



Council Tax Abolition and Service Tax Introduction (Scotland) Bill

Response from the Federation of Small Businesses in Scotland

Introduction

- 1.1 The Federation of Small Businesses welcomes this opportunity to submit written evidence to the Local Government and Transport Committee.
- 1.2 The FSB is Scotland's largest direct-member business organisation, representing over 18,000 members, and campaigns for an economic and social environment which allows small businesses to prosper.
- 1.3 A number of issues were outlined in the Member's Bill and accompanying Financial and Policy Memorandums, relating to personal income and domestic taxation. As a business organisation, the Federation has limited its consideration at this time to how the proposed Bill might impact upon businesses, both in terms of Service Tax collection (and associated costs) and the repatriation of non-domestic rate setting to local authorities.

Costs of Collection

- 2.1 Section 5(1) states that:

"It is the duty of each local authority to secure that in each financial year -

(a) the tax is-

- (i) imposed on, and
- (ii) collected from,

any qualifying individual who is domiciled, resides or is the owner of heritable property in that local authority area for any part of the financial year; and

(b) the total revenue collected is remitted to the Scottish Ministers."

- 2.2 The Federation believes that the introduction of any kind of service tax or local income tax in Scotland would be problematic and result in additional costs for employers who would be expected to provide local authorities with information on staff salaries.
- 2.3 The Financial Memorandum accompanying the present Bill suggests that collection of the Scottish Service Tax would lead to huge additional costs for business through the extra administration and provision of information to local authorities on staff salaries. If the Bill is introduced as worded and the Inland Revenue is asked to assess liability, but local authorities are charged with collecting revenues, the total cost to Scottish business is estimated at £1,120million. This is over and above the current cost to business of £800million for the administration of Income Tax.
- 2.4 The Policy Memorandum accompanying the Bill suggests that local authorities will be expected to 'contract' collection of the tax to the Inland

Revenue, which already holds all the information necessary for the collection of the tax (NI details, salary, address) and that this will remove the need for employers to provide extra information to local authorities. However, we are unsure about the practicalities of this arrangement, and would suggest to the Committee that they ask the IR whether they would be happy to be tasked with the collection of the Service Tax and if so, what implications this would have for them in terms of extra staffing and IT systems.

- 2.5 Small businesses would be particularly affected by these changes, as many do not have specialised payroll staff or software, and struggle to deal with the detail of new legislation or payment systems. Research shows that small firms with one or two employees spend nearly five times as many hours per employee dealing with these types of regulation than firms with more than fifty staff¹, and the fixed cost elements of regulatory compliance are five times higher for micro businesses, than medium-sized businesses².
- 2.6 The Financial Memorandum also highlights that the “costs to employers in England employing Scots may add 10% to these costs” (pp4).
- 2.7 As a result of the seemingly unavoidable cost increases for employers, the FSB cannot support the principle of a Scottish Service Tax.

Setting of the Pounding Rate

- 3.1 The Bill does not refer to non-domestic rates specifically, but the accompanying Policy Memorandum, states that, “The financial autonomy lost to local authorities through the introduction of this Bill would be fully compensated for by the ability of councils to fully set and retain their non-domestic rates rather than just collect them as is the case currently.” (pp29)
- 3.2 There are clear strains on local government finances, resulting in annual above inflation increases in Council Tax and other charges and businesses would be concerned that the non-domestic rates poundage could be increased to relieve some of the pressure on local authority finances.
- 3.3 Evidence indicates that non-domestic rates have a significantly greater impact on smaller businesses than on larger businesses, particularly in terms of the level of rates as a percentage of turnover and profit, so any upward pressure on the rates poundage would particularly hit smaller businesses.
- 3.4 Whilst businesses have been unhappy with the difference in the rates poundage between Scotland and England, past Scottish Executive commitments to peg increases to inflation have meant that rates bills for Scottish-based businesses have at least remained fairly consistent. Returning the poundage rate to local authorities could lead to greater inconsistency and unpredictability which are clearly undesirable from a small business perspective.

¹ ENSR, Administrative Burdens in the European Observatory for SMEs, Third Annual Report, 1995

² OECD, Business Views on Red Tape (OECD, Paris: 2001)

3.5 While the FSB does not favour any particular system over non-domestic rates, we believe that the case for changing responsibility from the Scottish Executive to local government has yet to be made. We would therefore reject any moves, should the present Bill be passed, for the repatriation of the setting of business rates to local government.

For further information on this response, please contact Andy Watson, Deputy Press and Parliamentary Officer, on 0141 221 0775 or at Andrew.watson@fsb.org.uk