return schemes etc). Retailers³ can and do play their part in keeping down the cost of living. The SRC believes policy makers can enhance Scotland's prospects further by using the new devolved tax and fiscal powers including SRIT to positively support the economy and consumer spending.
6. The SRC has previously⁴ voiced concern over the balance in the burden of taxation between personal and business taxpayers⁵ over recent years in terms of funding local government. Increases in Business Rates⁶ have been wholly out of step with Council Tax (see *graph below*), with rates rises tied to an annual escalator whilst Council Tax has been frozen. Since 2007-08 there has been a 42 per cent increase in the tax revenue from Business Rates compared to a 9 per cent increase in Council Tax revenues, with businesses⁷ disproportionately picking up a greater share of local authority funding. We have deep reservations about this discrepancy, and certainly do not want to see a similar principle extended or applied more widely in the context of personal taxes like SRIT and business taxes with firms having to pick up a greater share of taxation.



7. The SRC is keen to understand how the new Scottish Rate of Income Tax and the proposed replacement or reform of Council Tax, which currently generates £1.9

³ Retailers are responding to the squeeze on household budgets and strong industry-wide competition with keen prices and promotions, helping to keep down the cost of living. Shop prices have fallen for 27 consecutive months, food inflation is at its lowest recorded level.

⁴ See SRC's submission to the Commission on Local Tax Reform, June 2015

⁵ Scottish retail contributes £2 billion each year from the top 5 direct and indirect taxes: SRC's 'Holyrood 2016: Business Rates' paper.

⁶ The not-for-profit International Property Tax Institute claims tax on property in the UK as a percentage of all taxation is higher than in other OECD countries, with commercial properties picking up a disproportionate burden.

⁷ At the same time as business rates have risen firms have also faced higher statutory costs in the form of increases to the minimum wage and for pension contributions, as well as a 25% leap in planning application fees over the past 2 years. Grocery retailers have encountered additional staff training costs to do with new alcohol and tobacco legislation, and face the prospect of a new costly deposit return scheme for bottles and cartons.

billion in tax revenues annually, will affect earnings, the amount of money in people's pockets and indeed consumer spending more widely.

8. Lower prices in shops and at the petrol pump and a more optimistic outlook for employment has yet to translate into increased retail sales in Scotland. Whilst pay rises in the economy are forecast to continue to outstrip inflation, the fact is that shoppers remain cautious and retail sales remain lacklustre⁸. We would therefore caution against any changes in the tax rate or bands which might cast a pall over what is likely to remain a tentative recovery in consumer confidence, for example if the aim is to achieve a substantial increase in the tax yield. This could ultimately affect devolved receipts from VAT, which are due to be assigned to the Scottish Government once the new Scotland Bill becomes law. Indeed a flourishing retail industry providing greater levels of VAT receipts should be encouraged if for no other reason than it will directly benefit government revenues.
9. Scotland is an attractive place to live and work, and in order for it to remain so we would caution against any moves which would lead to those working in Scotland having to pay higher taxes than elsewhere in the UK, as this could affect the ability of retailers to retain or attract talent - either on a permanent or temporary basis - especially when compared to other parts of the UK⁹. If Parliament was determined to vary tax rates then we would prefer it to fall rather than rise. If it were minded to increase tax then we would expect any higher revenues which may result to be spent on measures to increase the economic and productive capacity of the economy, e.g. digital or transport infrastructure or skills development.
10. Once the new Scotland Bill's income tax provisions come into effect and the 'triple-lock' is ended, then we would support an examination of the income tax burden faced by lower earners. Any such examination would need to take into account the scope of the personal allowance at that time and the state of the public finances.
11. It is six years since the publication of the Calman Commission's report on sharing income tax responsibility between Holyrood and Westminster, and three years since the approval of the Scotland Act introducing SRIT. HMRC has responsibility for liaising with employers over the practical implications and identifying employees resident in Scotland who will be subject to the new tax, and we are not aware of any difficulties that have arisen other than some disquiet that the detailed technical guidance for employers was not published until June of this year. We would certainly encourage Scottish Ministers to give as much predictability and certainty as possible over future variations in the tax rates and bands applicable under SRIT - in order for HMRC and employers to implement necessary changes - and ideally with a clear vision and sense of the medium to long term direction articulated in the upcoming Scottish Budget.

Scottish Retail Consortium August 2015

⁸ SRC's Scottish Retail Sales Monitor, August 2015

⁹ The cost of employing people includes employers' NICs and has risen lately due to the introduction of pensions auto-enrolment and changes to the national minimum wage.