Local Government and Communities Committee

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

Submission from Scottish Property Tax Reform

Introduction

The Council Tax was introduced in 1993 to replace the highly unpopular Community Charge (Poll Tax). It is a hybrid property tax and service charge. Properties are placed in one of eight bands according to their 1991 value, but single adult households receive a 25% reduction. A means-tested rebate system also operates. The system is widely recognised as being unfair, mainly because cheaper properties are taxed proportionately more than expensive ones.

Previous attempts at reforming or replacing the Council Tax have been unsuccessful. The Local Government Finance Review Committee’s 2006 report recommended the replacement of the Council Tax by a tax based on a percentage value of properties, but was immediately rejected by the then Labour-LibDem Scottish Government. The minority SNP Government elected in 2007 wished to replace the Council Tax with an income tax, but did not have the support in Parliament. Instead it froze the Council Tax, which has been popular, but also cumulatively expensive.

In an attempt to create a consensus towards reforming the system of local tax, the Scottish Government established a cross-party Commission on Local Tax Reform, which was chaired by the then Minister for Local Government and the President of Convention of Scottish Local Authorities (COSLA). All of the parties represented in the 2011-16 Holyrood Parliament, other than the Conservatives, were represented on the Commission. The Conservatives declined to participate and instead established an independent Commission for Competitive and Fair Taxation.

The Commission on Local Tax Reform

The Commission on Local Tax Reform reported in December 2015, proposed that the freeze should cease and concluded that “the present Council Tax system must end.” A new system would likely to depend on more than one tax instrument in order to meet competing objectives of increased autonomy for local government, fairness for taxpayers and efficiency. It recognised that a new system would create winners and losers, and that transitional arrangements would be desirable. Indeed, it suggested that reform might be put forward as an on-going programme, with short-term measures distinguished from a longer-term vision.
The “predominant view” of the Commission was that any reform had to include a recurrent property tax alongside an improved rebate scheme to help people on low and precarious incomes. It considered a land value tax as being “promising”, but recognised that more work would need to be done to understand its impacts. The Commission also favoured extending the local tax base to include income. However, it seems that it is not yet feasible to collect income tax on a local authority basis and as an interim measure a share of receipts from the new Scottish Rate of Income Tax might be assigned to local authorities.

The Commission suggested that whilst “property, land and income are the three potential tax mechanisms that have the revenue raising capacity to match the present system”, other taxes (e.g. environmental, sales or tourist taxes) could be made available to local authorities. The Commission accepted that the political parties would attach different emphases to the approaches that it identified as being feasible, but “[t]here is now a real prospect of beginning a programme to make local taxation fairer…”

The Scottish Government’s proposals

The Scottish Government proposes to retain the Council Tax and continue to assess it on the basis of 1991 property values. However, it intends to reform it by increasing the so-called “band multipliers” on properties in the top four bands (representing roughly the top quarter of property values).

Table 1 The Council Tax and the Scottish Government’s proposed reforms

<table>
<thead>
<tr>
<th>Band</th>
<th>% dwellings</th>
<th>all Value Range (1991 values)</th>
<th>Percentage of D (current system)</th>
<th>Percentage of D (proposed system)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>21</td>
<td>Up to £27,000</td>
<td>67</td>
<td>67</td>
</tr>
<tr>
<td>B</td>
<td>24</td>
<td>£27,001-35,000</td>
<td>78</td>
<td>78</td>
</tr>
<tr>
<td>C</td>
<td>16</td>
<td>£35,001-45,000</td>
<td>89</td>
<td>89</td>
</tr>
<tr>
<td>D</td>
<td>13</td>
<td>£45,001-58,000</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>E</td>
<td>13</td>
<td>£58,001-80,000</td>
<td>122</td>
<td>131</td>
</tr>
<tr>
<td>F</td>
<td>7</td>
<td>£80,001-106,000</td>
<td>144</td>
<td>163</td>
</tr>
<tr>
<td>G</td>
<td>5</td>
<td>£106,001-212,000</td>
<td>167</td>
<td>196</td>
</tr>
<tr>
<td>H</td>
<td>1</td>
<td>£212,001 or more</td>
<td>200</td>
<td>245</td>
</tr>
</tbody>
</table>

Source: SPTR Briefing No. 3; Scottish Government
Whilst 26% of properties across Scotland as a whole would be taxed more heavily, the proportion varies greatly between local authorities. For example only 10% of properties in Eilean Siar, 15% in Dundee and 16% in Glasgow and are in the top four bands. In contrast 56% of properties in East Renfrewshire and 54% in East Dunbartonshire are in the top four bands. The proportions for Aberdeen and Edinburgh are 42% and 38% respectively (SPTR calculations based on Scottish Government statistics: Number of chargeable dwellings at September 2015).

On average, the Scottish Government estimates that bills would rise by £105 per year for properties in Band E, £207 for Band F, £335 for Band G and £517 for Band H. It would increase revenue by £100 million per year, and is intended to be directed towards school education. However, in an attempt to address the problem of people on low incomes living in more expensive houses, the proposal includes some exemptions. People living in Band E-H properties would be able to claim exemption from the increases if their net income is below £25,000 and below the median for their household type. The Scottish Government estimates that 54,000 households would be protected in this way.

The Scottish Government intends to use (hypothecate) the expected £100 million of additional revenue resulting from these changes to fund school education in order to help to close the “attainment gap”.

The proposal also includes an amendment to the current Council Tax reduction scheme (i.e. means-tested rebate). By increasing the child allowance within the scheme by 25%, the Scottish Government estimates that 77,000 households (containing almost 140,000 children) would benefit by an average of £173 per year. The Government proposes to end the Council Tax freeze in 2017/18, and thereafter to allow local authorities to increase the tax by a maximum of 3% per year. The Scottish Government estimates that this would raise an additional £70 million a year. The Government also intends to consult local authorities about assigning a fixed proportion of income tax receipts based on a needs-based formula to local authorities. The Scottish Government estimates that if one-quarter of income tax receipts were allocated in this way, then the size of the Government grant would be reduced to 25%. However, local authorities would have no direct control over assigned taxes, although there might be some interaction with the grant allocation.

Other reforms proposed include: permitting local authorities to remove the Council Tax discount on second homes and a consultation on enabling councils to levy a tax on vacant and derelict land in order to encourage its conversion into housing.

Responses to Questions

*Overall do you support the principles of the Government’s plans to reform Council Tax?*
Overall, the principles underpinning the reforms suggest that a tax based on the value of properties should form the key part of the local government tax base; that the tax liability should better reflect the value of each property; and that low income households should receive assistance in meeting their bills. These principles are supportable.

The suggestion that Government should limit local authorities’ right to set their own tax rate is more questionable, in terms of local democracy.

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

The proposal contains four key elements:

Changing the band multipliers The plan to increase the amount paid by households living in properties in the top four bands in relation to Band D properties is a welcome step in the right direction. This proposal will make the system of taxation more progressive (and thus fairer) in relation to the base (i.e. property values). Altering the band multipliers is also a much more effective way to make the system more progressive than by adding additional bands (as is sometimes proposed). This is because so few properties are in the existing top band, so would have little effect. However, on the criterion of progressivity in relation to the tax base, the system will remain regressive even after the reform: more expensive properties are taxed less heavily in relation to their value than more modest ones, and this is not fair. We would therefore hope that the proposal represents a first step in relating tax liability more closely to property values.

Revaluation The failure to propose a revaluation of the tax base is a substantial omission from the package. Households will be taxed on property values that, by the end of this Parliament, will be almost three decades out of date. The Commission established that a majority of properties would be moved to different bands if a revaluation were to be undertaken. This greatly undermines the key principles that underpin the Council Tax system, namely that households’ tax liability should reflect the relative value of their property (within bands), and the Government grant awarded to local authorities should reflect the value of the tax base. It is difficult to see how the system can be judged to be fair without a revaluation.

Protection for people with below median incomes The relationship between tax liability being related to property values and to the “ability to pay” (out of current income) has been a recognised tension within the system at least since the 1960s (when Rate Rebates were introduced). However, the proposal to protect people on below median incomes who live in more expensive properties from rises arising from the changes to band multipliers cannot be justified as anything more than a
transitional measure. Assistance that goes half way up the income distribution and is estimated to include 54,000 households is “targeted” only in the loosest sense.

**Additional means-tested assistance for families with children** The proposal to increase the child premium is a far more clearly targeted and progressive measure.

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

We would not anticipate difficulties in changing band multipliers, although time may be short.

The implementation of the child premium should also be straightforward, although it will have the effect of increasing eligibility at the margins.

The decision to protect people on below median equivalised incomes from increases arising from changes in the band multipliers will be less easy to implement. It might be queried whether the existing reduction system is the most appropriate mechanism to protect this group.

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

Please refer to the comments given above.

**Please add any other comments on any aspect of the proposed reforms**

As the Background section to this paper makes clear: reforming local taxation is very problematic. The reforms as a whole make for a fairer system, and it is pleasing that the unsustainable Council Tax freeze has been ended (albeit within centrally set limits). However, the system remains flawed even within its own terms, notably because there is to be no revaluation. We see a revaluation, followed by regular and automatic repetitions, as being a precondition for a fair system of property taxation. After such a long wait, an immediate change would of course produce many losers, and a transition scheme would be fully justified.

Two attempts at reforming or replacing the Council Tax have now occurred within the past decade without producing a fully satisfactory solution. The “independent expert” approach represented by the Burt review failed to gain much political support. The current reforms arose following a cross (but not all) party Commission, which ultimately sketched only the broadest outline of a new system, and has left even the participating parties in disagreement over these proposals. It may be that other approaches aimed at building consensus are required before a durable solution is found.
About Scottish Property Tax Reform

Scottish Property Tax Reform (SPTR) is a network of interested individuals and organisations who believe that a well-designed system of property taxation can and should play an important role in public finance, the economy and a fair society. Members of SPTR submitted written evidence and gave oral evidence to the Commission on Local Tax Reform.

SPTR has also produced a series of six briefings on local and property taxation, which are available on our website: www.scottishpropertytaxreform.org

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