



Law Society  
of Scotland

# Written evidence

## Tax after coronavirus

September 2020



## Introduction

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The Law Society of Scotland is the professional body for over 12,000 Scottish solicitors. With our overarching objective of leading legal excellence, we strive to excel and to be a world-class professional body, understanding and serving the needs of our members and the public. We set and uphold standards to ensure the provision of excellent legal services and ensure the public can have confidence in Scotland's solicitor profession.

We have a statutory duty to work in the public interest, a duty which we are strongly committed to achieving through our work to promote a strong, varied and effective solicitor profession working in the interests of the public and protecting and promoting the rule of law. We seek to influence the creation of a fairer and more just society through our active engagement with the Scottish and United Kingdom Governments, Parliaments, wider stakeholders and our membership.

Our Tax Law Sub-committee welcomes the opportunity to respond to the House of Commons' Treasury Committee Inquiry on *Tax after coronavirus*<sup>1</sup>. We have the following comments to put forward for consideration.

## Consultation questions

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### **What are the major long-term pressures on the tax system in the UK, including those arising from changes in working practices, demographics, the environment and other factors? How are these affecting the efficiency of the tax base and the overall level of demand for public services?**

As well as the matters referred to in the question, we consider that the combined effect of the coronavirus pandemic and the UK's withdrawal from the EU is likely to have a significant impact on a number of businesses.

The longer-term impact of the coronavirus pandemic is not yet clear, but it appears likely that there will be increased demand for home working. This has the potential to impact on the tax system which may need updating to take account of new work patterns and may be impacted by changes in behaviour around travel and transport (for example, reduction in fuel and air passenger duty, and VAT). Environmental concerns may also drive change in these areas which is likely to put pressure on the tax system. In addition, changing work patterns and behaviour could result in individuals moving across intra-UK borders or moving out with the UK.

<sup>1</sup> <https://committees.parliament.uk/work/465/tax-after-coronavirus/>

## **What more can the UK do to protect its tax base from erosion as a result of globalisation and technological change, and what further impacts will the coronavirus pandemic have on our tax base?**

Increasing globalisation and technological changes merit consideration of international taxation arrangements. Multinational businesses, particularly digital businesses, can present tax challenges and international arrangements are likely to overcome some of these.

As referred to below, there is a need for greater digitalisation in dealing with HMRC and improved guidance and resourcing to enhance the ease of interaction for taxpayers and advisors. This is important in the context of ensuring the UK is a stable and attractive tax base.

## **What overall level of taxation can the economy bear without undesirable or counterproductive harm to economic growth?**

We note the challenges, in the wake of the coronavirus pandemic, of ensuring the tax system generates sufficient funds to support public services while also supporting the economy, which in-turn generates tax revenue. It will be important to balance these factors - keeping taxation at a manageable level to support the economy and in turn, the employment market, having sufficient revenue to fund public services and responding to additional borrowing which was used to support individuals and businesses during the pandemic.

The nature of taxation means that it can take some time for undesirable or counterproductive harm to come to light. The connection to behavioural changes and the potential for tax avoidance and evasion requires consideration.

Consultation on taxation measures with stakeholders is important so as to expose proposals to critical comment and to identify potential unintended consequences.

## **What reforms should be considered in response to the pressures on the tax system?**

As referred to above, many business are likely to face significant pressures in coming months as a result of the combined effect of the coronavirus pandemic and the UK's withdrawal from the EU. As such, we suggest that there is a need for sympathetic approach to tax penalties by tax authorities.

## **What are the areas for simplification?**

The coronavirus pandemic has demonstrated that big changes are possible when there is a will. We suggest that one area of simplification which would merit consideration is the possible harmonisation of income tax and national insurance contributions. This is particularly relevant in the context of the growth of the 'gig economy'. However, we recognise that a cautious approach to this will be required due to the devolution of income tax bands and rates to Scotland, while national insurance contributions are reserved.

We note the terms of the report<sup>2</sup> concerning administrative aspects of inheritance tax published in November 2018 by the Office of Tax Simplification as part of their Inheritance Tax Review. In our response<sup>3</sup> to the Review's consultation, we called for simplification of inheritance tax forms and processes and improvements to guidance. We support the implementation of the OTS' recommendations in relation to administrative aspects of inheritance tax and consider that the changes proposed could make a significant difference to agents, executors, trustees, and other relevant parties who require to interact with inheritance tax processes.

We also note that capital gains tax is currently subject to review by the Office of Tax Simplification.

### **What is the best way to tackle tax reform, including what changes might be needed at HMRC to support implementation, and how should the Government consult with stakeholders and parliament?**

We suggest that there are a number of changes needed to tackle and support tax reform including:

- the need for better communication between HM Treasury and the devolved administrations, for example, in relation to SDLT changes. This is necessary so as to give the devolved administrations sufficient time to consider and determine their response and prepare for implementing any necessary changes. The introduction of ADS and the recently implemented SDLT 'holiday' demonstrate the importance of this;
- greater digitalisation in dealing with HMRC. COVID-19 has necessitated greater use of email, electronic signatures and other digital technology. It would be beneficial if digital submission arrangements are maintained, and indeed improved where necessary. For example, we support digital arrangements for stock transfer forms and other documents for stamping and adjudication being retained, rather than returning to paper-based processes;
- more rapid production of good and accessible guidance for advisors and taxpayers, and related support by HMRC. The changes required in response to COVID-19 has demonstrated that this is possible, but it is important that HMRC remains well-resourced, with appropriately skilled and specialist staff, to be able to deal with queries from advisors and taxpayers appropriately;
- greater engagement with the public on tax and tax reform, in particular, to develop basic understanding of the tax system and its connection to the delivery of public services.

It is important that the Government consults with stakeholders and Parliament in relation to tax reform. Consultation provides an opportunity for scrutiny and ensures that policies and legislation are exposed to critical comment from stakeholders. This may improve the measure and help to identify potential unintended consequences. It is important that consultation is meaningful and timely.

<sup>2</sup> <https://www.gov.uk/government/publications/office-of-tax-simplification-inheritance-tax-review>

<sup>3</sup> <https://www.lawscot.org.uk/media/360487/18-06-08-tax-ts-consultation-ih-t-review.pdf>



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