Local Government and Communities Committee

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

Submission from Professor Richard Kerley

1. I am aware the Local Government and Communities Committee seeks views on two key issues: the extent to which the proposed variation of proportions makes Council Tax [CT] fairer; and to what extent the associated arrangements will be straightforward for councils to operate. I shall also comment on some other issues as I believe these relevant to the context of discussion. My comments are short; I am happy to develop these in questioning or discussion.

2. It is clear that the CT – as an isolated tax – is regressive but I remain in favour of some form of property / land taxation, particularly in light of the long term enthusiasm for property ownership that many households in the UK show. To remove such a major asset stock from taxation entirely would be unwise – and distort expenditure choices.

3. The CLTR whilst arguing for the abolition of the Council Tax [and the end of the ‘freeze’ on CT levels] maintained the need for some form of property tax, buttressed by some form of income tax to try and achieve greater ‘fairness’ [a very problematic concept when assessed in relation to one element of taxes / duties alone].

4. The current government proposals to amend the CT possibly make it less unfair but fail to address a number of key issues.

5. The failure to revalue domestic property values is a serious omission since projections done for the Commission observe a large number – possibly a majority - of properties are incorrectly valued; i.e. in the wrong band. While some people will benefit from the failure to re-value; there will be some who lose. Surely, however, the interests of good government argue for an accurate property census on regular intervals if we are to continue to levy taxes on domestic property.

6. The banding system itself generates unfairness, as its retention will levy CT at the same rate for owners of properties that just lie in Band H as for those whose properties are many times greater than the Band H floor; similar impacts are seen in all bands. I am conscious that the Band H phenomenon covers a very small proportion of properties, generally occupied by high income households [though not in every case] and the proportion varies
widely from council to council. However if you view fairness as a concept and principle, then this should be of concern to the committee. An additional factor – that impacts on the revenues generated – may be the behavioural reactions to such tax changes. The LBTT change and the proposed CT multiplier impact, both introduced over a three year period, may well encourage a growing measure of house improvement /extension as an alternative to house sales and moves; we shall see.

7. The same phenomenon also arises from any extension of bands; if there is banding there will always be property tax inequity within the range of band valuation. That argues for the abolition of banding for any form of domestic property taxation; which in any event is copied by very few countries elsewhere. I favour a form of taxation to be one levied as a percentage of capital valuation. Valuations in real time are of course now more easily obtained than they were in 1991.

8. I am not sure that the Council Tax Reduction Scheme is a mechanism for improving fairness; take-up levels will vary as they do already. This is partly at least through the apparent reluctance of some people to enter into means testing at a household income level that appears greater than many comparable income ceilings where means testing is applied.

9. I am not clear how readily councils will implement the proposed changed CT scheme as a whole, since it is now not clear what shape of scheme councils will be implementing. The original announcement [on Council Tax changes] referred to the additional income generated by band multiplier changes as being allocated directly to schools [not education as a whole] as a means of addressing the attainment gap – i.e. some schools only. Recent announcements by the Deputy First Minister now raise the possibility of some proportion of education budgets being allocated directly to all schools. Whether all of this is wrapped together in one package is not yet clear, therefore the means of implementation is not yet able to be assessed.

10. In overall terms, both such changes [the most recently announced even more so than the multiplier revenue proposal] strengthen a drive to centralisation of public services. I do not consider this desirable or beneficial to society.

Richard Kerley

- Declaration of interest: I live in an Edinburgh Band G property.