

PCS response to “*A Scottish approach to taxation*” consultation.

Executive Summary

The Public & Commercial Services Union, PCS, is the largest union representing HMRC Employees beneath SCS Grade in Scotland. Our membership engaged in delivering taxation functions have contributed to the views and recommendations below.

PCS are campaigning for a fair tax system. We want to see a closing of the tax gap; more staff in HMRC and for those with the greatest ability to pay to carry the heaviest burden. Through consultation with our membership, we submit the following observations, points and recommendations:

Context:

- The UK approach to taxation is part of a broken global tax system, marred by avoidance and evasion.
- Cuts to HMRC have demoralised staff, created difficulties for service users and fostered structural inefficiency in tax debt collection and enforcement. The impact of this on the wider economy cannot be underestimated.
- Lack of HMRC Resource and presence could mean that, in practice, taxation may end up proportionate to proximity of nearest HMRC Regional Centre.

Devolution:

- The devolution of some tax powers via the Scotland Act 2016 present an opportunity for Scotland to take a different approach to taxation.
- The incomplete package of tax powers is potentially, although not wholly, limiting.

Recommendations:

- A “fifth principle” committing the Scottish Government to tax justice is necessary to deliver the other four principles.
- The Scottish Government’s tax principles would be best achieved through a properly resourced tax collection system, spread out across Scotland, equally accessible to all and subject to rigorous Parliamentary scrutiny
- In the medium-term, whilst taxes remain “split”, the collection and enforcement of these “split” taxes is best done by one civil service body
- Any move to collect the “split taxes” separately would likely complicate the situation for employers and taxpayers. There would be potential duplication of effort and complications in tax debt pursuit
- Ring-fencing taxation when the economy is subject to external forces may be counter-productive.
- The most damaging behavioural response to taxation changes is the continued ability of the wealthiest to exploit tax loopholes across the UK.
- In light of the HMRC office and service closures, as well as ongoing centralisation, we recommend that the Scottish Government instruct HMRC to take a different approach which could see jobs created or protected across Scotland, as well as extra revenues collected. This would increase public confidence in the fairness of the tax system as a whole.
- There is a compelling case for a more holistic review of Taxation in Scotland, to which PCS would certainly contribute.

Introduction & Summary of Evidence

1. The Public & Commercial Services Union, (PCS) represents approximately 190,000 members right across the civil and public services and in some areas that have been privatised. PCS is the largest union representing HMRC Employees beneath SCS Grade in Scotland, representing 5200 Members in a total HMRC workforce of c.8600. Those members implement and enforce all of the taxation functions that HMRC oversee. Our general secretary is Mark Serwotka and our president is Janice Godrich.
2. Our submission to this call for evidence is informed by consultation with those frontline staff in particular, and with supportive input from other PCS Members in Tax Professional and Enforcement roles across the UK.
3. We endorse the four principles outlined, which we believe would and should be complimented by the addition of an unequivocal fifth principle to ensure Tax Justice for All. It is the view of our members that the Scottish Government should explicitly adopt this commitment to tax justice, which we suggest should read "*Be universal and just in application and enforcement*".
4. We believe that the further devolution of powers enabled by the Scotland Act 2016 present an opportunity for Scotland to take a different approach to taxation.
5. Although the call for evidence relates to taxation as a holistic concept, we would like to note that PCS Members in the Valuation Office play a valuable role in relation to supporting Council Tax assessment. PCS have reservations that the Council Tax as currently structured cannot be said to be progressive and needs an overhaul. We believe that so long as the apportionment of taxes raised in Scotland between Westminster and Holyrood continues, the collection and enforcement of these "split" taxes is best done by one civil service body, although further devolution in future might well lead to a different assessment
6. We do not therefore at this stage offer a definitive position as to whether that body should be HMRC or an expanded Revenue Scotland, taking in current Scottish HMRC staff under COSOP. There are both advantages and disadvantages to either approach.
7. From a point of view of HMRC staff in Scotland, although the Scottish Government pay policy, has in real terms, been no more generous than that of Westminster, the commitment to the avoidance of compulsory redundancies demonstrated by the Scottish Government has been a marked counterpoint to the approach of HMRC. Such an approach would provide a welcome relief from the current climate of low morale and fear of job loss that has lingered in HMRC's Scottish offices since 2006. That said, there would be substantial initial costs to expanding the scope of Revenue Scotland and establishing the IT infrastructure required for that body to take on functions currently carried out by HMRC.
8. As part of a Scottish Approach to Taxation, we believe scope exists to mandate a change of direction in the relationship between the tax collection body and taxpayers, and we detail this in our responses to questions below.

9. Q: How can the Scottish Government's four principles to underpin Scottish taxation policy best be achieved?

A: As noted in our introduction, we endorse the four principles outlined, but would argue for these to be accompanied by a fifth principle enshrining tax justice at the very heart of the Scottish Tax System. We believe that these five principles can best be achieved through a properly resourced tax collection system, spread out across Scotland, equally accessible to all and subject to rigorous parliamentary scrutiny. We would add that PCS along with many other unions and EPSU believe that the global tax system is "broken" and needs to be rigorously overhauled to deal with the problems of tax avoidance and evasion and "global flight".

10. Q: How does the current taxation regime and proposals for newly devolved taxes align against these principles?

A: The current regime is lacking on each of the following fronts.

11. “Be proportionate to the ability to pay”

The current UK tax regime favours those already wealthy, to a significant extent – before even considering the questions of avoidance or evasion.

Research by the Equality Trust revealed that in 2014/15 the poorest 10% of households were effectively taxed at a rate of nearly 50% on their income as a whole, whilst the richest paid 34.4%. The ‘Panama Papers’ revelations demonstrate clearly that the wealthiest in society are far more likely to be able to afford professional advice on minimising tax bills.

Lack of HMRC Resource and presence will have an impact here too, as input from PCS Members in Senior Tax Professional roles indicates real concern that in practice taxation may end up “proportionate to proximity of nearest HMRC Regional Centre”.

12. “Provide certainty to the taxpayer”

The withdrawal of face to face HMRC Enquiry Centres has undoubtedly created uncertainty for the taxpayer. Taxpayers must now primarily rely upon understaffed telephony services or their own interpretation of highly complex information provided online by HMRC in order to satisfy any queries. Our Members have experience of previous changes in tax policy indicating that significant numbers of queries and complaints generated around those changes can put significant strain on an understaffed HMRC. Additionally, the loss of experienced staffing resource as a result of inadequate recruitment and the closure of established offices with concomitant loss of experience means that a great deal of expertise that could provide certainty to taxpayers has been lost.

13. “Be universal and just in application and enforcement”

Research commissioned by PCS in 2014 by Richard Murphy of Tax Research UK estimates that the tax gap, which is the sum of money lost to the UK exchequer each year due to avoidance, evasion, and uncollected taxes stands at £119bn which dwarfs the official figure published by HMRC of £34bn. Every taxpayer should have the confidence that they are paying exactly what they should. Those who fail to do so must be appropriately challenged, made to pay, and where this has been deliberate, punished accordingly. The Public Accounts Committee report on the performance of HMRC 2014-15 in particular criticised HMRC's failure to prosecute for offshore tax evasion. Tax Research analysis of National Audit Office statistics indicates a tendency to prosecute “*small fry*” whilst potentially stepping back from legal enforcement of those that can afford the best representatives.

PCS Tax Professional Members highlight the difficulties that will arise in investigating tax evasion on an even handed basis across the country once HMRC only has staff in two regional centres. The expected consequence is that in large areas of Scotland, “Individuals will have little or no chance of being caught if they fiddle their taxes”, to quote feedback received from one Member. In areas closer to the remaining offices a higher rate of investigation is expected, catching more innocent people in the net and causing a drain on their time and resource to handle their obligations while under enquiry.

Additionally, a distortion of the market is likely. Tax evasion may increase by businesses in areas where it becomes known that few investigations take place. Those businesses will have a competitive advantage over businesses in their area which pay their taxes. That will put pressure on honest competitors in the areas that are remote from the HMRC offices, potentially in some circumstances leading to honest businesses going under, unable to compete with those who reduce their costs by illegal means.

14. Provide convenience / ease of payment

The closure of HMRC's enquiry centres has certainly reduced convenience for the thousands of taxpayers still dropping by to offices that would previously have offered face to face advice, only to find the doors locked.

Understaffing means that HMRC phone lines require extended waits for advice and increasing shifts in focus to digital channels exclude and inconvenience massively those on low incomes or in remote locations where internet provision may be poor.

15. Be efficient.

HMRC are closing offices and centralising staff, then sending highly paid inspectors out from central locations to undertake checks that would previously have been done from a local office, wasting working hours and money on travel. Much specialist tax work is now based or moving out of Scotland and into England (Counter Avoidance for example). Though the argument is that this work can be done anywhere, implanting any new tax arrangement from such a distance will be more difficult without quick access to key stakeholders and information.

The customer service provided on a limited face to face basis by HMRC's "Needs Enhanced Support" teams will be stretched further still, with urgent face to face support likely impossible for those in the Highlands and Islands.

16. Q: Is there scope for a fundamentally different approach to taxation in Scotland?

A: The 'tax package' that has been devolved is limited. However, there does remain scope for a more progressive tax policy approach to be taken in Scotland, and to encourage consideration of how income tax bands and rates, can best be used alongside other devolved powers to counter attempts at evasion, avoidance, or indeed, capital flight.

Additionally, the power of the Scottish Government to invest in tax enforcement and collection should be fully explored. This is an efficient and sustainable way to attempt to go some way towards closing the tax gap. Contrary to Westminster's centralisation of HMRC jobs, PCS believe that investment in this area should be spread across Scotland rather than the central belt alone.

17. Q: Should future tax changes be ring-fenced and if so, how? If not, why?

A: Ring-fencing of funding for particular purpose has its place in driving particular priorities forward, but ring-fencing taxation when the economy is subject to external forces may be counter-productive.

18. Q: To what extent do potential behavioural responses limit options for tax changes in Scotland?

A: The greatest risk to progressive taxation is the ongoing ability of the wealthiest portion of society to exploit tax loopholes, exacerbated by a lack of HMRC resource to properly close those loopholes and challenge avoidance and evasion fully. This is a far greater risk than individuals relocating physically.

19. Q: To what extent do the mechanisms for administering the Scottish income tax system via HMRC limit the scope for a different tax system in Scotland to develop?

A: Current HMRC plans under "Building our Future", to close all offices outwith Glasgow and Edinburgh within the next ten years clearly limits the scope for convenience and transparency. The Scottish Government have the power to instruct HMRC to take a different approach which could see jobs created or protected across Scotland, as well as extra revenues collected. This would increase public confidence in the fairness of the tax system

as a whole. Our Members point out that Withdrawal to only Edinburgh and Glasgow leaves the vast majority of Scotland with no HMRC presence at all. Members provided anecdotal evidence that when they moved out of an area under previous office closures, non-compliance increased as the known “trouble makers” had a greater scope to go unchallenged. It is the absolute contention of our Members that enforcement from a distance is more difficult and less effective and customer service deteriorates. To date, despite public and parliamentary challenges, HMRC have provided no robust evidence to counter this argument, preferring instead to reiterate claims that increasing tax yield overall (not unexpected as the economy recovers from a recession) proves the wisdom of their approach.

20. Q: Are there any other administrative limitations to the emergence of a Scottish tax system?

A: There may be some costs associated with upgrading and amendment of employer payroll software etc., however the adjustment to reflect Scottish Taxpayer status from April 2016 will likely mean that most of these have been borne already.

While Scotland’s tax yield is to be split, there is a compelling case that those split taxes should be collected by one body, HMRC or an expanded Revenue Scotland. Our Members are clear that any move to collect the split taxes separately would likely complicate the situation for employers, taxpayers and collection staff. There would be potential duplication of effort and complications in tax debt pursuit that would mean effort and resource better deployed into enforcement and collection would be focused on interactions between collecting authorities.

As noted previously, the incomplete suite of taxes devolved somewhat hampers the ability of the Scottish Government to implement a fully progressive tax system, with scope remaining for those with the greatest means to shift their wealth about to minimise their tax liability. However, these limitations are not sufficient to halt a much-needed change of direction in the approach to taxation.

In light of both of these factors, there is a compelling case for a more holistic review of Taxation in Scotland, to which PCS would certainly contribute.