Briefing: TAX

In recent years the STUC has highlighted the impact of spending cuts on society's most vulnerable people. Scotland's public services are in desperate need of funding, including a fully-funded pay-rise for public service workers.

The STUC therefore believes that generating higher tax revenues in Scotland would serve workers and the social good.

A fairer and more redistributive system of taxation which raises total tax revenues is the basis for economic growth, representing the key to achieving social reforms such as ending child and pensioner poverty, ending low pay, and properly funding our public services.

The average tax wedge[1] in the UK for a single person in 2016 was 30.8%. Whilst countries across the economic growth spectrum - Japan, the USA, Greece, Germany, and Sweden – all have higher tax averages[2].

The UK's taxation system is comparatively progressive but is relatively non-redistributive. The distinction between redistribution and progressivity becomes evident when comparing the UK to Nordic countries, for example Sweden.

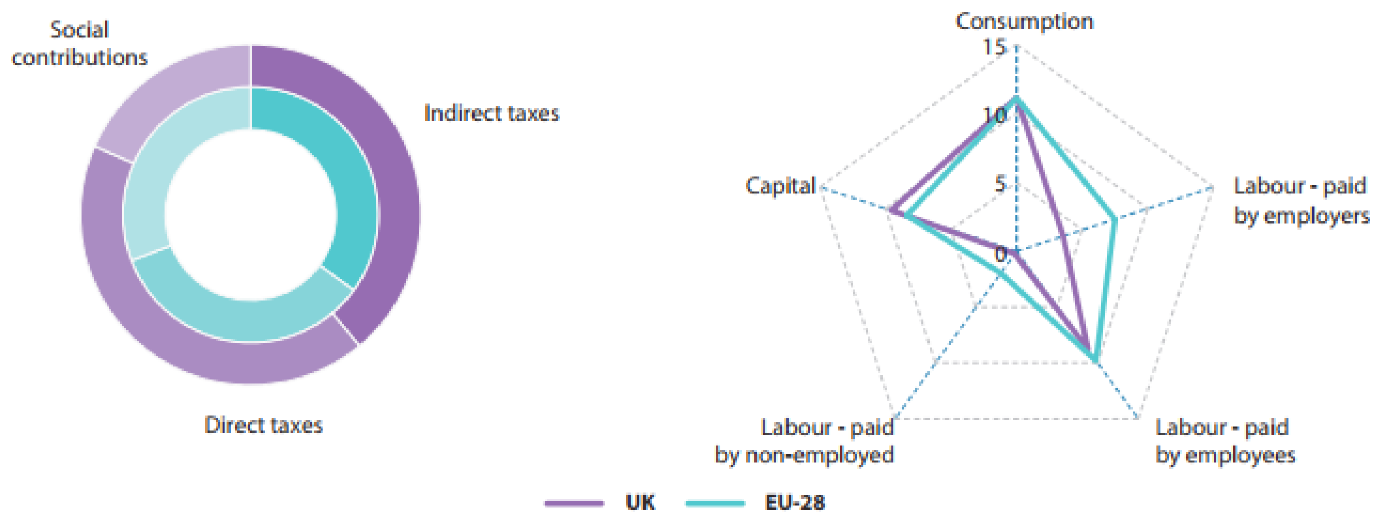
Across Nordic nations higher taxes are paid in comparison to the UK by all income groups, with less progressivity than in the UK system. Higher tax revenues are then used to redistribute wealth and improve outcomes for lower income groups. In this respect, Nordic nations are comparatively equal nations with a comparatively regressive tax system, whereas the UK is a comparatively unequal nation with a comparatively progressive tax system.

The figure below shows the main sources of taxation within the UK. Tax revenues in the UK are primarily raised through direct and indirect taxes, with a lower level of tax as a percentage of GDP raised from consumption, and employers than the EU average. It should be noted that the tax revenue raised from employers is particularly low in the UK.

[1]The tax wedge is a measure of the taxes on labour income paid by employees and employers, minus family benefits received, as a percentage of the labour costs of the employer.

[2]OECD, 2016 http://www.oecd.org/ctp/tax-policy/taxing-wages-20725124.htm

Figure UK.1: Tax revenues by main taxes, compared to EU-28, 2015 (in % of total taxation (left graph) and in % of GDP (right graph))



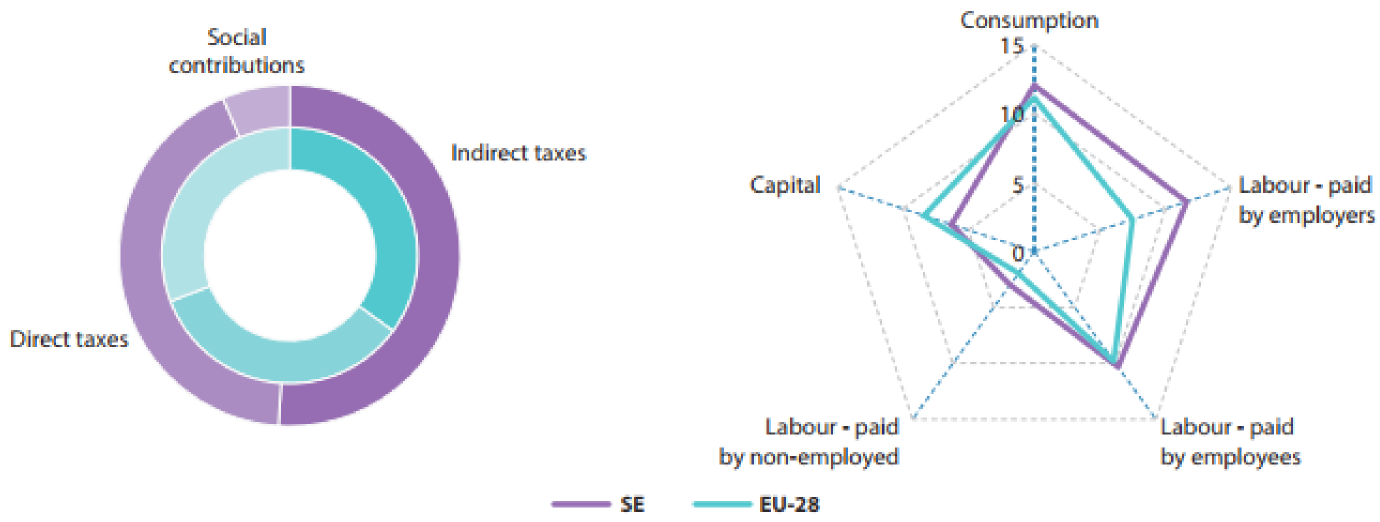
Source: DG Taxation and Customs Union, based on Eurostat data.

The equivalent model for Sweden shows a much higher overall tax take as a percentage of GDP, with higher tax revenues from employees, employers and consumption, with employers paying significantly more tax than in the UK.

These graphs show that there is significant scope to consider the shape and functionality of our tax system, to provide the revenues needed to support public services and ultimately to redistribute wealth and promote equality.

While it should be acknowledged that not all powers in this regard reside in Scotland, there is much that the Scottish Government can do to use tax dynamically to create a fairer, more equal society.

Figure SE.1: Tax revenues by main taxes, compared to EU-28, 2015 (in % of total taxation (left graph) and in % of GDP (right graph))



Source: DG Taxation and Customs Union, based on Eurostat data.

STUC position

The STUC welcomes the Scottish Government's plan to form a cross-party working group on Scottish tax. Scotland's public service workforce needs a pay rise, and our education and other public services are in desperate need of funding[3].

No single measure is going to be able to fund a public sector pay rise which, at very least meets inflation, and invests in public services including education, to the extent required. IPPR Scotland has estimated that the gross cost of a public service pay increase at 3% would cost £560 million[4]. However, it is important to remember the economic benefits that come from raising wages and improving living standards. Once falls in benefit payments and economic multipliers are taken into account the IPPR predicts that the cost would be reduced to £290 million.

Having consistently highlighted the impact of spending cuts on society's most vulnerable people, the STUC cannot ignore the social good that could be achieved through the generation of higher total tax revenues which means increasing taxation overall. Ensuring well-resourced public services and ending the public sector pay cap means putting more money into the Scottish public sector, which enhances Scotland's overall economic output.

Total tax revenues are significantly lower in Scotland than in many of the smaller European nations consistently invoked as models for Scotland. These nations also tend to have lower inequalities of income and wealth. The STUC believes that total tax revenues in Scotland will have to rise over time to facilitate the Scottish Government's social objectives but we don't underestimate the challenges involved.

As well as ensuring the Scottish income tax is as progressive as it can be, the STUC believes that more could be done to improve the base of local taxation in Scotland and create a more redistributive system generally.

The STUC is open minded about, and willing to explore, options for more radical reform with perhaps a greater role for land value and/or property taxes. This could be extended to options where the land value tax element is national and the property tax local but supplemented by new local sales, tourism and environmental taxes. In order to negate unintended consequences, measures such as rent controls could be considered alongside the land value tax.

Other tax policies of the Scottish Government, such as tax breaks through the small business bonus scheme and cuts to air passenger duty show no evidence of boosting the economy, creating jobs, and therefore increasing tax revenue.

The evidence from all countries is that when you cut taxes, detriment to revenues is immediate and real economic outcomes are highly uncertain.

The STUC also takes cognisance of the fact that full tax justice, particularly ensuring all tax is collected (uncollected amounts total over £120 billion across the UK) lies outwith the Scottish Government's powers at the moment. HMRC remains the body to collect Scottish income tax and therefore it is imperative that HMRC is sufficiently resourced to do its job effectively.

The STUC would like to see the Scottish Government use its new tax and borrowing powers to establish a more redistributive system, not just a more progressive system, which raises revenues for public spending, supports the Scottish economy and puts an end to a decade of recession and stagnation.

The STUC believes that, whatever the budget settlement, it is incumbent on all parties to demonstrate how their tax plans are redistributive and will ensure that Scotland's public services are properly funded in order to reduce inequality and encourage inclusive growth and decent living standards for everyone in Scotland.

[3] Unison Scotland, Public Services and the Good Society, 2016 http://www.unison-scotland.org/library/Manifesto-public-services-and-the-good-society-2016.pdf

[4] IPPR, Scotland's Missing Pay Growth, 2016 https://www.ippr.org/publications/scotlands-missing-pay-growth

Political parties' positions

SNP

The SNP's position has previously been to freeze income tax at the same level as the UK government. However, when the UK Government increased the threshold for the higher rate of tax, the SNP opted not to introduce this, creating a difference in income tax rates in Scotland for the first time. Despite being in favour of the 50p tax rate for the UK, the SNP has declined to introduce this as a higher tax rate in Scotland. After years of freezing the council tax, a 3% ceiling was set in 2016 allowing Local Authorities some latitude to raise council tax. Coupled with this the Scottish Government introduced new ratios for the highest council tax bands increasing the progressivity of the system. Nicola Sturgeon's speech at the SNP conference in October 2017 noted that they are now actively considering the introduction of a new band or bands from 2018/19 to make income tax more progressive.

Scottish Labour

In 2016, Scottish Labour made clear that it would put 1p on all tax rates in order to raise money to protect public services. They said they would give a rebate to those earning less than £20,000 and would raise the highest tax band from 45p to 50p[5]. Scottish Labour have also stated that they would abolish the council tax and introduce a system based on the value of a property.

Scottish Green Party

The Scottish Green Party wishes to cut tax for those on less than the average wage of £26,500, but increase the top band to 60p in the pound. The Greens say this would raise an extra £330 million for public services, including an above inflation rise for public sector workers, which they say could be implemented via a more progressive taxation system. The plan envisages an 18p rate above £11,500, then 22p above £19,000, 43p above £43,000 and 60p above £150,000[5]. The Scottish Greens have said that they will not support the Scottish Government's draft budget on 14th December 2017 unless the Government commit to raising tax revenue and reinvesting in public services and pay. The Scottish Green Party has stated that it would abolish the Council Tax and replace it with a Residential Property Tax (RPT) for individual properties based on annually updated values.

Scottish Liberal Democrats

Scottish Liberal Democrats state that they would introduce a 1p increase across each band, with the aim that this protects education spending. They also state that they are in favour of exploring a Land Value Tax to replace the Council Tax.

Scottish Conservatives

The Scottish Conservatives believe that income tax should not be any higher in Scotland than the rest of the UK and lower when affordable. The Scottish Conservatives also want to maintain the Council Tax with capped increases and higher multipliers for the top two bands only.

[5] Scottish Labour Manifesto, 2016

[6] https://greens.scot/blog/7-ways-the-greens-tax-plan-will-make-scotland-fairer

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