

29 September 2011

Scotland Bill Committee
 Scottish Parliament
 Room TG.01
 Edinburgh
 EH99 1SP

(Sent by email to: scotlandbillcommittee@scottish.parliament.uk)

Dear Convenor and Committee Members

SCOTLAND BILL – CALL FOR EVIDENCE

Scottish Financial Enterprise represents Scotland's financial services industry. It is funded by its members, which are drawn from all sectors of the industry as well as from professional bodies, educational institutions and providers of business services. Common to all members is an interest in promoting and supporting the continued success of our industry in Scotland.

We confine our comments, in this response to your call for evidence, to paragraph 5 and, specifically, the question of whether the Bill should be amended to devolve powers over corporation tax.

General observations

Where powers sit within the UK constitution is a matter for voters and their elected representatives. As a business organisation, our primary interest is in maintaining and enhancing the conditions under which our industry can thrive, compete successfully for business in international markets and thereby continue to contribute to Scotland's prosperity.

An assessment of how those conditions would be affected by devolving corporation tax requires some assumptions about how the relevant powers, once devolved, would be used. We prefer to avoid such assumptions, as a policy debate on how such powers should be used needs a strong fact base drawn from prevailing circumstances at the point of decision which is, by definition, not available; and to concentrate on the decision before us, namely whether or not to devolve.

We offer the following questions which, we believe, need to be considered as part of the debate which needs to precede such a decision. We do so from a position of constructive scepticism. Devolving corporation tax might be good for Scotland and good for our industry; but it is difficult to form a considered view on that proposition, if these questions remain unanswered to the fullest extent possible.

We therefore invite the Committee to give consideration to these and other questions forming the basis of a study, to explore all available facts and evidence, before a decision is taken.

Questions

- What estimate can be made of:
 - (i) the value to the UK economy (and the Scottish) of the existing uniform rate of corporation tax across the UK single market?
 - (ii) the potential value to the Scottish economy (and the UK) of varied rates of corporation tax within the UK single market?
- Would power to change the basis of the tax, as well as the rate, be devolved?
UK corporation tax is based on taxable profits - could this change?
 - (i) Would this power create the opportunity for increased simplification or otherwise improved tax levying?
 - (ii) Would this bring additional complexity, particularly for companies with operations throughout the UK?
- Would transfer pricing legislation be needed to prevent profit shifting? How would that be put in place and enforced? How could the issue be otherwise dealt with?
- What estimates can be made of the likely costs in terms of administration and compliance of devolving corporation tax? Would this be an increase or decrease in overall tax administration and compliance costs; and who would be affected?
- How will double taxation treaties (inter-jurisdictional tax agreements that can influence how multinational businesses arrange their operations and their tax affairs) be affected, if at all? Would devolution create opportunities to improve these treaties for companies with operations in Scotland?
- How volatile would corporation tax receipts be, if assessed on a Scotland-only basis?
 - (i) Would the risks of volatility be increased or decreased by narrowing the tax base to Scotland only?
 - (ii) Is there a measurable value to business of being part of a larger, more diversified tax base?
 - (iii) How could volatility be mitigated? If by borrowing, how much would such borrowing cost?
- Are there any specific implications for businesses based in Scotland but serving customers mainly in the rest of the UK? Where would they pay tax on their activities and how could devolving corporation tax improve their competitive position?
- Within the UK, will different rates of corporation tax distort the allocation of resources and investments within a notionally single market? Or make that allocation more efficient?
- Is there a causal link between rates of corporation tax and economic growth?
- Will the introduction of differing rates of corporation tax within the UK encourage or discourage potential inward investors from setting up headquarters, subsidiaries or branches in the UK or in Scotland?

Conclusion

We invite the Committee to agree that the questions listed above could productively be discussed and suggest this is done as part of a wider investigation into the implications of further extending the fiscal powers of the Scottish Parliament to include corporation tax.

We are sceptical but constructively so. We are open minded. But as David Hume said, 'a wise man proportions his beliefs to the evidence.' The questions above identify lacunae in the evidence base that need to be filled before we can 'proportion' in the way he recommends.

I apologise for missing your deadline for submitting comments and I would, of course, be happy to discuss the contents of this letter.

Yours sincerely



Owen Kelly
Chief Executive