

**Council of Economic Advisers
Conference Call, 28th August 2017
14:00 – 15:00 [UK Time]**

Participants

Crawford Beveridge – Chair
Sir Harry Burns
Sir Jim Mirrlees
Amanda McMillan
Jim McColl
Frances Ruane
Gary Gillespie – Chief Economist, Scottish Government

Also attending:

Kevin Brady, OCEA, Scottish Government
Kathy Johnston, OCEA, Scottish Government
Angela Nolte, OCEA, Scottish Government
Steven Mackie, Fiscal Responsibility Division, Scottish Government

Apologies: Joseph Stiglitz, Sir Anton Muscatelli, Sara Carter, and Mariana Mazzucato.

Update on Developments

- Gary Gillespie updated members on developments since the June conference call including recent calls with Anton Muscatelli and Joseph Stiglitz.
- Members were provided with updates on developments on the Enterprise and Skills Review, the Standing Council on Europe, and the upcoming Programme for Government.
- Members were also advised of recent developments around National Investment Banks, following the Council's submission to the UK Government's consultation on industrial strategy in April. Members highlighted the importance of considering place in the context of an industrial strategy. Officials undertook to advise Members of any further developments in this area in due course.

Fiscal Matters – taking forward the workstream

- Officials provided Members with an overview of the background paper and the early draft analytical note that had been circulated in advance of the call. It was anticipated that the finalised analytical note would be published around the time of the Draft Budget 2018-19.
- As previously agreed, the Council's role was centred on technical advice around revenue risk and mitigation approaches relating to differential Additional Rates of Income Tax; policy decisions around the Additional Rate in Scotland would remain with Scottish Ministers.
- The evidence base in the draft analytical note had been developed and investigated further following Members' previous suggestions.
- Points highlighted in the discussion included: the additional uncertainties around revenue estimates associated with differential tax policy within countries ; the range of Taxable Income Elasticities (TIEs) from the evidence base; the limited

evidence base available for tax differentials across regional jurisdictions, with most evidence relating to national levels; potential growth of Additional Rate tax base within Scotland; and pronounced trends for Scotland emerging from analysis of data on the number and income of individuals choosing to incorporate themselves as a business.

- Members commended on the quality of the papers provided, and raised further areas for development and inclusion within the draft analytical note.
- Members queried the projections of growth in the Additional Rate tax base, and the assumptions underpinning these. Officials explained that the latest outturn data showed strong growth in the number of Scottish Additional Rate taxpayers over the year to 2014-15, a strong year for the Scottish economy, which forms the starting point for these projections. Council members requested further investigation on this point.
- Members asked how individuals are classified as Scottish taxpayers in particular in cases where individuals have more than one place of residence with Officials highlighting that this was based on main place of residence.
- Members emphasised the importance of the Additional Rate in other UK jurisdictions for taxpayers' locational choices and revenue risks in Scotland. This represented an additional source of uncertainty to the level currently prevailing within the UK overall; uncertainty would also arise in relation to the potential path and end-point of changes in the overall tax regime. Greater certainty in the broader macroeconomic environment would provide greater comfort around behavioural responses.
- Members highlighted that the paper needed to more strongly articulate that the TIEs set out in the paper were short-run only; that long-run TIEs would differ, and likely be higher; and that impacts on the tax base from changes in the Additional Rate would be higher in the long run than in the short run. Officials pointed out that the evidence based is mixed on this issue, with some studies confirming that TIEs may be higher in the long run and others showing the opposite.
- Members also highlighted that the impact of changes to the Additional Rate would be to alter the cost of higher income workers within Scotland, relative to RUK, with increases in the Additional Rate potentially increasing the costs faced by some employers and sectors within Scotland.
- Members noted the difficulties posed for analysis of this kind by lack of data and datasets provided by HMRC.
- Members highlighted the value in looking at the tax system as a whole, as a basket of taxes.

Inclusive Growth Conference

- Officials gave Members an overview of the emerging programme for the upcoming Inclusive Growth conference, which would be held at the University of Glasgow on 20th October.
- The conference would feature speakers from the OECD and IMF. The First Minister had agreed to provide the opening address, with Harry Burns and Sara Carter also providing plenary addresses.
- Business in the Community had agreed to lead a Q&A session with selected businesses, while there would also be sessions with parties interested in discussing a Wellbeing Alliance of economies.

- Members highlighted the importance of clarity around objectives for the conference itself, and also for post-conference arrangements, to ensure there was progress afterwards.
- Members recommended further investigation into how the public and private eco-system was working, including through tools such as the Business Pledge, and building on Scotland's reputation for inclusive growth thinking.
- Officials undertook to provide an updated programme to Members following the meeting.

Future Council Meetings

- A Council meeting had previously been arranged for late-2017. However, this had been rearranged to January 2018 in light of ministerial diary commitments, and other calls by the Scottish Government on Members' time (such as participation in the Inclusive Growth conference).
- Members indicated they were content with this, and noted the next full Council meeting would be on 18th – 19th January.

Actions

- OCEA to canvass Members regarding dates for a call in November, prior to Draft Budget 2018-19.
- Officials would amend the analytical note to reflect range of existing uncertainties in broader Scottish environment.
- Officials would review data and assumptions underpinning projected increases in Additional Rate tax base, and more clearly articulate underlying assumptions within future drafts of the analytical note.
- Officials would amend commentary around TIEs to reflect that those presented in the draft analytical note are short run TIEs, to articulate differences between short-run and long-run TIEs, and to highlight implications of these differences for behavioural responses and revenue risk. Officials would also reflect labour cost issues within the draft analytical note.
- OCEA officials would liaise with Finance colleagues to investigate possibility of utilising alternative data sources, such as contacts with accountancy companies.
- Officials to provide Members with further iteration of analytical note for review prior to November call.

Additional Note

- The Chief Economist had a follow up meeting with Anton Muscatelli and Mariana Mazzucato on 1st September to update them on developments. Their comments are reflected in the above notes.

**CEA Secretariat
OCEA
October 2017**