Commission on Local Tax Reform

FSB Scotland response

Federation of Small Businesses Scotland
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Federation of Small Businesses
The UK's Leading Business Organisation

Introduction

The FSB is Scotland's largest direct-member business organisation, representing over 20,000 members. The FSB campaigns for an economic and social environment which allows small businesses to grow and prosper.

The FSB welcomes this opportunity to submit comments to the Commission. We hope that the Commission's work will lead to a sustainable solution to perennial concerns about local government funding. This will enable more productive discussion about local government's critical role in supporting Scotland's economy. However, we believe that the failure to extend the Commission's remit to cover the non-domestic rates element of local government's funding was a missed opportunity.

Small businesses and local government finance

At the heart of their communities, providing local services and jobs, small businesses have a strong interest in the future of local government finance. The services and infrastructure delivered by our councils are critical to supporting local economic growth, while a thriving local business community provides a vital tax base.

Since the council tax freeze was introduced, non-domestic rates (NDR) have become a far more significant element of local government funding. Indeed, NDR is currently the single largest source of income under the control of the Scottish Government, accounting for over £2.6bn in the last financial year, compared to around £2bn in council tax.

Since the last revaluation in 2010 the FSB has highlighted a number of problems with the NDR system in Scotland. Many of these issues are highlighted in our response to the Scottish Government's consultation in early 2013. We outlined our view that the system itself warranted a more thorough review. We are still convinced that a wider review is necessary and have urged the Scottish Government to conduct a parallel review to that promised by the UK government in 2017. Some of the key challenges of the current system include:

- Tax liability for a five year period is based on a fixed point of time, irrespective of changes in economic conditions. This is compounded by an approach which maintains a constant yield from NDR, meaning the governments income does not ebb and flow according to the economic cycle.

- The tax uses property value as a proxy for ability to pay, rather than having any link to sales or profit.
- The tax burden falls unevenly on businesses, particularly hitting those that require larger premises or higher value premises and not keeping pace with newer business models, such as ecommerce.
- The system is completely opaque and complex.
- The practice of revaluing immediately after renovation or property improvement acts as a disincentive to business growth and investment by taxing the asset before benefits are realised.

Having highlighted these concerns we are, as suggested above, disappointed that despite the Commission being established to review local taxation in Scotland, the current system of local business taxation, NDR, is not being considered.

Notwithstanding this point, links with business and NDR are likely to feature in the Commission's discussions. A number of these issues affect small businesses and may be relevant for the Commission to consider. These are outlined below.

1. **Consider the impact of any alternatives on the local economy and businesses.**

    - Small businesses are anchored in their local communities and are unlikely to move the business as a result of fiscal changes. Nonetheless, changes to the local tax regime may have an impact on the local economy. For example, taxes on income may disrupt where employees choose to live and work, while also potentially impacting on entrepreneurship. On the other hand, the current property-based system has implications for our town centres. The Business Regulatory Impact Assessment (BRIA) process should be used to understand implications.
    - It would also be worth exploring whether the current imbalance between domestic and non-domestic tax income is sustainable.
    - Local government has lead responsibility for local economic development in Scotland but these services are not statutory. In times of financial constraint, we need to ensure that the services

which support jobs and business growth can be sustainably funded, at the same time as addressing funding challenges in core, statutory services. As a result, from the business perspective, there is some merit in ring fencing or project-specific funding mechanisms.

- The Commission should consider whether suggested alternatives will have an impact upon the existing NDR system and, if appropriate, suggest how this could be accommodated, or whether further review of the NDR system is necessary.

- The Commission should also bear in mind the range of fiscal changes which may occur in Scotland in the next few years as a result of further devolution. Minimising the potential for confusion or additional bureaucratic burden should be priority when considering alternatives.

2. Consider the intertwined nature of business and domestic life in modern Scotland.

- A recent report by the FSB highlighted that around half of all businesses in Scotland are operating from the home, not external premises. A number of homes will be paying both council tax and NDR for parts of the home.

3. Administration could be more efficient, but not at the expense of employers.

- The administration of any alternative should not place new burdens on Scotland's employers.

- We believe that NDR could be billed and collected by Revenue Scotland without impacting upon local accountability.

- Wherever possible, we should seek to increase data sharing between HMRC, Revenue Scotland and local authorities. This would help minimise the information challenges associated with any alternative and reduce the burden on citizens and businesses.

4. Assess the extent to which revenue raising powers can support, not jeopardise, local economic growth.

- After a disappointing start, the current Business Rates Incentivisation scheme should be monitored to establish whether it is an effective incentive to focus investment on the local economy.

- At present, there is little appetite amongst businesses for a return to local rate-setting. Indeed, when council tax payers have a vote, and ratepayers do not, many businesses fear that local control would mean regular increases in their bills.

- More generally, given the amount of income raised by NDR, a better understanding between local authorities and their ratepayers about the services funded by the tax would be beneficial.

For more details on any of the points in this submission, please contact Susan Love, Policy Manager susan.love@fsb.org.uk

The FSB is Scotland's largest direct-membership organisation. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure and dedicated Scottish staff to deal with Scottish institutions, media and politicians, the FSB makes its members' voices heard at the heart of the decision-making process. It is therefore recognised as one of Scotland's most influential business organisations. The FSB also provides a suite of services to help our members reduce the cost and risk of doing good business – from legal and tax protection to business banking.

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