

## Introduction

Scottish Environment LINK is the forum for Scotland's voluntary environment community, with 38 member bodies representing a broad spectrum of environmental interests with the common goal of contributing to a more environmentally sustainable society.

LINK welcomes this consultation by the Scottish Government, and the debate it may generate about the development of a policy in relation to taxation and fiscal issues. We are pleased to respond with these initial observations which, we hope, are of value – and would be pleased to discuss these ideas further with Ministers and/or officials.

## 1. General principles

### 1.1 The need to build environment into fiscal decision making.

The Scottish Government now has ambitious environmental policy in terms of its Climate Change legislation and Environment Strategy and has spoken often of the imperative of addressing the climate and nature emergencies. As well as regulation, fiscal measures have an important role to play in meeting these ambitions. Such measures could be incentives (subsidies or tax allowances) to encourage a shift towards environmentally-beneficial activities or behaviour – or disincentives (higher taxes or charges) to encourage a shift away from environmentally-harmful activities or behaviour.

One of the key drivers of environmental degradation is the inability of the market to pay for public goods or charge for externalities, such as the environmental degradation caused by extraction (or growing) of materials to make a product, pollution from its manufacture and transport, and the harm it causes at the end of its life as waste. The Government's fiscal decisions can, however, intervene to help correct this. A clear fiscal decision-making process, or policy, should set out the Government's objectives in relation to the environment.

To this end, we would suggest some amendments to functions of taxes, which the consultation document sets out. We welcome the inclusion of the environment as a societal benefit to be delivered, in part, by changed behaviour encouraged by taxation decisions. However, it should also be recognised as a public good to be funded by revenue raised from taxation. In addition, a fourth function should be added which recognises that taxation can correct market failure, as described above.

The functions of taxation, as set out in the documents, should therefore be amended to read:

*Taxes can support **four** important functions:*

- *To raise money to fund public services, investment and public goods (e.g. schools, health care, infrastructure **and a clean and healthy environment**).*
- *To promote a more equal society through objectives such as redistribution of income and wealth.*
- *To encourage people to change their behaviours, in order to promote societal benefits, in areas such as health or the environment.*
- *To correct market failure, by adjusting for externalities such as pollution and helping to reinforce the polluter pays principle.*

Recognising the functions of taxation as described above, it is important that fiscal policy becomes more fully aligned with environmental policy and objectives.

The consultation document states that “*taxes fund public services and allow the Scottish Government to encourage growth and support business through economic development, skills investment and major infrastructure projects.*” This is both correct but also incomplete. It must also recognise that transition to a net-zero and circular economy (both Scottish Government objectives) needs to be embedded in the support of businesses and investment in skills and infrastructure. Such assistance needs to be supported by a general fiscal environment that enables these enterprises to thrive, so there is demand for their products and services.

## **1.2 The application of EU environmental principles to fiscal policy.**

Currently, Scotland is still subject to EU law in relation to the environment, and the four environmental principles in the Lisbon Treaty (TFEU) apply to policy making. These principles are: -

1. The precautionary principle;
2. The principle of preventative action;
3. The principle of rectification at source; and
4. The polluter pays principle.

In due course following the UK’s full withdrawal from the EU, and subject to Parliamentary approval, these principles will be applied to domestic policy by the UK Withdrawal from the European Union (Continuity) (Scotland) Bill. Notwithstanding the current provisions of s.10(3)(b)<sup>1</sup>, LINK considers that these principles, especially the polluter pays principle, should be applied to the development of fiscal policy.

Application of these principles, and particularly the polluter pays principle, would provide a basis for the adjustment of fiscal policy to help deliver the Government’s environmental objectives – in particular, they provide a basis by which fiscal policy can be used to provide the incentives and/or disincentives described above.

## **1.3 Considering the full range of fiscal options.**

While a significant proportion of taxation and other fiscal mechanisms are reserved to the UK Parliament, the Scottish Government and Parliament does have (or will have) a wide range of powers in this area. These fall within three categories: -

1. National taxes, under the Scotland Act 1998, as amended (e.g. Scottish income tax, LBBT, Landfill tax, APD).
2. Local taxes, under devolved local government legislation (e.g. Council tax, business rates, sporting rates, and other options such as ‘Tourist tax’, Land Value Tax or congestion charges).
3. Other charges/levies/duties, such as those related to carrier bags, bottle deposits, and those for resource efficiency or other single use plastics which are, or could be, introduced by the UK Environment Bill or proposed Scottish Circular Economy Bill.

While it is a measure related to public health, rather than the environment, the Scottish Government’s policy on Minimum Unit Price for alcohol should be seen as a fiscal measure in the ‘other charges’ category – and as a tool that might be applied to other public policy objectives such as the environment.

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<sup>1</sup> Note the Environment Committee’s concern about the exclusion provided for by this section in paragraphs 113 and 114 of [its stage 1 report](#).

In developing its policy on taxation and fiscal issues, the Scottish Government should ensure it explores and uses the full range of options – as well as ensuring that one tax policy does not, inadvertently, undermine the objectives of another. In addition, tax policy should not only consider what should be taxed, and at what rate – that is, what disincentives should apply – it must also consider what exceptions, allowances, rebates, etc. might be available and in what circumstances – that is, what incentives may be appropriate. The latter might include, for example, Council Tax rebates/discounts for property owners investing in energy efficiency measures or sporting rate exemptions for land managed for the restoration of nature.

#### **1.4 Post Covid-19 considerations**

This consultation takes place in the context of the current health emergency and asks whether this – and its aftermath – has any consequences for the development of taxation and fiscal policy.

Since March 2020, the attention of governments has rightly focused on responding to the public health crisis and caring for the most vulnerable, but as we move to considering to life beyond lockdown it is clear that there will be severe consequences for the economy and people’s livelihoods, both globally and nationally. Statements from the Scottish Government Ministers have signalled the intention that the economic recovery from the COVID-19 pandemic should be ‘green’<sup>2</sup> but it is critical this rhetoric turns into reality. Before the pandemic swept Scotland, we were already facing nature and climate emergencies and a green recovery must stimulate national and local economies that work for people while delivering benefits for nature and reducing greenhouse gas emissions.

Thus, as for all areas of Government policy, the health situation, and the social and economic impacts of our responses, mean that it is, in fact, even more important that the environment is at the centre of policy-making. This has been recognised by Government statements of intent in relation to a ‘green recovery’ – that have been welcomed by LINK<sup>3</sup>.

Scottish Environment LINK and its members have developed a wide range of ideas for delivering such a ‘green recovery’<sup>4</sup>. Many of these relate to investment needs – which will require public spending and need to be factored into fiscal planning. They could, however, be considerably enhanced by the use of supportive taxation policies – including incentives to land managers/business in the form of tax rebates/allowances to support their delivery, or disincentives to activities or actions that undermine or conflict with such policies.

The Scottish Government will, in adopting such an approach, be doing so with the support, not only of civil society organisations such as LINK but also of the wider Scottish public<sup>5</sup>.

## **2. Examples of taxes and other fiscal levers proposed by LINK members:**

The above sets out LINK’s general approach to the issues of taxation and fiscal policy. We consider that the Scottish Government should adopt such an approach and make clear that it seeks to integrate environmental objectives fully into its policies in this area. This would both be consistent with its

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<sup>2</sup> Scottish Government 2019. Climate Change Plan update. <https://www.gov.scot/news/climate-change-plan-update/> AND Scottish Government, 2020. Economy Secretary’s statement 21 April 2020. <https://www.gov.scot/publications/coronavirus-covid-19-update-economy-secretarys-statement-economic-impact-covid-19-tuesday-21-april-2020/>

<sup>3</sup> <https://www.scotlink.org/scottish-environment-link-welcomes-governments-drive-for-a-greener-scotland/>

<sup>4</sup> <https://www.scotlink.org/wp-content/uploads/2020/05/Green-Recovery-briefing-FINAL.pdf>

<sup>5</sup> <https://www.scotlink.org/most-people-living-in-scotland-want-a-green-recovery-from-the-covid-19-pandemic/>

existing environmental objectives (e.g. Climate plan, net zero, etc. and its Environment Strategy) but also with its statements of intent regarding a green recovery from Covid-19.

To apply such an approach across the full range of tax and fiscal measures will, however, be a long-term project. Some measures already operate (e.g. carrier bag charges) or are agreed and in development (e.g. bottle deposits). Others will require longer term analysis and policy development. Nevertheless, **LINK believes that that the Scottish Government should commit to the principle of “greening its taxation and fiscal policies” and develop a programme to review and amend appropriately over the coming years.**

In the short term, however, there are some ‘easy wins’ – measures that might be considered and introduced in this or next year’s budget - that are available. In the annex to this response, we have set out a number of such measures (that have been proposed by LINK and/or its member organisations in recent years). All these measures would support the delivery of the Scottish Government’s environmental objectives, its ambitions for a green recovery and contribute to the development of a more sustainable, circular economy. We commend these to the Scottish Government.

### **3. Conclusion**

The Scottish Government now has ambitious environmental policy in terms of its Climate Change legislation and Environment Strategy and has spoken often of the imperative of addressing the climate and nature emergencies. Taxation and fiscal measures have an important role to play in meeting these ambitions and it is important that fiscal policy becomes more fully aligned with environmental policy and objectives.

Application of the EU environmental principles, and particularly the polluter pays principle, to tax and fiscal policy would help deliver the Government’s environmental objectives and provide a basis by which fiscal policy can be used to provide the incentives and/or disincentives described above.

The Scottish Government and Parliament does have (or will have) a wide range of powers in this area, and the Scottish Government should ensure it explores and uses the full range of options. **LINK believes that that the Scottish Government should commit to the principle of “greening its taxation and fiscal policies” and develop a programme to review and amend appropriately over the coming years.** In the short term, we commend the measures set out in the annex for consideration.

Both the long-term and short-term approaches suggested above would support a ‘green recovery’ from the Covid-19 crisis that is sought by the Scottish Government.

#### **This response is supported by the following LINK members:**

Fidra  
Keep Scotland Beautiful  
Marine Conservation Society  
National Trust for Scotland  
Nourish Scotland  
Scottish Wildlife Trust

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## Annex

### **Fiscal measure that have been proposed by LINK and/or its member organisations that should be considered as part of any Scottish Government review of taxation policy.**

The Scottish Government should commission research and consult with industry experts on how new **national or local taxes could be introduced to create a more sustainable tourism** industry that spreads the benefits of tourism more widely. Options for a new tax may include a visitor transient levy, which could be invested in infrastructure to make it easier for people to visit less well trodden locations and offer additional environmental protections to areas that have high tourism densities. (National Trust for Scotland)

**Levy on the sale of Peat** for horticulture (although a ban would be preferable) (in [LINK response to SG consultation on the Climate Change bill](#), Sept 2017).

**Charges for environmentally harmful items** such as single use cups and take-away food containers. (Proposed by SG for CE bill and supported in [LINK response to SG consultation on proposals for CE Bill](#), Nov 2019)

Lobby UK Government for **changes in VAT rates**

- Bring VAT on building refurbishment in line with that on new-build<sup>6</sup>;
- Reduce VAT on repair in general in order to make repair a more cost effective option and stimulate the repair economy and create jobs.

(in Circular Recovery briefing, Sept 2020)

**Review the tax of residual waste**

- Currently waste to landfill is taxed whereas that going to 'Energy from Waste' plants is not. There are calls in Westminster<sup>7</sup> for an incineration tax to address this discrepancy;
- In addition, Scottish Government needs to review land-fill tax bands to ensure they are effective. For example, is the rate for soil high enough to encourage the treatment of contaminated soil.

(in Circular Recovery briefing, Sept 2020)

A specific and sizeable **levy should be paid on any activity which seals soil** (and therefore destroys its regenerative capacity) which can be used for remediation of contaminated soils and peatland. (In [LINK response to SG consultation on proposals for CE Bill](#), Nov 2019)

The **uplift in land values** accruing from the grant of planning permission (or betterment) should be captured for the public good (in [LINK response to Call for Ideas for NPF4](#), April 2020).

**Deposit Return Scheme.** The DRS for drinks containers was called for and welcomed by LINK members. LINK members also called for SG to be given powers to introduce deposit schemes for other product groups. (In [LINK response to SG consultation on proposals for CE Bill](#), Nov 2019)

**Modulated fees in Extended Producer Responsibility.** LINK called for modulated fees, such that eco-design is incentivised, in the UK consultation on EPR reform (for packaging) (in [ELUK response to the consultation on reform to the packaging producer responsibility system](#), May 2019). LINK members

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<sup>6</sup> <https://www.architectsjournal.co.uk/news/vat-chance-can-tax-reforms-spur-a-retrofit-renaissance>

<sup>7</sup> <https://resource.co/article/mps-call-incineration-tax-commons-debate>

also call for EPR to be rolled out to additional product groups to incentivise eco-design (in Circular Recovery briefing, Sept 2020)

LINK members support the UK **Plastic tax**, but asked that it be applied to all plastics (not just packaging) and be extended to cover other materials. (In [ELUK response to the Plastic Tax consultation](#), May 2019).

LINK members were against the proposed reductions in **Air Passenger Duty**, considering them inconsistent with climate change objectives (in [LINK response to SG consultation on APD](#), June 2016).