LOW TAX, SIMPLE TAX = HIGHER GROWTH

REFORM UK
SCOTLAND

BUILDING A COVID RECOVERY FOR SCOTLAND

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Walbrook Economics

FOREWORD

Everyone wins with faster growth

Bold, significant stimulus and proper reform to our complex tax system is needed to generate more economic growth. The premise is simple: lower taxes, simpler taxes will create faster growth. That will mean higher wage growth and more tax revenues over time to invest in healthcare and other public services. International examples like Australia, Singapore and the US provide the evidence.

Everyone wins with faster growth. A particular focus is on the lowest paid, the self employed, SMEs and entrepreneurs. These are the bedrock of our economy, who will determine its future success. This is the first of a series of bold, reforming plans by Reform UK. More will follow in due course on other vital issues.

We hope you find it interesting and do let us know any thoughts on: economy@reformparty.uk

Michelle Ballantyne
Leader of Reform UK Scotland

LOW TAX, SIMPLE TAX = HIGHER GROWTH

Reform UK's Scotland's Economic Vision

Faster Growth > better wages & better healthcare

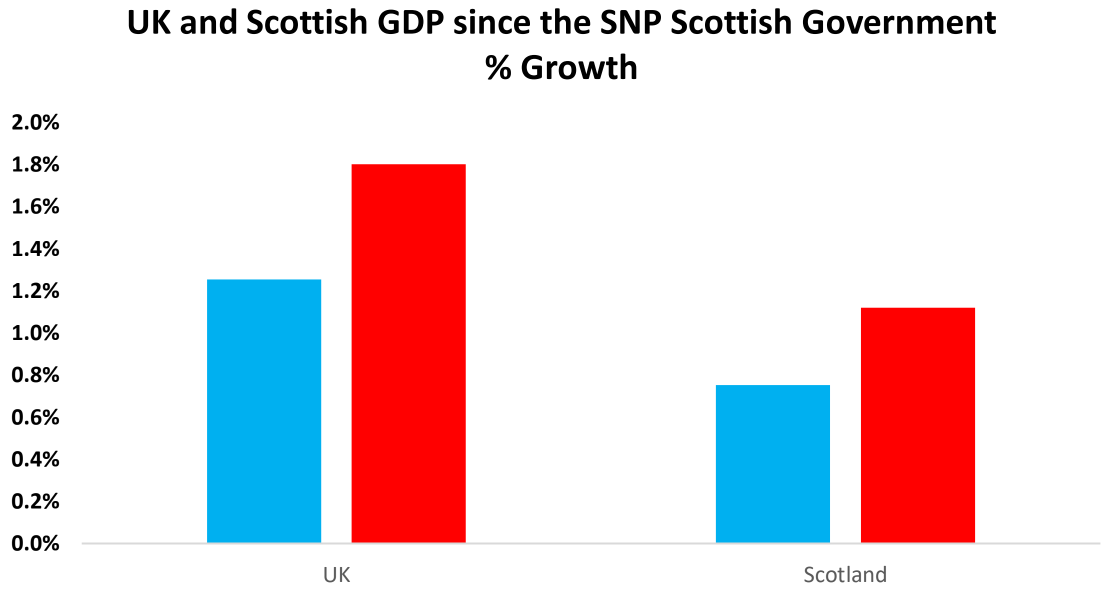
Create faster growth by:

- Cutting and simplifying taxes
- Cutting unnecessary regulation
- Cutting mountain of government waste

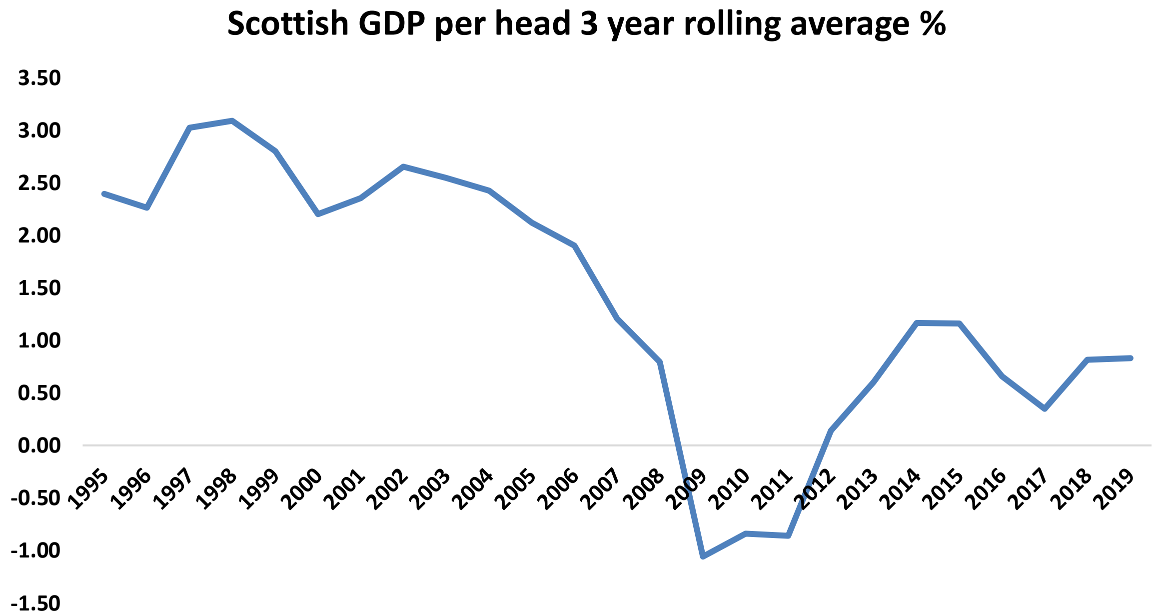
This paper deals with cutting and simplifying taxes.

Other Reform UK Scotland proposals will follow on pensions & savings, regulation, and government waste.

SCOTTISH ECONOMIC PERFORMANCE



Source: GERS and ONS



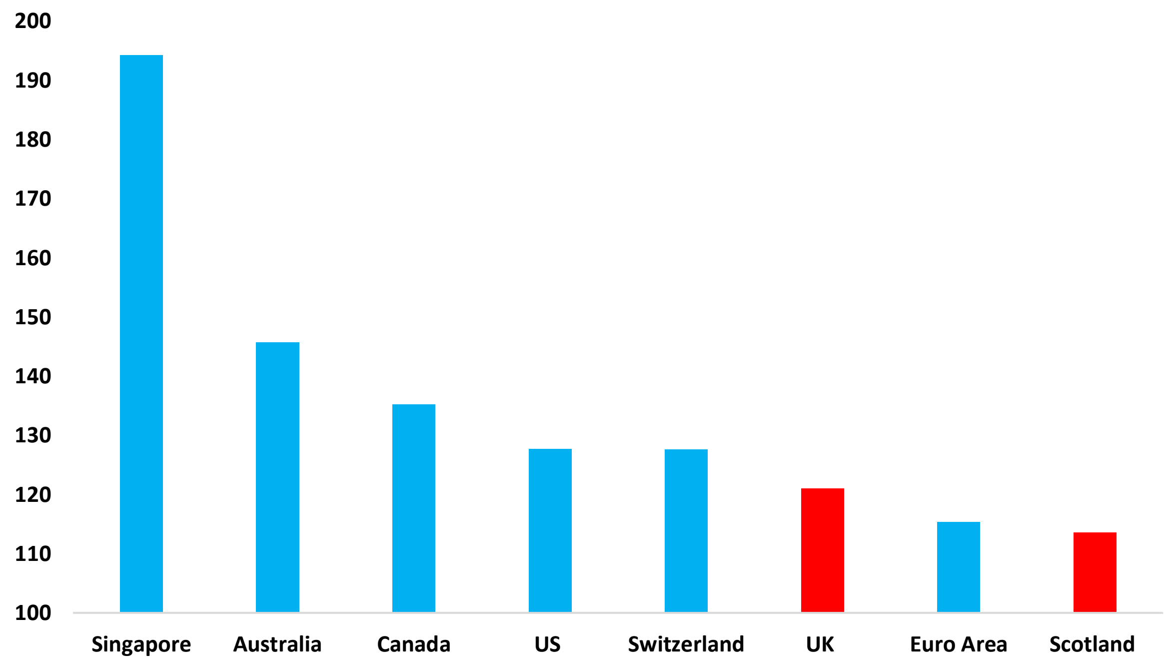
Source: GERS and ONS

- On any measure Scotland is performing poorly
- Economic growth has stalled and is little more than half the UK average
- This is despite public spending in Scotland being £1,962 per head higher than in the rest of the UK
- The SNP has been in power since 2007. 14 years. The SNP Government has no excuses. It taxes more, spends more, wastes more and has crushed the wealth creating private sector with their centralised command and control approach
- If we are to have any sustainable future this cannot continue and must be reversed

WE MUST RAISE OUR SIGHTS AND AIM TO BE THE BEST

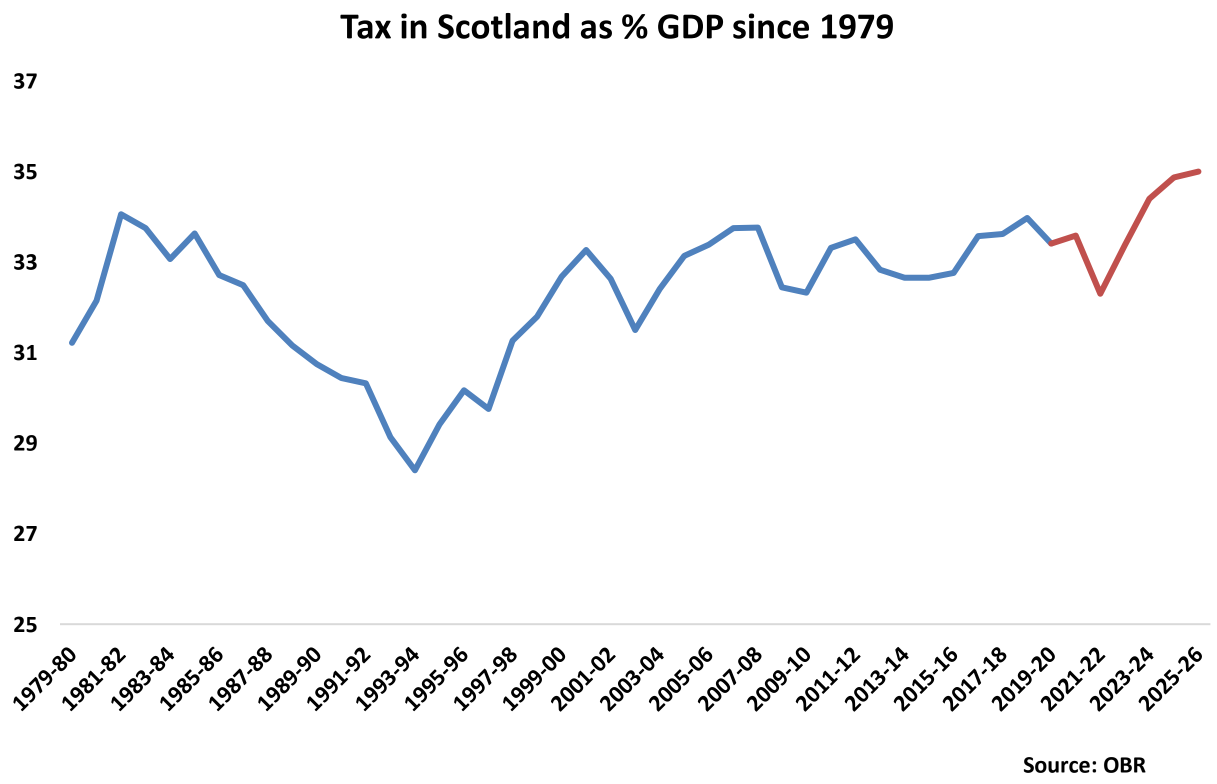
- Despite much higher public spending, relative to the rest of the UK, Scotland's economic performance is dismal.
- Since 2005 the Australian economy has grown 45%, Canada by 35%, US and Switzerland by 27% and the British economy by 21%
- Scotland's 13.5% growth over that fifteen-year period even lags the EU's pedestrian performance of 15.3%
- If Scotland had grown in line with the UK its economy would be £11bn larger today with £3.9bn more tax revenues, equivalent to more than the entire housing, or transport budgets.
- Growth matters, our failure is a direct result of poor choices by this Scottish Government
- No dynamic private sector = no growth = poorer public services

GDP Growth 2005=100 to end 2019



Source: World Bank, GERS and ONS

THE UK IS NOW A HIGH TAX ECONOMY, SCOTLAND IS EVEN HIGHER



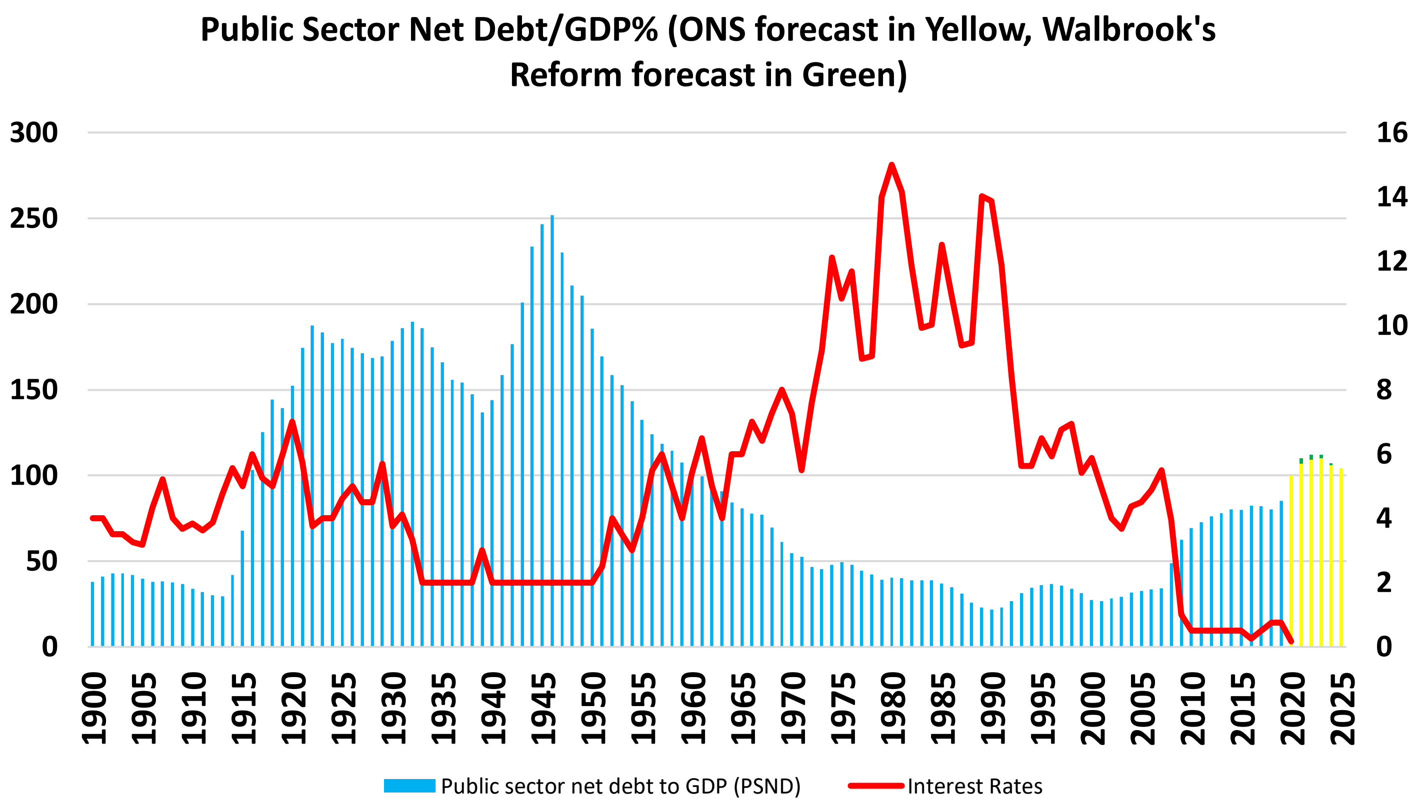
- Largely by stealth, taxes have been steadily rising for last 25 years
- Today's taxes are the highest since the 1960's & rising
- Scotland's taxes are even higher than the UK as a whole. For the vast majority income tax is materially higher than the rest of the UK
- Scottish Land and Buildings Transaction Tax is complex and punitive. It is a major impediment to movement. It harms growth and opportunity
- The Scottish governments only response is to demand more money. But do the services get any better?
- It is growth, not high taxes, that generate the money to fund public services
- Growth is falling
- Public services are deteriorating
- Public debt levels escalating
- Something must give…..something must change

SCOTTISH TAX SYSTEM: COMPLEX & STIFLES GROWTH

- UK tax code longest in world, circa 17,000 pages. Scotland's is even longer!
- 9 x longer than combined Harry Potter
- 66 x longer than the most efficient, Hong Kong tax code @300 pages
- Grown 3-fold since 1997.
- Complicated system, stifles growth
- It is not stable
- It is not predictable
- It is not designed to promote growth
- It increasingly does not have fiscal credibility
- Fails to help wealth creators: self employed, entrepreneurs, SMEs

Scotland Principal Taxes 2019	£million	% of total Non-North Sea Taxes
Income tax (gross of tax credits)	13,018	23.2%
National insurance contributions	11,460	20.4%
Value added tax	11,015	19.6%
Onshore Corporation tax	3,180	5.7%
Fuel Duties	2,392	4.3%
Non-domestic Rates	2,761	4.9%
Council Tax	2,487	4.4%
VAT Refunds	1,727	3.1%
Capital Gains Tax	433	0.8%
Inheritance Tax	238	0.4%
Reserved Stamp Duties	284	0.5%
Scottish land & buildings transaction tax (LBTT)	598	1.1%
Scottish Landfill Tax	119	0.2%
Air Passenger Duty	273	0.5%
Tobacco Duties	1,240	2.2%
Alcohol Duties	1,149	2.0%
Insurance Premium Tax	419	0.7%
Vehicle Excise Duties	572	1.0%
Environmental Levies	748	1.3%
Other Taxes	2,073	3.7%
Total Non-North Sea taxes	**56,185**	100%

ONCE IN GENERATION OPPORTUNITY TO RESET



Source: ONS

- Between wars, UK total debt was 150% or over whilst interest rates low
- We must avoid re-finance risk of higher debt levels and saddling future generations
- Bank of England internal debt: refinance internally as 75 yr Corona bond @ 0.5% pa
- This removes refinance risk in external credit markets & reduces interest rate risk
- So we can afford higher debt level, only if there high growth plan to reduce over time
- Use Act of Parliament to set debt ceilings, as in US
- The use of the Corona Bond will protect services.
- The Reform Party guarantees that our tax cuts will not impact Scottish Government revenues from the Barnett Formula. The Corona Bond will smooth the path. We are all protected by the Union dividend.
- Britain can only do this united. Separated a Scottish central bank would not have the credibility or resources to act

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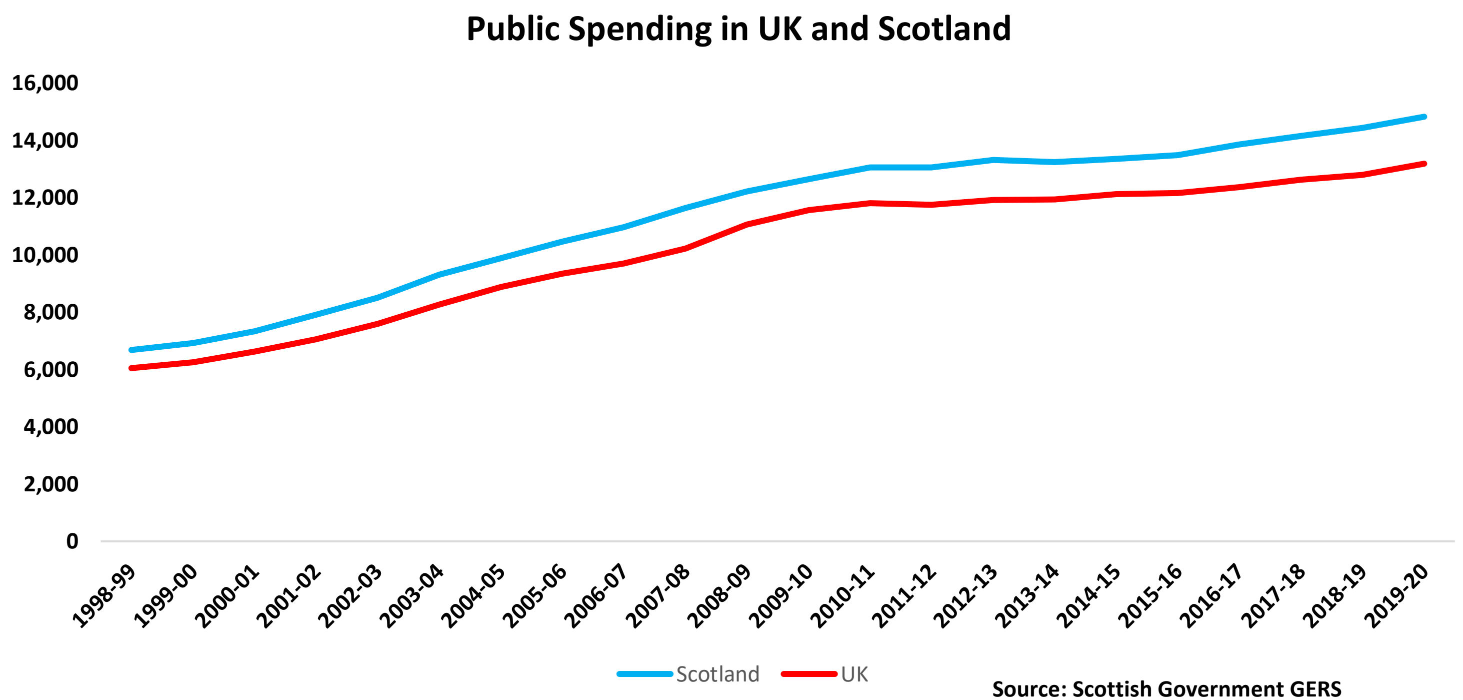
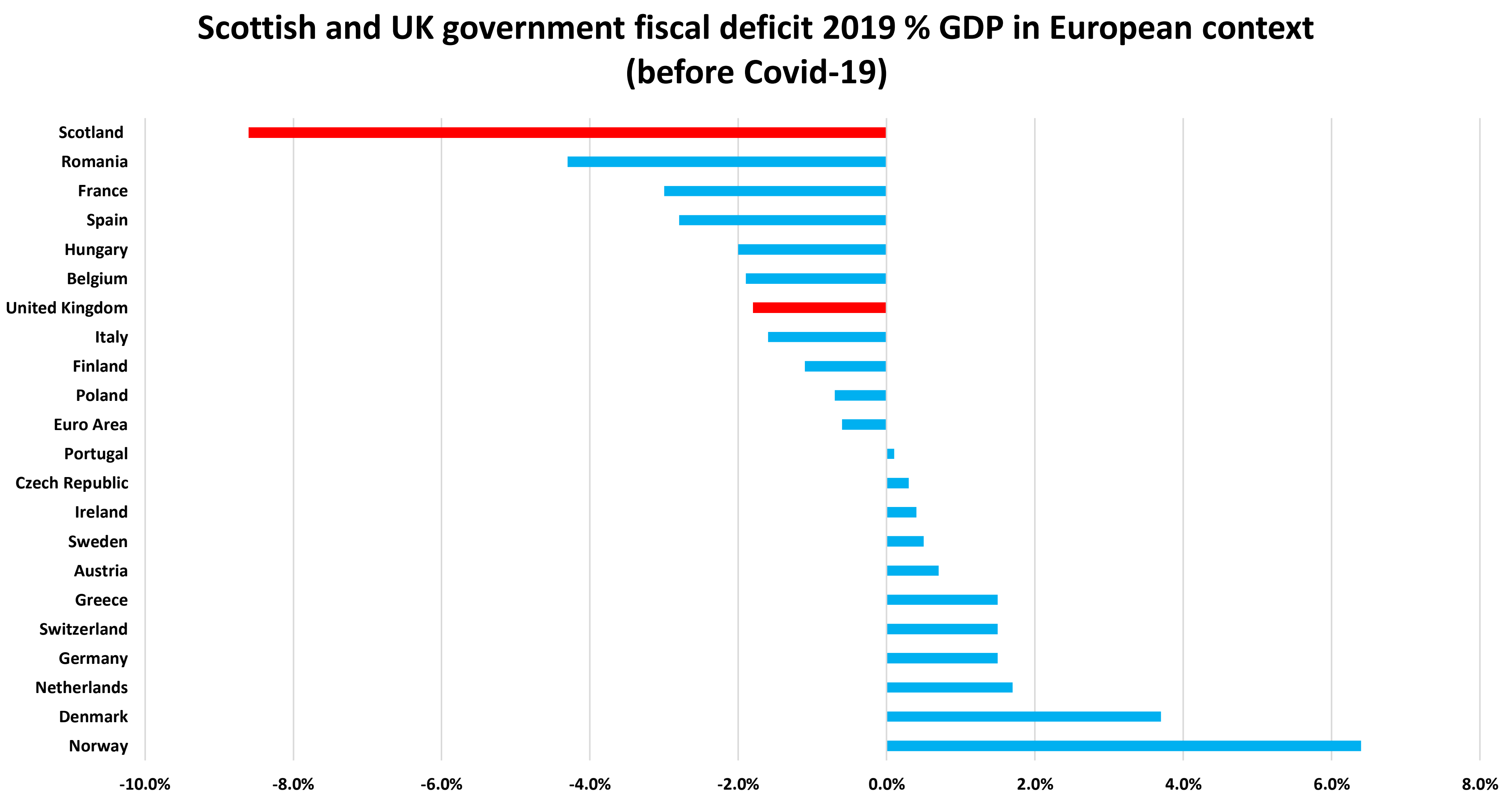
SCOTLAND'S SPENDING



Source: Scottish Government GERS

- Public spending in Scotland is consistently much higher than the UK as a whole
- Even before covid-19 Scotland had the biggest public sector fiscal deficit in the EU. Some £16bn per annum or over £2900 per man, woman and child. Each year.
- Covid-19 has made matters much worse
- Scotland's public spending is only possible due to the Barnett Formula and the action of the Bank of England.

SCOTLAND'S FISCAL DEFICIT THE LARGEST IN EUROPE - UNSUSTAINABLE IF SEPARATED - AND THAT WAS BEFORE COVID



Source: Scottish Government GERS

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LOW TAX, SIMPLE TAX CREATES FASTER GROWTH

Stimulus Plan - £4.1bn to the Scottish economy pa:

- Free up 450,000 Scots from income tax, by lifting minimum threshold to £20,000, from £12,500 pa. This is almost 1 in 5 taxpayers. Basic income tax rate stays at 20% and would be 20% in Scotland
- Less well off benefit proportionately most, saving £1,500 pa @£20,000 salary, circa £30 per week
- Lift higher rate tax threshold to £70,000 from £50,000 today; flat 40% tax rate above £70,000
- Lift Capital Gains Tax threshold to £20,000 from £12,300, with single 20% flat rate above
- Free up 1.2 million SME's UK-wide from paying Corporation Tax (over 80% of companies) by lifting minimum threshold to £100,000. Raise rate thereafter from 19% to 20% (lower than the UK Governments proposal of 25%)
- Cut employers NI from 13.8% to 10% under £70,000.

**Will generate extra growth of 1.25% per annum
with less tax and simpler tax**

LOW TAX, SIMPLE TAX GENERATES EXTRA GROWTH

Simplification plan highlights:

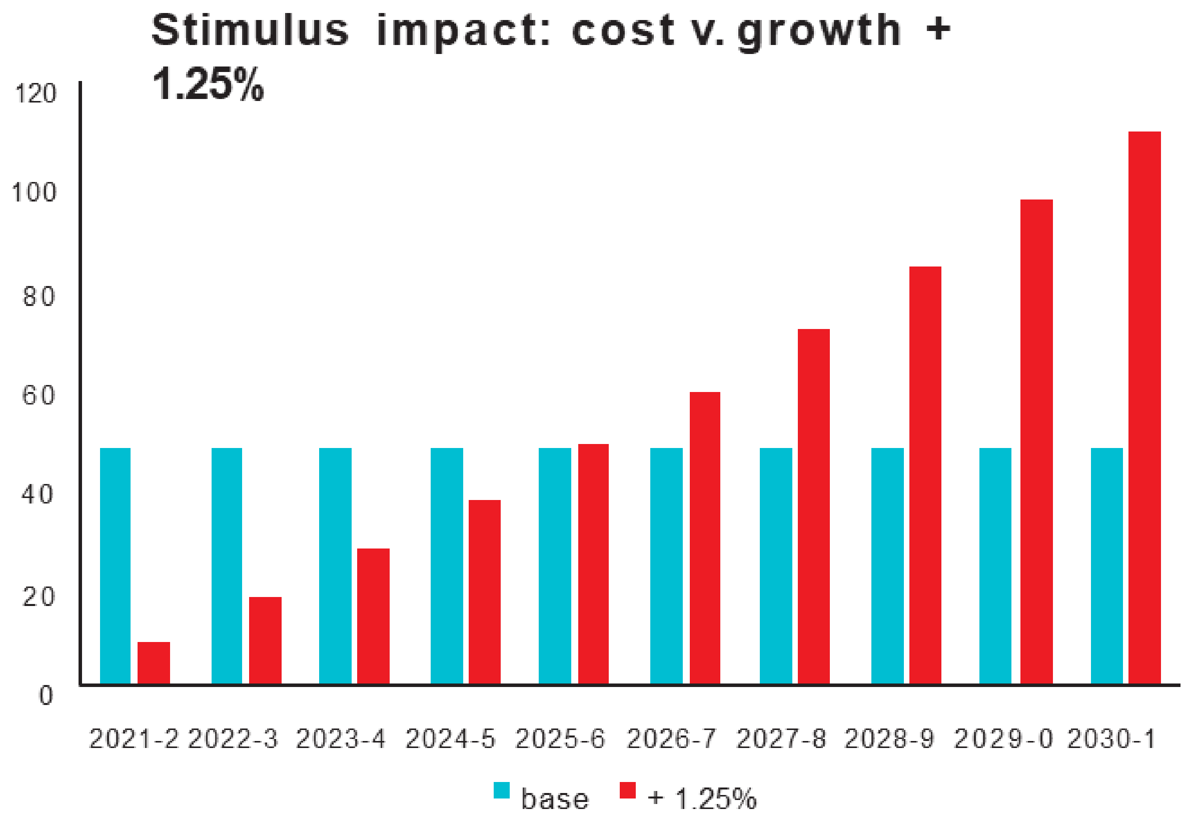
- Abolish Scottish land and Building's Transaction Tax. Replace with residential stamp duty: 0% below £750k, 2% on £750k - £1.5m, & 4% above, will stimulate economic activity & construction
- Abolish stamp duty on share trading, will enable financial centres like Edinburgh to compete globally
- Abolish VAT on domestic fuel
- Abolish Air Passenger Duty, to help devastated travel sector
- Abolish burdensome Apprenticeship Levy which ironically reduced apprentice numbers
- Abolish business rates for small & medium firms, offset with online Delivery Tax at 3%, will create fairer playing field for High Street and physical versus online businesses
- Abolish inheritance tax for all estates under £2m (98% of all estates). 20% tax above £2m – executors can choose to give this to registered charities or HMRC
- Provide 100% Capital allowances on corporate investment in year 1
- Reform complicated savings & pensions system that benefits those with most to save. Plan to follow, will include moving tax relief to when drawing down savings, from up front

COSTING OUR MEASURES – UK WIDE £m

	2019-20	Our Proposal	Impact
Income tax (gross of tax credits)	205,754	166,186	-39,568
National insurance contributions	144,245	132,300	-11,945
Pension credit write back (75% assumed)	0	30,225	30,225
Value added tax	131,969	131,969	0
Value added tax on domesic fuel	1,850	0	-1,850
Onshore Corporation tax	50,992	48,992	-2,000
Council tax	36,575	36,575	0
Non-domestic rates	32,142	28,562	-3,580
Fuel duties	27,572	27,572	0
Other taxes	22,289	22,289	0
VAT refunds	18,820	18,820	0
Reserved stamp duties	16,871	5,030	-11,841
Alcohol duties	11,716	11,716	0
Capital gains tax	9,978	9,100	-878
Tobacco duties	9,692	9,692	0
Vehicle excise duties	7,000	7,000	0
Environmental levies	6,430	6,430	0
Insurance premium tax	6,393	6,393	0
Internet sales tax	0	3,580	3,580
Inheritance tax	5,153	0	-5,153
Air passenger duty	3,385	0	-3,385
Apprenteship Levy (net)	1,936	0	-1,936
Scottish land & buildings tax	598	598	0
Scottish landfill tax	119	119	0
Total Non-North Sea taxes	**751,479**	**703,148**	**-48,331**

STIMULUS & SIMPLIFY NOW = MORE TAX REVENUES MEDIUM TERM

- £48 bn pa injection mainly to private sector (stimulus = 2.2% of GDP) will generate growth
- Revenue neutral to HMG by 2025-6 if GDP growth is base case +1.25% (still below 1960's level). By 2030, tax revenues higher by over £50 bn pa
- Relentless ongoing simplification of taxes & regulations will generate growth
- Rewrite tax code from 20,000 pages to a target of 500 pages. Scrap & simplify to encourage growth.
- SNP, Tory, Lib Dem and Labour plans = higher tax, higher regulation = lower growth



Source: Walbrook Economics

CONCLUSIONS:
HIGH GROWTH BY LESS TAX, SIMPLER TAX

- Growth is key, but has been declining over recent decades
- Scotland is a high tax, high regulation, low growth economy thanks to SNP misrule
- Neither the Conservative Party nor Labour Party are prepared to challenge the SNP high tax dogma. Reform UK Scotland promise to reduce taxes and re-kindle Scotland's dynamism
- Covid-19 crisis reinforces need to cut and simplify taxes to grow our way out of this emergency
- We will use the devolved powers to simplify income tax, abolish Scottish Land and Buildings Tax and Air Passenger Duty. We will work with Reform UK to enact the reserved tax powers UK wide
- UK wide we will free up a further 450,000 scots from paying income tax
- We will free up over 1.2 million firms across UK from paying corporation tax, helps self employed and SMEs
- We will abolish raft of complex, stifling taxes
- Higher growth per annum => better wages especially for lower paid
- Higher growth per annum => more tax revenues => increase spend on healthcare & other public services
- Genuine win win potential

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IT'S TIME FOR REFORM

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