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Submitted to Tax policy and the Budget - a framework for tax
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Ministerial Foreword

Questions

1 What are your views on the draft Framework for Tax?

Please give us your views:

We are broadly supportive of the Framework for Tax. With respect to the Purposes of Tax we would comment that the redistribution of income and wealth should be related to a reason and not just regarded as a desirable thing to do in itself. For example, 'the redistribution of income and wealth to support public policies'. We agree with the six Principles of Taxation laid out and have no comments on this aspect of the Framework.

The Budget process remains a challenge for the Scottish Parliament and taxpayers. The consultation highlights the very limited scope for scrutiny between January and February, and it appears the Scottish Ministers themselves may have very little insight into UK measures that might announced shortly before the Scottish budget. UK measures can and do have a significant bearing on our industry, whether on VAT measures or new tax measures such as the Residential Property Developer Tax. We agree strongly therefore with the intention to strengthen engagement and cooperation with the UK government, and other devolved administrations. We see this as a vital step if we are to have a better budget and tax-setting process in Scotland.

Despite the uncertainties over possible UK measures in the autumn budget, we still believe it must be preferable for the Scottish Budget to be announced closer to the date of the annual programme of government announcement by the First Minister. This would establish not only the Scottish Government's policy intentions for the forthcoming year, but how the government intends to pay for it. This would also allow the Scottish Parliament and its committees to more effectively consider the proposals of the budget and the programme for government.

2 What should the Scottish Government's priorities for devolved and local tax be over the course of this Parliament (2021-2026)?

Please give us your views:

We believe the government's priorities should be to establish a tax base that supports a sustainable, diversified and predictable revenue stream. The current concentration of tax revenues from higher value property transactions and large non-domestic ratepayers is in our view a significant risk to the government's revenue.

The risk of dependency on large properties can be all too evident when, for example, former department stores close through the business going into administration, with no alternative use likely for many years.

The current dependency on the additional dwelling supplementary LBTT rate and on residential property transactions above £325,000 to support the bulk of LBTT revenue is in our view unhealthy for the broader market, and a clear risk should these transactions experience a significant drop in activity levels.

Beyond this we would urge the Scottish government to reconsider its former interest in legislating to ensure Property Authorised Investment Funds (PAIFs) and Co-ownership Authorised Contractual Schemes (CoACS) receive LBTT relief to the same degree as other parts of the UK. We have heard evidence from members to suggest that where UK wide portfolios face a tax framework that is less favourable in Scotland, then the easy option is to avoid the inclusion of Scottish-based assets.

The Scottish Government should also consider further measures to support investment in more sustainable buildings. The capital investment required to retrofit or indeed invest in new technologies to support zero carbon heat and improved energy efficiency can be considerable. Tax incentives may therefore be key to support green investment. For example, currently, the business rates system can dis-incentivise investment to increase the energy efficiency of a building or to introduce new more efficient zero carbon heat systems. This is because such actions can increase the rateable value of the building and make the owner or tenant liable for higher business rates. It is therefore important that the Scottish Government reviews its business rates system to ensure that the tax does not inhibit private investment into Scotland's commercial building stock and instead incentivises investment by potentially offering a discount to offset the capital required to make the necessary improvements. We understand already holds the power to offer such incentives.

3 How should the Scottish Government use its devolved and local tax powers as part of Scottish Budget 2022-23?

Please give us your views:

LBTT - residential
The government has already declared it will not change the residential LBTT rates and thresholds over the course of this parliament. We believe this is a mistake as markets, including housing markets, can quickly change. It will only need a change in interest rates policy, due to increases in the rate of inflation, for many households to experience mortgage pressure, or to be deterred from the levels of house purchase that make up the bulk of LBTT revenue. By not raising the threshold for the higher LBTT rates the government is allowing more and more transactions to be caught at the 10% rate of taxation above £325,000. This risks becoming unattractive should property prices continue to increase rapidly and the costs of mortgages also rise. We believe that the government should keep the relevance of the residential rates and thresholds under review, including for next year's budget.

LBTT - non-residential

We can hardly think of a more inconvenient tax than the three yearly LBTT commercial lease assessment. This tax measure has made only £600,000 in over three and a half years of existence - and this is a rounded-up figure. We believe the government should move to repeal the requirement for these reassessments. This has been a burdensome tax measure that has returned very little in the way of revenue. Indeed, its administrative costs are likely to have outweighed its actual revenue obtained. In fact the tax has led to a significant number of penalties being levied and this would indicate top us that the tax is from from 'convenient'. Furthermore, in light of a large number of reduced rental arrangements in the commercial property market during the pandemic the government may soon find itself liable for the repayment of commercial lease taxation that will make this tax measure appear even more bizarre and unwarranted than it already is.

Non-domestic rates
The Scottish Government should move towards ending the requirement for a large business supplement. Larger businesses are already paying significant non-domestic liabilities through the size and value of their premises. The current Non-domestic rates tax base is highly dependent on a relatively small number of large business supplement taxpayers. This concentration of the tax base makes it highly susceptible to risk: this has been shown with the collapse of well-known retail chains in recent years into administration which effectively removes that property from the NDR tax base. The priority for setting local tax policy, including rates of local tax, should be a sustainable rate that does not negatively impact either business investment or working operations (such as employment decisions).

Empty Property Rates
Budget year 2022-23 is the last year when the Scottish Parliament will set policy regarding empty property rates for vacant non-domestic buildings. Empty rates have been regarded by successive Finance Secretary's as an incentive to force unwilling landlords to let vacant commercial units. This might have held some relevance in very strong commercial rental markets when demand exceeded supply. This has not been the case for the majority of commercial property rental markets across Scotland in recent years and significantly so since the pandemic. In fact, the tally of 350 non-residential commercial lease returns for last month (September 2021) is one of the lowest recorded for this time of year by Revenue Scotland since 2015. We believe the rationale behind high vacant empty property rates charges is therefore based on a false premise. And worse, by charging landlords and property companies high charges for non-returning properties it lessens the capital available to these businesses to reinvest in the buildings, or other regeneration initiatives. Empty rates are not therefore necessarily a disincentive to landlords seeking higher rents from a choice of tenants, there is often no such weight of demand from commercial tenants. Instead empty rates are a disincentive to new investment and regeneration, and particularly so for smaller property companies based in Scotland's towns. We believe the government should make use of its final year determining empty property rates policy to introduce reforms to this system.

Another priority for the next year will be to find a viable solution to the taxation of mainly online retailers who have an advantage in tax liability terms over traditional 'bricks and mortar' businesses.

Supporting development and investment
Research for the SPF by the Fraser of Allander Institute identified that for every £100m of new commercial development demand an additional £73m was produced for the wider economy. As the country recovers from the pandemic and delayed or postponed investment decisions are reconsidered, we feel it is vital to support new jobs and investment from commercial development activity. The impact of the pandemic has clearly accelerated the demise of many traditional names from high street retail and these buildings will need to be repurposed if they are to be returned to effective use and occupation, and this will require significant capital investment. We support the continued use of the Business Growth Accelerator therefore and in particular its support for new and improved property development. Members have clearly reported to us that the BGA supported investments to happen and for this reason we believe it is important that the BGA should be sustained.

About you

What is your name?

Name:
David Melhuish

What is your email address?

Email:
dmelhuish@bpf.org.uk

Are you responding as an individual or an organisation?

Organisation

What is your organisation?

Organisation:
Scottish Property Federation

The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

Publish response with name

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Yes

I confirm that I have read the privacy policy and consent to the data I provide being used as set out in the policy.

I consent

Evaluation

Please help us improve our consultations by answering the questions below. (Responses to the evaluation will not be published.)

Matrix 1 - How satisfied were you with this consultation?:
Slightly satisfied

Please enter comments here.:

Matrix 1 - How would you rate your satisfaction with using this platform (Citizen Space) to respond to this consultation?:
Slightly satisfied

Please enter comments here.: