

1 July 2008

A Fairer Local Tax (CRE 959)
Central Research Unit
Spur U5b Saughton House
Broomhouse Drive
Edinburgh
EH11 3XD

Dear Sir or Madam

RESPONSE TO CONSULTATION PAPER “A FAIRER LOCAL TAX FOR SCOTLAND”

Scottish Financial Enterprise (SFE) is the independent organisation, formed in 1986, that supports and represents the interests of Scotland’s financial services industry. SFE’s member companies encompass all sectors of the industry including banks and building societies; general insurance, life assurance and pensions; investment management; asset servicing; corporate finance and broking services; professional advisors and support services. In total, SFE members account for over 70 per cent of the 100,000 or so people directly employed within Scotland’s financial services industry.

We welcome the Scottish Government’s commitment to consultation on the important issues raised in this paper. In general, we do not think hasty decisions would be appropriate for such a complex area, and we look forward to a considerable period of dialogue and debate before any legislative changes are introduced.

There are significant questions about the possible impact of the proposals on Scotland’s competitiveness which need to be addressed.

There are three areas in which the potential impacts of a local income tax give, we believe, grounds for caution and careful deliberation before taking any action:

- maintaining Scotland’s relative attractiveness for employers and employees;
- the likely complexity of administering a local income tax; and
- maintaining Scotland’s credibility as a business-friendly location in the very competitive market for international business.

Attracting employers and employees to Scotland

If the impact on individuals of different local taxation systems across the constituent parts of the UK is sufficiently large, it seems likely that people will be less inclined, all other things being equal, to live in the higher taxed areas. For industries like financial services, where talent is already highly mobile, that could make Scotland less attractive as a place to work, if the overall taxation burden were to rise for people above a certain income threshold. The margin for error here is small. International and intra-UK competition for talent is intense.

For employers, there would obviously be the possibility of having to pay a larger overall wage bill in Scotland than elsewhere in the UK, to compensate for tax differentials. In a marginal decision on location, this could be a decisive factor.

Many businesses in Scotland depend for their continuing success on being able to attract high-earning, wealth-creating talent. We would be concerned for the economy as a whole, as well as for the financial services industry in particular, if the potential impacts of the proposals on our capacity to attract talent were not looked at in detail and with great care in the light of the consultation.

Complexity of administration

Many of our member companies employ people throughout the UK. Applying the PAYE system to different taxation structures in different areas seems likely to generate additional administrative burdens for companies operating in and outwith Scotland and this could, in turn, impact on their overall competitiveness.

We would also wish to see some further analysis of the potential impacts of a local income tax on pensions policyholders. For example, one may need to consider whether tax relief on pensions ought to be at a different rate in Scotland, perhaps leading for some of our member companies to a necessarily differential treatment of individuals with pensions annuities across a company's UK customer base.

We also have some concerns that the administration of a local income tax at both local and devolved government level could be a larger task than the administration of a property tax, since the former is based on assessing the circumstances of individuals and the latter, broadly speaking, on assessing those of properties.

Perceptions of Scotland

We have been pleased to work with the Scottish Government since May last year on the promotion of Scotland as an attractive and highly competitive location to invest and to do business. There is a risk that the introduction of a local income tax could make Scotland seem a relatively highly-taxed part of the UK and thereby undermine the persuasiveness of that case.

I hope these comments are helpful.

Owen Kelly
Chief Executive