Local Government and Communities Committee

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

Submission from the Joan Hewton, Institute of Revenue, Ratings and Valuation (IRRV) (Scottish Association) President and Assessor for Lothian Valuation Joint Board

Introduction

I welcome the opportunity to submit my thoughts as evidence for the above Committee and in doing so would state these are my professional opinions as Assessor for Lothian VJB and in particular IRRV Scotland President. The IRRV will make a full submission to the Committee.

The IRRV is the professional body concerned with all aspects of local taxation, valuation, appeals, financial management and local benefits administration in the United Kingdom. It has members within both the public and private sectors, including ratepayers and their agents. Institute members are engaged in property valuation, local taxation collection, the appeals process, advising and representing ratepayers and financial management within local government. The Institute represents the professional interests of its members who work within this broad church.

The Institute is the only professional body in the United Kingdom which specialises in the law and practice of local authority revenues and local taxation together with the appeals, reliefs and benefits which support these processes.

The IRRV Scotland note that the majority of respondents to the 2015 Commission on Local Tax Reform considered that the current Council Tax system was not fit for purpose in its present state. The main recommendation from the Commission was that the present Council Tax system must end and the predominant view was that a wholesale revaluation of Council Tax was required and ideally based on regular and frequently updated valuations. It was further concluded that any system should be seen as fair and acceptable to the public and more progressive than the existing Council Tax. It is with this clear view in mind that the answers to the questions raised in the current consultation have been considered and the response made to mitigate the issues and concerns.

My main contention is that the Scottish Government needs to consider the main recommendations from its own Commission for Local Taxation Review and urgently consider a general revaluation.
Answers to Questions relating to The Council Tax (Substitution of Proportion) (Scotland) Order 2016

1. **Overall, do you support the principles of the Government's plans to reform Council Tax?**

The IRRV supports the basic principle of the Government’s plans to reform Council Tax and the varied payment rates as a first step in a process.

The Burt Committee Review, The Lyon Committee Review and the recent review carried out by the Commission on Local Tax Reform all urged a total revaluation of all properties, the IRRV considers that the recommendations of those 3 review bodies should be commenced as soon as practicable.

Increasing the differential between the payments made for properties in the lower bands compared to the higher bands certainly meets one of the recommendations made by the Commission on Local Tax Reform, making the existing system more progressive, as a first stage in a hopefully planned timetable for change.

2. **To what extent will the Government’s proposed reforms make the system of Council Tax fairer?**

*More progressive ratios*

The Government’s proposed reforms as being implemented by the Council Tax (Substitution of Proportion) (Scotland) Order 2016 makes the system of Council Tax a little more progressive but does not address the urgent need to revalue all dwellings.

In our previous submission we commented on changing the ratios of tax charged in respect of the bands. The changing of ratios had been considered along with a revaluation of all properties which unfortunately is not being proposed at this time. Without a revaluation very few of the previous comments apply and those that do are as follows:-

a. Increasing the multiplier between bands makes council tax more progressive.

b. Single adult households would tend to gain from increasing the ratio of Band H to Band A council tax, because single adults are more concentrated among lower council tax bands.

In the opinion of the IRRV there is little benefit to the proposed reform other than to make the current archaic system slightly more progressive. Changing the differential ratios should have included bands C and upwards thus only maintaining the status quo for the lowest 2 bands and introducing a greater incremental differential between the other bands thus ensuring an appropriate sliding scale.
Perhaps the fact that single adult households benefit most has been overlooked when formulating this reform.

Incorrect CT bands for altered properties

Apart from the obvious need for a revaluation the greatest complaint received from Council Tax payers is the fact that houses that have been extended still remain in the same CT band as it did when un-extended in 1993. This problem is magnified each year with more and more extensions/alterations not reflected in the CT band. The change in ratios will exacerbate this complaint. Such a restriction in altering the bands of altered or extended property was to encourage improvements to property without increasing taxation levels. This was however to be re-aligned at revaluations. Although 5 yearly revaluations was not stipulated within legislation it was envisaged that regular revaluations would take place. A property extended soon after the commencement of Council Tax could now have been paying at a Council tax level that is too low for over 23 years, this is surely inconceivable in modern day taxation.

Proposals/Appeals

From an administration point of view it is anticipated that the review of ratios will instigate a fresh swathe of proposals and appeals by disgruntled CT payers, particularly those who are close to band thresholds, because the payment differential will be more substantial and aggravate the concerns of disparity. The further away we are from the valuation date of the current Council Tax bandings the more difficult it is to prove and explain the valuation correctness or otherwise. Many of the general body of Council Tax payers were not born on the date that their properties are still assessed, how can tax payers possibly understand the housing market or gain sales evidence from that period of time so long ago?

Revaluation

I am hopeful that the current proposed reform is indeed the first step in an ongoing process of reform but if not it is a huge missed opportunity to properly set the tax base based on current values. If Council Tax is to remain, then a wholesale revaluation, as carried out in Wales, must be considered to bring the Council Tax base up to date to reflect current values. In Wales over 55% of dwellings moved bands as a result of their revaluation, this implies that the housing market changes have now resulted in the majority of houses currently being in an inappropriate band.

5. Please add any other comments on any aspect of the proposed reforms

In Summary

The proposed reforms address one issue of the payment differential between the highest and lowest bands but perhaps should have extended to bands C and D.
The reform is accepted as assisting in addressing the regressive nature of the tax to some extent as a first stage in a process of change.

There is a pressing need to introduce legislation that allows CT bands to be altered form the year after alterations are deemed complete.

There is an urgent need to revalue all properties to realign with the current property market and to ensure that regular revaluations are included in legislation.

Good communication from the Scottish Government to inform Council Tax payers that this change will not open up the ability to lodge proposals/appeals against existing CT bands is encouraged.

Joan Hewton
IRRV (Scottish Association) President
1. The following parameters are useful for assessing whether a Local taxation system is fair and effective:
   - It must fit and meet local needs;
   - The yield from taxes must be adequate;
   - Where possible local taxation should be policy-linked;
   - It should provide for certainty in the yield;
   - It should be broadly acceptable to the public; and
   - It should be simple to collect and difficult to evade and avoid.

2. No system is going to meet each of these parameters entirely in each and every aspect. The council tax system performs reasonably well in relation to most of these elements. There is wide acceptance of the tax however a lack of acceptability by some of the Scottish public is an area in which it falters. This is due in part to the amount of the tax that is levied and the perceived inequities in the distribution of the burden. It may also be due in part to the link between water charges and council tax and the fact that one bill coming from the local authority gives the impression to the taxpayer that the tax is some 40% higher than it actually is. The level of tax imposed is influenced by several factors, the most important being the amount of and distribution of grant funding made available to Scottish local government. As the Commission is not tasked with considering other issues around Local Government finance, presumably including grant funding, this response merely flags this as an issue. Our response can however examine the issue of perceived inequities.

3. Council tax banding has come under criticism as creating unfairness in the system. It could be argued that perceptions of unfairness in the banding system could be addressed to some degree by the following amendments:
   - Altering bands to reflect current market values. We note however the findings of the Burt Committee on this matter. Any revaluation undertaken to distribute the existing tax burden in line with current property values (rather than carried out to increase the overall tax yield), would not be sufficient a measure to counter the other inherent problems with the system
   - Resetting the number of bands. We note however the findings of the modelling work undertaken by the University of Stirling for the Burt report, which concluded that “introducing additional council tax bands has virtually no effect on the burden of council tax”; and that these results were consistent with the outcome of research by Heriot-Watt University for the Scottish Parliament’s former Local Government Committee. We
additionally note from that Report that Sir Michael Lyons was surprised to find that adding additional bands would not appear to have a significant impact in making council tax relate more closely to ability to pay. This was largely attributed to the fact that households with diverse levels of income can be found in every council tax band in the UK.

- **Changing the ratios of tax charged in respect of the bands.** The Burt Inquiry commissioned comprehensive modelling of the impact of changing the multiplier between bands. We note the following outcomes of that modelling:
  - Increasing the multiplier between bands makes council tax more progressive.
  - Single adult households would tend to gain from increasing the ratio of Band H to Band A council tax, because single adults are more concentrated among lower council tax bands.
  - The majority of households either gain from the change in the multiplier or are unaffected.
  - The more progressive the council tax structure, the larger the share of households that are at least as well off. But as the structure of council tax becomes more progressive, the losses of those who are made worse off by the changed structure increase. Thus, the more progressive the scheme, the greater the proportion of the population who gain, but those who lose do so more heavily.
  - A tension emerges about the optimum number of bands. As the council tax was made more progressive, so the variation of tax payable at adjoining bands would increase. This scenario, where a small increase in the value of a property can result in a substantial increase in council tax liability, is sometimes described as a “cliff-edge effect”. The effect of this is that a small difference in the 1991 value of a property can make a significant difference in the amount payable each year in council tax.
  - Increasing the multiplier between bands would widen the difference in the amount payable by adjoining bands and accentuate the “cliff-edge” effect. The larger the multiplier, the greater the “cliff-edge” between each of the bands.
  - Large number of bands would be required before the “cliff-edge” impact of increasing the multiplier was offset and the more bands that are created, the closer a banded system becomes to one where properties are valued individually.

4. The Institute sees some merit in moving to property valuations based on discrete capital values rather than amending the system of bands. Some commentators have suggested that changing the valuation banding aspect to a system of discrete valuations would be too difficult and costly to implement. Yet Northern Ireland undertook a full and successful, cost effective revaluation of properties for domestic rating in 2007. Their use of the latest valuation information technology together with significant professional overview and checking provided individual capital value assessments, with extremely low appeal rates arising. This suggests that such an exercise within a property-based tax system could be
achieved in Scotland if there is a will to do so. In order to provide a full picture it is important to note some essential differences exist between Northern Ireland in 2007 and Scotland as at the present time. As is the norm, the tax was introduced in 2007 based on value levels as at 1st April 2005. Between 2005 and 2007 domestic property values in many parts of Northern Ireland doubled in value therefore giving the impression that the property values on which the tax was based were significantly lower than could have been the case. It is almost certainly this fact that contributed to the acceptability of the values and the low appeal rates. It is highly unlikely that a similar market will occur again particularly in Scotland. The Institute has provided professional input to the revaluation exercise in Northern Ireland and would be pleased to discuss the concept and implementation aspects further with the Scottish Government.

5. In addition to the issues around the banding system, the IRRV has previously made representations to the United Kingdom Governments to overhaul other elements in the council tax system to make it more robust and more acceptable to the public. These relate to:

- Committing to undertaking regular revaluations. The unwillingness to have a council tax revaluation is itself a cause for the tax to fall into disrepute. It also misses the opportunity for changes in the levels of value in a locality to be reflected in the system.
- Introducing a rebate scheme which reflects a well-targeted system of relief. Amendments to the system of reliefs (balanced by overall yield) could more easily resolve issues of affordability than a wholesale change to the whole basis of taxation.
- Undertaking a comprehensive review of both status discounts and exemption categories.

1. **REFORM OF LOCAL TAXATION**

Are there alternatives to the current system of council tax that you think would help to reform local taxation in Scotland? What are the main features of these, and why do you think they would deliver improvement?

1. There are many benefits in maintaining a property-based tax. Such taxes generally:
   - Are cheap to administer, maintain and enforce and are predictable;
   - Are difficult to avoid. By contrast, under a local income tax system legal avoidance would be much easier, which would reduce tax yield and yield certainty; and contribute to funding gaps;
   - Do not add new compliance burdens on taxpayers. A considerable amount of property information is already in the public domain – hence inspections for council tax are very low as a proportion of total casework; and
   - Provide a compatible addition to the varied taxes paid across the country.

2. The IRRV advocates the retention of a reformed property-based system, based either
on discrete capital values or numerous bands. The Institute also believes that a reformed property tax should continue to be administered by Local Authorities, to ensure that the public continue to recognise the important links between what they pay, who they pay to, and what services they receive in return. The Institute believes that this is essential to ensure local accountability and to maintain the health of local democracy.

3. Councils should not, however, be restricted to the ability to raise a single tax and should have the discretionary power to raise supplementary taxes that are appropriate to their local area, for example environmental taxes, a Local Tourist Tax; and localisation of (or part thereof) the Scottish Lands & Buildings Transaction Tax (former stamp duty). Such an approach would provide a mix of stable and predictable sources such as property/land tax and alternative buoyant sources.

4. In addition to those options raised in the above paragraph, the Scottish Government could also consider easing the burden of local taxation by considering other significant sources of income. Such sources could, as examples, include an introduction of a levy on internet retailers; and a land tax. These are discussed further in the following paragraphs.