



The Case for Taxation

Introduction

The progressive case for taxation is grounded in principles of fairness, social justice, economic stability, and democratic governance. By taxing higher incomes at a higher rate, society can more effectively address income inequality, promote economic growth, and invest in public services that benefit everyone.

These principles appear to have been forgotten by some influential groups in Scotland recently. In this briefing, we set out the case for taxation and why it is vital for a better Scotland.

Background

The Scottish Government has introduced an advanced rate band to Income Tax, with the Finance Secretary [claiming](#), “We are proud that Scotland has the most progressive Income Tax system in the UK, protecting those who earn less and asking those who earn more to contribute more. This, in turn, allows us to provide a more comprehensive set of services than in the rest of the UK.”

	Band	Rate
Starter	£12,571 - £14,876	19%
Basic	£14,877 - £26,561	20%
Intermediate	£26,562 - £43,662	21%
Higher	£43,663 - £75,000	42%
Advanced	£75,001 - £125,140*	45%
Top	Above £125,140	48%

Sadly, this claim has been somewhat undermined by introducing a Council Tax freeze, a [regressive tax](#) cut for the better off. Even their post-independence papers do not reference taxing wealth or reforming the Council Tax.

Many business organisations have been campaigning against even the modestly more

progressive Scottish income tax changes. An Institute of Directors [survey](#) (180 respondents) said 82% of respondents were opposed, claiming, “Responses show that leaders clearly see Scotland’s tax regime as yet another barrier to attracting and retaining talent – and encouraging investment.” Other responses somewhat undermined this claim, which showed that 69% of businesses were planning to grow in the next 12 months.

Concerns about recruitment and retention also don’t match other business [opposition](#) to the increase in the [minimum wage](#). In contrast, executive pay and dividends [increased](#) many times faster than average workers’ pay. Claims about behavioural change encouraging a [‘brain drain’](#) south of the border have not materialised according to [HMRC research](#), which says, “We find no evidence of a change in labour market participation following the Scottish Income Tax changes.”

In fact, more taxpayers are coming to Scotland each year than left, lending credence to the Scottish Government’s ‘social contract’ position. This points to the range of public services not available elsewhere in the UK. Employment growth in Scotland was also the [fastest](#) in the UK.

Sadly, some of this rhetoric has been picked up by Labour, with Shadow Chancellor Rachel Reeves [claiming](#) “Scots should not have to pick up the tab for the SNP”. Attacking bad decisions and waste is a legitimate political target, but this approach also undermines the progressive case for taxation.

The real waste is the failure to stop tax dodging. HMRC’s latest annual [estimate](#) of the UK tax gap is £35.8bn, which means that since 2010, nearly £500bn of tax has not been collected due to evasion, avoidance, error and organised crime. HMRC admits that it has no idea how much tax is being evaded by UK residents holding around £850bn in foreign assets, including £570bn in offshore tax havens. Alternative models estimate the tax gap to be around £90bn a year, but even that is likely to be incomplete.

The case for progressive taxation

A progressive tax is characterised by a more than proportional rise in the tax liability relative to the

increase in income. Thus, progressive taxes are seen as reducing inequalities in income distribution, whereas regressive taxes can increase these inequalities. The UK tax system has failed to address growing income inequality in the UK despite being broadly [redistributive](#). The UK is mid-way in international comparisons of tax revenues, and [we spend](#) slightly below the G7 average.

Progressive tax systems are broadly [supported](#) by the general population, not only in [Scotland](#) but [worldwide](#). Even wealthier respondents were more likely to agree than disagree that the tax system should be progressive. However, there is less understanding on who needs to pay more tax. It is not just the rich, even those on middle incomes will need to pay more.

The real focus should be on tackling extreme wealth. Ingrid Robeyns, in her [book](#) *Limitarianism: The Case Against Extreme Wealth*, points to the increasing evidence that extreme wealth is not only unjustifiable but is detrimental to society as a whole. She proposes an upper limit on the amount of wealth that any one person can accumulate. In the UK, those with estates of £10 million pay just 10 per cent [inheritance tax](#) - one-quarter of the headline rate. Just closing the [loopholes](#) would be a start, along with other tax raising [measures](#).

While income tax is broadly progressive, other forms of taxation, such as consumption taxes, are less progressive. For example, NIESR makes [the case](#) for reform by introducing a Progressive Consumption Tax (PCT). A tax on an individual's total consumption across a year, rather than taxation at the point of expenditure every time a purchase is made.

Action in Scotland

The Jimmy Reid Foundation joined with a range of charities, academics, trades unions and other civic organisations across Scotland to set out three clear priorities for tax:

- **A new income tax band and rate:** It is only right that those with the broadest shoulders carry the greatest weight.
- **Reform of non-domestic rates:** Every year, businesses in Scotland benefit from almost £700 million of discounts and reliefs on their rates bills, but with little to no requirements around their social responsibilities.
- **Taxing wealth where it's held the most- in property:** The current council tax system is regressive and outdated, with bills based on a house value from 1990. The case for change has been well made for years, and reform is long overdue.

The Poverty and Inequality Commission makes the [case for taxation](#) as being more than simply raising revenue. They rightly point to political representation, the quality of governance, and how people feel like they are part of society. Crucially, they point to the work needed to bring wealth into scope for future tax policy.

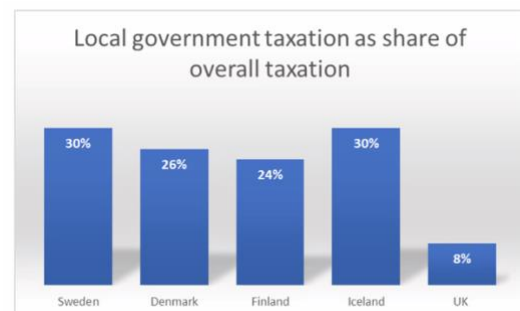
What did we say?

- **We all pay tax**, and tax is about more than revenue raising: relates to political representation, quality of governance and how much people feel part of society
- **Credit where it is due:** Scottish Government tax and spend policy is progressive, and changes over time have made it more so
- **But a long way short of what is needed to meet ambitions**, and further tweaks around the edges of policy are not enough
- **Commission focussed on medium- and longer-term actions needed**, but some work needs to commence now to deliver future reform



- Our recommendations:**
1. Ensure all Land and property in Scotland is registered with a current and accurate valuation.
 2. Revalue properties subject to the current council tax, and immediately start work to design its replacement.
 3. Seek to devolve the necessary powers to set rates and bands of income tax for savings and dividend income for Scottish taxpayers.
 4. Improve public understanding of, and compliance with, devolved taxation.
 5. Broaden the tax base in Scotland by doing the work required to bring wealth into scope for future tax policy, and implement transparency measures on the profits of multinational companies.

While the Council Tax freeze has been widely criticised, there is a broader debate to be had about local government taxation as a share of overall taxation as part of decentralising power in Scotland. Much more could be done with devolved powers over [local taxation](#), as we and the STUC have [argued](#).



Conclusion

We urge business organisations to focus less on short-term costs and take a long-term view of the need for public services and investment in Scotland's economy. Political parties should also avoid a race to the bottom on taxation and join with civil society across Scotland to make the case for progressive taxation. The multiplier [effect](#) of this investment would generate sustainable growth, address inequality and have positive spill over effects across the UK.

Jimmy Reid Foundation

The Jimmy Reid Foundation is a think tank which brings together different voices from across Scotland to make the case for economic, environmental, political and social equity and justice in Scotland and further afield.

<https://reidfoundation.scot>

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