



OFFICIAL REPORT  
AITHISG OIFIGEIL

# Finance and Public Administration Committee

Tuesday 22 March 2022

Session 6



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**FINANCE AND PUBLIC ADMINISTRATION COMMITTEE**  
**11<sup>th</sup> Meeting 2022, Session 6**

**CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

**DEPUTY CONVENER**

\*Daniel Johnson (Edinburgh Southern) (Lab)

**COMMITTEE MEMBERS**

\*Ross Greer (West Scotland) (Green)

\*Douglas Lumsden (North East Scotland) (Con)

\*John Mason (Glasgow Shettleston) (SNP)

\*Liz Smith (Mid Scotland and Fife) (Con)

\*Michelle Thomson (Falkirk East) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Tom Arthur (Minister for Public Finance, Planning and Community Wealth)

Alex Doig (Scottish Government)

**CLERK TO THE COMMITTEE**

Joanne McNaughton

**LOCATION**

The Robert Burns Room (CR1)



# Scottish Parliament

## Finance and Public Administration Committee

Tuesday 22 March 2022

*[The Convener opened the meeting at 09:30]*

### Framework for Tax

**The Convener (Kenneth Gibson):** Good morning and welcome to the 11th meeting in 2022 of the Finance and Public Administration Committee.

Agenda item 1 is an evidence-taking session on the Scottish Government's "Framework for Tax 2021". We are joined by Tom Arthur, Minister for Public Finance, Planning and Community Wealth, who is accompanied by Alex Doig, deputy director for tax, Scottish Government. I welcome you both and invite Mr Arthur to make a short opening statement.

**The Minister for Public Finance, Planning and Community Wealth (Tom Arthur):** Thank you and good morning. I begin by extending my thanks to the committee for inviting me to give evidence on Scotland's first framework for tax. I understand that the committee is keen to learn more about the framework's purpose and content, which I am very happy to discuss.

The framework builds on the Scottish approach to taxation, which was the subject of an inquiry by the Finance and Constitution Committee in the previous parliamentary session. It seeks to capture the key components of good tax policy making and to reflect the principles and processes that underpin our approach to tax, as well as our programme of work. In short, it is about our identity in relation to tax policy, what we are trying to do and why we are trying to do it.

As the committee will be aware, the Scottish approach to taxation is based on Adam Smith's well-recognised four principles for a good tax system—proportionality, certainty, convenience and efficiency. We have added two further principles to demonstrate our commitment to engaging and collaborating with stakeholders on tax policy and to underline our firm approach to tackling tax avoidance activity.

Those principles remain a core part of the framework, although we have strengthened the final principle to capture what is described as "effective" tax policy making. That includes a firm approach to tax avoidance—our resolve on that remains the same—but it recognises the importance of effective policy design and delivery

as the first step in reducing the scope for avoidance practices.

In developing the framework, we wanted to build on those principles by setting out, as clearly and accessibly as possible, a fuller explanation of how we make tax policy in Scotland and how we sequence it around the Scottish budget process. In doing so, we expect to realise a number of benefits.

First, the framework will demonstrate our commitment to openness and transparency, which are key ingredients of any good tax system. Secondly, it will lay the foundation for a process of continuous improvement using feedback from stakeholders and policy evaluation to ensure best practice in how we design and deliver tax policy. Thirdly, it will support our efforts to align the tax policy cycle, as far as possible, with the Scottish budget and United Kingdom fiscal events, which are of critical importance to the development of devolved and local tax policy. Fourthly, it will enable us to be up front about our priorities and programme of work for this session of Parliament. Events and circumstances can change rapidly, and that can change the context within which we take tax policy decisions. Covid-19 is a profound example of that. However, it is important that we set out our intentions for taxpayers and businesses, particularly in times of volatility, and that is what we have done. Finally, it will demonstrate our desire for a more open, mature and informed debate about tax policy in Scotland, which is something that I know that the committee is committed to.

The framework is intended for a range of audiences. Our ambition was to make it as accessible and as easy to understand as possible. It is written concisely; jargon is minimised or explained, which is not an easy task in this area; and it sets out the extent of our powers and how the revenue that we raise contributes to the Scottish budget.

Communicating clearly on tax and engaging the public on tax policy is a priority for the Scottish Government. However, improving public understanding of tax cannot be achieved by Government alone and I am keen to work with the committee and all other interested stakeholders on initiatives that can help achieve that.

In that spirit, I take the opportunity to thank all those who contributed to the framework's production. We sought engagement with a wide range of stakeholders including tax professionals, business representatives, third sector organisations and the general public, and we also carried out a two-month consultation process last September and October. The incredibly valuable and constructive feedback that we received made a positive contribution to the framework's final

version, which was published on 16 December last year and was warmly welcomed by stakeholders. I genuinely believe that we have a product that has been co-produced, and I am extremely grateful to all those who contributed for their expertise and advice.

I will end by looking to the future. As I hope will be clear, the framework acts as a foundation for tax policy in Scotland. Aspects such as the programme of work chapter will need to be refreshed to reflect changes to our work, and we plan to revise that chapter around the mid-point of this parliamentary session. Our intention is for the framework as a whole to stand the test of time and, indeed, to be built on further, acknowledging that one document can never be a silver bullet for every issue or challenge that we face.

The framework demonstrates our commitment to good guardianship of our devolved and local tax powers, including a sustained commitment to continuous improvement. Indeed, that is why, for example, we have published an evaluation of the changes made to income tax in 2018-19 alongside the framework. It is also why we will work with the Parliament on reconvening the devolved taxes legislation working group, which will allow for more detailed consideration of how we can improve the way in which we consult and make legislation on devolved taxes.

As I said at the outset, the framework provides a foundation for the design and delivery of tax policy in Scotland, with policies that support the recovery, national outcomes and our pursuit of a fairer, greener and more prosperous Scotland for everyone, and I look forward to discussing it with the committee.

**The Convener:** Thank you very much for that very interesting statement. I believe that a lot of questions will emerge from it.

You mentioned two new principles, the first of which was engagement to promote public understanding. In that respect, you talked about the importance of communicating clearly and engaging the public. What form is that engagement and communication taking?

**Tom Arthur:** This relates in the first instance to how the document itself—which I have described as a foundation document—was created. There was extensive consultation. There was a pre-consultation process with Revenue Scotland and other parties; we had the public consultation over September and October; and, following that, we had further engagement with stakeholders, including Revenue Scotland, to refine the proposals in the framework. As a result, the framework reflects that extensive engagement.

Let me give you one or two specific examples of our process of engagement. One of the

commitments in the work programme relates to the additional dwelling supplement review, which is under way at the moment. We have undertaken a public consultation, which closed earlier this month, and we have also had significant engagement with stakeholders at official and ministerial levels, with a round-table discussion at the start of this month that I chaired. We will respond fully to that process during the summer.

That is an example of what is happening in one area. Another area of the work programme—and one that reflects the joint agreement between the Scottish Government and the Scottish Green Party—is council tax, with the establishment of a working group to look at deliberative processes, culminating in a citizens assembly to look at the resourcing of local government, including council tax itself. It is an example of engagement of the widest possible kind, and I hope that what I have said demonstrates the wide array of ways in which we are taking forward our commitment to transparency and engagement with the people of Scotland on how we design tax policy.

**The Convener:** Thanks for that response, but what you have outlined is not really public engagement, is it? It involves stakeholders and people like that. How many will there be at the citizens assembly, for example? A hundred folk?

**Tom Arthur:** There is engagement with stakeholders, but there have also been public consultations. For example, there is a public consultation on the additional dwelling supplement. We are taking a balanced approach through detailed engagement with stakeholders, an opportunity for wider public consultation and discussion and, of course, continuous engagement with Parliament, too.

**The Convener:** Prior to the devolution of income tax and in the run-up to 2017, there was a lot of discussion about how Scotland would address tax avoidance differently from the United Kingdom Parliament. How has that evolved over the years? I note that one of the new principles is “to minimise tax avoidance”. What has been the Scottish Government’s method—if you want to put it that way—of minimising tax avoidance, and how does it differ from that of the UK?

**Tom Arthur:** I refer members to the decision-making matrix in the document, which lists six aspects of how we go about taking decisions on tax policy. They are not numbered, but the one at the bottom of the column—“Deliverability and Administration”—makes clear the need for detailed and continuous engagement in the process of policy design. For example, with a fully devolved tax such as land and buildings transaction tax or Scottish landfill tax—and indeed for the other taxes that are still to come on line such as the aggregates levy and air departure tax—Revenue

Scotland can provide the expertise at the outset to help shape and inform the development of legislation.

Ultimately, our role in that process sits in the legislation that Parliament passes. We want that legislation to reflect best practice and to be informed by the expertise of those who are responsible for operational matters in tax, and who act independently—Revenue Scotland, for example. There will be close engagement and work with the relevant tax authority from the outset of policy design through to implementation. Similarly, should proposals emerge out of the work on local taxation and reforms in that respect, there would be early engagement from the outset with local government, which would act as the tax administration with any local tax, to ensure that we were considering operational matters, which, in turn, would inform how we went about drafting legislation.

**The Convener:** My understanding was that the Scottish Government was going to take a principled approach to tax avoidance in contrast to the UK's position, under which, unless something is specifically addressed in legislation, there is an opportunity for avoidance. In Scotland, these things were not to be set in tablets of stone; the idea was that, if the authorities even perceived that the intention was to avoid tax, they would still be able to collect it. I believe that John Mason was on the committee that deliberated on the matter. Are we not moving forward with that? Was minimising tax avoidance not going to be a significant difference between Scotland and the UK?

**Tom Arthur:** That principle is still contained in our framework, which is why we have expanded the reference beyond tax avoidance to cover effectiveness. Looking at this in the round, I would say that we want effective tax policy that does what it says on the tin, and reducing and minimising opportunities for avoidance is a key part of that. How we actually go about minimising avoidance needs detailed input from those who administer and deliver the tax on the ground, because their technical expertise is extremely valuable and important. What I have set out with regard to the decision-making matrix and the need to consider delivery and administration from the outset is the sort of practical approach that is contained in the framework, and it will inform how we design effective legislation that, in turn, builds upon the principle of minimising opportunities for avoidance that you have referred to.

Alex, is there anything that you want to add on the consideration that was given to building upon the avoidance principle in developing the framework?

**Alex Doig (Scottish Government):** What you have said is right, minister. This is not about waiting for avoidance activity to happen, but about designing tax policy that gives us every opportunity to have something robust in place that the tax authority can deliver and administer in a way that minimises opportunities for tax avoidance. As the minister has said, that needs to be put up front instead of our waiting for and then reacting to avoidance practice.

However, that sort of thing will probably happen at some point. Those situations will always arise with any tax, and the Government and tax authorities have to respond to them. However, the point about the framework is that good tax policy design starts at the outset, and the aspiration is that, by engaging the tax authority in the process of policy design, you avoid those situations and practices or at least limit the scope for avoidance practices to take place.

**The Convener:** Is that different from what happens in the UK?

09:45

**Alex Doig:** It is difficult to answer that question—it is very broad.

**The Convener:** We are talking about the Scottish tax framework, so I just want to see what is Scottish about it. How is it different from the UK framework? It was my understanding that this principled approach was a significant difference, but I would have thought that any legislature anywhere would want to try to make sure that avoidance was minimised when it set a tax. Otherwise, what is the point in setting a tax?

**Alex Doig:** I can speak only to this framework and to the Scottish Government's approach, but certainly, as the minister has said, we have been clear about anti-avoidance from the outset. We have actually broadened that out in the framework to acknowledge the need to take action early and ensure that a tax is well designed to limit the scope of tax avoidance. That is all that I can say in terms of the Scottish Government's position.

**The Convener:** Thanks for that.

Moving on, I note that the framework talks about ensuring that Scotland's public finances are fiscally sustainable. The issue of fiscal sustainability has certainly drawn the committee's attention, given the Scottish Fiscal Commission's forecast that by 2024-25—which will come round a lot sooner than we might think—social security spending will have increased beyond the block grant adjustment by £764 million, and that is even before the Scottish Government has delivered a 6 per cent uplift in benefits. How will the framework try to ensure fiscal sustainability?

**Tom Arthur:** With regard to how we use our tax powers, the framework sets out a range of principles that are applicable to the question that you have asked. Perhaps I can pick out just one or two in that respect.

The fact is that we have to look at policies in the round. I have referred to the decision-making matrix, which involves looking not just at how we adhere to the principles and the objectives in the framework but more broadly at how our taxes interact with other taxes—devolved, local and UK taxes—and with the broader policy landscape in which we operate, including social security. That broader approach is built into our consideration of tax policy development, decision making and implementation.

Clearly, this has to be looked at on a case-by-case basis. You have referred to forecast expenditure on social security. Of course, decisions on allocation of funding are taken as part of the budget process, and I am conscious that we are moving into the territory of spend.

As for what we are doing around tax, all of this ultimately comes back to how we use the tax system to maximise return of revenues. We have just, for example, talked about wanting to minimise avoidance. Of course, certainty is a key principle, and we seek to provide that, because it very much benefits business. One of the major business taxes is non-domestic rates, and our commitments on poundage, on retaining the small business bonus scheme for the length of the Parliament, on the business growth accelerator and on fresh start relief give long-term assurance to users of the tax system of consistency in the policy landscape. That is an example of where the principle of certainty, when applied to our implementation of tax policy in Scotland, can help achieve the aim of sustainable revenues.

Clearly, the question is much broader than that, because ultimately tax is about the collection of revenues. With revenue generation, though, we begin to get into broader economic considerations.

**The Convener:** Of course, we have to have a productive—and, in fact, increasingly productive—economy. It has to be increasingly productive per capita, because of the demographic challenge that we are facing.

Evidence from the Scottish Property Federation, as well as others, suggests that the projections around non-domestic rates are wholly unrealistic, because, for example, more and more people are moving to online shopping. I do not think that anyone really believes that, as far as high street spending is concerned, we will return to the situation pre-Covid, but the Scottish Government is still predicting a 25 per cent increase in

revenues from that source over the next three or four years. How is that being addressed?

Moreover, if the Scottish Government maintains its budget at roughly the current levels, how will the tax system address major issues such as the social security shortfall if we do not generate the funds that the Scottish Government is predicting from non-domestic rates? In the document, you say that steps will be taken to grow the tax base. Will that mean additional taxes? Will it mean more people going to work and therefore more taxpayers? Frankly, that is what most of us would like to see. I am just wondering how you square those circles.

**Tom Arthur:** That is an excellent set of questions. I am trying to think of a way that I can answer them concisely in 90 seconds or a couple of minutes.

**The Convener:** Take as long as you like.

**Tom Arthur:** Okay. Let me break it down.

On the broader issue of productivity, we have just published a national strategy for economic transformation, which sets out a range of measures and has productivity and skills at its heart. We recognise the issues with growing the working-age population, but we have to operate within the constraints of the Scotland Act 1998. As a result, we have no control over the levers of migration, which is a huge issue that has been compounded by Brexit—

**The Convener:** Hold on a second, minister. There is no reason why we cannot attract migrants from other parts of the United Kingdom if we have a growing and thriving economy. It is not all about bringing in people from overseas. As I have said before in this committee, there are constituencies in Edinburgh that have 7,000 or 8,000 European Union citizens living and working in them, while my constituency has fewer than 300. That is not because of any difference in migration between Ayrshire and Edinburgh—it is because the economy in Edinburgh is so much stronger. Attracting people from other countries is important, but what about migration of working-age people within the UK? By that, I do not mean folk who retire to Arran, Argyll or Perthshire, but those who come to contribute to the economy.

**Tom Arthur:** That is a fair point. I am not suggesting that migration is a silver bullet—it is part of a broader range of measures. If we are going to consider intra-UK migration, it is important that we also look at employment levels across the UK. Some of the challenges we face with skills shortages and a tight labour market are not unique to Scotland but are UK wide, which creates challenges in that sphere.

You referred to the high street and the changing nature of retail. As Parliament will be aware, a retail strategy is to be published shortly, so I cannot pre-empt that, but it has grown out of a piece of work that was done in collaboration with business, academia, trade unions, the third sector and the public sector. We are also undertaking work in partnership with the Convention of Scottish Local Authorities on our updated town centre action plan, which came out of an independent review.

As for the policy interventions that Government can make, whether they be in the national strategy on economic transformation, the retail strategy, our town centre action plan or, in the longer term, national planning framework 4 and the work we are seeking to do on the planning system, we can pull a range of policy levers, but there is no single lever that can address all those issues in one fell swoop. I hope that that captures my point that although there is a range of different initiatives, there are, ultimately, limits to what we can do with the existing suite of powers that we have at our disposal. The main macroeconomic levers, employment law and so on are still reserved to Westminster, so we have to operate within those limitations.

The question that you have asked goes much broader than the framework for tax, which is what we are considering at this meeting. A broader range of work is going on that will ultimately help increase productivity and prosperity in a way that will translate into earnings and increased tax take.

**The Convener:** I just want to mention a couple of other wee things before I let others in.

First, on the North Sea, there are a lot of highly paid workers there—71,000 at the last count, I think—who earn more than the Scottish average and pay a lot more in tax than the average person. Is the Scottish Government looking at how the switch to green jobs will impact the tax base in that respect?

I do not want to take up too much of your time, minister, but I just want to ask a second question. Has the Scottish Government looked at the issue of behaviour change? Obviously, if we are short of taxes, Governments will be tempted to put them up. However, if you increase taxes in the short term, you might well dissuade people from investing in or living here and therefore paying their taxes either in the rest of the UK or elsewhere, which means that you effectively lose everything. In that respect, is half a loaf is not better than no bread?

I know that today's announcement on Cambo, which has been made as a result of rocketing fuel prices and the Russia-Ukraine situation, shows that North Sea oil might have a wee bit more life

left in it than we thought, but this is a long-term issue. Behaviour change will always be with us in relation to taxation, so what is the Scottish Government doing about it?

**Tom Arthur:** With regard to behaviour change, there is the principle of efficiency. We do not want tax policy that leads to distortionary effects, because that will ultimately undermine the objective of revenue raising. That is built in as a well-understood principle—it was in the Scottish approach to taxation and it is one of the Adam Smith principles. Indeed, efficiency and being conscious of the impact of behaviour change are part of the six key principles.

The North Sea situation fundamentally comes down to the just transition. The workers involved are highly skilled and, in the transition away from oil and gas, the task that we face is to retain their skill sets and deploy them in the emerging technologies in renewables and the wider green economy. To that end, there is support through the commitment of £500 million of investment to the north-east and through a wide range of other interventions in the employability sphere, such as the national transition training fund.

The task is to grow highly skilled and highly paid jobs in the green economy. That will absorb many of the skilled workers and much of the talent, as opportunities in oil and gas decline with the decline in the resource and the industry in the coming decades. The aim is for the just transition to allow such workers to transition into opportunities in emerging renewables areas, which have the potential to offer highly skilled and highly paid jobs that will compensate for the loss of jobs in the oil and gas industry.

**The Convener:** Some workers might find it easier to move to Saudi Arabia and pay their taxes there if we do not get the highly paid and highly skilled jobs that we are talking about, but let us move on.

I now open up the session to my colleagues around the table. The first person to ask questions will be John Mason, to be followed by Daniel Johnson.

**John Mason (Glasgow Shettleston) (SNP):** Thank you, convener—it is unusual for me to come in second; that is nice for a change.

The minister mentioned that council tax reform will be considered by a citizens assembly. Can I press you a little for a timescale? What is the soonest date when we could have a replacement tax in place?

**Tom Arthur:** The question is fair but, to be up front, I am not in a position to give a concrete timescale. This is a commitment and a key priority, and I am working to take it forward.

To answer the question directly, I do not want to pre-empt the outcome of the citizens assembly. If we think about the wording—

**John Mason:** Can we assume that the outcome will not be to support council tax?

**Tom Arthur:** The citizens assembly will look not just at council tax but at resourcing of local government and council tax. A process will lead up to that, which will include engagement with COSLA. I cannot pre-empt what the citizens assembly will ultimately decide through its deliberations.

What comes out of the citizens assembly will have to be considered against the framework that we are discussing, and a key part will be on delivery and administration. There is a range of possibilities and I do not want to start indulging in speculation. I am sure that members can imagine a range from relatively minor changes to significant and fundamental reform. On that spectrum, some elements could be addressed fairly straightforwardly and others could require primary legislation. There is a broad array of possible outcomes, which is why it is difficult to say at this stage how quickly anything could be implemented.

**John Mason:** Can we have a range at least? I think that most parties in the Parliament are against council tax, so we will need a new tax, which will need primary legislation. I presume that that cannot happen before the next election, but what is in the far distance? Will we definitely have something within 10 years?

10:00

**Tom Arthur:** We recognise that there is a process of legislating and a process of implementation, and that going from where we are now to a fully embedded and operational new system would go beyond the lifetime of this session of Parliament. However, the commitment in this session is to do the groundwork at pace to establish the citizens assembly and allow it to be able to report back to Parliament in sufficient time so that Parliament can consider its response.

**John Mason:** I am not arguing against any of that. It is 31 years since we had the last revaluation of council tax, and quite a lot of groundwork has been done over the past 31 years. If it is going to be, say, 10 years before we get a replacement tax, does that mean that we need a revaluation in the meantime? As I see it, some properties—perhaps in the better-off areas—have gone up in value, say, 10 times since 1991. In a poorer area such as mine, property prices have gone up a lot less, which suggests that, in a poor area, my constituents are paying more council tax than they should, and that people

in richer areas are paying less than they should. If it is going to take a long time, should we not have a revaluation in the meantime?

**Tom Arthur:** It is not our policy to have a revaluation of council tax at this time. We have a commitment through the joint agreement with the Scottish Green Party to have a deliberative process that will culminate in a citizens assembly looking at sources of funding for local government, including council tax, which will be delivered in this session of Parliament. It is a priority for me as public finance minister, and we are taking forward that work.

Ultimately, it will be for Parliament to respond—Government will of course respond, too—to what the citizens assembly concludes should succeed council tax or what should change in council tax. Ahead of that, we can provide certainty and continuity with our existing arrangements on council tax. Once the citizens assembly has had the opportunity to consider the matter in detail, we can take on board those recommendations and move forward from there.

**John Mason:** Thank you.

On a different subject, the plan was to assign part of VAT, but there have been practical problems with that. If I am not mistaken, one reason for the assignment approach was that the European Union would not allow us to vary VAT within the UK while we were in the EU. I assume that that constraint is now removed, so what is the Government's position on VAT? Are we discussing it with the UK? Where are we going with it?

**Tom Arthur:** Our position is that VAT should be devolved. We would like three areas to be devolved. Although our overall constitutional position is clearly understood, in the context of the fiscal framework review and the further devolution that could take place, we would like full devolution over remaining aspects of income tax, national insurance contributions and VAT. As you have rightly said, the latter is now more achievable in a way that it was not when the Smith commission was announced and the Scotland Act 2016 was passed.

The committee has explored that area, as did the predecessor committee in the previous session. We recognise some of the challenges of methodology with VAT assignment. Fundamentally, it is important to remember that VAT assignment is not a power but just an accounting mechanism. There is an opportunity to look at the full devolution of VAT, and we want that to be considered as part of the fiscal framework review.

**John Mason:** You mentioned national insurance. I do not know how far ahead the Government has thought about what it would do if

it got national insurance and fuller control over income tax. I would like the two to be combined in a much simpler system. Has the Government done work on that or is that too far down the road?

**Tom Arthur:** That is too far down the road. Obviously, the important thing with national insurance contributions is the interaction with the benefit system, which has to be borne in mind. A significant majority of social security is still reserved and controlled at Westminster. The framework provides the means of considering and scrutinising any proposals for new taxes to be devolved and how they should be implemented and delivered.

A practical piece of work that could be done immediately and achieved relatively quickly were national insurance contributions to be devolved would be to address the marginal rate—the gap between the Scottish higher rate and the UK upper earnings limit. The fundamental consideration of the role of the tax and how it interacts with income tax more broadly would be a complex matter, but the methodology that is outlined in the framework would provide a way to consider any changes and to scrutinise and test proposals.

**John Mason:** I accept that that would have to happen. We would start with something minor and then maybe do something more major.

The final issue that I want to touch on is about introducing completely new taxes. That is a possibility, although we would have to get Westminster's agreement, but we have not done very much in that regard. For example, over the years, it has been suggested that we do not really get enough from the whisky industry. Whisky is a huge export, and a production tax of, say, £1 a bottle could make quite a difference. Do you have any thoughts about completely new taxes?

**Tom Arthur:** Again, we are open to proposals. I think that the mechanism to which you refer is in section 80B of the Scotland Act 1998, but that is not without its significant challenges—a proposal would require the agreement of the UK Parliament and would have to be run through a set of tests. It could be quite a challenging process. As an example, we have made some basic requests of the UK Government in respect of the aforementioned national insurance marginal rate and around VAT and refurbishing properties. We have not been able to make progress on those simple areas, which does not bode well for dialogue on the potential devolution of new national taxes. Of course, we keep those matters under review, and the framework sets out a process for how such issues can be considered.

Alex Doig might want to add something on the process for devolution of new national taxes via section 80B.

**Alex Doig:** One new national tax, relating to wild fisheries, was added in the 1998 act, but it was a very specific measure with a specific context, so we do not see it as an example of something substantive in the way that John Mason describes. There would have to be a process whereby we would engage with the UK Government and go through its tests, and there would then have to be legislation at Westminster and in the Scottish Parliament.

It is difficult to say how long that would take, because proposals would be dealt with case by case, but we anticipate that the process could be quite lengthy. We would have to work through that in order to get to a proposal in the end.

**John Mason:** Can you clarify one point? I had not realised that, if we were to have a new tax—I will stick with my example of a whisky production tax—Westminster would have to legislate on that first.

**Alex Doig:** The mechanism that the minister mentioned is section 80B of the Scotland Act 1998, which requires secondary legislation at Westminster in order to add the powers for the devolved tax into that act. At the same time, we would have to make progress on making arrangements for the tax in Scotland, which would—I assume—require primary legislation in the Scottish Parliament, plus all the arrangements that would be required for collection and administration by Revenue Scotland. Those would be the two parts of the process.

The minister was referring to the dialogue and engagement between the Scottish Government and the UK Government regarding a willingness to devolve powers in relation to a particular tax proposal. That would also be part of the process.

**John Mason:** I have one final point. In some ways, you are saying that the process for devolution of tax, like national insurance or income tax, over which we already have partial control, takes a long time with Westminster. One might imagine that, from Westminster's point of view, it might be cleaner just to give us a completely new tax. That would not affect Westminster, whereas everything that we do on income tax does affect it. I do not know—it is just a thought, but perhaps Westminster would be willing to consider that.

**Tom Arthur:** As you will appreciate, the Scottish Government's view is that this Parliament should enjoy the full fiscal levers that an independent country would enjoy. Short of that, we have had some devolution, and we have highlighted three areas—income tax, national insurance and VAT—in which we think there can be further devolution.

Ultimately, in going through the section 80B mechanism, the UK Government would have to

make a judgment as to whether it felt that any new national tax in Scotland would impact on the wider UK economy. That is where the challenge would arise.

**Daniel Johnson (Edinburgh Southern) (Lab):** I would like to follow up some of the lines of questioning that the convener commenced. At the outset, I note that, although the fiscal framework—sorry, I mean the framework for tax; I apologise for getting my frameworks mixed up, minister—is useful, it is incredibly high level, and I wonder about the specifics of how things are measured.

The Scottish Fiscal Commission has set out clearly the issues that we face over the next four to five years, in terms of shortfalls in income tax and indeed welfare commitments, with the combination of those coming close to £1 billion. The fundamental dynamic is that, if income tax receipts per capita grow more slowly in Scotland than they grow across the rest of the UK, we receive less money to spend on Scottish public services. Given that that is so fundamental to the way in which public finances work in Scotland, why is that not laid out specifically and explicitly in the framework?

**Tom Arthur:** You are referring to one specific tax—income tax. This is a framework for all tax in Scotland and it looks at the decision-making process that underpins that. Of course, we have set out the fiscal cycle with regard to the decisions that the UK Government takes.

As you pointed out, the framework is a high-level document, and decisions around individual taxes are taken as part of the budget process. The document sets out our high-level approach to tax policy overall and the principles and objectives that inform how we go about taking those particular decisions.

I will give an example that relates to your point about the SFC forecasts. It is important to acknowledge that they are forecasts and that we are coming out of quite a volatile period. We would then want to consider decisions against the relevant principles or objectives. I think that the relevant strategic objective in this respect is that of stable revenues.

How does that align with decision making on income tax? Before we take into account the block grant adjustments, the SFC forecasts that income tax will increase year on year. The challenge, ultimately, as you correctly identify, is the relationship with the rest of the UK and the faster growth in earnings. Ultimately, in our tax policy, we are increasing the revenue that is raised in Scotland year on year. The challenge comes with the operation of the fiscal framework. Again, that should be considered as part of the review.

**Daniel Johnson:** But that is my point. The growth of the average receipt per capita determines significantly what we have to spend. I would need to double check but, from memory, it is about 20 to 25 per cent of the revenue that we have to spend in Scotland. In terms of the overall tax policy that the Scottish Government controls, you correctly say that there are a number of taxes and this is about all tax, but the lion's share of that is income tax. It dwarves all the other taxes that we have at our control.

Given that that is such a fundamental dynamic, which is so important for determining whether we have more money to spend compared to pre-devolution or less, I wonder why that is not explicitly stated. You said that the fiscal framework is complex; I do not really understand why it is not baked into the tax framework.

**Tom Arthur:** That is because it is about how one specific tax operates. The tax framework is designed to be a high-level and accessible document that will inform people and provide transparency on how we take decisions.

For example, if we were to do a deep dive into the operation of the fiscal framework and block grant adjustments for income tax, it would necessitate doing the same across every single tax that is referred to in the tax framework. As such, the document would go from being a concise high-level document that seeks to provide clarity to being quite a dense one, which, ultimately, would not realise its stated purpose.

Of course, there is voluminous material on the operation of the fiscal framework. We set out income tax policy as part of the budget and we have a specific debate in Parliament on the rates resolution, so there is an opportunity for fuller consideration. We are transparent about how we engage with the UK Government on the upcoming review of the fiscal framework. I take the point, but, ultimately, if we went into huge detail in the document on the operation of the fiscal framework, it would start to lose its overall purpose.

Alex Doig might have an insight into what consideration was given, in the development of the tax framework, to what was included and what was not included, which might help to elucidate some of the points that I am trying to make.

10:15

**Alex Doig:** The minister has covered the essence, in that this is a framework for tax—it is about tax policy making. It talks about continuous improvement and evaluation, and we have evaluated income tax policy changes that were made. However, the question is more geared to the tax performance issue in relation to income tax. There are things in the framework that refer to

that issue and how we will have to continue to try to understand what is going on in that regard, as part of the process. Fundamentally, the framework is, by design, a high-level document. It talks about the way that we approach tax policy overall, and not necessarily about how we would deal with a specific issue in relation to tax performance.

I am not sure whether that is helpful.

**Daniel Johnson:** I will think about whether it is helpful.

Let me move on a little. You just mentioned evaluation, which is really important, but there is not a single reference to how that evaluation will take place, certainly not in terms of measurement. I wonder why the document does not include a broad approach to what measures would be taken into consideration to assess the various elements of the framework.

**Tom Arthur:** Is there a specific aspect of evaluation that you are concerned about, or is it just evaluation overall of how the framework—

**Daniel Johnson:** You have four objectives: stable revenues, a wellbeing economy, national outcomes and responsiveness to societal shifts. If you have objectives, surely you should have a way of measuring them.

**Tom Arthur:** With the wellbeing economy, we are committed to the wellbeing economy metrics. The national performance framework is published online and routinely updated to demonstrate performance against the national outcomes. With stable revenues, we have a process of reporting through outturns, consolidated accounts and the budget process.

I appreciate that, ultimately, responsiveness to societal shifts is reflected as and when it happens, and that it depends on what the policy response is. Perhaps it is slightly more challenging to evaluate that, but in the other areas—stable revenues, the national performance framework, and the wellbeing economy, for which we will develop metrics—clear data will be provided to allow any individual, organisation or indeed Parliament to evaluate those independently. That also allows Government to evaluate the performance of tax. Those means of evaluation exist independently of the framework.

**Daniel Johnson:** By definition, you are talking about very broad areas that have a huge number of metrics attached to them, especially wellbeing. Are you saying that each one of the measures is of equal value? How are they compared? How do you even compare the different objectives? There is no reference, not even at a high level, to how you will balance or compare the different objectives in your framework. Is that not a fairly fundamental point of a framework?

**Tom Arthur:** It is, but, ultimately, those will be a reflection of a judgment and values. It is important to understand the interconnected nature of those aspects. Stable revenues are fundamental to delivering the public services that we require for a wellbeing economy. A wellbeing economy is fundamental to achieving the national outcomes. The national outcomes—the creation of a society that is wealthier, fairer and more prosperous—will be fundamental to creating the conditions to generate sustainable revenues. They are interrelated and should not necessarily be looked at independently. There is a correlation—they are mutually complementary.

**Daniel Johnson:** That is sort of my point.

I want to go back to a specific point that the convener raised about non-domestic rates. You are saying that the framework should be responsive to societal shifts. Surely, everything that is going on—including the fact that, depending on the point in time that you pick, online sales now account for between a quarter and 30 per cent of total retail sales—would suggest that you need a fundamental review of non-domestic rates, especially if you are using the framework properly.

**Tom Arthur:** I take the point that you are making. On the specific issue of non-domestic rates, we had the Barclay review only a few years ago, and that has still to be fully implemented in terms of the revaluation.

You might have noted the Fraser of Allander Institute's report on the small business bonus scheme. One of the key issues that emerged from that was the lack of data, which we are reflecting on carefully, and we will establish a short-life working group to consider it in more detail. If we want to get to a position where we can consider further reform of non-domestic rates, the starting point is to ensure that we have the data to inform that policy conversation. We are reflecting carefully on the Fraser of Allander Institute's report, and are particularly focusing on the need for more data.

I think that we would recognise that there is not always a correlation between a property's rateable value and the performance of the business that uses it. A way to help to address that will be to ensure that we have in place robust procedures and mechanisms for gathering data.

Addressing the lack of data, which the Fraser of Allander Institute report identified, will be a prerequisite for further consideration of policy reform.

**Daniel Johnson:** The data points that I was referencing are from the National Audit Office, so they are at a global level—

**Tom Arthur:** As you will be aware, there was a review of business rates in England. Ultimately, that review recommended that England should start doing things that we are already doing up here, short of revaluation cycles, such as implementing something like the business growth accelerator. That is an example of a neighbouring jurisdiction that has considered the issue and did not land on a proposition that involved fundamental and wholesale reform.

We have made a manifesto commitment to consider an online sales tax. I appreciate that a request for that has been made by people who operate in the retail context, given the difficulties that our town centres and high streets have been facing. Various calls have been made to level the playing field—that is not language that I would use, but that is how it has been characterised by some stakeholders. However, we must also be cognisant of the work that the UK Government is doing in this area, as there is the potential for a UK-wide digital sales tax.

To go back to the original point about NDR, we have to get to the point of revaluation and let the Barclay review bed in. We are considering how we will respond to the key points that were identified by the Fraser of Allander Institute, but we recognise that having the data in place would allow a more informed discussion of potential options for further reform. What we are talking about is a first step.

**Ross Greer (West Scotland) (Green):** The paper says that the Government will explore a digital sales tax. Are you in a position to give us a bit more detail on how that process will be taken forward? Presuming that a UK-wide digital sales tax will not be forthcoming in the immediate future, and given the difficulties that have been mentioned about the devolution of new national taxes to Scotland, is that something that you are considering with COSLA as a potential local tax power? I am keen to understand how we will move forward from a commitment in principle to explore the power to a process that would flesh that out.

**Tom Arthur:** You flag up one of the challenges around how we can move from idea to implementation. At this stage, we want to see what is happening at a UK level. We need to have a sense of what the larger tax landscape will be like before we can proceed. If we do not, we could work up a proposal only to find it superseded by something that is implemented from Westminster, and I do not think that that would be a good use of resources.

If the UK Government decides not to legislate on or make progress in this area, we can decide how to take things forward. Consideration of an online sales tax is referenced in the framework; it is one of our manifesto commitments; it is a

shared principle between the Scottish Government and the Scottish Green Party; and it is something that we want to be fully explored. However, as I said, we have to wait and see what the UK Government is going to do.

**Ross Greer:** I return to the convener's original line of questioning about fiscal sustainability. We know that we will need to significantly increase tax revenues in order to plug the gap with the shortfall in income tax that has been forecast, alongside the increase in social security spending and, on top of that, the additional spending that we all acknowledge will be required to hit our child poverty and climate targets. A lot of the discussion so far, and much of what has been referenced in the framework, has emphasised the need to grow the taxable economy and improve economic performance. Other points have been made about folk in higher income tax bands replacing those who are moving out of the oil and gas sector.

Is it the Government's position that wider changes in economic policy and wider improvement in economic performance are the primary ways to increase tax revenue, or is there an acknowledgement that direct changes will need to be made to tax policy in order to increase revenue by the amount that is likely to be required?

**Tom Arthur:** The point that Mr Johnson made in recognising our disproportionate reliance on income tax as our primary devolved revenue-raising mechanism is important. There are limits to what we can do with income tax before we start risking the distortionary effects of behaviour change and potentially losing revenue, which the convener mentioned. I know that the predecessor Finance and Constitution Committee explored that in the previous parliamentary session.

Although we will always consider how we can best use our policies on income tax, particularly on the strategic objective to be responsive to societal shifts, the key task is to grow our tax base. Ultimately, the way that we seek to achieve that will be set out in the national strategy for economic transformation and its supporting documents. We will always look for ways that we can show that our tax system is as efficient as possible and that it maximises revenue, but the key challenge is to grow the number of highly paid, highly skilled jobs in Scotland. In turn, that will lead directly to increased tax revenue.

Would Alex Doig like to give some context on how the document was developed in relation to the broader economic sphere? I am conscious that we are focusing on tax, but he could say something about how the document is informed by work that goes on more widely across the Government, particularly with reference to Mr Greer's question about the interaction between

seeking to raise revenue by direct taxation or increasing the tax base.

**Alex Doig:** There is no need for those two things to be looked at separately; they are part of the same system. The framework is about the way that we make tax policy and it talks about how decisions are looked at in the round, which is what we have spoken about. That is how decisions are made.

The question that Ross Greer asked touches on lots of different aspects of the Scottish budget: how we set our devolved and local tax policies, how those taxes perform and how we set out our spending plans, which all interact. The framework is telling the public and stakeholders how we make those decisions in the round, and the factors that we consider and weigh up when ministers come to make those individual decisions.

**Ross Greer:** I turn back to the Fraser of Allander Institute report on the small business bonus scheme that the minister mentioned. The top line conclusion that I drew from that report was that there is essentially no hard evidence that the scheme is improving economic performance. Can you comment on that? I know that the Scottish Government is developing its full, formal response, but what is your initial response? Given the amount of money that it has put in to the scheme, it seemed an alarming conclusion for such a respected institute to essentially say, "There is no evidence that this is working."

**Tom Arthur:** Absence of evidence is not evidence of absence. It goes back to the point about data: the challenge is having the data to evidence the impact. We know that there is support for the small business bonus scheme—for example, from the Federation of Small Businesses. Many of the small businesses that benefited from it value it. However, I take your point—

10:30

**Ross Greer:** It is surprising.

**Tom Arthur:** I take your point around the need for more robust data rather than what could be characterised as opinion or anecdotal evidence. That is why the report's key recommendation around the need to enhance the amount of data that we have is an important one. It will allow us to be more effective in shaping policy, whether that is around specific reliefs or future consideration of more fundamental reforms. However, the key issue is data.

In my experience in engaging with businesses as a minister, and as a constituency representative for the past six years, the scheme is very much valued by those businesses. I

apologise if I am misquoting, but I think that the FSB described it as a lifeline for many.

It is important that we consider carefully what the Fraser of Allander Institute has outlined in the report—that is why we are going to establish a short-life working group to consider it in more detail.

**Ross Greer:** I agree absolutely with the FSB that we need a tax system that supports small businesses. However—and forgive me for being flippant—if we ask those who receive free money, "Is it a good idea that free money is given out?", of course they will say yes. The Fraser of Allander Institute's conclusions were concerning, given the amount of money involved.

Just to dig down a bit deeper on that, exactly what data is missing? Even before this report was put out, the tax framework document said:

"We will pursue a greater understanding of the drivers of devolved tax performance".

What specific points of data are we lacking at the moment?

**Tom Arthur:** As I made reference to earlier, there is not necessarily a direct correlation between the rateable value of a business's premises and its overall economic performance. That is a key point, and that is part of it.

However, I do not want to respond prematurely before having given this my full consideration. As I said at the outset, we are establishing a short-life working group and, as I said in response to a parliamentary question last week, I will of course be happy to update Parliament in due course, once we have had an opportunity to fully consider the report.

I will just reiterate what I have said previously: we very much value the report; it is an important contribution. I think that all the points that have been raised are pertinent.

Do you want to add anything, Alex?

**Alex Doig:** No, I think that you have covered it.

**The Convener:** About a decade ago, after the financial crash, the FSB said that, without the small business bonus scheme, around one in six small businesses in Scotland would have gone bust, so the question is really about how effective it is relative to other potential measures.

**Liz Smith (Mid Scotland and Fife) (Con):** Minister, you said earlier that an effective tax structure is one that delivers what it says on the tin, and you cited the four principles of Adam Smith in relation to what is good about the Scottish tin.

An effective tax structure must also deliver the effective revenue that we need, specifically when it

comes to addressing productivity and economic growth. As you know, that has been flagged up by the Scottish Fiscal Commission, the Fraser of Allander Institute and Scottish Chambers of Commerce as being a serious concern for the Scottish economy.

Both the convener and Mr Johnson made the point that, although income tax revenue is just one part of the revenues that we can hope to receive, it is a major part. I would like to ask about some of the concerns about those returns that were raised by the Scottish Fiscal Commission and, in particular, Professor Alasdair Smith. Professor Smith said to us, very clearly, that, when it comes to some of the regional aspects of income tax returns, there are areas such as the north-east that have been relatively productive in income tax revenue, whereas other areas have not.

What statistical analysis is the Scottish Government doing to consider the projected changes in industrial policy in each of the regions of Scotland, which will affect employment, and to look at which revenue returns might be better in the future? What data is being used for that?

**Tom Arthur:** I will ask Alex Doig to come in on the point around how data informs tax policy.

**Alex Doig:** To bring it back to the framework document, we are saying that, when we set tax policy and manage taxes, we look for data that tells us how those taxes are performing. I would be happy to come back to the committee in writing to answer your specific question, because I am not au fait with the particular data sets to which you refer.

**Liz Smith:** Professor Smith argued that, if there is a downturn in the oil and gas industry and if the projected downturn continues on the same basis as when revenues started to decline in 2014, revenues that accrue from employment in other industries will have to take the place of oil and gas revenues.

How well are we likely to do when it comes to the economic growth from other industries—that is, not oil and gas in somewhere such as the north-east—that can replace those revenues? I am interested in those statistics because they will obviously inform us about what is available in future years.

**Tom Arthur:** That touches on the question that Daniel Johnson or the convener asked earlier about what takes the place of oil and gas once it is no longer there, because that is where we have a concentration of higher earners. I go back to the point, which I made previously, that it ultimately comes down to the opportunities that are presented through the transition to net zero. We have to ensure that the transition is just, but that is where the opportunities will arise. We know that

there are particular strengths in the Scottish economy in an array of areas such as food and drink, tourism, life sciences and higher education, but, when it comes to the jobs that are displaced by the transition to net zero, the opportunities will come through jobs that are involved in the delivery of net zero.

**Liz Smith:** Precisely. We surely need that important data, particularly in the next four or five years, for which the projections from the Scottish Fiscal Commission on income tax revenue are very weak. Do we not need strong data about which other industries people who are displaced from oil and gas would go to and, in particular, about those people who would be able to earn equally high sums of money outside oil and gas, as that would obviously lead to increased revenues? I am not saying that it would be easy, but is some analysis being done to work out where the high-level industries of the future will be, in order to improve income tax revenue and therefore productivity and growth?

**Tom Arthur:** I will bring you back from income tax levels to general economic performance, which is captured by the national strategy for economic transformation—NSET—and the evidence paper that is provided with it. Those are fair points, so I will take them away and reflect on them.

I am conscious of the point that I made earlier about the need for the framework to remain a concise, high-level document. As I interpret it, what you are driving at is that the strategic objective for stable revenues needs to be unpacked to some degree in order to highlight those points.

**Liz Smith:** It is a crucial area, minister. We all hope that the Scottish economy will improve and do really well because, let us be honest, it has a lot of potential. However, the fundamental point, which just about every member has mentioned so far, is that we are not doing as well as we could be, because our income tax revenues are depressed and not growing strongly enough in relation to the block grant adjustments. That has repeatedly been the central point when the committee has taken evidence from economic specialists and official forecasters.

What I am driving at is the importance of getting the data that we need to inform the policy that the Scottish Government will have to engage with to ensure that revenues increase so that we are much more fiscally sustainable for the future, because Scotland is lagging behind at the moment.

**Tom Arthur:** The ask is to draw a more explicit link between tax policy and economic policy. We are almost considering this in isolation as a tax framework. I take that on board.

The key point that I want to bear in mind is that our income tax revenues are growing—

**Liz Smith:** But not as fast as the block grant adjustment.

**Tom Arthur:** —and are forecast to grow year on year. That ultimately comes down to the different make-up of the economy in other parts of the UK. I think that we are all familiar with the impact that the concentration of financial services in London and the south-east has on inflating earnings overall elsewhere in the UK, and the challenges that that creates. It is important that we look at what are the drivers of earnings and economic performance, and we are setting out our vision for that in the national strategy. Equally, though, we cannot lose sight of the impact on the block grant adjustment and the need for that process to be considered as part of the fiscal framework review.

I take the point around economic performance and the need to maximise opportunities and prosperity in Scotland, and that is what we are setting out through the national strategy for economic transformation. However, we cannot lose sight of the block grant adjustment aspect as well, and we have to bear in mind that income tax revenues are forecast to continue growing in Scotland.

**Liz Smith:** I do not disagree, minister. The block grant adjustment is essential, but so, too, is a tax structure that benefits Scotland by increasing productivity and growth, and encouraging investment.

The convener mentioned the fact that there is potential for internal migration from other parts of the UK—people coming from other parts of the UK to Scotland, not to retire but to be active in the labour market. What analysis has the Scottish Government done of the reasons for those people coming to Scotland and where they have gone? On what basis has their productivity and addition to the economy been available to those who are looking at tax policy?

**Tom Arthur:** Can you pick that up please, Alex?

**Alex Doig:** The income tax evaluation that we published looked at aspects of that. It was more specifically geared to trying to understand whether our income tax policy choices had created or generated migration effects. The broad finding was that they did not—

**Liz Smith:** That they did not.

**Alex Doig:** Yes. So we have been able to understand that to some extent.

I think that the question that you are asking is about whether our income tax policy would, for example, have a role to play in whether people would choose to come to Scotland. That was not

the focus of the income tax evaluation, but it is, obviously, an important question. My short answer is that I am not aware of data that we have that can answer that specific question.

**The Convener:** There are 700,000 Scots living and working in England, not to mention those who are overseas. If we are a strong and growing economy, perhaps fewer people would feel the need to move south or overseas.

**Douglas Lumsden (North East Scotland) (Con):** I want to pick up on a couple of points that have been made this morning, one of which concerns oil and gas. I think that the convener mentioned how many high-paid, high-skill jobs are still linked to oil and gas. What modelling has been done by the Scottish Government on what the decline in oil and gas will mean to the Scottish economy? What data is available, modelling over five, 10 or 15 years, to enable us to see the impact on the Scottish economy?

**Tom Arthur:** I do not have specific data in front of me with regard to the forecast for the number of people working in oil and gas in five or 10 years' time. That is driven by a number of factors and, from a public policy perspective, as we would all recognise, by many levers that are not in the powers of this Parliament.

The fundamental point that I am making is that, as we all understand, the transition away from oil and gas will be a global phenomenon. It is an imperative—it is required. Without it, we will not meet our 2045 targets. The broader policy objective is that we have a just transition that enables people who are operating in that sector, with the high skills and expertise that they bring, to be deployed in the emerging opportunities of a green economy.

As I said, delivering a just transition to net zero presents significant economic opportunities, so, from a tax perspective, the ultimate objective would be that people in that sector and others would have the opportunity to move into those high-paid and good green jobs that we want to be created. That would help to provide a steady tax base to generate the revenues that we require.

10:45

**Douglas Lumsden:** But it does not sound as if you know that there will be a steady tax base, given that you have not done the analysis or modelling. Around 400 or 500 jobs are associated with an oil and gas platform, in terms of people who maintain it and work on it, but considerably fewer people are associated with an offshore wind farm. When we are presented with figures and forecasts, how can we be assured that they are right, given that you have not done the modelling of how many people will be employed in the green

economy and how many jobs will be lost in the oil and gas industry?

**Tom Arthur:** Alex Doig, can you add anything on the data that we have available?

**Alex Doig:** I would just make the point that we analyse income tax data and that we get outturn data. There is, obviously, a lag in income tax data, but it is analysed. That feeds into the SFC forecast and the Office for Budget Responsibility forecast and helps us to understand how the tax is performing. Then there is the question of how the operation of the fiscal framework results in effects on the Scottish budget.

I think that your question is more geared towards economic data in relation to the oil and gas sector. We know that the oil and gas sector is a tax-rich sector, and that part of the income tax distribution is important and is of particular interest to us when we try to understand the SFC forecast and the outturn data. All of those things feed into our on-going analysis and inform our tax policy decisions.

**Douglas Lumsden:** I am thinking more of the projections ahead. We are given quite a lot of data at times, and we are looking at the divergence between Scotland and the rest of the UK when it comes to our economic performance. There must be some projections of how many higher-rate income tax payers there will be over the next five or 10 years. Numbers around the oil and gas sector must be used when those projections are made.

**Alex Doig:** Those are factors that get taken into account in the SFC's forecast. The SFC makes judgments about that sort of thing when it makes its forecast. We analyse the outturn data and the forecasts, and we have our own analysts who consider those factors in terms of the overall income tax outturn data and forecast revenues. It is something that gets looked at in that broader context, but, as regards the specific data that you are asking for, I will have to come back to you in relation to what data the Scottish Government might or might not have, because I do not have those facts to hand,

**Douglas Lumsden:** It would be good to get some assurance that such data is there and that the Government is not just crossing its fingers and taking a wait-and-see approach.

**Alex Doig:** I do not think that a wait-and-see approach is being taken.

**Douglas Lumsden:** If the data is there, it would be good to see it.

I will change the subject. What is the exact remit of the citizens assembly on local government funding?

**Tom Arthur:** That is not determined yet. We have an agreement that is in the shared programme with the Scottish Green Party. We are at an early stage in how we will develop the process, but we are going to be working at pace.

Any remit must be consistent with what is in the policy programme, so it will cover the resourcing of local government, including council tax. It will be for the citizens assembly to consider what issues it wants to explore within that remit. As I said, I do not want to prejudge its work.

**Douglas Lumsden:** When I think of local government funding, I think of things such as non-domestic rates, and I wonder whether that will be a part of the citizens assembly's work. It seems strange that commitments are being made on things such as the small business bonus scheme and changes to who will be liable for council tax. It is almost as if the citizens assembly's hands are being tied, because you have put down ground rules already. Is that a fair thing to say?

**Tom Arthur:** I take your point. There is a combination of commitments, including the manifesto commitments on which the Government was elected and the commitments that are the product of the joint agreement with the Scottish Green Party. Fundamentally, it will take time to implement what the citizens assembly produces. Depending on how significant and profound the changes that the assembly advocates are, it could take some time to implement them, given the legislative process and potentially a period of implementation beyond that.

Our commitment to maintain the small business bonus and ensure that at least 100,000 businesses benefit from it, on which we were elected, is for the lifetime of this Parliament. We will deliver in the lifetime of this Parliament our commitment to extend council tax exemption to under-22s. That provides certainty that we will implement that change.

With the citizens assembly, there is an element of the unknown, in the sense that I cannot predict what the outcome will be. It is for the assembly to engage in deliberations and make proposals. I do not want to say anything that could be seen to pre-empt that process.

We all recognise that there have been long-standing discussions and debates on local taxation. All parties have engaged in pieces of work, either independently or on a cross-party basis, to explore potential amendments to or replacements for council tax. I think that we are all keen to see what the assembly comes up with and to give the proposals that emerge from that process the due consideration that they deserve.

**Douglas Lumsden:** The remit will not be for the assembly to determine; it will be for the Government to determine. Is that correct?

**Tom Arthur:** The remit will be consistent with the agreement with the Scottish Green Party, as I outlined.

**Douglas Lumsden:** That takes me back to my earlier question. Will non-domestic rates be part of the remit?

**Tom Arthur:** I am not in a position at this point to outline what specifically will be in the remit. There is a commitment to a delivery process and engagement with the Convention of Scottish Local Authorities, and I do not want to pre-empt that. However, I assure you that the Parliament will be kept fully abreast of all proposals as they are developed ahead of the citizens assembly's work commencing.

**Douglas Lumsden:** So the businesses that would like reform of non-domestic rates will not really get any comfort from the citizens assembly.

**Tom Arthur:** I am not precluding issues or saying what the citizens assembly may or may not choose to deliberate on. As I said, you can look at the exact wording in the framework for tax on the programme of work that we are undertaking. It is incumbent on me to ensure that the remit of the citizens assembly reflects the shared policy commitment that was agreed with the Scottish Green Party, and it will.

**Douglas Lumsden:** To follow on from John Mason's question, we have no timescale for the citizens assembly, and we have no real timescale for when we will have the remit, either.

**Tom Arthur:** At this point, we are working at pace on that.

**Douglas Lumsden:** That is not a timescale, minister. It almost feels as if the can is being kicked down the road.

**Tom Arthur:** No—the can is not being kicked down the road. I am not yet in a position to announce timescales but, when I am, I will make sure that the Parliament is the first to know.

**Douglas Lumsden:** Okay.

**Michelle Thomson (Falkirk East) (SNP):** Good morning, minister. I have a couple of short questions. When I read through the framework for tax, I asked myself what word jumped into my head to describe how I felt about it, and it was probably "unobjectionable". It does what it says on the tin—the Scottish tin, as Liz Smith said.

To pick up on a comment from the deputy convener, at an overarching level, what specific and measurable difference will the framework make? There is little to object to in it, and there is

clarification. The deputy convener asked about a more detailed level but, in general terms, how will you know that it has been a success?

**Tom Arthur:** In response to a previous question, I touched on aspects around metrics. I have not yet touched on a point that I referred to in my opening statement, which is that I am keen for the framework to help us to elevate the public discourse on tax. I hope that the committee knows that I am keen to advance transparency, improve engagement and have more substantive discussion across the range of my responsibilities. I know that the committee welcomed the work that was done to prepare the guide to the spring budget revision. That approach informs how I want the framework for tax to be implemented.

The document sets out how the Government will approach tax policy, but it also provides a framework or tool for others to bring forward tax policies, whether that be in the Parliament or among the general public and other stakeholders, such as civic Scotland. I hope that it can help to catalyse a more informed and more reasoned debate about tax, in recognition of the important contribution that tax makes. That is important in the context of the existing powers that we have and in the context of any changes that will emerge via the fiscal framework review or any subsequent devolution.

Along with all the stated objectives of transparency and demonstrating the Government's commitment to on-going engagement and a culture of continuous improvement, I hope that the document can contribute to providing a strong reference point or a foundation for a more substantive debate about tax. I hope that we all share that view and aspiration.

**Michelle Thomson:** I can see how the principles, with the two additions, provide the possibility of such a discussion.

Addressing tax avoidance is close to my heart, and you are correct to point it out. House of Commons research on tax avoidance from the last quarter of last year shows that the figure involved is £35 billion a year. We do not know what that equates to in Scottish terms, but that is obviously a huge concern.

Alex Doig may well need to answer this. What is the structure in the Scottish Government—rather than local authorities or whatever—to ensure that there is a focus on tax avoidance? How many full-time-equivalent staff do you have to look at the issue? Does a department head up that work? What management accountability is there? I would appreciate a bit more information about how that functions in the Government, given the importance of the issue.

**Tom Arthur:** I appreciate that Revenue Scotland has a role, and it is directly accountable to Parliament.

**Alex Doig:** It might be helpful to try to understand the question. Are you asking what focus the Scottish Government has on tax avoidance in terms of understanding on-going avoidance activity?

**Michelle Thomson:** Yes. I am trying to determine the link between regarding the principle as important and translating that into real spend or accountabilities in relation to Revenue Scotland and so on. How does that flow through? It strikes me that there is a possibility that we might be saying something nice but not necessarily translating it into real resource or a real focus. I am trying to get more of a sense of that.

**Alex Doig:** There is real focus on tax avoidance in the framework for tax, but that focus needs to start from the outset. The framework for tax says that, when policy makers consider tax changes or proposals, the scope for avoidance activity needs to be a primary consideration at the outset of policy design. It is the job of officials and ministers to live and breathe that in relation to specific policies.

The question whether avoidance activity has taken place comes down to the tax authority's reporting. You mentioned a figure of £35 billion, which probably refers to the tax gap that Her Majesty's Revenue and Customs calculates.

There is a distinction between policy makers and the policy-making process. The question whether avoidance activity is taking place sits with the tax authority, as it administers the tax. However, there is a reporting loop on avoidance activity. We as policy makers need to understand that and see what we can do in policy design to reduce avoidance as much as possible. Addressing tax avoidance is in the framework because it is of fundamental importance to us when it comes to making tax policy and advising ministers on their decisions.

11:00

**Michelle Thomson:** In terms of policy change or devising new policies, as you set out, what underpinning further detail do you have? Have you gone as far as developing policies to support people?

**Alex Doig:** I am sorry—I am not sure that 100 per cent followed the question.

**Michelle Thomson:** People will look at changing existing taxes or bringing in new taxes. Our discussion today suggests that changes to taxes are more likely. What information, policies and focus do you have in place to support that?

**Alex Doig:** Sometimes, we think about issues such as behavioural responses to policies as part of the process. Whether that gets to the point of avoidance activity depends on the specific situation. It is hard to generalise in that way. Are you asking whether we know exactly how much avoidance activity is taking place? Is that what you are getting at?

**Michelle Thomson:** That would be great to know, too.

**Alex Doig:** The Scottish Government does not know precisely what every taxpayer is doing. We rely on the tax authority to administer a policy efficiently and effectively, which it does. We are in constant dialogue with it if a particular situation comes up. However, as I said, in policy making, the dialogue on how we design policy and minimise the scope for tax avoidance starts from the outset.

I am not sure that I have framed that answer particularly well. I am saying that there is a specific element to this in terms of each different tax and the activity that is taking place. The framework for tax is, necessarily, at a high level—we have talked about that today. With the framework, all that we can do is seek to make policies that will reduce the scope for avoidance activity, and that is what we try to do.

**Tom Arthur:** The issue is hard baked into the process. We do not design and take decisions on tax policy without giving serious and detailed consideration to issues around avoidance. We achieve that through policy consideration and the work in Parliament to scrutinise legislation. Before we even get to that point, we are in continuous dialogue and engagement with the appropriate tax authority, which can bring to bear technical expertise. That is the approach that we take. In the framework, we convey the point that tax avoidance is a central concern—it is not an afterthought or something that is of secondary importance; it is intrinsic to how we go about tax in Scotland.

**The Convener:** Minister, you talked about how tax rich oil workers are as a proportion of the Scottish economy. You also talked about the need for a green transition. What evidence do we have that people are transitioning from the oil and gas industry into green jobs at the same salary levels as they enjoy from working in the North Sea? In terms of taxation, that is critical.

**Tom Arthur:** That is a fair point. We touched on the limitations of the data that we have available. I take the points that numerous committee members have raised about having data—in the here and now and with regard to forecasts—to more clearly evidence the transition as it takes place. I am happy to take that away, reflect on the

issue and come back to the committee with a written response.

**The Convener:** I would appreciate that.

**Daniel Johnson:** I have two supplementary questions, the first of which follows straight on from that discussion.

The question is broader than that of North Sea oil and the transition to green jobs. A number of the answers begged further questions around what forecasting the Scottish Government undertakes.

We know that the Scottish Government is about to publish a multiyear spending review. I presume that forecasting will form part of that, so that the Scottish Government can have some view of what revenues will be generated over the period. Is the Scottish Government relying just on the Scottish Fiscal Commission forecast? If so, is it doing further interrogation? Is it undertaking its own forecasting?

The point is important; it is about what forecasts are used and where they are generated. Will you clarify what the Scottish Government is doing?

**Tom Arthur:** I will split that into two parts. First, obviously, we are under a statutory obligation to use the SFC forecast for our budget, so we need to do that.

The broader point is about economic data and how it can inform economic policy, by providing more granular data on particular sectors, regional breakdowns and so on. Ideas in that regard have surfaced and been explored during this morning's meeting. Ultimately, in the context of a resource spending review, we have to make assumptions. In the budget setting process, we have to use what the SFC gives us. We also depend on the decisions that are taken in the UK Parliament.

We could certainly engage in our own independent forecasting, but in essence that would duplicate work that has already taken place. The question is what added value such additional forecasting beyond the numbers that the SFC gives us would bring, and how much additional work would be required to inform policy making decisions.

Have I understood you correctly?

**Daniel Johnson:** No, you have not. In your preamble, you said that it is about the how, but this is about the what. If it is just the SFC forecast, with any data set, it is not just about the numbers themselves but what they do in terms of your process.

Maybe you could write to the committee to clarify where in the process forecasting fits, what forecasting takes place and how you use the SFC data. That would be helpful.

**Tom Arthur:** May I ask you to clarify that? The big focus here is income tax revenues, and in that context what the SFC and the block grant adjustment say is what we must operate with. We can come up with a separate set of forecasts, using a different model and methodology, but that is an academic point; we have to work with what the SFC gives us. I am keen to get a sense of what additional forecasting the committee is asking the Government to explore.

**Daniel Johnson:** It is not necessarily about additional forecasting; it is about what forecasting and data sets you are using. Do you use just what the SFC provides or does additional forecasting take place? On what basis is it broken down? It is not just about oil and gas; are there sectoral or regional forecasts?

Ultimately, you must think that the Scottish Government has some influence on tax receipts, so it is about how that is modelled, forecast and baked into your decision making. An understanding about how that takes place formally in the Government decision making process is pretty important.

**Tom Arthur:** Okay. I am happy to take that away.

**Daniel Johnson:** That would be great.

I have a second question. You said that the Scottish Government would seek full devolution of income tax, VAT and national insurance contributions. Are you talking about full devolution of not just the setting but the collecting of those taxes? Would you limit the approach to those taxes—the top three taxes in the United Kingdom, in terms of receipts—or would you go further down the list? The next tax on the list is corporation tax. Are there other levies that you would seek to devolve?

When we consider the total tax revenue that is levied, I estimate that you are seeking the devolution to Scotland of around 70 per cent of taxation, if we include the three taxes that you want to be devolved with the taxes that are already devolved. Is that roughly what you estimate?

**Tom Arthur:** As you would expect, I will preface my remarks by saying that you will understand what the Government's objective is, constitutionally, and what its views are on where fiscal decisions should be taken. My earlier comments were made specifically in the context of the fiscal framework review. I set out some of the immediate policy challenges that we face that cannot be addressed as a result of our not having control over the three taxes in question. That is why those three taxes are highlighted. As I mentioned, there is also the added complexity of the interaction with the benefits system.

Decisions around the process for devolution of those taxes, the implementation of that and the operation of the devolved system would have to be consistent with the framework. As far as tax authorities are concerned, HMRC operates with the devolved elements of income tax. That works effectively and efficiently, as was recognised through the independent evaluation. There is the role of Revenue Scotland in relation to the two fully devolved taxes, as well as the role of local authorities in relation to the local taxes.

The approach to operation would be underpinned by consideration of what would be consistent with the framework for tax. That is how that decision would have to be taken. We are approaching the fiscal framework with a set of asks. What emerges from that will ultimately determine questions around delivery and operational matters.

**Daniel Johnson:** You seek devolution of the taxes in question through the fiscal framework, so those levies would be devolved in a manner akin to income tax, albeit that there is some debate about the detail of that. Is that what you are saying? Are you talking about just those levies, or would you seek to have additional levies devolved?

**Tom Arthur:** We have set out the three asks in the context of the fiscal framework review. Should there be opportunities for further devolution of tax beyond that, we would, of course, want to explore those. A topical example is a potential windfall tax, the possibility of which has been raised in exchanges in the chamber.

If opportunities for further devolution of tax were to arise, we would want those opportunities to be taken, as we believe that all tax powers should be in the control of this Parliament. However, our commitment, which we prioritised in the manifesto, was that our key focus in the fiscal framework review would be the three taxes that we mentioned. The precise nature of the operational arrangements will be contingent on the outcome of that.

**The Convener:** My final question is on similar lines. I am curious as to why the focus is on those three taxes: national insurance, VAT and the remaining element of income tax—in other words, tax on savings and dividend income. Those are quite complicated taxes. I will give an example of a business in Glasgow that supplies another business in Manchester, which then sells something to a guy in Aberdeen. That involves a complex chain of VAT. In previous sessions, our predecessor committees have looked at how difficult that is and where the UK Government would suggest that VAT would accrue to Scotland—or not, as the case may be.

Why have you not picked fuel duty, for example? When people buy fuel, that is in Scotland. Because of the geography of the country, you would probably get a disproportionate amount of it. Excise duty is another possible example. I am pretty sure that, when it comes to tobacco and alcohol receipts, we exceed our 8.3 per cent population share. If we had control of excise duty, we would get a higher proportion of it. Those taxes are much easier to collect. That assumes, of course, that the UK Government would be in any way interested in devolving those taxes.

Why have you picked the priorities that you have picked, when there are other taxes that could be devolved that would be a lot less contentious from the point of view of how they are calculated, would be much easier to deliver and would bring in a higher proportion of revenue?

**Tom Arthur:** You identify a tension that exists between administrative complexity and policy impact. The ability to take decisions on the taxes that I have referred to—especially national insurance and VAT—offers the potential for significant policy impact. I am not saying that that is not the case with other taxes. I appreciate that, with the cost of living crisis and the events that are unfolding in eastern Europe—which the framework predates—fuel duty has taken on an added dimension.

My key point is about the issues that we could address if we had powers over national insurance and VAT, examples of which I gave earlier: the marginal rate that exists between the higher Scottish rate and the upper earnings limit, and the implications of VAT for the deposit return scheme and for our work on decarbonising heat in buildings. You will be aware of some of the challenges that exist with regard to VAT in relation to the refurbishment and renovation of properties. There are areas where control of those taxes could be impactful.

11:15

There is also the question of going in with a clear set of asks and objectives with regard to further devolution of tax policy in the context of the fiscal framework review.

My final point, which relates to a point that Mr Johnson made, is to recognise that the taxes in question are significant revenue-raising taxes. If we had a broader suite—or basket—of taxes, we would be less reliant and exposed to volatility on income tax.

**The Convener:** I have to say that the choice of taxes does not fulfil Adam Smith's four criteria of certainty, proportionality to taxpayers' ability to pay, convenience and efficiency. I think that

aspects of the chosen taxes—especially VAT—are extremely contentious when it comes to who gets what and whether Scotland benefits disproportionately from an assignment. However, that is undoubtedly a discussion for another day.

**Tom Arthur:** I take your points, but there is the question of impact. I mentioned fuel duty, but VAT is a key element of the cost at the pump, too. I take your point about the tensions around potential administrative complexity and deliverability, but those can be worked through by designing and implementing the devolution of tax in a way that is consistent with the Adam Smith principles. When it comes to what we would do if we had such levers at our disposal, control of VAT and national insurance contributions would be quite impactful in allowing us to shape policies more appropriately for Scotland.

**The Convener:** Control of fuel duty and excise duty would also be very impactful.

We will conclude there. It has been quite a long session, and I would like to thank the minister and Mr Doig for the clarity of some of their answers, although there are still some issues on which the committee would like further information. We would appreciate correspondence on those matters.

That concludes the public part of today's meeting. The next item on our agenda, which we will discuss in private, is consideration of a draft report on the resource spending review framework.

11:17

*Meeting continued in private until 11:43.*



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