Local Government and Communities Committee

Consideration of the Council Tax (Substitution of Proportion) (Scotland) Order 2016

Submission from Marco Biagi, Co-Convener of the 2015 Commission on Local Tax Reform

Introduction

1. I would like to take this opportunity to submit my views for parliamentary consideration as an individual who gave a considerable proportion of their time and energies over the course of 2015 to co-convening the Commission on Local Tax Reform (henceforth “CoLTR”). At the time a Scottish Government Minister I was in the unusual – perhaps unique – position of being both bound by the Ministerial Code of collective responsibility while jointly chairing and ultimately signing up to a report authored by a process that was in many respects independent of government. This led to a delicate balancing process that I am sure managed to both leave some fellow commissioners unhappy at me being too political and the usual unnamed sources (quoted in Holyrood magazine) unhappy at me not being political enough. But having been informed by that process I wish to comment on the proposals now before the Committee and Parliament from the Scottish Government.

The Commission and the Proposals

2. CoLTR was tasked with providing directions to a fairer local tax system. If reports were written in less reverent tones, the first direction should have been the punchline of the old joke - “well, I wouldn’t start from here”. The Commission was united in its view that Council Tax was broken and that local tax needed to be changed, together with widespread recognition of the difficulty of moving from the current position. Another fair paraphrasing of widespread sentiment however would be “whatever you do, don’t do nothing”. The title “Just Change” was in that regard a deliberate double-meaning.

3. While CoLTR agreed on principles there were always going to be different interpretations of that in policy.

4. The broad thrust of the CoLTR recommendations were that there was no alternative in the short term to a property-based tax, but that it needed to be fairer than the present system of Council Tax in a number of ways. Different political parties were always going to choose a different trade-off point between extent of reform and practicality (including public acceptance) of introducing those reforms.
At the start this was seen as a natural part of the process but unfortunately after publication and in the heat of the election campaign some political parties became less inclined to respect legitimate differences of interpretation. Based on the work of CoLTR I came to believe that generalised, recurrent\(^1\) taxation of land is ill-advised, but there are those who sat on the Commission who take a different conclusion from the same evidence and I do not question the sincerity of their reasoning.

5. The Scottish Government reforms should therefore considered as practical and viable attempts to move in the direction that CoLTR pointed. I believe the appropriate test is whether the additional £100m per annum the Scottish Government intends to raise through banding changes is being raised in a progressive way. Using the test most commonly used for taxation changes – an income decile analysis – it is certainly progressive, especially when considered alongside the proposed extensions of income-based relief.

6. **Implementing the Scottish Government changes will result in a Council Tax that is, depending on your perspective, either more progressive or less regressive. Either is clearly an improvement.**

**The Benefits of the Locally-Assigned Income Tax**

7. A question critics will ask is whether this alone is enough to ameliorate all the unfairnesses of the Council Tax that CoLTR set out. Parliamentarians will wish to decide for themselves whether they compare the Scottish Government’s proposed reformed Council Tax against the existing Council Tax, or against some kind of hypothetical taxation system in a policy paper.

8. But it is informative also at this point to consider whether there is also a need for further reform.

9. One of the great problems of Council Tax for democratic accountability and public understanding has been the belief, from its nomenclature, that it is the method of funding local authorities. In fact, most local authority funding comes from central government and thereby is raised by other – often more progressive forms - of taxation. The funding of local government is not the same as the Council Tax and the progressivity of local government funding is not the same as the progressivity (or otherwise) of Council Tax.

10. In March the Scottish Government set out that it would consult on assigning a proportion of income tax receipts to local authorities. I believe that creation of a full

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\(^1\) Though not targeted forms, such as a tax on land not being released for development or potentially on concentrated landholdings above a certain size and value.
Locally-assigned Income Tax (LaIT) would a hugely important step, explored at length by CoLTR, that should not be lost to political inertia or caution.

11. This would mean splitting up existing income tax revenue and allocating some directly to local government. This is very different to the 2007 Local Income Tax proposal which would have increased overall income tax (in exchange for the removal of the property-based Council Tax).

12. It would offer clarity to public understanding, greater stature to local government by showing the public how much they contribute to it financially, and a more direct stake for councils in the success of local economies.

13. My own personal view is that we should aim to reach a point where the rate of income tax paid to the local council and to the Scottish Government should be separately identified on a payslip or self-assessment tax calculation.

14. This is a different question to what the total rate should be. Introduction could be by separating out the existing 20% rate into, for example a 13.5% contribution to the Scottish Government and a 6.5% contribution to local government.

15. This would mark a clean break with the present system of Council Tax as the only local tax, and usher in a more clearly hybrid system of property and income to fund councils. By drawing revenue from more than one source it would be in keeping with CoLTR’s recommendations and the typical practice of other developed democracies.

Wider Reform

16. Continuing a recurrent property-based tax beyond the short-term has merit. The tax calms house prices. It is very hard to avoid. It helps insulate against economic shocks by maintaining a broader tax base.

17. Banding property-based tax rather than charging it on estimated individual values has advantages too. Individual value estimates convey a false precision – rarely do property sale prices match home report valuations one-to-one. Banding accepts, recognises and incorporates the uncertainty involved. In an ideal world there might be more bands to better reflect the distribution of property values. Contrary to popular thinking it is Bands A, B and C that are most oversized, not H, which contains just one in every 200 properties.

18. But further growth in property-based tax should also be constrained. In that ideal world property taxation would also be a smaller share of overall revenue. An
analysis provided to CoLTR by David Bell showed the UK’s proportion of revenue coming from property taxes of all forms is the highest in the developed world.

19. And the tax should be presented in such a way that taxpayers see it as part of a two-mode local tax alongside a LaIT, rather than on its own. Income-based reductions to the property tax element would also become much more widespread than at present and administratively almost automatic through integration with HMRC or Revenue Scotland records.

20. It is also worth remembering that the Commission report included very carefully and precisely worded recommendations on valuation. I note that other submissions have included this issue. It has been 25 years since the initial valuation and this means there is now in many areas a considerable disjoint between present property value and Council Tax band, where house prices have grown more quickly or more slowly than the average. Releasing such pent-up pressure in a short space of time would be public policy naivety – the accumulated changes are simply too great. Instead of a conventional revaluation, there is a need over time to find a method to very slowly reconnect valuation and banding. One way would be further reform of bands so properties in lower bands could be insulated entirely in the event of moving up a banding, with their net charge nonetheless standing still. But none of this would be possible in 12 months, or even one parliamentary term, without significant tax shocks such as those experienced by householders in Wales after their 2005 revaluation. Statistics estimating how many properties are now in the “wrong” band should also be warnings not to be cavalier about approaching the question.

21. I believe it is possible that through further evolution there would be a property-based tax element to a local tax system that looks rather more like the existing Council Tax than some alternative ad valorem tax proposals, but which is still a markedly different and fairer system overall.

Marco Biagi