



Scottish  
Chambers of  
Commerce

The Ultimate Business Network

## **Consultation Response**

**Scottish Government**

**A Fairer Local Tax for Scotland**

## **Scottish Chambers of Commerce's Response**

1. Scottish Chambers of Commerce (SCC) welcomes the opportunity to respond to the Scottish Government's consultation 'A Fairer Local Tax for Scotland'. It is important that Scotland has a system of local government finance that is fair and understandable, that provides local government with the resources required to provide services and that helps to engender accountability in local democracy.
2. For many of Scotland's businesses, the most prominent means of funding local government services is through the Business Rates mechanism. SCC has welcomed the Scottish Government's Small Business Bonus Scheme, which has reduced the rates burden for many small businesses. Nonetheless we believe that there is scope for further reform of the business rates system through a mechanism which would allow local authorities to benefit more from the promotion of economic growth in their areas.
3. The subject of local government finance has been extensively studied in recent years, both by the Lyons Inquiry, commissioned by the United Kingdom Government and by the Burt Review, commissioned by the previous Scottish Executive. Both of these reports carefully analysed the case for a Local Income Tax, with the Burt Review concluding that such a Tax should not be implemented in Scotland, whilst the Lyons Inquiry concluded that a LIT should only be considered as a medium to long term project.
4. One of the key outcomes of the Burt Review was a detailed analysis of the costs to business of implementing a system of Local Income Tax in Scotland. The report estimated that the initial administration cost to businesses would be in the region of £55-60 million and that ongoing annual costs would be between £7-18 million. Scottish Chambers of Commerce believe that such costs would be an unacceptable additional burden on Scottish businesses, and would put Scottish firms at a competitive disadvantage to firms based in other parts of the UK.
5. The operation of a Local Income Tax in Scotland would result in employees domiciled in Scotland being taxed at a different rate to employees domiciled elsewhere in the United Kingdom. This would have a direct effect on UK-wide or international companies employing Scottish based workers. SCC are concerned at the implications this could have for inward investment, as decisions of this nature will necessarily take account of the additional costs of doing business in Scotland.
6. The LIT would increase income tax by 3p in the pound nationwide. This represents a large, open-ended increase in taxation for higher earners, amounting to thousands of pounds per annum in some cases, and for top executives tens of thousands. This would be a serious deterrent for high earners to work in Scotland. If Scotland is to seek to become a high value economy, it should be seeking to attract these workers, not drive them away.
7. With a few notable exceptions, Scotland has not kept pace with the rest of the UK in terms of the number of large businesses headquartered in our country. SCC is concerned that the introduction of a Local Income Tax could damage

- competitiveness here, with higher Income Tax rates being seen as a reason not to base senior executives in Scotland. This could damage the promotion of Scotland as a national or international base of operations for large businesses.
8. A Local Income Tax is, in effect, a tax on labour, not on wealth. SCC believes that Scotland's richest asset is its people, and that the efforts of business and government alike should be in ensuring that we provide our people with the opportunity to utilise their talents and the encouragement to succeed. We do not believe that this cause would be furthered by an additional Income Tax on our pool of talent.
  9. SCC also has concerns about a LIT as an effective means of funding local government. By its nature, it is difficult to predict the revenue from an income tax over an extended period of time. Employment patterns can change rapidly and expected levels of revenue may either not be met or be exceeded on a year to year basis. Such a lack of stability could result in difficulties for local authorities in their budget planning and with councils now playing a more central role in local economic development, this is of vital concern to Scottish businesses.
  10. The Local Income Tax will be set by central government, removing the power of local authorities to raise their own taxes. A crucial link of accountability will be removed between councils and their electorate, reducing incentives to efficient government at the local level. As well as this, scope for innovation at the local level will be reduced. For example, charges for environmentally sensitive services, such as rubbish collection, may no longer be viable because councils will not be able to offer tax discounts in return.
  11. It is important for the continued growth of the Scottish economy that the workforce has access to an adequate and appropriate supply of housing. By removing a tax on property and replacing it with a tax on labour, SCC is concerned that this may create an imbalance in the housing market, affecting housing supply and hindering the ability of the workforce to find appropriate housing close to their place of employment.
  12. There remain significant unanswered questions about the constitutional status and legality of a Local Income Tax, how this would be collected by HM Revenue and Customs and, crucially, how and when the revenue raised would be repatriated to Scotland and to individual local authorities. There is also the question of the future of payments made by the Westminster Government to Scots in terms of Council Tax benefits. SCC does not believe that the Scottish Government has yet made a convincing case on how this potential funding shortfall would be made up. SCC is also concerned at the potential narrowing of the number of people subject to the Local Income Tax, compared to the Council Tax, and the fact that business may be subsidising those who could afford to pay for local government but do not fall within the reach of a LIT.
  13. Scottish Chambers of Commerce are limiting the response to this consultation to an analysis of the Scottish Government's proposals for a Local Income Tax. We do not wish to pass comment on an existing or alternative means of raising local government finance within the context of this response.

14. Scottish Chambers of Commerce agree to the publication of this response in full.

### **About Scottish Chambers of Commerce**

Chambers of Commerce comprise the world's largest business support organisation. In the UK, membership is voluntary and the Scottish Chambers, along with the British Chambers of Commerce, are prominent members of the worldwide movement of Chambers.

Membership is open to any firm or company irrespective of size. The current membership ranges from the country's largest companies to the smallest retail and professional operations. The present membership ranked by market capitalisation, includes 23 of the top 25 companies, and 38 of the top 50 companies in Scotland. Together Scotland's Chambers provide well over half the private-sector jobs in Scotland and provide an unequalled geographical and sectoral representation throughout Scotland.

The Scottish Chambers of Commerce is the umbrella organisation of the local Chambers of Commerce. Its prime functions are to promote and protect the interests of local Chambers and their member companies throughout the length and breadth of Scotland. It helps promote co-operation between the local Chambers in the provision of services and represents the common interests of Chambers at a national and international level. The President of the Scottish Chambers of Commerce is Her Royal Highness, The Princess Royal.

Scottish Chambers policy is determined by a Council on which all Chambers have equal representation, and is executed under their direction. Policy groups, formed from a wide cross section of member Chambers, are used to develop policy initiatives. The national body represents the interests of members to the Scottish, UK and European Parliaments, opposition parties, the Scottish Executive and other Government officials, Enterprise bodies, COSLA and other public bodies, and works with other private-sector business support bodies in Scotland on areas of mutual interest.

**Scottish Chambers of Commerce  
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