

## **Expert Advisory Group on Tax on Land and Property**

### **Summary Note of Meeting 2**

**Friday 22 January 2021**

**Present:** Charlotte Barbour, Graeme Blackett, Miriam Brett, Shona Glenn, Phil Prentice, Don MacLeod, Lorne MacLeod (Chair), David Melhuish, Jeremy Moody, Kathie Pollard (Project Manager), Ailsa Raeburn

**In Attendance:** Lawrence Newland and Elisabetta Pasini (Alma Economics)

**Apologies:** None

Welcome and introduction to meeting by Chair.

It was agreed that a summary note of each of the meetings would be published on the Land Commission website.

The aims and outcomes of the remaining meetings were outlined. The upcoming meetings (3 & 4) seek to explore ideas and principles for longer term property tax reform and will build on the Alma Economics research and include a wider scope for reform.

#### **Presentation of findings on options for tax reform on land and property**

Alma Economics presented the findings of the modelling work which specifically considered options for reforms to the existing tax system within the Scottish Government's competency to support development and re-development of properties and land and encourage a more diverse pattern of landownership.

There was a discussion about the duration of the proposed policies, the extent to which they were aimed commercial or residential property and how these interacted with existing reliefs and incentives.

In the context of redeveloping derelict sites and bringing these into a productive use, it was argued that tax should be regarded as an additional incentive to support redevelopment however a change of land use is ultimately a responsibility of the planning system.

It was stressed that the report needs to be precise about targeting the measures and therefore needed tight legal definitions. It was noted that definitional issues will need to be considered to develop plausible proposals but that the purpose of this work is to develop broader options for reform rather than detailed legislative proposals.

Land holding thresholds were discussed and there was a view that a more qualitative assessment of land holdings may be needed. It was noted that the public sector is also a large landowner and that this should be considered in the context of the policy aims.

The impact of the modelling options and extent to which they would achieve the policy aims was debated. It was stressed that these may have other consequences on other areas such as prices. The second-round effects of proposed policies should be considered.

The scope of the modelling work is to look at existing taxes within the Scottish Parliament's remit. This work is starting to address areas where there are currently no incentives to change behaviour. The Expert Advisory Group would be able to consider taxes beyond the scope of the modelling work and it was noted that Scotland has powers to introduce new local level taxes.

## Principles of Property Taxation

The Land Commission presented a paper with suggested principles to guide longer term reform of tax on land and property in Scotland.

The group discussed the overall approach and aims of the principles. It was agreed that the aspirations should align with Scottish Government objectives and recent national reports. Some further work is required to clearly distinguish between policy objectives used to set the overall purpose of taxation, and principles that could be used by to test the likely impact and effectiveness of different tax instruments.

Rather than set out specific policy objectives, the Expert Advisory Group broadly agreed it would be best placed to use its expertise to consider and advise on how specific tax proposals might align with the principles. The SLC would consider the comments from the group to revise the document to inform discussions at the next meeting.

There were some emerging principles which would merit further consideration:

- Some support for the idea of introducing the concept of ‘purposefulness’ as a principle to guide taxation policy. In this regard, tax could be viewed as a policy lever tool to address market failure or negative outcomes.
- The principles should more strongly link to the purpose and character of Scotland’s National Performance Framework.
- Promoting economic growth and productivity would need to be included in the principles. It was argued that tax should be used as a tool to incentivise market activity that would not otherwise exist. There was some caution about reforms and interventions potentially distorting behaviours, leading to unintended consequences such as depressed rental values and affecting investment.
- There is a need to distinguish between income and wealth in relation to their roles in the economy. It was argued that unearned wealth was already taxed in form of transactional taxes or in form of development contributions, for example where windfarms are developed, and that capital values of assets may not generate high levels of income. It was noted that land and property is an inelastic tax base and therefore regarded as a good tax base by some.
- Greater emphasis on climate change and environment is needed. The topic of net-zero and climate change in relation to tax would be discussed at the next meeting.

The Land Commission offered the opportunity to discuss ideas for reforms on tax on land and property and the principles in between meetings with individual group members.

The date of the next meeting is 25 March 2021.