Local Government and Communities Committee

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

Supplementary Submission from the Scottish Property Federation

Introduction

1. The Scottish Property Federation (SPF) is a voice for the property industry in Scotland. We include among our members; property investors, developers, landlords of commercial and residential property, and professional property consultants and advisers.

2. We welcome the opportunity to contribute to the call for evidence on the Council Tax (substitution of Proportion) (Scotland) order 2016. We are also happy for the Scottish Parliament to publish our comments and to share our views with other public authorities.

The principles of the government’s plans to reform Council Tax

3. We welcome the proposed Order as a step in the right direction towards council tax reform. However, we feel that this is only a partial reform and that significant improvements remain to be actioned if the tax is to become fairer, more proportionate and more supportive of local authority resourcing. In particular we believe that the banding system might have been improved through adding bands at the higher value end combined with an adjustment to the proportions made in the existing band structure. Indeed, additional bands may have avoided increases in proportions of 22.5% which will occur in Band H.

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

4. The changes to the higher value band proportionate payments will in our view make the system fairer. In our previous submissions to the Commission on Local Tax Reform we argued that the existing system whereby a Band H property will pay a proportion of 18/9s compared to a Band A proportion of 6/9s was simply too narrow a differential – particularly for the modern property market. Clearly the Order reforms this situation and therefore is ‘fairer’. However, we would disagree with the suggestion made by the Commission that a proportion of the highest value bands paying 15 times more than the lowest value band – this seems too great a gap in our opinion for the purposes of the Council Tax.
5. Changes to the proportions of payment made by the respective bands cannot go without comment on the lack of an overall revaluation to reset the tax base of council tax. Taxes based on property values need regular revaluation if they are to remain relevant and avoid systemic unfairness in the distribution of the tax base. The evidence from the Heriot Watt study reported on by SPICe suggests in the event of a modern revaluation some 57% of households are in the wrong valuation band, with slightly more than half of households in a band too low and under half in a band too high. With nearly 60% of households therefore suggested to be in the wrong valuation band we believe this is a situation which cannot be allowed to go on – it would not be tolerated if it were other forms of taxation such as income tax.

To what extent will the changes be straightforward for local authorities to implement?

6. Changes to the proportions should be relatively straightforward because they refer to the same bands that are already in use. A broader question is the level of awareness among the public of the anticipated changes. Once parliament has made its decision there will be a significant communications strategy for the local authorities and the Scottish Government. Otherwise the fear is that significant changes to council tax bill will be pushed out in March with little explanation for council taxpayers who could face changes of an average £517 per year at the band H level.

Do you support the Government’s planned changes to Council Tax reductions?

7. As suggested in paragraph 6 some of the uplifts for individual taxpayers are going to be significant. We welcome the idea of increased support for council taxpayers who may face hardship as a result of this Order, or who may be relatively asset rich yet cash poor. This is not our particular line of expertise but we believe that in the situation of sudden and potentially significant increases in council tax bills due in April 2017, then it is appropriate that an enhanced system of council tax reduction should be established.

Further comments

8. We recognise the comments made by the SAA in relation to the technical difficulties of the revaluation. It could not be done overnight and it would need a 2-3 year lead-up clearly. Nonetheless, the position of basing an important part of the local taxation system on 25- year old assessment of the then residential property market in Scotland is simply unsustainable. The Registers of Scotland data processes over 90,000 (97,000 in 2015) residential property transactions per year covering in 2015 some £16.5bn of value. Using this actual price paid data
over a period of time to scope out a more relevant banding structure that will provide the parameters for a full revaluation offers a strong basis for the assessors to use in the event of a full revaluation. After all, the key principle for the council tax assessments is a 'sale with vacant possession' so up-to-date price paid information will be a critical benchmark. The point is that a full revaluation would be combined with an ability for householders to challenge their new assessments (within a specified period of time).

9. To apply some hard figures to the Heriot Watt data reported by SPICe, if 13% of properties would move two or more bands up or down in the event of a revaluation then if applied to the SAA’s assessed total number of domestic properties in Scotland, this is equivalent to in excess of 330,000 homes across Scotland that are paying either too little or too much council tax according to their existing council tax band. A full revaluation will also have the benefit of updating the assessments where properties have been enhanced which was an issue raised by the assessors in their evidence to the committee.

10. A revaluation based on such out of date assessments will inevitably result in a number of significant changes for the taxpayers concerned. The SPF is not normally a supporter of transitional relief processes but in this instance we believe that a TR system is justified on the grounds of the inevitable increase in taxation for individual council taxpayers who through no fault of their own may be paying council tax on an out of date valuation band. However, we would not support what is known as downwards phasing that is often used by governments to delay the benefits of lower property assessments in order to cushion the increases for others.

11. The SPF would be pleased to explain our comments in further detail at the Committee’s convenience.

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