Introduction

The Scottish Government is proposing to change the structure of Council Tax. The changes are set out in draft Statutory Instruments. These set out:

1. the increase in Council Tax payable by those owning properties in Council Tax Band E, Band F, Band G or Band H and
2. the conditions under which these increases will not be payable.

The change in Council Tax payable is being brought about by increasing the ratios payable by properties in these bands relative to the tax payable on a Council Tax Band D property. The current and proposed ratios are shown in Table 1 below (where the liability for a Council Tax Band D property is set equal to 1).

Table 1: Current and Proposed Ratios of Property Council Tax Liability: Council Tax Bands E-H to Band D.

<table>
<thead>
<tr>
<th></th>
<th>Band E</th>
<th>Band F</th>
<th>Band G</th>
<th>Band H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>1.22</td>
<td>1.44</td>
<td>1.66</td>
<td>2</td>
</tr>
<tr>
<td>Proposed</td>
<td>1.31</td>
<td>1.63</td>
<td>1.96</td>
<td>2.45</td>
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Thus, for example, if Council Tax Band D was set at £1000, a Band H property would be liable for Council Tax of £2000 under the current ratios. Under the new proposals, its Council Tax liability would increase to £2450.

Exemption from these increases for Council Tax Bands E to H will be calculated by changing the calculation of the Council Tax Reduction (CTR) scheme. This scheme replaced Council Tax Benefit and is used to abate Council Tax liabilities for those on low incomes and/or higher levels of need such as disability. CTR is administered by Scotland’s local authorities.

Net weekly household income will be calculated and then compared with threshold amounts of £321 per week for a single applicant with no children and £479 per week for all types of household. Those households with income below the relevant threshold will be entitled to additional CTR equal to the change in their Council Tax liability between the proposed and the current ratios. The Scottish Government
believes that around 54,000 households owning properties in Council Tax Bands E to H will be exempt from Council Tax increases due to this exemption.

CTR will also be made more generous for households with children. They will benefit from a 25% increase in the child allowance component of the CTR scheme. The Scottish Government believes that around 77,000 households will be affected by this change.

In addition, the Scottish government proposes:

1. Councils will be able to increase Council Tax by up to 3% per year from 2017 onwards.
2. The additional £70 million per year paid to local authorities to fund the Council Tax freeze will be retained.
3. Local government will be consulted on exchanging a portion of their general revenue grant for a share of income tax generated locally.
4. A consultation on allowing councils to tax development, vacant and derelict land will take place.

Finally, and in a separate announcement\(^1\), the Scottish Government has decided to allocate in the additional £100m per annum that it estimates will be raised by the increase in Council Tax to the school’s budget and specifically to schools with high proportions of children eligible for free school meals. It appears that this will be linked to the “Attainment Scotland Fund”, which is mainly targeted on a number of local authorities with high concentrations of deprivation.

This paper sets out some reactions to these proposals.

1. **Differential Effects of Proposals by Local Authority**

The revenue effects of the proposed changes in Council Tax banding will not be uniform across Scottish local authorities. This is because local authority housing stocks differ in the share of dwellings in each of the Council Tax Bands from E to H.

Figure 1 below:

There is wide variation in the proportion of the housing stock that will be eligible for increased Council Tax across Scottish local authorities. In Eileen Siar, only 10% of the housing stock is allocated to Council Tax Bands E to H, while in East Renfrewshire, the proportion is 56%. Inevitably, this implies that there will be substantial differences across local authorities in the revenue implications of increases in Council Tax. These are brought out in Figure 2, which shows how the implied change in total Council Tax payable before the application of CTR and discounts will vary by local authority once the change in Council Tax Bands has been implemented.
Figure 2: Implied Percentage Change in Council Tax Liabilities by Local Authority

Source: own calculations

The potential increase in revenue resulting from the restructured Council Tax varies considerably by local authority. The island communities would experience the lowest increase of around 2%, whereas East Renfrewshire and East Dunbartonshire’s Council Tax income would increase by over 10%.

It appears that the additional revenue will not be retained at local authority level. Instead, it will be redistributed to the school’s budget and specifically to schools in deprived areas where a large proportion of children are eligible for free school meals. This implies a redistribution of tax revenue from Scotland’s richer to its poorer local authorities. It also implies a reduction in richer authorities’ incentive to increase Council tax receipts.

There may be a case for increased school funding to close the attainment gap. But local authorities have lost control of fire and police services in recent years. Direct intervention by the Scottish government in education funding would seem to further...
erode local authority policy options. This sits somewhat at odds with the proposals to consult on the allocation of a share of income tax to local authorities. Allocation of a share of income tax to local authorities would be most advantageous to the richer authorities would increase their incentive to stimulate local economic growth.

2. Effects on Household Income

The proposals for changes to Council Tax ratios will reduce the net incomes of richer households more than those of poorer households. This is true even before the application of the changes to CTR outlined in the draft statutory instrument. Estimated percentage reductions in net household income following the proposed changes to Council Tax ratios are shown in Figure 3. Thus, the poorest 10% of households would see their net income reduced by less than 0.02%. And after the proposed change to CTR is introduced, this reduction is likely to be even smaller. On the other hand, the richest 10% of households will see their net income reduced by 0.2%, which is still a relatively modest increase in contribution.

Figure 3: Percent Changes to Net Household Income by Income Decile Following Changes in Council Tax Banding

Source: Stirling University Micro-Simulation Model

It is worth noting that these calculations are carried out for Scotland as a whole. The survey data on which they are based are not disaggregated by local authority within
Scotland. Inevitably, some poorer households are situated within richer local authorities - and vice versa. Poorer households in richer authorities lose out when funds are redistributed to poorer local authorities within Scotland. Conversely, richer households located in poorer authorities gain from this process.

The proposal for changing Council Tax ratios will make the tax system in Scotland more progressive, albeit the changes will be relatively modest.

3. Complexity

The proposed changes to Council Tax ratios will add to the complexity of Council Tax. The Commission on Local Tax Reform argued that taxes should embody:

“Certainty and simplicity: Tax rules should be clear and simple to understand, so that taxpayers know where they stand.”

Whereas changes in the Council Tax ratios are relatively easy to implement, the new reliefs will add to the administrative burden that local authorities face. They are also difficult to understand and explain to members of the public.

4. Inertia in the Tax System

The Commission on Local Tax Reform argued for radical change to the Council Tax.

“Since its introduction in 1993, the design of the Council Tax has remained almost completely unchanged. The most striking consensus from all of the evidence that we received is that this cannot go on, and we have come to agree that local tax now therefore needs substantial reform.”

The current proposals to change the Council Tax ratios are very modest. The long-running inertia in Scotland’s property taxes continues. Its many faults continue. For example, the lack of any revaluation since 1992 mean that householders in different local authorities face similar council tax bills even though the (untaxed) capital gains that they have made from house price inflation differs substantially.

5. Conclusion

The Scottish Government proposals for changes to Council Tax do not significantly address the concerns with Scotland’s local property taxes raised by the Commission on Local Tax Reform. They are somewhat piecemeal and lacking in a holistic view of both the local tax system and local authority funding. The wider policies associated with the change in banding ratios will result in significant transfers from richer to poorer local authorities. Those on higher incomes will contribute a larger share of their income in council tax after the change in ratios is introduced. Hence the policy
can reasonably be described as progressive, though the size of income reduction is relatively small, even for those in the most expensive properties.

However, considering the package as a whole, a more strategic approach would have more clearly established both the responsibilities of local government and its powers to retain locally generated revenues. Hopefully this might emerge if the remit of the forthcoming consultation on local retention of income tax revenues could be extended to take a wider view of locally generated tax revenues.