

# **COUNCIL TAX ABOLITION AND SERVICE TAX INTRODUCTION (SCOTLAND) BILL**

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## **POLICY MEMORANDUM**

### **INTRODUCTION**

1. This document relates to the Council Tax Abolition and Service Tax Introduction (Scotland) Bill introduced in the Scottish Parliament on 11 November 2004. It has been prepared by Tommy Sheridan MSP, the member in charge of the bill with the assistance of Patrick McGuire of Thomsons Solicitors, Glasgow, Gordon Morgan, former SSP Parliamentary researcher, and Felicity Garvie, the member's personal assistant. The contents are entirely the responsibility of the Member and have not been endorsed by the Parliament. A Financial Memorandum (and Presiding Officer's statement on legislative competence) are published separately as SP Bill 31-FM.

### **POLICY OBJECTIVES OF THE BILL**

2. The primary objective of the Bill is to effect a significant redistribution of income in favour of low income citizens and families across Scotland thus reducing poverty through the replacement of the current council tax with a personal income based alternative applied in a progressive fashion to various levels of income.

3. The Bill establishes who is liable to pay, how their liability is calculated and how the revenue generated should be distributed among Scotland's 32 local authorities to pay for local jobs and services.

4. The Bill introduces a new tax to pay for local services called the Scottish Service Tax. The marginal rates of this new tax will be applied to various income levels as proscribed. A built-in exemption from payment for any individual whose income is less than £10,000 per annum is included.

5. The member in charge believes any citizen living on less than a minimum wage level of income (£10,088 p.a. based on a 40-hour week on a minimum wage) should be exempt from this new tax as they are already living on low income.

6. The Bill would effect a significant redistribution of income across Scotland from those on an above average income to those on below average incomes. The biggest beneficiaries will be pensioners and workers on low pay, while the biggest losers will be those on personal incomes

above £40,000 a year, less than 10% of the taxpaying population and less than 5% of the overall population of Scotland.

7. The Bill establishes the principle of “ability to pay” at the heart of the scheme to replace council tax. With 80% of the Scottish population paying less than is currently the case under council tax, a significant increase in consumer spending across the Scottish economy can be expected. This increased economic activity will benefit small businesses and the Scottish economy as a whole. The replacement of council tax with the new Scottish Service Tax will improve the disposable incomes of millions of Scots, particularly pensioners and low paid workers.

8. Although beyond the remit of the Bill, the member in charge supports the return of the right for local authorities to set and retain their business rates in full to compensate for the loss of financial autonomy over council tax setting and retention.

9. The Bill will be a significant tool in tackling income poverty and promoting a fundamentally fairer Scotland. The member in charge highlights that the surplus generated from Scottish Service Tax compared to council tax could also allow domestic water and sewerage charges to be reduced to zero, thus further contributing to higher disposable incomes among Scotland’s citizens as a whole, but particularly the poorest.

10. Based on the most up to date figures for comparison the Scottish Service Tax yield in 2001-02 would have generated £505 million more across Scotland than the council tax did in that year. That is a significant amount of extra revenue and given the increase in incomes each year, there is every reason to believe the amount of extra revenue would be higher each year compared to council tax.

11. The current council tax system was introduced by the Conservative Government of John Major in 1993 as a direct policy response to the deeply unpopular poll tax (community charge) system. It attempted to mix an element of individual tax with a property basis through single person discounts. The differential in rates between the lowest and highest bills were pegged at 3-1, however and the effect was deeply regressive in nature. Those on low and fixed incomes have to pay significantly higher proportions of their income on council tax bills than the wealthiest members of society, even after means-tested rebates are considered.

12. Council tax bills have risen much higher than inflation across Scotland over the last ten years and many pensioner households and lower income families struggle to pay their annual bills. When combined with even more rapidly increasing water and sewerage bills hundreds of thousands of Scots find themselves in debt through lack of disposable income.

13. The new Scottish Service Tax is not a pure local income tax as it is not set locally and although it could be collected locally, just like business rates, the new tax would generate more savings and extra revenue if collection is contracted out to Inland Revenue as originally intended. It is dedicated, however to pay for local authority services and related jobs as a requirement of the Scotland Act. Unlike local income tax schemes the set-up costs and problems of fiscal flight (as identified by the Layfield Committee of 1976) are insignificant as the necessary coding exercise to identify tax payers domiciled in Scotland has already been carried

out by Inland Revenue, and avoidance of Scottish Service Tax would involve leaving Scotland rather than shifting between local authority areas to seek lower local income tax rates.

14. The financial autonomy lost to local authorities through the introduction of this Bill would be fully compensated for by the ability of councils to fully set and retain their non-domestic rates rather than just collect them as is the case currently. Any reconfiguration of overall Grant-Aided Expenditure to ensure no local authority is a loser in income terms would be conducted via negotiation with the Convention of Scottish Local Authorities (COSLA) and the Scottish Trades Union Council (STUC) and take need and deprivation into account. Assuming a return to local control of business rates accompanies the introduction of the SST, the larger city authorities and particularly Glasgow, would receive a significant boost in income while citizens across Scotland would also benefit considerably through a rise in disposable incomes.

### **Other means of achieving policy objectives**

15. Under the severe financial restrictions imposed by the Scotland Act, measures to seriously tackle poverty and increase the disposable incomes of Scotland's poorest citizens are very difficult to introduce but the Scottish Service Tax not only attacks poverty directly, it also generates significantly more revenue to spend on local government jobs and services or even to zero rate domestic water and sewerage bills as they qualify as local government expenditure. No other anti-poverty measure is so radical or far-reaching. Hence the SST is the best way to attack poverty and improve disposable incomes of lower income citizens across Scotland while also increasing resources for local government services and staying within the limited confines of the Scotland Act.

### **A Brief Overview of the Council Tax**

16. The Council Tax was introduced in April 1993<sup>1</sup>, by the Conservative Government, as a replacement for the Community Charge (Poll Tax).

17. Unlike the Poll Tax which was a personal charge, the Council Tax is a property tax levied on domestic property. There is only one bill issued per household and there is a system of discounts, exemptions and rebates.

18. In this framework, the Council Tax is more akin to the former Rates system<sup>2</sup> than the Poll Tax. However, whereas the Rates system was based on the rental value of the property, Council Tax is based on the notional sale value of the property.

### *Council Tax Bands*

19. When the Council Tax was introduced, properties were placed in one of 8 bands based on their value as at April 1991. The Council Tax bands are coded with the letters A to H. A property is allocated to a band in accordance with its value (Table 1).

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<sup>1</sup> Local Government Finance Act 1992 is the primary Legislation. Local Government, including local government taxation, is a devolved matter. The Scottish Parliament has altered secondary legislation relating to Council Tax.

<sup>2</sup> The Poll Tax was introduced in Scotland in 1989 and in England and Wales in 1990. It replaced the Rates system which had operated in various forms since the beginning of modern local government.

**Table 1: Council Tax Bills related to Property Bands**

<b>Range of values for Scotland (at 1 April 1991)</b>	<b>Band</b>	<b>Proportion of Band D Bill</b>	<b>Proportion of Band A Bill</b>
Up to £27,000	A	2/3	1
Over £27,000 and up to £35,000	B	7/9	7/6
Over £35,000 and up to £45,000	C	8/9	4/3
Over £45,000 and up to £58,000	D	1	3/2
Over £58,000 and up to £80,000	E	11/9	11/6
Over £80,000 and up to £106,000	F	13/9	13/6
Over £106,000 and up to £212,000	G	5/3	2.5
Over £212,000	H	2	3

20. For each local authority, the council tax varies between the different bands according to proportions laid down by law.

21. Table 1 shows the proportions. The bill for a dwelling in band A will be two thirds of the size of one in band D and one third of the bill for a dwelling in band H. Thus the bill associated with the least valuable property is only a third that of a multi million pound mansion.

22. There has been **no re-valuation** of properties since the introduction of the Council Tax, so the rapid changes in property values which have occurred in recent years have not resulted in changes in the band properties are in. New build houses are placed in bands based on what their value would have been in 1991.

### **Council Tax and the Scottish Parliament**

23. The Scotland Act 1998 explicitly gives the Scottish Parliament power to introduce changes to local government taxation. This is worded as an exception to the general reservation of fiscal policy.

“Local taxes to fund local authority expenditure (for example council tax and non domestic rates).”<sup>3</sup>

24. The Scottish Parliament therefore has the power to introduce new legislation which would in effect amend those sections of the Local Government Finance Act 1992 which relate to payment and collection of Council Tax in Scotland and introduce new legislation to replace the Council Tax with a new local tax to fund local authority expenditure.

25. The member in charge would prefer the new Scottish Service Tax to be set nationally AND collected nationally to maximise efficiency savings and generate as much extra revenue as possible for local jobs and services. So although the Bill confers responsibility on local

<sup>3</sup> Scotland Act 1998 Part II Specific Reservations, Head A1 Fiscal, economic and monetary policy

authorities to collect the new tax, it also allows and expects local authorities to contract collection duties to the Inland Revenue.

26. Council Tax Benefit rules were also laid down in the Local Government Finance Act 1992.

### **Council Tax Charges**

27. The average Council Tax per Scottish dwelling in 2004/05 is **£886**. This figure varies significantly by Local Authority with the lowest average charge of £646 raised by Eilean Siar and the highest of £1,118 by East Dunbartonshire.<sup>4</sup> The 2<sup>nd</sup> lowest average charge is Orkney on £713, then Shetland on £720. The lowest mainland average is Falkirk on £756. Four Councils have an average over £1,000.

28. Local Authority charges are commonly compared by looking at the amount charged for a Band D property. The lowest rate is Eilean Siar on £911 and the highest Glasgow City on £1,185. Only 8 Scottish Authorities charge less than £1,000 for a Band D property. **The average across Scotland is £1,053.**

29. The Band D average for Scotland in 1996/97 was £708 as compared to £1,053 now, an increase of 48.7%. Over the same period inflation was 20.8%.<sup>5</sup> **Council Tax has risen by more than 2 times the inflation rate since Local Government reorganisation.**

30. There is some evidence of convergence of Council Tax rates since reorganisation. In 1996/97 the lowest charge for a Band D was Shetland council on £443 and the highest Edinburgh and West Dunbartonshire on £812, 83% higher than the lowest. In 2004/05 the highest, Glasgow City, is 30% above the lowest. Some convergence is also seen if the average Council Tax per dwelling is compared. In 1996/97 the lowest average charge was Shetland at £343, the highest Edinburgh at £752, 119% higher. In 2004/05 the highest is 73% above the lowest.

### **Collection of Council Tax and Council Tax Arrears**

31. Allied to their difficulty in processing claims, councils have difficulty collecting Council Tax. The Accounts Commission noted that social deprivation and population density have an effect on collection rates and that these factors were largely outside councils' control. Other factors such as the accuracy of records and speed of recovery action are in councils' control.

32. Councils collected 91.5% of the Council Tax due in 2002/03 before the year end. (£1,380 million out of £1,510 million).

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<sup>4</sup> Figures from Scottish Executive web site. Note that all figures exclude water charges.

<sup>5</sup> December 2003 index 183.5, December 1995 index 150.7. Source <http://www.moneyextra.com/glossary/gl00969.htm>

33. Councils attempt to recover outstanding Council Tax from previous years, however, the amount of outstanding cumulative debt continues to rise. At 31st March 2003, **the cumulative arrears of Council Tax since 1996/97 came to £555 million.**

34. The amount still outstanding<sup>6</sup> from 1996/97 represented 5% of that year; from 1997/98 5.2%; 1998/99 5.3%; 1999/00 5.6%; 2000/01 6.3%; 2001/02 6.8%; 2002/03 8.5%.

35. Given the diminishing collection from earlier years, it is reasonable to conclude that **around 5% of Council Tax from any given year will never be collected.**

36. Councils have been encouraged by the audit commission (Council tax collection, Feb 1998) to increase their collection rate and many have put the collection in the hands of professional debt collectors. This form of debt recovery is more expensive than normal methods and councils generally operate on a commission basis with agencies so as to avoid the cost of collection exceeding debt recovered.

37. The gradual improvement of collection in the year of bill and the recovery of outstanding arrears has increased the overall amount collected above the trend line of 95% to around 95.5%.

### **The Effect of Council Tax on Poor Households**

38. A Scottish Executive report<sup>7</sup> in 1999 noted that, in one sample authority, around 10% of households on full Council Tax Benefit and 16.3% of households on partial Council Tax Benefit, were in arrears with water charges.

39. The requirement on local authorities to collect water charges and the fact that water charges were not eligible for 100% rebate increases the percentage of households deemed to be in arrears.

40. A joint study by Scottish Homes and the Accounts Commission<sup>8</sup> highlighted that “many tenants in arrears with their rent are also in arrears with their Council Tax.”

41. Shelter Scotland<sup>9</sup> notes that there were 28,792 eviction actions by local authorities between April 2001 and March 2002. A total of 3,077 tenants were evicted from council housing. The reasons for these is not fully analysed in the available statistics, however, many will be associated with debt.

42. Council Tax (ignoring benefits and discounts) accounted for 8.4% of the gross income of the poorest 20% of Scottish households in 2001/02.<sup>10</sup> These households were ones which had a disposable income (after tax) of less than £9,846. Many of these households do not claim or are

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<sup>6</sup> Scottish Local Government Financial statistics 2001/02. (SLGFS 2001/02)

<sup>7</sup> Council Tax collection Arrangements in Scotland and England and Wales. Published 1999

<sup>8</sup> Managing rent arrears getting the balance right – June 2000

<sup>9</sup> Evictions by Local Authorities in Scotland – a joint paper from shelter Scotland and the Legal services Agency 2003

<sup>10</sup> Hansard 10<sup>th</sup> June 2003 written answer to Matthew Taylor

ineligible for Council Tax Benefits and this will represent the amount of disposable income they pay on average. Once discounts and benefits are taken into account, Council Tax still represented on average 5% of gross income for this 20%. Given that 24% of households were on Council Tax Benefit and around 16% were on 100% benefit in 2001/02, 76% were not on any Benefit. It is clear that there are many households who pay or at least are billed to pay 10% or more of their gross income. The percentage of their disposable income will be far higher.

43. The 20% of Scottish households with the highest disposable income pay on average only 2.1% of their gross income in Council Tax. This is both a gross and net Council Tax figure as this sector is not eligible for Council Tax Benefit having a disposable household income over £26,409. It should be noted that a household with disposable income of £26,409 will have a gross income of around £40,000. (the band D average was £929 in 2001/02 and band E £1135). Even at that level of income, Council Tax counts for 2.3% of gross income in a band D household and 2.8% of gross income in a Band E house. The average of 2.1% reflects a gross income of £54,037 in a Band D house. Many households in this group will have much higher gross incomes.

44. Council Tax clearly has a much greater impact on poorer households who either are not eligible for or do not claim Council Tax Benefit. It also particularly affects those on partial Council Tax Benefit who are charged 20p extra in Council Tax for every extra £1 income they earn after tax. Removal of other benefits may also be triggered, so that families on partial benefit may face an effective removal of benefits rate of 85p in the £1 on new after tax earnings - a poverty trap exacerbated by Council Tax rules.

45. All working age families on partial benefits will be caught in this poverty trap. In Scotland this amounts to 71,000 households. **So Council Tax Benefit is removed at 20p in the pound and other benefits at an additional 65p in the pound after tax from 70,000 working Scottish Households.**<sup>11</sup>

46. A further 107,000 pensioner households are on partial Council Tax Benefit. Almost all of these will be in receipt of other benefits. According to the Westminster government<sup>12</sup> 8% of pensioners on pension credit will lose benefits at 91p in the pound if they increase their earnings from a part time job. Others on pension credit and on partial Council Tax Benefit will lose benefit at the rate of 60p in the pound. **Around 100,000 pensioners are discouraged from taking on part time work because they would lose benefit at the rate of 60p in every pound they earned after tax. Loss of Council Tax Benefit represents 20p in the pound of that.**

47. Fear of getting into Council Tax arrears was the 2<sup>nd</sup> most common worry amongst poor households in a 2003 survey<sup>13</sup>. It is clearly a major contributory factor in the continuing debt problems of poorer households.

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<sup>11</sup> The March 2004 budget altered thresholds but not tapers. Numbers are based on August 2003 figures which may be marginally reduced by the budget.

<sup>12</sup> Hansard 24<sup>th</sup> January 2002 Baroness Hollis see section 2.

<sup>13</sup> Financial services company CPP May 2003. 21% of survey of 2000 feared Council Tax debt.

## **Cost of Collection**

48. The cost of collection of Council Tax per dwelling<sup>14</sup> in 2002/03 averaged £13.53<sup>15</sup> across Scotland. There were 2,265,822 properties on the Valuation List on 1<sup>st</sup> September 2003<sup>16</sup>. This gives a cost collection of £30.7 million for 2002/03..

49. The total cost of collecting Council Tax and processing Council Benefit claims for 2002/03 is not readily available. However the total cost in 2001/02 was £68.5 million.<sup>17</sup> **This represents 5% of the £1,363.4 million collected.** The Council Tax therefore has a collection rate of 5p in the £.

50. The Inland Revenue reports the cost of collection of Income Tax to be 1.41p in the £.<sup>18</sup> **Thus Council Tax costs 3.5 times more to collect than Income Tax for every pound collected.**

## **Council Tax in Practice – Key Facts**

51. Scottish Councils will collect around £1,596 million in Council Tax in 2004/05 and receive in addition around £333 million in Council Tax Benefit grants from the Department of Works and Pensions (DWP).

52. Council Tax is around 4% of all Government Revenue from Scotland. Income Tax represents 24% of revenue.<sup>19</sup>

53. Council Tax represents 11% of all Local Government revenue and 14.8% of tax related revenue, 17.9% if Council Tax Benefits are added.

54. The average Band D charge is now £1,053 and the average charge per household is £886. Only 8 Councils have a Band D charge below £1,000.

55. Since reorganisation Council Tax has risen 48.7% in Scotland and inflation by 20.8%. Council Tax on average is rising over 2 times the inflation rate.

56. In August 2003, there were 523,900 Scottish Households receiving Council Tax Benefits, 24% of all households. Of these, 178,300 low waged households, including 107,000 pensioner households, still had to pay some Council Tax.

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<sup>14</sup> According to the Accounts Commission this indicator used to refer to “chargeable dwellings” but was changed in 2002/03. It advises that direct comparisons with previous years are not applicable.

<sup>15</sup> This figure includes the net cost (profit or loss) of collecting water and sewerage charges on behalf of Scottish Water. These charges are reimbursed to local authorities and the overall Scottish figure will be a very small amount which is ignored.

<sup>16</sup> The figure for the number of dwellings is taken from the Scottish Executive number of properties on the Valuation Roll. It states these are chargeable dwellings. The statistical bulletin states there were 2,358,415 dwellings. Using this gives a cost of collection of £31.9 million.

<sup>17</sup> SLGFS 2001/02.

<sup>18</sup> Inland Revenue Annual Report 2002/03 – Appendix 2 Table 1.

<sup>19</sup> 2000/01 figures from Scottish Economic statistics 2003.

57. The number of recipients of Council Tax Benefit in Scotland fell by 12% between 1998 and 2003, at least in part due to more complex claims forms. Elderly persons with £16,000 in savings are ineligible for Council Tax Benefits.
58. Glasgow has the highest take-up of benefit with 40% of households receiving Council Tax Benefit. The lowest take-up is 13% in some councils.
59. The DWP estimate that between 28% and 34% of those households which are entitled to Council Tax Benefit are not claiming Council Tax Benefit. In Scotland this amounts to between 204,000 and 270,000 households, including between 154,000 and 198,000 pensioner households. Between 9% and 11.9% of all households are entitled to Council Tax Benefit but do not claim.
60. The average amount of unclaimed benefit is £8.50 a week, amounting to between £90 million and £120 million in unclaimed Council Tax Benefit each year in Scotland.
61. Processing new claims takes councils on average 49 days, 111 days in North Ayrshire. Delays resulting in refusal or only partial benefit cause unexpected high bills for low waged claimants. The cost of processing claims is rising far faster than inflation.
62. The cost of collecting Council Tax and processing Council Tax Benefit claims was £68.5 million in 2001/02, 5% of the amount collected. This is 3.5 times the cost of Income Tax which only costs 1.41% of the amount collected.
63. The amount of unpaid Council Tax which has arisen since reorganisation was £555 million at March 2003. In any given year, 5% of the amount of Council Tax billed will never be collected.
64. There is a strong association between arrears of rent, arrears of water charges and arrears of Council Tax. This particularly affects 71,000 working age families on partial benefit who are charged 20p in Council Tax for every extra £1 income earned. These families also lose 65p in every pound after tax they earn in housing benefit. Councils raised 28,792 eviction actions in 2001/02, many of these eviction actions were debt related. Fear of Council Tax debt is the second highest fear amongst poor families.
65. Around 107,000 pensioner families on partial benefit also lose 20p in every pound if they increase their earnings. They may also lose a further 40p in the pound pension credit or in other circumstances lose benefits at the total rate of 91p in every pound.
66. Council Tax in 2001/02 (before benefits etc) represents 8.4% of the gross income of the poorest 20% of households (disposable income less than £9,846) and 5% of the gross income after benefits are paid. Many of these households were not entitled to Council Tax Benefit or did not claim it and were billed for over 10% of their gross salary.

## **BACKGROUND TO ABOLITION OF COUNCIL TAX (SCOTLAND) AND INTRODUCTION OF SCOTTISH SERVICE TAX BILL**

### **The Council Tax is an Unfair Tax**

67. The Council Tax was seen by many as fairer than the Community Charge or Poll Tax when it was introduced in April 1993, however, the defects of the tax have become clearer as time has passed.

68. These defects are described previously in some detail, but in summary are:

#### *General*

69. The tax is not based on your ability to pay, but rather the property you live in

70. Within a local authority area the amount paid by the occupants of the most expensive property is only 3 times that for the cheapest property

71. There has been no revaluation of properties or adjustment of property bands since 1993. All properties are based on their notional 1991 values. Significant anomalies exist due to recent property price rises.

72. Vacant properties and second homes receive a 50% discount thus encouraging second home ownership particularly outside cities and removing houses for local workers and tax from rural councils.

#### *Council Tax Benefit*

73. Council Tax Benefits are available for households on low income and low savings, but they must be applied for and are means tested.

74. Those who are on low wages but are granted partial Council Tax Benefit, lose 20p in every £1 of that benefit whenever they increase their earnings until they pay the full Council Tax.

75. For some families, the loss of other benefits, mean they lose 85p out of every extra £1 earned. Council Tax acts as an added disincentive to low waged workers to seek higher wages or increase their working hours and contributes to the poverty trap. There are around 70,000 claimants in Scotland of working age on partial Council Tax Benefit.

76. Council Tax Benefit takes modest savings into account. Persons with £16,000 savings are ineligible to claim and savings of over £3,000 may reduce entitlement. This particularly affects pensioners who may have savings but little pension.

77. There are 107,000 pensioner households on partial Council Tax benefit. Should their income increase from part time work, they will lose Council Tax benefit at the rate of 20p in the

pound. These families will also lose other benefits. Depending on their circumstances they could lose a further 40p or even 71p in every pound after tax. This effectively prevents them taking on such work.

*Not claiming benefit although entitled*

78. Council Tax Benefit claim forms and benefit rules have become more complex. The number of claimants in Scotland fell 12% between 1998 and 2003. The Department of Works and Pensions estimates between 28% and 34% of eligible households do not claim Council Tax Benefit.

79. In Scotland between 154,000 and 198,000 pensioners are eligible for Council Tax Benefit but do not claim it. A further 50,000 to 90,000 households of working age are entitled to benefit but do not claim. Between £90 million and £120 million of Council Tax Benefit is unclaimed each year.

*Administration of Council Tax*

80. Council Tax Benefit is expensive to administer and arrears are difficult to collect. Around £555 million of Council Tax billed since 1996 is uncollected. Around 5% of each year's bills will go uncollected. A further 5% of the amount collected goes in Council Tax Benefit and collecting costs. These costs are rising far faster than inflation.

81. Council Tax costs 3.5 times as much to collect as Income Tax.

82. Processing of Council Tax Benefit claims takes on average of 49 days and can take 111 days in some authorities. If a claim is rejected or only partial benefit is granted, a low paid household can face an unexpectedly high bill. This gives rise to debt.

*Council Tax and Poor Families*

83. Arrears of Council Tax are closely associated with arrears of rent and arrears of water charges and with low income. There were 28,792 eviction actions by local authorities in 2001/02 many associated with debt.

84. Council Tax before discounts and benefits accounts for 8.4% of the gross income of the lowest 20% of households (5% after discounts). Many households are billed for 10% of their gross income.

85. For the highest paid 20% Council Tax is only 2.1% of gross income on average and much lower for many.

86. A survey indicated that fear of Council Tax debt is widespread amongst poor families.

### *Summary*

87. The Council Tax disproportionately affects those who have little ability to pay; it has complex rules which discourage poor people from claiming benefit; it is costly to administer and inefficient in its collection; it charges poor families a higher proportion of income than rich families; it contributes to the poverty trap. **It is an unfair tax.**

### **Previous attempts to Abolish the Council Tax**

88. Since the Scottish Parliament was re-established, Tommy Sheridan MSP has proposed a motion on five separate occasions to abolish the Council Tax and replace it with “a Scottish Service Tax” and to consider the practicality of introducing a new Land Value Tax as well. In the first session, he was not able to secure the required eleven signatures to propose a Member’s Bill.<sup>20</sup>

89. This proposal was based on a research report by Professor Mike Danson and Geoff Whittam at the University of Paisley.<sup>21</sup>

90. It argued that the current system of local government finance is unable to deliver service improvements in such a way that is effective, efficient and equitable<sup>22</sup>

91. The report also argued that the Council Tax is a regressive tax which should be replaced with a more progressive form of taxation linked to an individual’s ability to pay.

92. It then set out the case for a new system of taxation which would “assist the growth of the economy; be a progressive tax; assist in the reduction of poverty.

93. Although the Scottish Parliament did not support the motions they were debated in the Parliament on 30<sup>th</sup> March 2000, on 8<sup>th</sup> February 2001, on 24<sup>th</sup> January 2002, on 30<sup>th</sup> January 2003 and on 11<sup>th</sup> March 2004. [there are five dates mentioned here but earlier you say there were four motions. I don’t understand this.]

## **INVESTIGATIONS, REPORTS AND OPINION**

### **Scottish Reports and Commissions**

94. The Commission on Local Government and the Scottish Parliament (McIntosh Commission)<sup>23</sup> in 1999 noted:

“that an independent enquiry into local government finance should be instituted immediately”.

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<sup>20</sup> See Scottish Parliament spice briefings 00/25 and 02/07

<sup>21</sup> Danson, M & Whittam G *Time for Redistribution of Income: The Case for a Scottish Service Tax February 2000*

<sup>22</sup> *ibid* page 2

<sup>23</sup> Moving forward Local Government and the Scottish Parliament, June 1999 HMSO

95. This call was rejected at that time by the Scottish Executive. Despite this, in 2000 the Scottish Parliament's Local Government Committee backed the call for an independent review of local Government Finance.<sup>24</sup>

96. The Local Government Committee itself then embarked into a review of the strengths and weaknesses of the current system of local government finance in Scotland.

### **Local Government Committee investigations and report**

97. The Local Government Committee (LGC) decided in June 2000 to hold an inquiry into local government finance. Amongst the topics it considered were: the balance between the central and local funding of council's revenue budgets; the Council Tax; other sources of local tax income.

98. It sought witnesses and deliberated then reported on 20<sup>th</sup> March 2002.<sup>25</sup>

99. The LGC's conclusions on local finance were that the present high level of central funding blurs local accountability. It considered changes to Local Government responsibilities e.g. transferring financial responsibility for Education and social work expenditure to the Executive, however, it rejected such changes.

100. The LGC also noted that a 1% increase in local spending results in 5% increase in Council Tax and for councils with a low Council Tax base an even higher increase in Council Tax would result.

101. The LGC took the view that the Council Tax was "sound", but that "if it were to remain so properties need to be revalued on a regular basis".

The LGC recommended that period should be every 10 years.

102. The LGC also recommended that the revaluation should be accompanied by a review of banding arrangements.

"New bands should be added at both the upper and lower ends of the existing valuation range, and the Council Tax should be made more progressive by changing the relationship between the bands".

It also recommended that Council Tax should be charged in full on second homes.

103. The LGC proposed (unspecified) transitional arrangements to smooth the introduction of the changes and also the retention of the Council Tax Benefit Scheme.<sup>26</sup>

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<sup>24</sup> Local Government Committee Third Report, *Issues arising from the McInosh report 2000*

<sup>25</sup> Local Government Committee Sixth Report 2002 – Report on inquiry into Local Government Finance.

<sup>26</sup> Ibid Volume 1 Summary of Conclusions and recommendations para (x)

104. The LGC also concluded that local government could not adequately fund itself by Council Tax alone, but must be given an additional source of taxation. They recommended the return of Non-Domestic Rates to local authority control.

105. The Executive chose not to present proposals for the reform of local government following the LGC report, but has indicated that following consultation with COSLA, it will set up an independent review into local government finance.<sup>27</sup>

### **Evidence presented to the LGC**

106. Cipfa<sup>28</sup> in its evidence on Council Tax, pointed out that any revaluation would inevitably need to be accompanied by a revision of bands otherwise a wide range of properties would fall into a single band.

107. Glasgow Council noted that around 75% of its houses were in the lower bands and less than 0.5 per cent were in the top band. If revaluation took place,

“prices will have risen by 20 per cent above average in Edinburgh, for example. In Glasgow, the value of houses will have risen by 20 per cent below average”

108. Research was commissioned by the committee from Heriot-Watt University. This concluded that there had been an increased diversity in house prices between councils since 1991.

109. If a revaluation were carried out, this would require a major redistribution between local authorities, of the support grant from the Scottish Executive. If this did not happen, then there would be a significant widening in the range of Council Tax charges across the country.<sup>29</sup>

110. Argyll and Bute Council and Professor Stephen Smith (University College London) advocated the introduction of a local income tax in Scotland.

111. Professor Smith noted that at present the Inland Revenue has little need to know accurately the address of taxpayers. Its information can be out of date or non-existent. With local income tax there would require to be an accurate database to ensure receipts went to the correct local council.

112. Professor Smith pointed out that local authorities have “different resource bases - in the form of residential property – quite independently of spending needs”. In consequence if no allowance were made for that local authorities would have “to levy substantially different council tax rates.”

113. The system of Grant Aided Expenditure (GAE) developed by the Scottish Executive, seeks to ensure that based on some standard level of expenditure “all local authorities are able to

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<sup>27</sup> the Scottish Executive Draft Budget 2004/05 – chapter 11, objective 1 target 5.

<sup>28</sup> Chartered Institute of Public Finance Accountants

<sup>29</sup> Ibid Volume 2 para 43

levy the same rate of taxation.” However, the mechanisms for determining these standard levels of expenditure “may bias GAEs in favour of certain classes of authority.”

### **Comments on the LGC Evidence and Conclusions**

114. The main LGC conclusion which the member in charge would challenge is their decision to retain the Council Tax in any form.

115. Starting from that viewpoint then decisions to charge the full rate on second homes and to widen the bands seem sensible.

116. Such tinkering will not overcome the problem that the value of the home that people live in is largely unrelated to peoples’ ability to pay.

117. These changes would not affect the complex nature of the Council Tax Benefit scheme, nor the huge numbers of eligible people who do not claim benefits.

118. They would not affect the gearing factor whereby a 1% increase in spending unfunded by the government results in an over 5% rise in Council Tax.

119. They would not affect the high cost of collecting Council Tax, the processing delays, the level of arrears and the percentage never collected.

120. The proposal for frequent revaluation of properties, (and regular rebanding?) would tie local government income more closely to the vagaries of the property market. Given the uncertainties of the valuation process, the different property values between authorities, combined with gearing effects, greater divergence in Council Tax rates between authorities would be inevitable. This will require increased intervention from the Scottish Executive by way of regular redistribution of the GAE in an attempt to protect vital services. Indirectly therefore these proposals would reduce the autonomy of local authorities and their ability to effectively forward plan.

### **Other opinions and developments**

121. The Liberal Democrats in England are waging a campaign to have the Council Tax replaced by a local income tax.<sup>30</sup> On 13<sup>th</sup> January 2004, the Scottish Liberal Democrats’ local government spokesman was quoted<sup>31</sup> as giving full backing to that campaign.

122. The Local Government Association in England, which represents councils led by all parties, argued<sup>32</sup> that the present council tax system is unfair “because it is not related to people’s incomes and that voters cannot see a clear connection between local taxes and local spending”. They proposed either a portion of income tax to be assigned to local councils or for a LIT.

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<sup>30</sup> [www.axethetax.org.uk](http://www.axethetax.org.uk)

<sup>31</sup> Scotsman 13<sup>th</sup> Jan 2004

<sup>32</sup> BBC News 15<sup>th</sup> January 2004

123. The Scottish National Party in March 2004 launched a policy to replace the Council Tax with a local income tax.

124. In his March 2004 budget, the chancellor has given pensioners a one-off £100 to help them cope with Council Tax.

## **International**

125. Variations of local income tax operate in several European countries, including Norway, Finland, Switzerland and Sweden, as well as in Canada and some American states.

126. Swedish local government taxes at two levels, municipal and county level. In 2001 the municipal tax was 20.51% on average and county tax level was 10.02% on average after allowances, 30.53% in total. The range was between 26% and 35%. State income tax which is only charged on taxable incomes above around £20,000 was an additional 20% and rises to 25% on higher incomes. Thus the bulk of income tax is set locally.<sup>33</sup>

127. A commentary on the Swedish system submitted to the Balance of Funding review<sup>34</sup> notes that the present Swedish system was set up in 1991 and is currently under review. It notes that the state income tax is used to redistribute cash to poorer regions and local authorities and that this gives rise to discontent from wealthier areas. It states that “there is no suggestion that the local income tax system of financing local government should be changed. Both the government and the local authorities are happy with the current arrangement and it enjoys a high level of public support.”

## **REPLACING THE UNFAIR COUNCIL TAX WITH THE SCOTTISH SERVICE TAX BASED ON PERSONAL INCOME**

128. It is the Scottish Socialist Party’s intention to replace the unfair council tax with a much fairer income based alternative applied to personal income in a progressive manner. The reasons to replace the council tax have already been presented. So why the Scottish Service Tax?

### **SSP – Scottish Service Tax**

129. The SSP launched its proposal for a Scottish Service Tax in February 2000 and revised the proposed tax bands in 2002.

130. The proposal is for an income tax rate to be set nationally by the Scottish Parliament and for local authorities to be made responsible for collection but able to transfer that function to the Inland Revenue for reasons of efficiency and to thus maximise the extra revenue generation potential for local services provision across Scotland.

131. The SST would introduce a range of bands for taxation purposes:

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<sup>33</sup> [www.sweden.se](http://www.sweden.se) figures relate to 2001.

<sup>34</sup> Local Income Tax in Sweden: reform and continuity. John Loughlin and Steve Martin, Cardiff University February 2004.

- Band A: All personal income below £10,000 p.m. taxed at zero rate. Thus the lowest paid workers and pensioners on less than £10,000 p.a. would be automatically exempt from payment. There is no need to apply for a means test. It is an automatic exemption;
- Band B: All income in the range of £10,000 - £29,999 is taxed at 4.5%. Thus an individual in receipt of a £20,000 p.a. salary will pay nothing on their first £10,000 and 4.5% on the next £10,000 producing an annual Scottish Service Tax bill of £450 for such a person;
- Band C: All income in the range of £30,000 - £49,999 will be taxed at a marginal rate of 15 %. Thus an individual on £50,000 p.a. pays nothing on their first £10,000, 4.5 % on their income £10,000 - £29,999 and 15 % on the portion of income between £30,000 - £49,999, producing an annual Scottish Service Tax bill of £3,900 (0 - £10k = zero + £10k - £30k @ 4.5% = £900 + £30k - £50k @ 15% = £3,000 = Total bill of £3,900);
- Band D: All income in the range of £50,000 - £89,999 to be taxed at 18%;
- Band E: All income in the range of £90,000 and over taxed at 20%.

132. The SST rates are applied marginally on the relevant ranges of income. As a percentage of total income paid in SST, an individual on £17,294 would pay 1.9% of their income. An individual on £24,370 would pay 3.3% of their income. And an individual on £78,010 would pay 11.9% of their income. Based on the latest available Inland Revenue statistics for financial year 2001-02 the average income in Scotland is £19,452 and the average SST would therefore represent 4.5% of income.

133. The money raised by the SST would be pooled centrally and distributed to each local authority according to needs assessment after consultation with COSLA, the Scottish Trades Union Council (STUC), and other relevant organisations that the Scottish Ministers may wish to consult..

134. Who would be exempt and so benefit either because they are no longer having to pay or having to claim means-tested benefits? 85% of all single pensioner households had an income below £10,000 in 1999; 54% of households with one pensioner, one non-pensioner and a child or just two pensioners had income below £10,000 p.a. whilst 82% of this group were below £15,000 p.a. All low paid workers would also benefit significantly.

135. 635,000 individuals, including pensioners, earn less than £10,000 p.a. That's 25.92% of the tax paying population and 12.56% of the total population.

## **LOCAL AUTHORITY STAFF CHANGES**

136. This bill both redistributes income across Scotland and generates millions more for local jobs and services. Based on the most up to date comparison between council tax in 2001/02, for that year an extra £505 million is generated, even after discounting the loss of council tax benefit (although this Westminster government payment to Scotland in recognition of the extent of poverty should be fought for). This Bill means more jobs and services across local authorities,

not less. Obviously those currently deployed in council tax collection would have to be redeployed and/or retrained. No worker should be made redundant as a result of this bill.

137. Returning the power to set and to fully retain business rates to local authorities and the adoption of income maximisation schemes targeting unclaimed Housing Benefit, among other things, would certainly provide productive work for current council tax collection workers.

### **How the Bill and new SST will affect households**

138. The following information is extracted from research carried out by the Scottish Parliament Information Centre.<sup>35</sup> It was specifically aimed at contrasting the Council Tax with the SSP Scottish Service Tax proposals, however, it also contrasts the SSP proposals with the SNP proposal for local income tax. It aims to ascertain:

- The proportions of households in different income bands which would pay more (or less) under the Scottish Service Tax proposals than under the Council Tax based on one scenario and a set of assumptions.
- An assessment of the total revenue accruing from the Scottish Service Tax based on a set of assumptions.
- The impact of the Scottish Service Tax using the case study examples recently set out in the SNP paper on local income tax
- The effect of the Scottish Service Tax on a range of occupations.

### **TABLE ONE – AVERAGE ANNUAL SCOTTISH COUNCIL TAX LEVELS, BY BAND, 2004-05**

<b>Council Tax Band</b>	<b>Average Scottish Council Tax Due, £, p.a.</b>
Band A	702
Band B	819
Band C	936
Band D	1,053
Band E	1,287
Band F	1,521
Band G	1,755
Band H	2,106

Source: Based on data from the Scottish Executive (2004) '[Band D Council Tax Levels 1996-97 to 2004-05](#)'.

Data relating to the proportion of households in each council tax band and by income band are based on the answer provided by Tavish Scott MSP in response to PQ S2W-3285. This data is presented in Table Two.

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<sup>35</sup> Correspondence between the member in charge and SPICe available from the member in charge or SPICe.

**TABLE TWO - PERCENTAGE OF HOUSEHOLDS BY COUNCIL TAX AND INCOME BAND - GROSS HOUSEHOLD INCOME EXCLUDING COUNCIL TAX BENEFIT (£ PER WEEK)**

	Up to 150	150 to 300	300 to 450	450 to 600	600 to 750	Over 750	Total
Band A	32	42	12	7	4	3	100
Band B	20	36	20	12	6	6	100
Band C	13	26	21	17	12	11	100
Band D	8	21	20	17	15	20	101
Band E	6	14	15	13	17	34	99
Band F		13	11	14	15	47	100
Band G & H		9	9	10	10	62	100

Source: Response to PQ S2W-3285 (9<sup>th</sup> December 2003)

Data on the number of chargeable dwellings by council tax band is available from the Scottish Executive and has been reproduced in Table Three below.

**TABLE THREE – CHARGEABLE DWELLINGS BY COUNCIL TAX BAND, 1 SEPTEMBER 2003**

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Number of dwellings	543,463	561,534	355,766	276,136	280,646	143,233	94,643	10,401
% of total dwellings	24.0	24.8	15.7	12.2	12.4	6.3	4.2	0.5

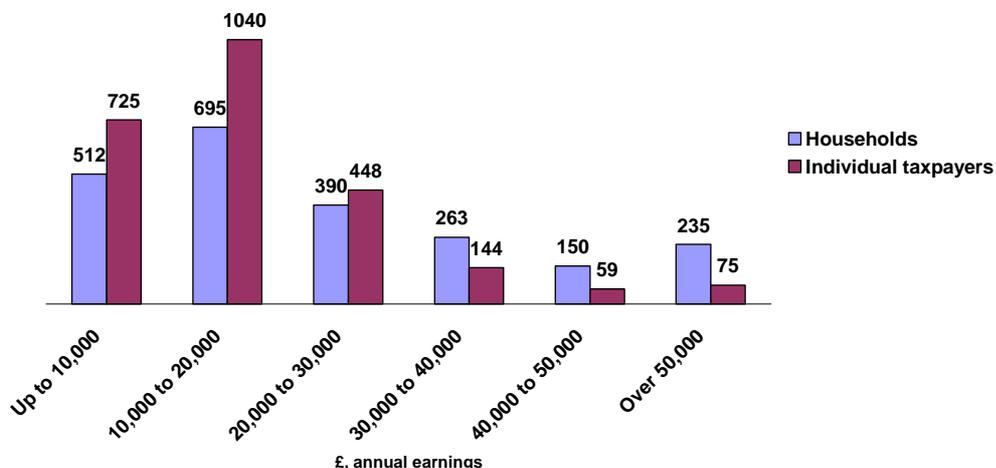
Source: Scottish Executive (2003) – Available at: [http://www.scotland.gov.uk/about/CSU/DD-EAS-LG/00016945/refdata\\_ctax.aspx](http://www.scotland.gov.uk/about/CSU/DD-EAS-LG/00016945/refdata_ctax.aspx)

It is important to note that many of the calculations in this paper are based upon household income figures as opposed to earnings.

Figure One illustrates the relationship between the number of individual taxpayers by income band compared to the number of households by income band. The graph indicates that there are 2.3m households and 2.5m income earners. Figure One also indicates that there are more low income taxpayers than low income households, but more high income households than high earning individual taxpayers. Figure One also suggests that the average Scottish household tends to contain one income earner.

**Figure One - Comparison of income bands for households and individual taxpayers (thousands)**

(source DWP for households and Inland Revenue for individuals)



**Scenario One – assuming that all household income is taxed on the basis of being one individual’s income under the Scottish Service Tax and comparing that to current payment rates in Council Tax**

139. This scenario assumes that a household income is taken as one income and taxed as such under the Scottish Service Tax. Income levels have been obtained by taking the mid-point in the income bands and multiplying the mid-point by 52 in order to obtain an annual income. For example, the £150 to £300 per week band has a mid-point £225 giving an annual household income of £11,700.

140. The exceptions to this are the ‘up to £150’ income band where a mid-point of £100 has been taken and the ‘over £750’ income band where a mid-point of £825 has been used. The Council Tax payment of a household is subtracted from the SST payment of a household and the result of these calculations are provided in Table Four. The figures in bold, in Table Four, highlight households which would pay more in SST than these households currently are charged in Council Tax.

**TABLE FOUR – SCOTTISH SERVICE TAX PAYMENTS MINUS COUNCIL TAX PAYMENT : HOUSEHOLD INCOME BY COUNCIL TAX AND INCOME BAND – SCOTTISH AVERAGE GROSS HOUSEHOLD INCOME EXCLUDING COUNCIL TAX BENEFIT AND COUNCIL TAX DISCOUNTS (£ PER WEEK)**

<b>Council Tax Band</b>	<b>Income Bands (weekly and annual average)</b>					
	<b>Up to £150 / £5,200</b>	<b>£150 to £300 / £11,700</b>	<b>£300 to £450 / £19,500</b>	<b>£450 to £600 / £27,300</b>	<b>£600 to £750 / £35,100</b>	<b>Over £750 / £42,900</b>
Band A	-702.00	-625.55	-274.59	<b>76.37</b>	<b>962.72</b>	<b>2,132.57</b>
Band B	-819.00	-742.55	-391.59	-40.64	<b>845.72</b>	<b>2,015.57</b>
Band C	-936.00	-859.55	-508.59	-157.64	<b>728.72</b>	<b>1,898.57</b>
Band D	-1,053	-976.55	-625.59	-274.64	<b>611.72</b>	<b>1,781.57</b>
Band E	-1,287	-1,210.55	-859.59	-508.64	<b>377.72</b>	<b>1,547.57</b>
Band F	-1,521	-1,444.55	-1,093.59	-742.64	<b>143.72</b>	<b>1,313.57</b>
Band G	-1,755	-1,678.55	-1,327.59	-976.64	-90.28	<b>1,079.57</b>
Band H	-2,106	-2,029.55	-1,678.59	-1,327.64	-441.29	<b>728.57</b>

141. It is important to note that the 25% Council Tax discount available to one person households and various benefit payments (including council tax benefit) is not factored into these calculations. We consider that the average Scottish household consists of one income earner and two individuals eligible for the council tax is probably the closest set of assumptions to the 'statistical reality' given the data available.

142. Table Five displays the proportion and number of households paying more and less under the SST than currently under the Council Tax. **In total 619,004 households or 27.32% of all households, based on the assumptions in this model, would pay more under the SST than under the Council Tax. Conversely, 1,646,818 or 72.68% of households would pay less under the SST than they currently pay in council tax.**

**TABLE FIVE – OUTCOMES FROM SCENARIO ONE**

<b>Council Tax Band</b>	<b>Paying more under SST</b>		<b>Paying less under SST</b>	
	<b>% of Band</b>	<b>Number of Households</b>	<b>% of Band</b>	<b>Number of Households</b>
Band A	14%	76,085	86%	467,378
Band B	12%	67,384	88%	494,150
Band C	23%	81,826	77%	273,940
Band D	35%	96,648	65%	179,488
Band E	51%	143,129	49%	137,517
Band F	62%	88,804	38%	54,429
Band G	62%	58,679	38%	35,964
Band H	62%	6,449	38%	3,952
All Bands	27.3%	619,004	72.7%	1,646,818

## **ASSESSING THE OVERALL TAX REVENUE ARISING FROM THE IMPLEMENTATION OF THE SCOTTISH SERVICE TAX**

143. Using the assumptions outlined in Scenario One I have calculated the total tax revenue of the SST by council tax band and income band using the data detailed in Tables Two and Three. **This indicates that the total tax take from the SST would be £1,847,633,321 or £1.85bn.** In 2003/04 CIPFA calculated the total sum to be collected by Scottish local authorities in council tax to be £1,833,221,000 or £1.83bn. The difference between these figures is +£14,412,321 or £14.4m. This represents a total tax take which is +0.79% higher than that collected under the Council Tax suggesting that the assumptions detailed in Scenario One provide a reasonable fit with reality.<sup>36</sup>

144. Table Seven shows that, based upon the assumptions in Scenario One, that the percentage of SST tax take from each income band would be as follows:

- 0% of the total SST tax take would be collected from the £5,200 income band
- 2.68% of the total SST tax take would be collected from the £11,700 income band
- 8.67% of the total SST tax take would be collected from the £19,500 income band
- 11.79% of the total SST tax take would be collected from the £27,300 income band
- 19.75% of the total SST tax take would be collected from the £35,100 income band
- 57.1% of the total SST tax take would be collected from the £42,900 income band

145. In terms of the distribution of the SST tax take by Council Tax, using the assumptions in Scenario One indicates that the distribution would be as follows:

- 8.52% of the total SST tax take would come from households living in Band A properties
- 14.48% of the total SST tax take would come from households living in Band B properties
- 14.51% of the total SST tax take would come from households living in Band C properties
- 15.7% of the total SST tax take would come from households living in Band D properties
- 21.61% of the total SST tax take would come from households living in Band E properties
- 13.55% of the total SST tax take would come from households living in Band F properties
- 10.49% of the total SST tax take would come from households living in Band G properties
- 1.15% of the total SST tax take would come from households living in Band H properties

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<sup>36</sup> This assumption is based on comparing income figures for 2000/01 with Council Tax collection for 2003/04. When the income figures for 2001/02 are compared to Council Tax collection for that year the extra income generated is £505m, assuming loss of all Council Tax Benefit.

146. It would therefore seem reasonable to assume that the overall impact of the implementation of the SST, based on the assumptions set out in Scenario One, would be broadly fiscally neutral. This scenario does not factor in council tax discounts or council tax benefits. In 2001-02, the last financial year for which figures are available, £285m was paid to Scottish local authorities by the Department of Work and Pensions in council tax benefit<sup>37</sup>.

### **Case study comparisons with SNP Local Income Tax Proposal**

147. This response considers the impact of the SST against a range of case studies outlined by the SNP when launching their proposals for a 'local income tax'. The SNP launched their proposals for a '[Local Income Tax](#)' (LIT) on the 5<sup>th</sup> April 2004. The Proposals contained 8 case-studies of how the LIT would impact on people on different incomes. In this example I compare the impact of the SST against the examples used by the SNP.

#### **Example 4.1 – Pensioner Household (Single Income £8,500; Band B home)**

148. The first example is that of a single pensioner living in a Band B property with an income of £8,500 p.a. The average Scottish Council Tax payment for a Band B property is £819 however with a 25% discount applied for a single person this falls to £614.25<sup>38</sup> p.a. Under both the SST and LIT the pensioner in this example would pay nothing in either SST or LIT. **The pensioner would therefore save £614.25 p.a under both the LIT and SST.**

#### **Example 4.2 – Pensioner Household (Joint Income of £11,500, Band D home)**

149. This example relates to a pensioner household living in a Band D property with a joint income of £11,500 p.a. In the SNP paper the joint income of £11,500 has been treated as a single income for income tax purposes but a 25% discount is not applied in relation to Council Tax. I have adopted the same approach with regard to the SST calculations. The average Scottish Council Tax payment for a Band D property is £1,053 p.a. Under the LIT this household would pay £120 p.a. whilst under the SST the annual payment would be £67.46.

150. Accordingly the **savings** for this household of a change from the Council Tax would be as follows:

- LIT : £933 p.a.
- SST : £985.55 p.a.

#### **Example 4.3 – Single Person (Single Income £13,400, Band B home)**

151. This example relates to a single person with an income of £13,400 p.a. living in a Band B property. The average Scottish Council Tax payment for a Band B property is £819 p.a. However, after the single person discount of 25% this falls to £614.25 p.a. for this household.

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<sup>37</sup> Scottish Executive (2003) '[Scottish Local Government Financial Statistics 2001-02](#)', p.14.

<sup>38</sup> The SNP document states that the Scottish Band B average, after the 25% discount, to be £615 p.a. however I calculate the average to be £614.25 p.a.

Under the LIT this person would pay £293 p.a. Under the SST this person would pay £152.96 p.a.

152. Accordingly the **savings** for this household of a change from the Council Tax would be as follows:

- LIT : £321.25 p.a.
- SST : £461.29 p.a.

**Example 4.4 – Single Person (Single Income £25,000, Band D home)**

153. This example relates to a single person living in a Band D property with an annual income of £25,000. The average Scottish Council Tax payment for a Band D property is £1,053 p.a. Following a 25% discount for a single person this falls to £789.75 p.a. Under the LIT this person would pay £747 p.a. Under the SST this person would pay £674.87 p.a.

154. Accordingly the **savings** for this person of a change from the Council Tax system would be as follows:

- LIT : £42.75 p.a.
- SST : £114.88 p.a.

**Example 4.5 – A Family on a Single Minimum Wage Income - £9,360 p.a. living in a Band B home**

155. This example relates to a family (including one other adult eligible for Council Tax) which has one income earner who earns the minimum wage of £9,360 p.a. The family live in a Band B property. The average Scottish Band B Council tax payment is £819 p.a. Under the LIT this family would pay £120 p.a. Under the SST this family would pay £0 p.a.

156. Accordingly the **savings** for this family of a change from the Council Tax system would be as follows:

- LIT : £699 p.a.
- SST : £819 p.a.

**Example 4.6 – A Family on a Double Income of £25,000 p.a. and £13,400 p.a., Band D home)**

157. This example relates to a family with two income earners who earn £25,000 p.a. and £13,400 p.a. The family lives in a Band D property. The average Scottish Band D Council Tax payment for a Band D property is £1,053 p.a. Under the LIT this household would pay £1,040 p.a. Under the SST the household would pay £827.82 p.a.

158. Accordingly the **savings** for this family of a change from the Council tax system would be as follows:

*This document relates to the Council Tax Abolition and Service Tax Introduction (Scotland) Bill (SP Bill 31) as introduced in the Scottish Parliament on 11 November 2004*

- LIT : £13 p.a.
- SST : £225.18 p.a.

#### **Example 4.7 – Family on a Double Income of £27,000 and £25,000, Band F home)**

159. This example relates to a family with two income earners who earn £27,000 p.a. and £25,000 p.a. respectively. The family lives in a Band F property. The average Scottish Council Tax payment for a Band F property is £1,521 p.a. Under the LIT this household would pay £1,595 p.a. Under the SST the household would pay £1,439.73 p.a. Accordingly the impact of a change from the Council Tax system for this household would be as follows:

- LIT : An **additional payment** of £74 p.a.
- SST : A **saving** of £81.27 p.a.

#### **Example 4.8 – Family on a Double Income of £56,358 and £80,000, Band H home**

160. This example relates to a household with two income earners who earn £56,358 p.a. and £80,000 p.a. respectively. The average Scottish Council Tax payment for a Band H property is £2,106 p.a.<sup>39</sup>. Under the LIT this household would pay £5,298 p.a. Under the SST this household would pay £14,342.73 p.a. Accordingly the impact of a change from the Council Tax system for this household would be as follows:

- LIT : An **additional payment** of £3,192
- SST : An **additional payment** of £12,236.73 p.a.

#### **The effect of the Bill on a range of occupations**

161. For the purposes of this document, public sector occupations have been placed in Band D, whilst MSPs and MPs are in Band G, along with a range of other occupations also in Band G unless salary levels rose above £100,000 per annum, in which case these occupations were placed in Band H. Table 2 lists occupations by council tax band and includes the Scottish average annual Council Tax payment for that band in 2004-05.

162. It is also important to note that this response does not factor in the impact of council tax rebates and of council tax benefit. For example a person living on their own in a property would receive a 25% discount on their council tax charge whilst council tax benefit would also be available to individuals on low incomes.

#### **Average Salaries per Occupation**

163. The basis for arriving at an average salary for each of the occupations detailed above is described below.

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<sup>39</sup> The SNP document provides an average Scottish Band H figure of £2,160. However I use the figure of £2,106 which is double the cost of a Band D property.

164. The average salaries provided for teachers, refuse collectors, social workers, police constables, nurses, hospital auxiliary workers and fire fighters are based on the same data provided in the response in January.

165. The average salary for a bus driver has been taken from the New Earnings Survey (2003) which details the average salary of 'bus and coach drivers' in the UK as being £333.70 per week. This equates to £17,352.40 per annum. The New Earnings Survey does not provide a figure at a Scottish level.

166. The average salary for a nursery nurse has been obtained from Unison. Unison stated that nursery nurses are paid £11,000 per annum, pro rata, on average. However nursery nurses are paid for working during term-term which equates to 38 weeks of the year. The average annual salary over the whole year is therefore £8,000 per annum.

167. Information regarding the average annual salary of a postal worker has been obtained from the Commercial Workers Union (Edinburgh Branch). They stated that from the 1<sup>st</sup> April 2004, the average salary of a postal worker will be £300 per week equating to £15,600 per annum.

168. The income of a pensioner can vary significantly depending upon individual circumstances such as the level of pension provision, income from investments etc. The 2001/02 Scottish Household Survey includes data on the income distribution, detailed in Table Three, amongst 'single pensioners' in Scotland from a sample of 4,759 pensioners. As almost half (47%) of all the single pensioners surveyed fall within the £6,001 to £10,001 income band I have taken the mid-point in this scale (i.e. £8,001) as being the average income of a single pensioner.

**TABLE THREE – ANNUAL NET HOUSEHOLD INCOME, SINGLE PENSIONERS IN SCOTLAND, 2001/02**

<b>Income Band</b>	<b>%</b>
£0 - £6,000	26
£6,001 - £10,000	47
£10,001 - £15,000	20
£15,001 - £20,000	4
Over £20,000	2
Total	100
Sample Size:	4,759

Source: Scottish Executive (2003) '[Scotland's People: results from the 2001/2002 Scottish Household Survey](#)', p.29.

Information provided by the [Royal College of General Practitioners](#) indicates that the average salary of a General Practitioner in Scotland is £56,218 per annum.

169. The Law Society of Scotland conducted a 'Survey of Legal Practices in Scotland' in 2002. This survey found the following average levels of remuneration for solicitors within the various levels across the profession:

- Salaried Partner - £36,400 per annum

- Qualified Assistant - £24,000 per annum
- Unqualified fee-earners - £18,000 per annum
- Trainees - £12,500 per annum

170. The average salary of a solicitor in Scotland is taken to be that of a 'salaried partner' and therefore an average salary to be £36,400.

171. For MSPs and MPs the salary levels have been updated to those which MPs and MSPs will be paid in 2004-05<sup>40</sup>. In 2004-05 the salary for an MSP will be £50,300 per annum and that of an MP will be £57,485 per annum.

172. Obtaining an average salary for an advocate has proved to be problematic. Discussions with the Faculty of Advocates indicated that there is a wide range of remuneration between advocates dependent upon a range of factors such as, whether the advocates deals with criminal or civil cases, the amount of work taken by the advocate etc. The Annual Report of the Scottish Legal Aid Board 2002-2003 provides details of the top twenty highest earning advocates in terms of income obtained from the Legal Aid Fund. It is important to note that advocates obtaining such funds are engaged in criminal law cases and that advocates engaged in civil law are likely to be obtain higher fees. Due to the difficulty in obtaining an average salary for an advocate I have taken two examples of advocates' earnings and provided these instead of an average salary level. The two examples relate to the top income earner and 20<sup>th</sup> highest income earner in terms of income obtained from the Legal Aid Fund. Example One relates to Mr Charles P C Boag-Thomson QC, who was the 20<sup>th</sup> highest income earner from legal aid in 2002-03, with income worth £121,000 being paid. Example 2 relates to the highest income earner from the Legal Aid Fund in 2002-03, which was Mr Donald R Findlay QC, who obtained £267,000 from the fund.

173. Information on the salary of a local authority Chief Executive's has been provided by COSLA. The salary of a local authority Chief Executive in 2003-04 ranged from £82,997 in Orkney Islands Council to £141,831 in Glasgow City Council. I have taken the mid-point in the range between these salaries as being the average salary of a local authority Chief Executive which equates to £112,414 per annum.

174. The salary of the Chief Executive of Communities Scotland is contained in the organisation's [Annual Report](#). The Annual Report states that the salary of the Communities Scotland Chief Executive in 2002-03 was in the salary band £100,000 to £105,000. I have therefore taken the salary of the Chief Executive to be in the middle of this range and therefore to be £102,500 per annum.

175. The Scottish Water Annual Report contains details of the salaries of Scottish Water Board members. The salary of a Scottish Water Executive Board Member (including bonuses and benefits) ranges from £139,000 to £175,000 in 2002/03. I have taken the mid-point in this range as being the average salary of a Scottish Water Executive Board Member. This equates to £157,000 per annum.

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<sup>40</sup> Information provided by the Scottish Parliament Allowances Office.

176. Table Five details the difference between the council tax contribution detailed in Table Two and the SST contribution by occupation in Table Four.

**TABLE FIVE – THE DIFFERENCE BETWEEN COUNCIL TAX AND SST CONTRIBUTIONS BY OCCUPATION**

<b>Occupation</b>	<b>Council Tax</b>	<b>Average Salary</b>	<b>SST Payment</b>	<b>Difference (I.e. SST – CT)</b>
Bus Driver	1,053	17,352.40	330.77	-722
Nursery Nurse	1,053	8,000	0	-1,053
Postal Worker	1,053	15,600	251.91	-801
Pensioner	1,053	8,001	0	-1,053
Teacher	1,053	24,174	533.34	-520
Refuse Collector	1,053	14,560	205.16	-848
Social Worker	1,053	23,970	628.52	-424
Police Constable	1,053	26,016	720.59	-332
Nurse	1,053	20,798	485.78	-567
Firefighter	1,053	23,175	592.74	-460
General Practitioners (GPs)	1,755	56,218	5018.48	3,263
Solicitors	1,755	36,400	1859.72	105
MSP	1,755	50,300	3953.24	2,198
MP	1,755	57,485	5246.54	3,492
Advocate – Example 1 (1)	2,106	121,000	17299.06	15,193
Advocate – Example 2 (1)	2,106	267,000	46499.06	44,393
Local Authority Chief Executive	2,106	112,414	15581.86	13,476
Communities Scotland Director	2,106	102,500	13599.06	11,493
Scottish Water Executive Board Member	2,106	157,000	24499.06	22,393

**CONSULTATION**

177. A consultation document on my proposal for a member’s Bill was sent to almost 100 organisations representing trade unions, pensioners groups and anti-poverty campaigns. Every local authority was also sent a copy. The balance of opinion based on an analysis of the 34 returns shows a clear and decisive majority in favour of the Bill while some support replacing the council tax but would like more discussion on the various available alternatives.

178. Of the 34 replies, 27 support the Bill proposal and four support council tax abolition but want more discussion on the proposal.

179. Significant organisations like the Rail, Maritime and Transport Workers Union, the Fire Brigades Union and the Public and Commercial Services Union who organise workers in the Inland Revenue fully support the Bill. Many individuals (24) responded and almost entirely supported council tax abolition and the Bill. The majority of those in favour represented individual pensioners or pensioners’ groups. The consultation responses are available for inspection via the Scottish Parliament Information Centre (SPICe).

## **EFFECT OF THE BILL ON EQUAL OPPORTUNITIES, HUMAN RIGHTS, ISLAND COMMUNITIES AND LOCAL GOVERNMENT**

180. The Bill will have a positive impact on equal opportunities, as it will treat each citizen for liability purposes as an individual and not arbitrarily as part of a household or couple. It will positively strengthen human rights through radical improvement in disposable income for the poorest citizens, thus allowing more Scots the ability to lead a better material quality of life. Such an improvement will benefit all geographical areas of Scotland including our island communities.

181. The Bill is positive in resource terms for local government as several hundreds of millions more will be made available for expenditure on local services. Whilst local authorities will lose some financial autonomy via council tax abolition, this would be fully compensated for through the return of non-domestic rate setting and retention powers to local authority control, as recommended by the member in charge and the Parliament's own Local Government Committee in 2001.

## **CONCLUSION**

182. The Council Tax Abolition and Service Tax Introduction (Scotland) Bill is the most radical redistributive measure ever considered by the Scottish Parliament. Millions of ordinary Scottish citizens will benefit from increased disposable incomes while only the wealthiest and best paid minority will be compelled to pay more. This Bill is therefore a genuine and radical anti-poverty measure that deserves support from all those who wish to see a fairer and more equal Scotland. This Bill will benefit the majority, and millions of pensioners and low paid workers will experience a radical improvement in their material standard of life as a result.

183. According to SPICe research (Sept. 2004)<sup>41</sup> 635,000 citizens earn less than £10,000 a year (25.92% of the tax paying total), while 1,924,000 individuals earn less than £25,000 p.a. (78.53% of the taxpaying population). Only 88,000 individuals earn more than £50,000 a year and 20,000 earn more than £90,000 a year, representing 3.59% of tax paying population and 0.82% respectively. This minority, including politicians, will pay more as the poorer majority pay less. The extra disposable income entering the economy will benefit the whole of Scotland.

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<sup>41</sup> Correspondence with member in charge. Available from SPICe.

*This document relates to the Council Tax Abolition and Service Tax Introduction (Scotland) Bill  
(SP Bill 31) as introduced in the Scottish Parliament on 11 November 2004*

# **COUNCIL TAX ABOLITION AND SERVICE TAX INTRODUCTION (SCOTLAND) BILL**

## **POLICY MEMORANDUM**

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