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Scottish Income Tax: What do firms think?

Scottish Business Monitor Q2 2024

EXECUTIVE SUMMARY

Earlier this summer, we published our latest Scottish Business Monitor (SBM) for [Q2 2024](#), produced in partnership with Addleshaw Goddard.

The survey sampled over 330 firms in May from across the Scottish economy.

As usual, we asked firms about how economic conditions are affecting them and their outlook over the next year. However, against the backdrop of the [Scottish Government's recent changes in income taxation](#), we felt that it was important to find out the business community's current opinion on how these changes are affecting them. Therefore, we asked Scottish firms the following two questions:

- *How much has your business been affected by the Scottish Government's income tax policy?*
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The results are mixed: 28% of businesses reported no impact, 29% experienced a little impact, and 34% felt a fair amount to a lot of impact.

Construction is the most affected sector, with 27% of businesses experiencing a 'a lot' of impact. The least affected sector is Wholesale & Retail, where 34% of firms reported no impact at all.

Key issues identified from firms' responses in the survey include:

- Recruitment and Retention
- Wage Pressures
- Competitiveness and Investment

Despite these challenges, there were also neutral or positive responses, with some firms recognising higher tax rates play a role in funding public services in Scotland, such as healthcare and education.

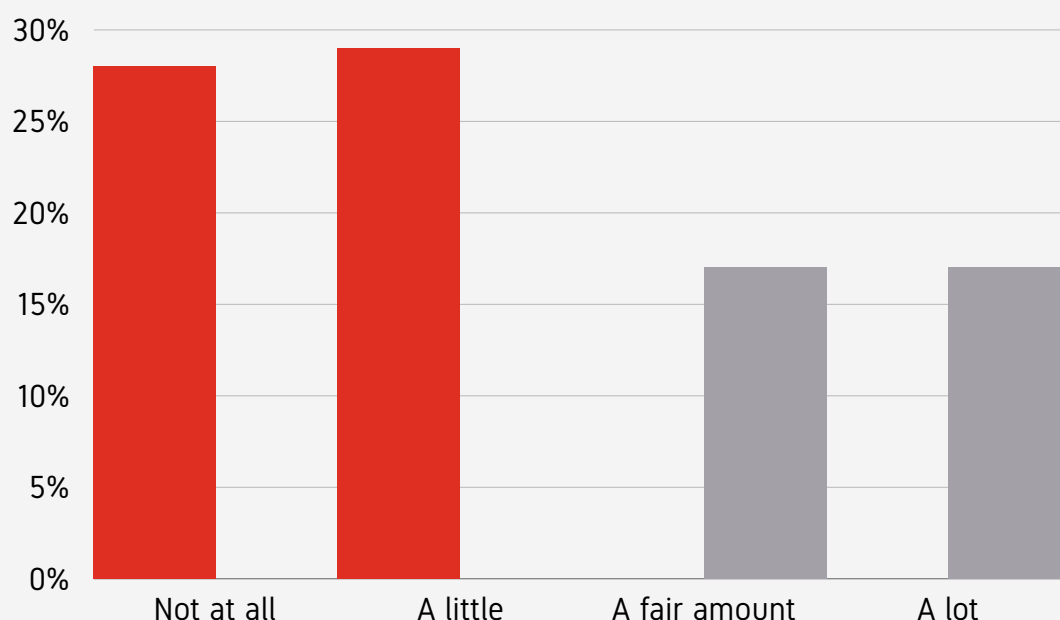


SECTION 1: KEY RESULTS

Question 1: “How much has your business been affected by the Scottish Government's income tax policy?”

- Our survey results reveal mixed perceptions among businesses regarding the Scottish Government's income tax policy.
- Specifically, 28% of businesses reported no impact from the income tax policy, while a similar portion (29%) felt ‘a little’ impact. Taken together, we could say that the majority of firms reported minimal impact of the Scottish Government's income tax policy.
- However, 34% of firms indicated that the policy has affected them a fair amount to a lot; with 17% reporting ‘a fair amount’ and 17% choosing ‘a lot’ of impact.
- This suggests that income tax policy has a considerable impact for some members of the Scottish business community, but the effects are not uniformly experienced.

Chart 1: Responding businesses perception of income taxation policy impact, Q2 2024



* Some businesses responded N/A; therefore, percentages may not sum to 100%

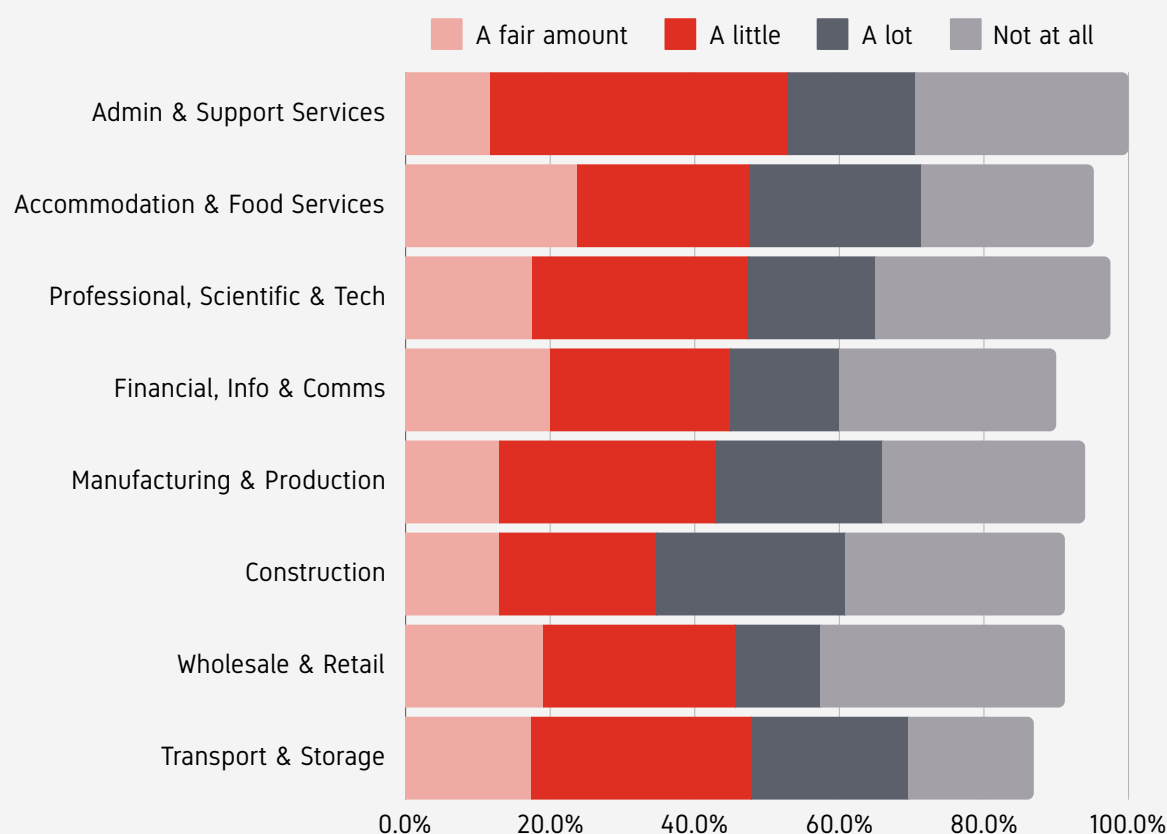


SECTION 2: SECTOR ANALYSIS

Key results by sector

- While some sectors experienced more significant effects than others, the overall impact of the income tax policy was fairly consistent across all sectors.
- Construction is the most affected sector, with 27% of businesses experiencing a 'a lot' of impact. Accommodation & Food Services sector experienced the highest proportion of businesses reporting 'a fair amount' of impact, at 24%.
- Admin & Support Services stands out with the highest percentage of businesses (41%) reporting only 'a little' impact. The Wholesale & Retail sector reported the least impact, with 34% of businesses indicating they were not affected at all.

Chart 2: Sector breakdown of responding businesses perception of income taxation policy impact, Q2 2024



* Some businesses responded N/A; therefore, percentages may not sum to 100%



SECTION 2: KEY ISSUES

Question 2: “How has your business been affected by the Scottish Government's income tax policy?”

Next, we asked businesses the following open-ended question, allowing firms to respond freely with their own words:

“How has your business been affected by the Scottish Government's income tax policy?”

The responses are visualized in the word cloud below.

Image 1: Word Cloud responses to Question 2, Q2 2024*



* Removed non-meaningful words e.g., stop words, numbers, special characters, “Scotland”, “tax”, “Scottish”.

We further analysed these results to identify key themes, which are presented below.

However, it's important to keep in mind that open-ended survey questions have some limitations. Responses can be highly personal and vary significantly in detail, making consistent analysis challenging.



SECTION 2: KEY ISSUES

Therefore, the themes and quotes shared should be viewed as a snapshot of part of the business community's views at a particular time, rather than a complete or universally accurate picture.

Recruitment and Retention:

- A number of responses highlighted difficulties in attracting and retaining talent. Responses mention that higher taxes are causing dissatisfaction among employees, leading to higher wage demands and a reluctance to relocate or stay in Scotland.
 - *"Difficult to attract candidates from outside Scotland"*
 - *"Recruitment of senior employees more difficult"*

Wage pressures:

- Many respondents said that they are increasing wages to offset employees' lower take-home pay
 - *"Higher staff costs"*
 - *"Higher rates of tax have pushed up the cost of wages"*

Competitiveness and Investment:

- The higher tax regime in Scotland compared to the rest of the UK is perceived to create a competitive disadvantage. Businesses say they are considering moving operations and investments south of the border.
 - *"Currently looking to move HQ out with Scotland"*
 - *"Divergence makes us less likely to invest in Scotland"*

Neutral & Positive Sentiments

- Some responses reflect a level of acknowledgment that the tax policy has specific benefits, such as funding for public services and education, or that the impact on the business itself is limited.
 - *"No major impact"*
 - *"Not at all for the business."*
 - *"... our tax structure in Scotland helps pave the way for better NHS services & for our children to receive a free higher education."*