

LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

Thursday 8 September 2005

Session 2

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LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

22nd Meeting 2005, Session 2

CONVENER

*Bristow Muldoon (Livingston) (Lab)

DEPUTY CONVENER

*Bruce Crawford (Mid Scotland and Fife) (SNP)

COMMITTEE MEMBERS

*Mr David Davidson (North East Scotland) (Con)

*Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

*Dr Sylvia Jackson (Stirling) (Lab)

*Paul Martin (Glasgow Springburn) (Lab)

*Michael McMahon (Hamilton North and Bellshill) (Lab)

Euan Robson (Roxburgh and Berwickshire) (LD)

*Tommy Sheridan (Glasgow) (SSP)

COMMITTEE SUBSTITUTES

Colin Fox (Lothians) (SSP)

Mr Bruce McFee (West of Scotland) (SNP)

John Farquhar Munro (Ross, Skye and Inverness West) (LD)

Dr Elaine Murray (Dumfries) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

Jess Barrow (Age Concern Scotland)

Professor David Bell (University of Stirling)

Peter Kelly (Poverty Alliance)

David McNeish (Citizens Advice Scotland)

CLERK TO THE COMMITTEE

Martin Verity

SENIOR ASSISTANT CLERK

Alastair Macfie

ASSISTANT CLERK

Euan Donald

LOCATION

Committee Room 4

Scottish Parliament

Local Government and Transport Committee

Thursday 8 September 2005

[THE CONVENER *opened the meeting at 14:03*]

Interests

The Convener (Bristow Muldoon): I open the first meeting of the Local Government and Transport Committee after the recess—I hope that members managed to relax some over the summer. We welcome back Tommy Sheridan after the good news of the birth of his daughter. Congratulations, Tommy. I am sure that all committee members wish you and your family well.

Tommy Sheridan (Glasgow) (SSP): Thank you very much.

The Convener: Two members of the committee require to declare relevant interests. One of them, Euan Robson, is not present today, but we have David Davidson with us. David Davidson has been a substitute member in the past, but he is now the permanent member for the Conservative group. I invite him to declare any relevant interests.

Mr David Davidson (North East Scotland) (Con): I was simply going to say that my interests are as in the public register of members' interests. However, I am informed by the clerk that I am supposed to list them. I did not bring a list with me. The only addition to that list would be the fact that I spoke last weekend at the northern maritime corridor conference in Norway and the NMC project team paid for my travel and accommodation expenses.

Item in Private

14:04

The Convener: The second item on the agenda is consideration of whether to take item 5 in private. Item 5 is on our future work programme and it contains proposals that are not yet in the public domain. We will agree our work priorities during that item. Once we have done so, what we have decided will be put into the public domain. Do I have agreement to take item 5 in private?

Members *indicated agreement.*

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): I know the views of other committee members and I do not want to press the matter to a vote, but I do not see any reason why there should not be a public discussion about our decisions on what work the committee does. I simply wish to record that as my view.

The Convener: So we agree to take that item in private.

Subordinate Legislation

Local Government Pension Scheme (Scotland) Amendment (No 2) Regulations 2005 (SSI 2005/315)

14:05

The Convener: We have a number of pieces of subordinate legislation to consider under agenda item 3. The Local Government Pension Scheme (Scotland) Amendment (No 2) Regulations 2005 (SSI 2005/315) were circulated to members prior to the recess in order to allow any points of concern to be raised. Following the circulation of the letter on the matter, no member has raised any points on the regulations and no motions to annul the instrument have been lodged. May I confirm that we have nothing to report on the regulations?

Members *indicated agreement.*

Gaming Act (Variation of Fees) (Scotland) Order 2005 (SSI 2005/319)

Non-Domestic Rating (Valuation of Utilities) (Scotland) Amendment Order 2005 (SSI 2005/320)

Local Authorities' Traffic Orders (Procedure) (Scotland) Amendment Regulations 2005 (SSI 2005/338)

Public Service Vehicles (Registration of Local Services) (Scotland) Amendment Regulations 2005 (SSI 2005/346)

The Convener: No points have been raised on the remaining instruments, either, and no motions to annul have been lodged. Is it agreed that we have nothing to report on the instruments?

Members *indicated agreement.*

Council Tax Abolition and Service Tax Introduction (Scotland) Bill: Stage 1

14:07

The Convener: Item 4 is our main agenda item today. Before I introduce our first witness to give evidence on the Council Tax Abolition and Service Tax Introduction (Scotland) Bill, it would be helpful if I said a little about Tommy Sheridan's role in relation to the bill, given that he is both a member of the committee and the promoter of the bill. Tommy Sheridan's position as a committee member is exactly the same as that of any other committee member: all his rights to ask questions and attend meetings are exactly the same as for any other member. However, the fact that he is a committee member might give a slightly different feel to our consideration of the bill. Most bills are promoted by either a minister or someone who is not a member of the committee. I have discussed the issue with Tommy Sheridan and the committee clerks and that is the situation as set out under the rules of the Parliament.

I intend to make one slight change with respect to the way in which we take questions. As Tommy Sheridan is the promoter of the bill and will know a lot more about its detail than other members, I intend to take questions to witnesses from other members first and then questions from Tommy Sheridan. That is not intended to be any disservice to Tommy, as I think he understands.

Paul Martin (Glasgow Springburn) (Lab): I have a long-standing concern about members in this situation. That is nothing personal with respect to Tommy Sheridan's bill. However, we must acknowledge that private papers are provided to members—for example, briefing papers on questioning witnesses. I think that that is an important issue. When the committee is in private session and drawing up conclusions for its report, there is a conflict of interest if the member promoting the bill is a member of the committee.

Other members have taken themselves out of similar situations to prevent any conflict of interest. At the very least, we should report our concern on the matter. The rules are of course as they stand, but we should highlight the issue to the Procedures Committee for future consideration. If the person promoting a bill also took part in private discussions on the committee's conclusions, that would be similar to an Executive minister taking part in private discussions on an Executive bill. I am sure that we would have serious concerns about that.

The Convener: As I have said, Tommy Sheridan is a full member of the committee and is

entitled to attend any meeting of the committee, whether it is in public or in private. He is also entitled to receive all papers that are associated with the committee's work. Those are the rules of the Parliament as set out in standing orders, so that is obviously what we work with.

If members agree that we should suggest to the Procedures Committee that the rules be amended for future bills, I would be happy for us to do that. However, if members are not agreed on the issue, I do not want us to get into a debate about it at the moment, because I want to get on to the business before us. I do not know whether members would want the issue to be discussed by the Procedures Committee or not.

Tommy Sheridan: I merely say that this is the third member's bill that I have promoted in the past six years and this is the first time that I have been a member of the committee that was considering the bill. It is new ground for me as well. I do not take any personal slight from what Paul Martin has said; I know that he is raising a general concern. I would have no problem with our asking the Procedures Committee to consider the issue. Once that committee had made a report, I would have an opinion. I do not think that there is a problem, but I do not want to get into a debate. We should let the Procedures Committee look into the matter first and then have a debate.

The Convener: That is fine; I am happy for us to do that.

I welcome, after that short delay, Peter Kelly of the Poverty Alliance. We will give you an opportunity to make some introductory remarks on the general principles of the bill, after which we will move into an open question-and-answer session.

Peter Kelly (Poverty Alliance): The Poverty Alliance welcomes this opportunity to discuss the proposed Scottish service tax. We have long argued for policies in Scotland that would ensure greater redistribution and we feel that the bill should be viewed in terms of its effects on the poorest members of society. That is what I have tried to emphasise in the written evidence that I have submitted to the committee.

Any change to the council tax would be set in the context of there still being serious poverty in Scotland. Despite progress over the past eight years, a quarter of children still live in low-income households, as do a fifth of adults and 17 or 18 per cent of pensioners. If we are to continue to make progress, we need policies that redistribute more of our income to those in society who are less well off. Although many of the present policies are effecting change, change to the system of local taxation offers an opportunity for the Scottish Parliament to make a bigger impact on redistribution in Scotland.

The Convener: I open up the meeting for questions.

Michael McMahon (Hamilton North and Bellshill) (Lab): I do not know whether the Poverty Alliance takes a view on local democracy or on how taking account of circumstances in a particular area can help to address poverty. If locally elected members are aware of the circumstances of the people whom they represent, they can make decisions that directly affect their lives. Is the Poverty Alliance concerned that local democracy would be undermined by the introduction of a service tax, which would mean, in effect, that the Scottish Executive would set the level of tax and that local councillors would become no more than tax collectors for central Government? Councillors would be unable to take account of poverty indicators; they would be unable to influence levels of poverty or to effect any changes.

14:15

Peter Kelly: That is undoubtedly a key issue. The Poverty Alliance is very concerned about local democracy. That is why we welcomed the introduction of community planning as a process whereby local communities can have a greater say and more influence over how resources are distributed locally.

With all aspects of the bill, we need to balance their impact on poverty with the impact that they might have on other priorities such as local democracy. Usefully, the bill's provisions make explicit reference to the need to allocate resources on the basis of deprivation. However, the fact that powers would be taken away from locally elected members is also a valid point. In the debate on council tax abolition or reform, a key issue is who retains control. The centralising element of the proposed system needs to be balanced against the fact that, under the current system, 80 per cent of local authority spending is determined centrally by the Scottish Executive.

Another aspect is the extent to which the proposed tax would have an impact on people's perception of local democracy. I have heard it argued that, by removing all responsibility for raising resources, the Scottish service tax would somehow break the connection between local taxation and local spending, but I am not convinced that that is a tangible connection for many people. The question is whether the service tax would render that connection completely lost or whether there are other ways of maintaining that connection.

The Convener: If Michael McMahon does not mind, I want to pick up on that point. You rightly said that, broadly speaking, 80 per cent of local

government expenditure comes from central Government grants, but many people in local government, as you are probably aware, aspire to increase the percentage of the revenue that local authorities are responsible for raising. How do you respond to those who wish to move in that direction, given your support for the bill?

Peter Kelly: The aim that we want to achieve for those who are provided services by local authorities is to ensure that they are lifted out of poverty. The issue is the best way of doing that. Taxation alone cannot provide a perfect solution, but the bill's proposals contain elements that would be useful in tackling poverty.

To elected members of local authorities who want more local control over local resources, I would point out that the bill's policy memorandum—I may be corrected, but I think that this is not in the bill—proposes that local authorities should be given control over business rates. I am not certain why that proposal is not in the bill, but local authorities could in that way retain some control over the resources that are raised locally.

The Convener: That might give local authorities more control over their resources, but it would not provide a democratic link, as only the small number of people who own businesses would be able to vote on the basis of taxation. The vast majority of people—employees of businesses or other organisations, students and other people with whatever form of family life—would have no such link under such a scheme. Would not the democratic link between the individual and the level of taxation be weakened further?

Peter Kelly: I fully accept that that case can be made, but I guess that our approach to the bill is whether, on balance, it would significantly reduce poverty. That is the assessment that we make of all local income tax measures.

The other factor is that many thousands of people in Scotland currently pay no council tax, so a disconnect already exists. Supported by the Executive and the Parliament, local government has a role in finding ways to re-engage with local citizens and I am not sure whether retaining the council tax is a good enough way of doing that. Some proposed changes to council tax could actively weaken the connection between citizens and their local representatives.

Michael McMahon: Job creation is fairly central to any anti-poverty strategy. Are you concerned about fiscal flight and disincentives that are created by increasing the tax take from people who are on not-very-high salaries but whose joint household income goes over £31,000? Is the Poverty Alliance concerned about such disincentives to job creation?

Peter Kelly: We are always concerned about disincentives to job creation, but we do not believe that the bill would pose a great threat of fiscal flight. Many issues arise from taxation and the impact of changes in levels, particularly of personal taxation, which can be a barrier or an aid to job creation. I am not sure whether the evidence from consistently reducing personal taxation rates in the past 15, 20 or 30 years is that that has led to the increased economic activity that we might have expected. Until relatively recently, we had low personal taxation levels and relatively high levels of unemployment and of economic inactivity.

The other aspect of job creation and incentives is individual incentives for people to return to the labour market. We need to examine the impact of the current council tax system on people's progression back into the labour market, such as whether the still steep withdrawal rates of council tax benefit act as a disincentive for people to return to the labour market.

Paul Martin: I have a couple of questions. The first is about identifying income. A well-known issue is that, for example, some company directors own substantial properties but their Inland Revenue returns do not show that they earn substantial salaries. The income of employees who fall under the pay-as-you-earn system is clear, whereas people who have creative accountants can seem to earn much less than people under that system. Property assets are clear, but would doctors and consultants whose earnings are clear end up paying more under the proposed system?

Peter Kelly: A broad question arises about the approach that a service tax or any proposal for a local income tax might take. We would shift what has been referred to as the basket of taxation on to income and away from property, which raises several questions.

As for who will pay the tax, income tax generally has a fairly high collection rate. You suggest that very wealthy people might end up paying far less under the proposed system, but such people often try to avoid paying tax, regardless of whether a local income tax, service tax or general income tax system is adopted. The Inland Revenue must deal with that problem regardless of the local taxation system. An unintended consequence of the bill might be that it would encourage the Inland Revenue to pursue some of those people.

Paul Martin: So you accept that we do not have the power to change the system for which Westminster is responsible or to deal with that element of Inland Revenue returns. Do you accept that, if we passed the bill, some people with creative accountants and whose tax returns at present are low relative to their income would end

up paying much less under the proposed system than they pay under the property-based system?

Peter Kelly: What I am suggesting is that people who attempt to avoid income tax will attempt to avoid it whatever. To add another point, very wealthy people in Scotland—although I am not sure what kind of figures we are talking about—pay low levels of local taxation through council tax. That balance must be taken into consideration.

Paul Martin: You are obviously not going to answer the question. I was saying that those people would pay less under the proposed system, because we would not be able to identify their income.

You talk about poverty, but it is simplistic to say that if somebody earns £10,000, they will pay 0 per cent and then we will move up the scale. I might be wrong, but I believe that the bill makes it clear there would be no form of means testing. Do you accept that those who earn £30,000 to £50,000 could have significant commitments, such as a larger family and mortgage? Therefore, the matter is not as simple as saying that because somebody earns £30,000, they do not live in poverty. I am not saying that they live in the same poverty as others live in, but the matter is not as simple as saying that because such people earn that money, they are incredibly wealthy individuals.

Peter Kelly: There is a lot in what you say. The current system of council tax does not take into account adequacy. As the bill's policy memorandum makes clear, the starting rate for the tax would be based on the minimum wage. That is a positive start; it uses what many would regard as a low wage and states that people who earn less than that should not pay the tax. However, your point is correct: we must consider the impact of any system of taxation beyond the starting rate. As with any system of taxation, some people would lose out under the service tax. However, from the financial information that has been provided—which is all that I can go on—it appears that people in the lower income groups would be better off.

If I may, I will mention council tax benefit, which is a key issue. Many people who are in low-paid employment are not entitled to council tax benefit. It is a real problem to support those people, so that is definitely an issue.

Bruce Crawford (Mid Scotland and Fife) (SNP): I am sorry, but I want to return to the question that was asked earlier about the complexity that would be created for local democracy as a result of the centralisation of taxation systems. You have accepted that there is a conflict between balancing the centralisation of

services and helping those who are in poverty. I am interested in how we could resolve that conflict. Have you considered ways in which the service tax proposal might be amended to remove some of that conflict and restore a bit more democracy to local authorities in the system? I want to go beyond the present proposal.

Peter Kelly: There are alternatives for distributing the resources that are raised locally. The bill would require the Scottish Executive to distribute the resources on an agreed formula. Obviously, an alternative is for local authorities to collect the local income tax and retain it, but some of the benefits of the bill's approach would be lost as a result. The local income tax system proposed in the bill would appear to have clear efficiency and financial benefits. Gathering and spending money locally would retain a democratic link, but that approach would be somewhat more costly and less efficient.

14:30

Bruce Crawford: How would it be more costly and less efficient? More people would be involved, which may or may not result in less efficiency, but have you carried out any studies on the efficiency gains that would arise through a central system as opposed to a system in which local authorities would collect the money? Do you have any information or statistics?

Peter Kelly: I am drawing on information that has been provided. The Chartered Institute of Public Finance and Accountancy has produced a lot of evidence on the different approaches, including evidence on whether a more centralised system would be more cost effective. It probably would be in this case, but I do not have the figures on the tip of my tongue.

The Convener: I want to return to a couple of issues that Paul Martin tried to probe, the first of which is the potential for fiscal flight, which you say would not be as big a problem as people have claimed. I want to put a scenario to you. Recently, my local hospital employed additional consultants, some of whom came from hospitals in England. Consultants are well paid. Is it likely that a consultant would take a post in a hospital in Scotland if 20 per cent would be added to his or her tax bill by doing so?

Peter Kelly: They might consider the matter and balance questions such as whether they want to move to Scotland and work here or pay less tax and remain down south. I cannot deny that some people—perhaps many people—in higher income brackets might have to consider such matters, but the issue is our approach to taxation and the goal that we want to achieve.

I will possibly move away from discussing that particular aspect of the Scottish service tax in saying what I am about to say. A recent United Nations development report says that in order to make the progress that we want to make—and that we are committed to making—on child poverty, the incomes of the poorest people in Scotland and the United Kingdom need to be increased by about 4 to 5 per cent per annum, and the incomes of people higher up the income scale must be increased by about 0.4 per cent. To cut through the figures, that says to me that there must be a radical reversal in incomes and much more redistribution. Perhaps that is a long-winded way of saying that a balance must be achieved.

The Convener: If your argument is correct, it seems to me that the issue would best be tackled at UK level so that there is no danger of people having to choose which part of the UK to live in because of the quite dramatic differences in income tax that they would be likely to pay. Many people on low incomes have poorer health than people in wealthier households. Would it be advantageous to people who have poor health to have local hospitals that were devoid of consultants?

Peter Kelly: People's poor health is partly to do with the physical services that are available in areas and partly to do with their incomes and their ability to take jobs and move out of their low-income situations. Perhaps people's access to health care will improve if a hospital opens in their local area, but there is a definite link between low income and poor health that is not to do only with services.

The Convener: You will be aware that we already lose about a third of the doctors that are trained in Scotland to England. It seems to be logical that that figure would increase if there were such a difference between the income of a doctor in Scotland and that of a doctor in England.

Peter Kelly: Although there may be some fiscal flight and some people may move away, there is evidence to suggest that taxation is only one of a number of factors that people consider when relocating to a new area. I do not deny for a minute that taxation is an important factor, but that needs to be balanced against consideration of the services that are provided, such as health or transport services, or dynamic cultural centres, which are all attractive features in an area. I dare say that if increased resources were made available to local authorities, they might well be able to provide those services more effectively than they are able to do at the moment, although that is speculation.

The Convener: I want to return to Paul Martin's point about the difference between a property-based tax and an income-based tax. There are

genuine concerns that people who have extremely large properties pay insufficient local tax. Periodically in Parliament, attention is drawn to how much local tax certain wealthy people with large properties pay. Would not it be possible to address that situation by reforming the council tax and increasing the amount that people who live in very large and expensive properties pay?

Peter Kelly: There is no doubt that there is scope for reform of the council tax: to do so would be within the powers of the Scottish Parliament, although there are limitations on the kind of reforms that could be made. Reform would have different impacts on different income groups in society. We could introduce new bands at the top of the scale and split the band at the bottom—we would favour that, alongside revaluation, as steps towards reform of the council tax. However, some of the evidence on revaluation from Wales is not positive. Many middle-income groups there seem to have been hit quite hard.

To return to your point about property, there is a general issue about the approach that we take to taxation. In our society, we tax various goods, including food and fuel: all sorts of items are taxed. The bill would remove property from the taxation regime, which may well have implications for the way in which we use property. Property is a highly effective way of transmitting wealth; for example, through inheritance. Although we are keen on the local income tax aspects of the bill, I have some unease about removing tax from property altogether, especially about the impact that that might have on people who own second homes.

Mr Davidson: I was going to ask how you would set about reforming the council tax if you were stuck with it, but you have partly answered that. You have acknowledged that the introduction of a service tax would result in a severance of local democracy, because it would amount to an uplift of central income tax. Do you agree that that would be a disincentive to people who are hovering below certain thresholds—for example, people who are thinking about whether to go to work or to work extra hours? There is some evidence that women who work part-time, in particular, limit what they do to avoid crossing various thresholds, whether of national insurance or taxation. What are your views on that?

Peter Kelly: It could be said that all forms of taxation offer disincentives to work. The thresholds between different rates of taxation will always have potential disincentive effects. I do not think that the proposed tax would be a significant disincentive for someone who planned to return to the labour market on a salary that was about the £10,000 mark, which is where the tax would come in. I think that the tax would be levied at a rate of 4

per cent or 4.5 per cent for people who earned between £10,000 and £30,000.

That may not be the crucial factor in deciding whether someone returns to the labour market. It is notoriously difficult to assess the disincentive effects of council tax benefit or of the present system of income tax. One of the reasons for introducing working families tax credits was to incentivise people to return to the labour market. It might have incentivised some groups, but the evidence is mixed. I am not sure whether a service tax at that level of income would act as a sufficient deterrent for people returning to the labour market.

Mr Davidson: Your organisation is concerned about poverty. In simple terms you are, presumably, seeking the removal of certain people from the tax base, who should not contribute in any shape or form because they cannot afford to. That is the belief of your organisation. Where do you see a relationship to services that are currently received under the service tax? If it becomes a central tax that has no relationship to property or to the services that are enjoyed, how do you see the connection?

Peter Kelly: I am not sure that I completely follow your question.

Mr Davidson: The service tax would be a tax on income; there would be no relationship between it and any services that were delivered locally. Would you have the Scottish Government of the day decide exactly what services people were to receive in every street and house?

Peter Kelly: I understand what you are getting at. I am not sure that that approach would necessarily break the link entirely. I have already suggested that such a tax would emphasise the democratic deficit in that it would weaken the link between resources that are raised and spent locally.

At the moment, many services are determined for local authorities by broad approaches from the Scottish Executive. It does not determine exactly how the services are delivered to, as you say, "every street"—that would still be the role of local government. However, there is a question about whether it is simply a case of local government existing to administer resources or whether there should be a direct link between those who are elected and the resources that they spend locally.

Fergus Ewing: You said, quite correctly, that there is direct taxation and indirect taxation. As I understand it, direct income tax—the public general tax—has a top rate of 40 per cent. In addition, there are national insurance contributions which, up to the threshold at which they cease, are at a rate of 8 per cent to 10 per cent. Therefore, the service tax for the top-rate taxpayers—people who earn more than £90,000, I believe—would

introduce a rate of 20 per cent. That would give a total tax income of 70 per cent. In addition to that, net income would be subject to indirect taxation through VAT, fuel tax and so on. I mention that by way of a preamble to asking you whether the groups at the Poverty Alliance's annual general meeting decided on a single view on how high the top rate of tax should be when everything has been taken into account. Is there a single view on that issue or a range of views? What is your view?

14:45

Peter Kelly: The easy answer is no: there is no single view. That issue was not discussed at the annual general meeting. There is a broad range of views in the Poverty Alliance. I refer to another consultation from which we derived a range of views from our members, and beyond, about options for reform of the council tax, which included rebanding and revaluation through to all the various forms of local income tax. There is no single view on what approach should be taken, nor is there a single view on an upper threshold for the general taxes that should be levied on people. If there is a general view, it is that taxation should be based on ability to pay, and the current system of council tax is not. I am safe in expressing the views of our members that they want a system of local taxation that is based more on ability to pay.

Fergus Ewing: I noted that you said that there is broad support for that principle, but not necessarily for the proposals in the bill. You have been candid about that, for which we are grateful. Do you have a view on what the top rate of tax should be when everything is taken into account? Should it be 50 per cent, 60 per cent, 70 per cent, 80 per cent, 90 per cent or what?

Peter Kelly: I have not formed such a view, partly because I am not an economist and I do not want to get into that. However, we need more progressive taxation; we need to take more from those who earn more and redistribute it to those who are at the bottom of income distribution. I do not want to say anything beyond what our membership would want me to, but they would like to see greater emphasis on redistribution. One of the ways to do that is by raising taxes.

The Convener: You said that you want a system that is based on ability to pay. Surely it is not correct to say that the council tax is completely unrelated to ability to pay, given the council tax benefit system.

Peter Kelly: That is correct.

Michael McMahon: I was interested in your comment about the UN report that said that income should rise by 4 per cent to 5 per cent. Taxation does nothing to increase income; it just takes account of what someone's income is and adjusts accordingly.

The current average wage in Scotland is £21,220—you can check these figures and come back to me if they are not right. Let us imagine a couple, both of whom earn less than that, but who have a collective income of £31,000. Adult A earns £17,600, which is below the national average. That person would pay £571.73 under the proposed new service tax. The other person in the partnership, adult B, on £16,600, would pay £526.73 under the proposed Scottish service tax. The current average rate for a band D house is £1,094. This couple, both of whom earn less than the national average, would pay £1,098 under the proposed new tax so they would be paying more. Those circumstances do not meet the criteria of the system, do they?

Peter Kelly: You would need to look at the overall impact of the proposed system of taxation or of any system. From what I can see in the figures that have been presented, they seem to shift the burden of taxation away from those at the lower end of income distribution, as do all forms of local income tax that have been proposed and discussed so far.

There is a possibility that some individuals might well end up paying more. However, from the evidence that I have seen so far, the broad economic models suggest that more people would pay less under any of the systems of local income tax.

Michael McMahon: I was looking at individual circumstances, but let us look at generalities and the overall picture. This Parliament makes decisions on finance—we are all big people and we have to make some tough decisions. Some time ago, we took the decision to introduce free personal care for the elderly, and the overall economy in Scotland lost a substantial amount of money because people were no longer entitled to benefits such as carers allowance—formerly invalid care allowance. Scotland would lose a substantial amount of money in council tax benefit if the bill was passed, and all the burden would fall directly on to taxpayers. Is that consequence worth considering?

Peter Kelly: That needs to be considered, as it needs to be considered in the context of free personal care for the elderly, as well. There must be some kind of return of resources from the Treasury, or from the Department for Work and Pensions via the Treasury, in lieu of lost council tax benefit. It would appear that millions of pounds of council tax benefit would be lost—

Michael McMahon: It would not be lost; it just would not be claimed any longer.

Peter Kelly: It would not be claimed, so the local authorities would not have the benefit of that £300 million-odd.

Michael McMahon: But the individual taxpayer would not lose it.

Peter Kelly: No, they would not lose it. I am sorry, but I have perhaps lost you—

Michael McMahon: There would be a general loss to the economy—to local government—but the individual would have their tax take adjusted and there would be nothing lost to them.

Peter Kelly: No, there would be nothing lost to individuals who had previously received council tax benefit. I presume that they would be taken out of the system of council tax or would pay less under the service tax. I understand that that is how the plans are intended to operate. However, I assume that there would be an increase in revenue from higher-rate income tax payers or service tax payers; therefore, the loss to local government of council tax benefit that it would have received should be at least partly offset by the increase—

Michael McMahon: But all that we are doing is redistributing the tax take; we are not increasing the tax take.

Peter Kelly: I understood that there may be an increase.

Michael McMahon: No.

The Convener: Bruce Crawford has a supplementary question.

Bruce Crawford: It is a supplementary question but also a point. I am a bit confused by all the figures that are being thrown about. I heard what Michael McMahon said about the figures for band D and what people earn, which are in the policy memorandum. I ask Peter Kelly to confirm what he knows. If we are still confused, we should get some reality round the matter. The policy memorandum says that a bus driver earns about £17,000. If there were two of them in a family, they would pay service tax of about £330 each—£660 a year. Band D council tax was £1,053 last year and is £1,094 this year. There would therefore be a difference of about £400 to the good. I am not disputing Michael McMahon's figures; what I do not know is who is right. Perhaps Peter Kelly can tell me. If he cannot tell me, perhaps the clerks can do a bit of work on that for our next meeting, so that we can get some clarity.

The Convener: Peter Kelly is welcome to answer that question, but it is perhaps a bit unfair to throw all those figures at him and expect him to say who is right. Perhaps we can ask the Scottish Parliament information centre researchers to do some work on the issue.

Paul Martin: I have a quick question on the stability issue for tax collection. The current system is based on clear identification of

properties. What kind of stability or instability could the proposed system create? Income profiles change quite rapidly in the world that we live in now. Would that lead to a need for substantial investment and expenditure? If somebody changed their job during the financial year—I know that they could change their property—what kind of challenges would that create? The property base is clear—somebody lives in a property and we know the band for it—but income is a very different matter.

Peter Kelly: In as much as that would be a problem, it is potentially addressed in the bill through the fact that the Inland Revenue would be given responsibility for collection. That is the best answer that I can give to that question. Obviously, people move jobs—

Paul Martin: Do you accept that that poses problems for local authorities? It is difficult enough when you look at the turnaround in relation to a property-based tax, but for an income-based tax it would be difficult to clarify what expenditure from the 20 per cent is being returned. Given that people's income profile can be so chaotic, will that not pose serious problems? It will not be a turnaround of about a year—it could take the Inland Revenue some time. If you think how long it takes Inland Revenue to do its own returns, there could be serious challenges.

Peter Kelly: I have not addressed that issue.

Tommy Sheridan: I say to Peter Kelly that he has had an unfair ride at the committee. He is here from the Poverty Alliance; I would have liked some members to ask him about poverty and the effects of council tax, but they seem to be asking him about the details of the bill.

Michael McMahon has undoubtedly misread the memorandum about the way in which the tax would be applied. He has, for example, calculated 4.5 per cent of the whole £17,000; he has forgotten that the first £10,000 is exempt, so it is 4.5 per cent of £7,000. Given that, do you think that it is positive that in the two examples that Michael McMahon gave, the two individuals—one on £17,000 a year and one on £16,000 a year—would pay significantly less under the proposed tax system than they currently pay under council tax.

Peter Kelly: A straightforward answer to that question is that if those on low incomes pay less under the proposed system that is the positive result that the Poverty Alliance is looking for. If the figures are correct, the result is positive.

Tommy Sheridan: Do you also agree that when Michael McMahon says that the tax would not increase anybody's income he is missing the point, because the tax would increase people's disposable income? Given that the Poverty

Alliance deals with disposable income problems, is not disposable income the crucial factor in whether people can afford to have a decent standard of life?

Peter Kelly: It is a key factor, and not only in the way that we account for poverty. We also take housing issues into account. The issue is about disposable income: what is the income that a person has to live on? Increases in disposable income are very important.

Tommy Sheridan: How many people do you understand to be currently living, or trying to live, on incomes that are below £10,000 per annum in Scotland?

Peter Kelly: I do not have those figures in front of me.

Tommy Sheridan: If I was to suggest that the figure is in the region of 635,000 citizens, would you—given your knowledge—think that that was not far off the mark?

Peter Kelly: It depends on the figures that you are looking at. That figure does not sound unreasonable, thinking back to pay figures. Pay of about £6.50 an hour would probably give a figure around about that, or perhaps a little higher.

Tommy Sheridan: According to the Inland Revenue—

The Convener: Tommy, this is an opportunity to ask questions of the witness rather than to introduce the arguments, which you will have the opportunity to do in due course.

Tommy Sheridan: I thought that I was asking a question.

According to the Inland Revenue, the number of taxpayers whose income is below £25,000 a year is 78 per cent of the Scottish population. The bill would predominantly assist those individuals, because they would pay less in local tax than they currently pay. Would that have wider economic advantages in respect of those citizens' ability to spend more?

Peter Kelly: Research has certainly been carried out in the past that looks at the multiplier effect—to misuse economic terminology. There is a local multiplier effect from people having more money in their pockets. I seem to recall that research suggests that when people at the lower end of the income distribution scale have their incomes raised, they are more likely to spend the income locally. You could therefore suggest that there is a beneficial impact on local economies.

Tommy Sheridan: It was suggested to you that the introduction of the tax would lead to the loss of council tax benefit. It is accepted in the memorandums that that is a possibility. However, the overall revenue that would be generated from

the proposed tax is £269 million more than what council tax and council tax benefit were able to provide. Would it be advantageous for communities to have nearly £300 million extra to spend on local services?

15:00

Peter Kelly: That was the point that I was trying to make earlier. It seems that the resources that would be available under the proposed system—albeit that the revenue would be raised from those higher up the income scale—could be redistributed by the Scottish Executive and that the way in which the local authorities use those resources could have beneficial impacts on people living on low incomes. Indeed, depending on how the resources were used, they could have beneficial impacts on everyone in a local authority's area. If we assume that the tax take would be what is estimated in the financial memorandum, I imagine that those local authorities would have access to those resources.

Tommy Sheridan: Far be it from me to ask a loaded question, but do you think that the members of the Poverty Alliance would take the view that the Scottish Parliament is completely democratically unaccountable?

Peter Kelly: No.

Tommy Sheridan: Yet we do not raise the money that we spend. Why then would people think that local authorities were completely democratically unaccountable if local authorities did not raise the money that they spend?

Peter Kelly: I can probably safely say that the members of the Poverty Alliance do not think that this institution is undemocratic. The issue is to do with how people view democracy. There must be a link with taxation. If we were to remove that small financial link to local authorities—whether it is 20 per cent or 25 per cent—it could influence how people view their democratically elected local members.

Tommy Sheridan: Do you think that your members would judge the efficiency of a local council more by what it does with its money than by how it raises it?

Peter Kelly: I honestly could not answer that on behalf of our members; I would not speak for them in that kind of way.

Tommy Sheridan: Could you confirm for the record that the Poverty Alliance was consulted on the bill?

Peter Kelly: Yes.

The Convener: On the issue of the projected yield from the proposed Scottish service tax in comparison to the yield of the council tax, do you

agree that the projected yield would occur only if there were not a significant degree of fiscal flight and that, if there were a significant degree of fiscal flight, the yield would be considerably less and there would be a danger that council services would have to be reduced?

Peter Kelly: If everyone upped sticks and moved to England or Wales, that would obviously have a bad effect on the yield.

The Convener: I think that that concludes our questions. I hope that we were not too hard on you. This has been a helpful session and I thank you for your attendance.

We move on to our second panel of witnesses. I welcome to the meeting David McNeish, who is the parliamentary and policy officer for Citizens Advice Scotland; Caroline Dunne, who is the training co-ordinator for Motherwell citizens advice bureau, and Jess Barrow, who is the director of communications for Age Concern Scotland. Do both organisations wish to make introductory remarks?

Jess Barrow (Age Concern Scotland): I am happy to go straight to questions.

The Convener: Mr McNeish, are you also happy to do that?

David McNeish (Citizens Advice Scotland): Yes.

Mr Davidson: If you were to be told today that the council tax would continue, what changes would you suggest should be made to it? Your submissions set out many suggestions in that respect.

Jess Barrow: Age Concern Scotland feels that it would be quite difficult to change the council tax. One fundamental problem, particularly for older people, is the implementation of council tax benefit. Moreover, because council tax is property based, it has an unfair impact on older people. For example, they might have lived in their properties for such a long time that the value of those properties bears very little relationship to their income and ability to pay. I am not at all sure that we would necessarily want to keep council tax in its present state. However, as I have said, it would be very difficult to amend it, although issues such as banding and the way in which council tax benefit is administered and applied should be examined. It is difficult to fix a system that in some respects is fundamentally unfair to older people.

David McNeish: I hope that you will indulge me—I want to reply fully to this question. We have evidence that the current council tax system has a host of problems, some of which I will now outline. Obviously, we would like changes to be made in those areas.

On the issue of debt recovery, the citizens advice service considers council tax debt to be a priority debt and prioritises the current year's debt over previous years' debt. However, research that we have carried out into CAB debt clients shows that one in four of those clients has a council tax debt. It is therefore a significant problem for CAB debtors, and it becomes a bigger problem for those on lower incomes. Such debt results in recovery action that has a disproportionate impact on people on lower incomes, because the lower a person's income, the less access they have to alternative funds that will allow them to address their problems. For example, if a person's bank account is arrested, they will have no access to money from that account for the rest of the month.

We are still receiving evidence of problems with regard to the collection of poll tax and old council tax arrears, even though there might be no way of proving or disproving what is owed. One client, who received a letter stating what she owed, went to the local council office and asked for a print-out of the arrears for her own reference. That information was duly given to her. However, when she asked for a copy of her council tax benefit application form for the year in which she had allegedly accrued the debt, the council told her that, although it had records of her alleged arrears, it did not keep records of such applications that far back. As a result, she was not able to prove that she had been on council tax benefit at the time.

Indeed, the same issue arises with summary warrants. The summary warrant procedure bypasses normal court procedures and clients have no way of defending themselves or contesting the amount that is owed. Given the problems with the administration of council tax and council tax benefit, such a position can be serious.

We are also concerned about councils' current practice of seeking to bankrupt clients because of their council tax debt. The use of sequestration undermines the Executive's own debt arrangement scheme as a means of repaying debt at an affordable rate. Yesterday, at one sheriff court alone, 19 people were up for sequestration for council tax arrears. The CAB money adviser was working flat out with the clients whom he knew about and who had sought his help. Of course, debtors sometimes come to the bureau quite late in the process. The money adviser assisted three clients and, when he turned up at court, the sheriff referred another five people to him for money advice. Had the adviser not turned up, those five people would have been sequestered. In fact, another four people for whom no one turned up were sequestered.

Another local authority tried to sequester a woman who had been on income support for 10 years. The authority had inadvertently applied the

single person discount to her council tax bill instead of the full council tax benefit that those on income support should receive. They wanted to sequester her and to stop the sequestration they requested £4,000 up front and £500—

The Convener: You are getting a wee bit close to discussing the current practice that local authorities use to pursue debts rather than answering the original question.

Mr Davidson: Both witnesses have highlighted administrative difficulties in the current process that have been caused by different parts of the system.

David McNeish: The problem goes beyond administration and relates to the policies of local authorities on how they recover debt. On the one hand, councils have obligations to prevent homelessness and to give money advice and, on the other, they sequester people for arrears that they cannot afford to pay. It is the hardline approach to pursuing those debts that causes the problems.

Mr Davidson: We take the point, but I will take you back to the tax that is proposed by the bill. Do you see any difficulties of the type that you related just now arising from the application of such a tax regime?

David McNeish: There are problems in the current system to do with debt recovery, liability, water and sewerage charges and administration. I think that your original question was on what reforms should be made if you do not pass the bill. There needs to be something that resolves the problems with water and sewerage charges because they place a particular burden on people on a low income. The administration must be radically improved. We need to address inequity, not just in banding but in the rules on liabilities, exemptions and discounts. We also have to tackle the unfairness of the summary warrant. That is a huge package of reforms that would have to happen if you were not to abolish the council tax and go for some form of local taxation.

Mr Davidson: Would any of those problems arise if we had the new tax as proposed in Mr Sheridan's bill?

David McNeish: We are not so naive as to believe that any bill will go through without any problems coming up. There will be problems with administration and with the way in which debt is recovered. However, a lot of the evidence that we have given to this committee and to others has been about the problems that people get into once they are in debt. If we work backwards to the original problem, we realise that because the current system is regressive rather than progressive and the burden is placed on people who have a low income, they are being asked to

pay something that they simply cannot afford to pay. That is the key issue. It is not that people are trying to skive off or to pretend that they do not owe money. The majority of CAB clients want to pay the money but they just do not have the income. We find that between one in three and one in four CAB debt clients have simply no income and no assets. Once they have done their income and expenditure, they have less than £20 per month to put towards all their debts, not just their council tax debt. That situation is totally unsustainable.

Mr Davidson: Can we move on to the witnesses from Age Concern?

The Convener: I would just like to ask a question. Is it not the case that one of the first calls on anyone's resources if they have a series of debts is the Inland Revenue and that the Inland Revenue will never allow itself to be flexible in how it allows people to repay a debt? Therefore, if we transferred local taxation from the local authorities, which to some extent show a little flexibility by taking into account people's difficult circumstances, to the Inland Revenue, which often takes an inflexible approach if someone is in debt, might we not be worsening the situation for someone who has multiple debts?

David McNeish: There are two issues there. We do not see much evidence of flexibility in local authorities. Our research found that where people had council tax arrears, they were less likely to be able to negotiate through the CAB than if they had other debts. The collection practices of the Inland Revenue can be harsh and we have raised many concerns about the way in which the Inland Revenue is recovering tax credit overpayments—it is applying its income tax rules to tax credit overpayments and trying to recover the money on an in-year and out-of-year basis, which does not help people who are working on a month-to-month basis.

There are concerns surrounding any way of administering and collecting tax. Regardless of what agent is collecting the tax, we want the system to be clear and fair and not to place a disproportionate burden on those with low incomes.

15:15

The Convener: My other question concerns people who have multiple debts and who are in serious difficulty. What proportion of those people are on a low income and what proportion are above that level?

David McNeish: Our research shows that the average monthly income of our debt clients is £800, which is lower than the average wage that was mentioned earlier. The majority of our debt clients are on low incomes.

The Convener: I accept that the majority of them are, but I am trying to find out what proportion are on average or higher incomes.

David McNeish: I am happy to provide the figures. I do not have them to hand, but they are published in "On the cards: The debt crisis facing Scottish CAB clients", which is our debt research report. I am happy to provide the committee with the figures.

Mr Davidson: I will ask the same question of Age Concern. You have a narrower base in terms of the people whom you represent or are concerned about. You highlighted all the problems that older people face. If the Scottish service tax were to be introduced, would those problems vanish, or would different ones be produced?

Jess Barrow: I think that the problems would be different. One of the overwhelming advantages of the proposed Scottish service tax is that people would not be liable for tax until their income reached £10,000. Those who are on low incomes, of whom a significant proportion are older people, would immediately be taken out of the system. Those older people would no longer have to tackle the bureaucratic nightmare of claiming council tax benefit and of trying to manage on very limited incomes that are further reduced by increases in water charges and so on. From the low take-up of council tax benefit, we know that many older people are trying to pay their council tax themselves out of their incomes.

The one immediate benefit of the Scottish service tax is that payment will kick in only when someone's income is £10,000 and upwards. A significant proportion of older people in Scotland would find that hugely beneficial.

Mr Davidson: Do you see any disadvantages?

Jess Barrow: I am sure that there will be disadvantages for older people whose incomes are higher than that. Of course, there will be difficulties with and, no doubt, disagreements about the proposed changes. The majority of problems that come to us are about low incomes and council tax benefit. In one fell swoop, the proposed tax would do away with a lot of those problems.

Paul Martin: You talked about moving away from property-based taxation because it is unfair. Would that not create a disincentive for people to contribute to pension schemes? People might create a significant property profile and so minimise their income profile. A wealthy person who has invested heavily in property would not be at the poverty level, but if they did not have an income, they would not pay anything.

Jess Barrow: The issue around incentives to invest in pensions to save for the future is a

complex one. It is tied into the current benefit and pension credit system, which penalises people who have saved for later life. Until we address the fundamental problem of the low basic state pension, which is a UK matter, we will not be able to do anything about the fact that there are massive disincentives in the system for saving for later life.

There are some benefits in the current system for those who have second properties and who treat property as an asset. However, the vast majority of older people's assets are in the home in which they live. That is the major problem with the way in which the present tax system works.

Paul Martin: I appreciate that, but I am thinking of the ways in which people might react to the new tax in future. People might say that they do not want to invest in their company pension scheme because, if they do, they will have to pay local income tax. People might do everything possible to ensure that they do not have an income. I appreciate that you are talking about people who do not come into the bracket of the wealthy businessman, for example, but the proposed tax could have that effect for the wealthy.

The bill is meant to focus on helping those who are in poverty, but by default we could end up with a situation in which those who are incredibly wealthy will invest in magnificent properties and ensure that they do not have an income by the time they retire. Pension schemes will fall apart and we will have this local income tax—

Jess Barrow: Pension schemes are not terribly robust at the moment.

Paul Martin: I appreciate that, but they will fall apart even more.

Jess Barrow: Many people have lost confidence in all types of pension schemes and are considering property as an investment for later life. There is a risk that people may invest too much in property, but it is only a small minority who will be in the fortunate position of being able to buy a palatial home somewhere to avoid taxation.

Paul Martin: But you are just confirming that there are definitely people who will take advantage of the situation.

Jess Barrow: Of course there is that risk. People will take advantage of whatever taxation system we have.

Paul Martin: I appreciate that, but those who are not able to take advantage of the system at the moment because their properties are targeted as being an asset will be able to move towards doing that. You have confirmed that.

Jess Barrow: That is a risk.

Paul Martin: To move on to another issue for both organisations on the panel, we all accept that bureaucracy is a burden, particularly for the elderly, but there are other groups who find it difficult. Do you think that moving from the current system to an Inland Revenue-based system, where there are forms that can go to quite significant lengths, will make the system any less complicated? Surely the proposals will increase the form-filling exercise.

Jess Barrow: One of the things that people tell us they bitterly resent is being given money and then having it taken away from them. If they have to pay a bill and then they get benefit for it, in effect they have to go through two actions: one is to do with council tax liability; the other is applying for council tax benefit. There is the double burden of bureaucracy for people who are on low incomes. It is difficult to know from considering the proposals that we have seen so far precisely how the system will work and what the attendant bureaucracies will be, but simply having one method of payment that does away with the need to apply for benefits afterwards can help to minimise some of the bureaucracy.

Paul Martin: But do you accept that it does not matter how simple we try to make the system, given that the Inland Revenue-based system will have to consider various amounts from various sources of income. There is no doubt that that will add to the burden. You are saying on behalf of Age Concern that there are people out there who will say, "This is fantastic because I can see some light at the end of the tunnel," and who will be happy about filling in additional forms. You also accept that there are people who will not fill in the form because of the difficulties attached to that, as is the case with council tax benefit at the moment.

Jess Barrow: People come from many different backgrounds and many different income bands. There will be some people who are happy about the proposals and some people who are not. It is difficult to predict the level of bureaucracy that will be involved. It is difficult to predict precisely what people's reactions will be to the system, but the biggest problem that we have at the moment is the fact that people do not claim the benefits to which they are entitled. As many as 30 per cent of people who are entitled to council tax benefit do not claim it. It has one of the highest levels of underclaiming of all benefits. That is one of the fundamental problems that older people face.

Paul Martin: We talked earlier about the proposals ending some of the bureaucracy that people have to go through at the moment. David Davidson touched on that. There is no evidence in the paper that the process will be much simpler, even in terms of recovery. There is no clarification that the proposals mean that we will all live happily

ever after, that people will not have to go through processes and that people will have no forms to fill in—of course they will.

David McNeish: My understanding—and you need to check this out—is that the Inland Revenue had to do some work in advance of the establishment of the Scottish Parliament because of the tax-varying powers that were granted to the Parliament. My understanding of the bill therefore is that for the majority of people the revenues would be collected through PAYE. They would be collected at source through people's monthly pay by the Inland Revenue. The systems have already been set up because they had to be put in place for the Scottish Parliament. I am not sure that there would be a lot of additional form filling for people who are currently on full council tax benefit and have to go through all the rigmarole of applying for that. Under the proposals, there would be no taxation burden on them at all, so there would be no form for them to fill in.

Paul Martin: So, you can assure everybody that there will be no forms to be completed by those people. If they have other incomes to declare, the Inland Revenue will be aware of those.

David McNeish: I cannot give that assurance. That is just my reading of the bill.

Paul Martin: I appreciate that; I just want to make the point that we do not know that. Clarification is needed from the Inland Revenue on the process that would be followed.

David McNeish: I would be surprised if the process was more complicated for people on low incomes than it currently is.

The Convener: Leading on from that, do you accept that, if the system is going to be run largely on a pay-as-you-earn basis, although employees of companies will pay the tax—they will have no way of evading it—the people who could potentially evade it are some of the wealthiest people in the land, who have teams of accountants who will try to reduce their tax liabilities? Do you accept that the proposed tax runs the risk that some of the wealthiest people might end up making no contribution towards local services?

David McNeish: That is a fair question. It is not something of which we have any evidence, probably because those people do not come to their local CAB but speak to their teams of accountants and lawyers. There is a risk of that with every taxation system. It is refreshing to talk of people at the higher end trying to avoid the tax, as, in the past, the evidence on people trying to escape debt has been to do with people in Easterhouse hiding van Goghs under their beds.

The Convener: My point is that, if people at the highest level evade paying any form of local

taxation, the burden will fall on the people in the middle. The wealthiest will end up paying less towards local services while people on average incomes will end up paying more, to make up for any shortfall in the tax yield.

David McNeish: That is a fair point.

The Convener: I have another question specifically for Age Concern. In the previous group of questions, I asked about the impact of taxation on people's behaviour and decisions regarding where they work. I mentioned specifically doctors and consultants in the national health service. It seems reasonable to expect the number of doctors in Scotland to come under pressure from a taxation system in which a general practitioner or a consultant who worked and lived in Glasgow might pay 18 or 20 per cent more in tax than they would pay if they worked and lived in Newcastle or Manchester. Given the fact that older people are one of the groups who are most dependent on the national health service, are you concerned that the substantial differential in marginal tax rates between Scotland and England could harm the national health service in Scotland and, hence, harm the interests of older people?

Jess Barrow: That is a risk. It would be inaccurate to say that we would not have concerns about that. However, it is important to remember that, in Scotland, there are a significant number of people who are aged between 50 and retirement age who are out of work and not contributing to the economy. It is difficult to consider the issue in isolation from all the other drivers that bring people to a country, or that get people to engage in the economy of a country, and the range of reasons why they leave. When free personal care for the elderly was introduced, there was a fear that people would rush over the border to get their free personal care in Scotland, yet the research that was undertaken showed clearly that, in other countries, the driver for people was the climate, not the level of care that they received.

The reasons why people choose to live in different places are complex and, although high levels of taxation can be a disincentive, other factors might encourage people to come to a country. There could be an attraction in working in a health service that is better resourced than the one south of the border. You would have to consider the complexities of people's behaviour to know precisely what could or could not happen.

The Convener: I would accept that argument if we were talking about a slight difference in the income that someone would receive, but we are talking about a difference in the marginal rate of 18 to 20 per cent between Manchester and Glasgow. Also, it does not seem to me that the difference between the climate of Manchester and that of Glasgow is sufficient for it to be a decisive

factor. The same goes for the social life that a person could enjoy in one or other of those two cities. If all those other factors are broadly equivalent, or not too different, a 20 per cent difference in the tax rate might be quite a substantial disincentive—especially when we consider that a large percentage of the medical students in Scotland are from England.

15:30

Jess Barrow: Without a shadow of a doubt, it could be a disincentive. That is a real concern.

Fergus Ewing: I thought that you put the case for a local income tax eloquently, convener.

The Convener: I was not intending to.

Fergus Ewing: I appreciate that.

I want to ask Jess Barrow of Age Concern Scotland whether it is really within the remit of her voluntary organisation to express one view on the particular type of local government tax that there should be. Are you able to express one view?

Jess Barrow: It is not within our remit to do that. However, in the paper that I submitted to the committee, I said that it is important to have clarity, fairness and sustainability. Older people want a system that fairly reflects the contribution that they have made throughout their working lives; they want clarity so that they can see what the money raised through taxes is used for, and so that they can understand the system; and they want sustainability so that they know that the system of local taxation can deliver the services that they require.

Fergus Ewing: I picked up those three words from your submission, but do you accept that it is difficult to have a taxation system that is based only on fairness, clarity and other such concepts? You represent many people and they will have myriad views. It is not really possible for a voluntary organisation to support one particular proposal. Not all the people that your organisation exists to assist will subscribe to the one view.

Jess Barrow: That is entirely right.

Fergus Ewing: I have one other question, for David McNeish. It arises from the conclusion in his paper that the bill

“would end the confusion over water and sewerage charges”.

What does that mean?

David McNeish: We have a lot of evidence of people in Scotland having problems with water and sewerage charges. Those charges are currently linked into the council tax system and they place a big burden on people on lower incomes—especially people on full council tax

benefit. It can be difficult for people to understand that they will receive a council tax bill even though they are on full council tax benefit. However, it is not actually a council tax bill but a water and sewerage bill. If people do not pay that bill because they think that they are on full benefit and that the council must have made a mistake, they will then receive a letter saying that they are in arrears with their council tax. There is a really big problem with the basis on which water and sewerage charges are made. In addition, the distinction between band A and band G or H is not sufficient to take account of what people actually have in their pockets.

Fergus Ewing: As I understand it, the bill would not abolish water and sewerage charges; those charges would still have to be paid. Is that your understanding?

David McNeish: I am not sure; I do not know. My understanding was that the local taxation system would raise the revenue to cover all charges, but I may have got that wrong. If water and sewerage charges continued to be charged as they are at the minute, there would obviously be absolutely no impact on the current problems.

Fergus Ewing: Perhaps the proposer of the bill will clarify the issue for us. It seems to me that the bill contains nothing about scrapping water and sewerage charges. They would therefore continue to be levied, which raises the interesting question of who would collect those charges and bear the cost of doing so.

Bruce Crawford: I have a quick question for Jess Barrow. Do you accept that, for a pensioner on an average income—which, according to the financial memorandum, is about £8,000—the figure of £214 would represent a large amount?

Jess Barrow: Yes, that is a lot of money.

Bruce Crawford: I wonder, then, why there has not been a fiscal flight of pensioners from Glasgow to Falkirk, because that is the differential between band B in Falkirk and in Glasgow.

Jess Barrow: People make decisions about where they live based on a range of factors. If older people have lived in the same area for many years, they may not wish to move from the house or the area that they are in. That, in a nutshell, is why a system based on property charges can be particularly unfair, because people either do not wish to move or find it extremely difficult to find somewhere suitable to move to.

Bruce Crawford: So those who are in the highest earning brackets are more capable of fiscal flight than those who are unable to move to improve their circumstances.

Jess Barrow: Yes.

Tommy Sheridan: I understood from David McNeish's evidence that bills in future would be water and sewerage charge bills and that there would be greater clarity. At the moment, there are a lot of people—particularly those who are on income support—who are told that they are in council tax arrears, and they come to my surgery and say, "But I don't pay council tax." Of course, they are not in council tax arrears, but in water and sewerage charge arrears, but that money is collected as if it were council tax arrears, which is a big problem.

Michael McMahon: Could you clarify that, Tommy? Would the local authority still be the collector of the water and sewerage charges?

Tommy Sheridan: That is a different policy question altogether. I do not think that local authorities should collect water and sewerage charges because they do not run the services. If the services are returned to local authority control, which would be great, the authorities should collect the charges, but that is a separate matter.

The Convener: I want to avoid getting into a debate on that.

Tommy Sheridan: That might be something for Michael McMahon to deal with in a private member's bill in future.

The Convener: It is helpful to clarify that point, Tommy, but I want to avoid getting into a debate on that. At the moment, we are asking questions of our witnesses.

Tommy Sheridan: Sure. I just wanted to take up Fergus Ewing's question.

According to the evidence that we have from SPICe, the Inland Revenue and others, the top 20 per cent of earners in Scotland, with an income of around £40,000 or above, pay as a proportion of their income some 2 per cent in council tax bills. Do the witnesses from Citizens Advice Scotland or Age Concern Scotland have any evidence on the percentage of income that is being paid by people at the low-income end of the scale, and particularly by pensioners?

David McNeish: There are many difficulties with the amounts. I have already illustrated the confusion around water and sewerage charges; I misunderstood that part of it. The level of income at which people are entitled to council tax benefit, and therefore the burden of council tax, varies from claimant to claimant depending on a wide range of factors.

Let me give an illustrative example. People aged 25 and above, say, who are living on their own, get a 25 per cent discount. The upper cut-off limit for their income would be about £6,800. Above that level of income they would get no help with council tax benefit, because they would be

deemed to have sufficient income to meet the full bill. That would be for somebody paying three-quarters of the bill. In that sort of case, it would be about 13 per cent of their income, but that combines council tax and the water and sewerage charge. Council tax alone would account for just over 9 per cent.

Tommy Sheridan: Are you saying that a single person over 25 years of age on a salary of more than £6,800—suppose that he is on a salary of £7,000—is not entitled to council tax benefit?

David McNeish: That is correct, if they have no other premiums—for having a disability, for example.

The Convener: When you quote those figures, what band are you quoting for?

David McNeish: That is a good question, because it varies from band to band. That would be the average across Scotland for band D. I have worked it out for band B as well, as a comparator.

The Convener: I ask because it seems to me that somebody on a very low income living on their own would not be so likely to live in a higher-band house. It might be the case for an older person, but not for a younger person.

David McNeish: That is a fair point. For a person in a band B property, the upper threshold is lower, because the person gets more support—it is £6,000 rather than £6,800.

Tommy Sheridan: I just want to be clear on the matter, because I did not think that the limit was so low. You are saying that a male or female single person who lives in a band B property does not qualify for council tax assistance or benefit if their income is £6,050.

David McNeish: That is correct.

Tommy Sheridan: Jesus. Sorry. Does Age Concern have any examples?

Jess Barrow: The only example that I can quote is a survey that was done by Help the Aged, although I believe that the committee has already seen that report. On average, the respondents to the survey paid 11 per cent of their income in council tax, which is significantly higher than other people pay. Some people in the survey paid up to 20 per cent of their income on council tax.

Tommy Sheridan: Was that an average?

Jess Barrow: Yes. The people who responded to the survey paid on average 11 per cent of their income on council tax. Among them, there would be people who were eligible for council tax benefit but, for whatever reason, did not claim it. However, that is the reality for pensioners in Scotland today.

Tommy Sheridan: So your evidence is that, on average, pensioners pay 11 per cent of their income on council tax. We have some individuals on poverty wages of £6,000 who pay 10 per cent of their income in council tax.

Jess Barrow: To clarify, the figure of 11 per cent was the average for those who responded to the survey.

Tommy Sheridan: I find that incredible. I thought that the threshold for assistance was a bit higher. Everybody goes on about the fact that people should claim council tax benefit, but do the witnesses agree that, even if people claim it, they will have serious problems in paying the council tax? Is that your evidence?

David McNeish: That is certainly our experience. There is a joke in the CAB service that anything that moves gets a benefits check—the aim is to maximise people's income. We are keen to get people who are entitled to council tax benefit to claim it, because that makes a tangible difference. However, particularly for working age people, the limits are so low that the level of support is insufficient to deal with the burden that is placed on them by the council tax.

Tommy Sheridan: I have a question for Jess Barrow. In the past few years, next to the pension, the council tax has been pensioners' single biggest concern. Some organisations have described it as a pensioner tax. In response to Paul Martin's comments that the bill would not lead to any improvement in efficiency, would you say that the majority of pensioners whom your organisation represents would welcome the £10,000 threshold?

Jess Barrow: A significant proportion of them would welcome it. Older people have become increasingly irate about the way in which council tax increases outstrip the increases in their income, which they feel is particularly unfair. One difficulty that many pensioners face is that they have a small occupational pension that takes them above the level for means-tested benefits. Those people come to us feeling angry; they feel let down by the Government and the pension companies, which have made promises. Those people thought that they were saving enough for old age, but they are hit by bills left, right and centre. They feel particularly angry about the council tax, because the increases have been significantly higher than the rate of inflation and higher than the increases in their income.

The Convener: I have a question for Jess Barrow about the impact on older people. Do you accept that there are other ways of alleviating the pressure on people who are on fixed incomes—such as retired people—rather than just abolishing the existing system? For example, a reform of the

council tax benefits system might help. If that system is inefficient because of the way in which people have to claim it, a rebate similar to the rebate that the Chancellor of the Exchequer introduced last year could be introduced as a permanent part of the pension system. That could act as a rebate for the cost of council tax for people who are on fixed incomes.

15:45

Jess Barrow: There are many ways to skin a cat, and I am sure that different methods could be used to address the problem. However, we know the difficulties with means-tested benefits. Pensioners do not claim them for all sorts of reasons, such as the stigma that is attached to them, their complexity and—despite the best efforts of Governments and organisations such as Age Concern—lack of knowledge about the benefits that are available. However, I accept that other methods might well be better.

In some respects, the one-off payment that was introduced by the chancellor simply caused more confusion. The payment was certainly welcomed, but we experienced a massive increase in inquiries because nobody knew quite how the payment would be made. It took quite some time before that problem was resolved and we could give people accurate answers. I accept that other methods could be used to resolve the problems that older people face but, for us, the benchmark is a system that is clear, simple and understandable. So far, we do not have that.

The Convener: Am I correct in understanding that the rebate that the chancellor announced last year was not means tested?

Jess Barrow: The rebate was not means tested, but there were issues around how it related to council tax benefit. It added yet another layer of complexity for people who were just trying to find ways of making ends meet.

Tommy Sheridan: My understanding is that, because pensioners who received the rebate had some of it written off against their council tax rebate, it caused confusion that was difficult to deal with.

Jess Barrow: It caused a great deal of difficulty for older people and for the advisers who were trying to help them.

Tommy Sheridan: Would it be helpful for the people whom you represent to have a system that does not have means testing? Do David McNeish and Caroline Dunne think that such a system would be welcomed by the majority of clients who visit citizens advice bureaux?

Jess Barrow: Older people tell us that they find means testing demeaning. An enormous number

of older people would welcome a system that did not require them to claim for means-tested benefits, because many older people find that really difficult.

David McNeish: Citizens Advice Scotland does not have a principled position for or against means testing. We try to maximise for people the money to which they are entitled under whatever system exists.

However, one difficulty with the system of means testing is that it is difficult for people to budget beyond their current circumstances. For example, if someone is about to have another child, they know that that will affect their applicable amounts and change the amount of benefit to which they are entitled. It will also entitle them to additional tax credits.

It is important that people are supported, but the rebate for older people that the Chancellor of the Exchequer announced in last year's budget illustrated some of the difficulties. In itself, the rebate was a simple measure to give people some money to help them to pay their council tax bills. However, because of council tax banding and the range of different exemptions, discounts and liabilities, there was a complicated interaction between the rebate and council tax benefit. It was like throwing something into a pool of piranhas—it just got torn apart. We need to consider fundamental reform of the way in which we raise and collect such moneys and how all the different elements interact. We need to come up with something that will make things a bit simpler and a bit easier to understand.

As you can imagine, it is intimidating for me to give evidence to the committee because I feel the burden of trying to represent all the issues that come through the door. That is bad enough, and I am not experiencing any of those difficulties. I have claimed council tax benefit in the past, which I found a complete and total nightmare, but I am now in the privileged position of earning the average wage. The way in which things are currently done is a nightmare.

Tommy Sheridan: I have three more quick questions. The convener made the reasonable point that a service tax is not the only way to alleviate the problems that Jess Barrow and David McNeish have identified. However, the two issues to which the convener referred are reserved and are beyond our powers. Does the panel accept that we should use the powers of the Scottish Parliament to try to tackle what is a big poverty problem?

Jess Barrow: Clearly, the Scottish Parliament has an opportunity to do something quite radical to address the poverty that is faced by older people in Scotland. The council tax has an impact on that.

Of course, the main means of addressing poverty among older people in Scotland lies south of the border. However, we have an opportunity to do something significant that would make a difference to many people.

David McNeish: In 1998, we responded to a consultation process on the reform of council tax, "It Pays to Pay—improving council tax collection in Scotland". In 2000, we sat on an Executive council tax joint working group, following which we published "Won't pay or can't pay—the real cost of Scotland's council tax debt", a copy of which was sent to this committee. Since then, however, nothing has changed. Where there is clear evidence of problems that can be addressed, why wait any longer? We know what the problems are—I have tried to outline some of them—and we know that it is within the means of the Parliament to deliver some solutions. The question is, what action will be taken? Whether it is done through this bill, another bill, amendments to legislation or regulations, changes in guidance to local authorities or whatever, a package of reform is needed to help the clients who come through our doors.

Tommy Sheridan: Could both your organisations provide us with more information about what we have been talking about, with the health warning that working out people's various entitlements, based on their income, is quite complex? What we have heard today about the low threshold for council tax benefit is shocking. It would be helpful if Jess Barrow could provide us with more information about the problem of senior citizens losing entitlement to housing benefit and council tax benefit because of their occupational pensions.

The convener talked about older people relying on the health service. Under the proposals in the bill, a general practitioner on £56,000 a year will pay £66 a week more. Do we really think that that is the driving force that will make a GP decide to move across the border to work in Manchester instead of the Highlands?

Jess Barrow: That is a difficult question. We know that GPs find it extremely difficult to stay in the Highlands and other rural areas because of the stresses, strains and burdens that are associated with working in such areas. Often, those are the issues that drive health workers out of certain areas. As I said before, the reasons why people move away from or stay in an area are complex and relate to issues such as quality of life, the way in which their jobs work and income, which is an important factor and one which is, of course, affected by the level of taxation. However, it is only one of many factors.

David McNeish: I used to work as a doctor and, for me and my colleagues, the biggest factor that

influenced where we wanted to work was the condition of the hospital, the hours that we worked and the ability to get some time off. I know that many of my colleagues would have taken a reduction in their salary if it meant that they could have more time off. However, that is only a personal reflection.

The Convener: Yes, but is it not the case that the bill would result in a reduction in doctors' disposable incomes without giving them any extra time off?

David McNeish: The reasons why people go to one place and not another are incredibly complicated and are not something that we can pitch in on.

The Convener: Perhaps you are aware that many GPs earn considerably more than £56,000 a year, which would mean that the impact on them would be considerably higher than the £66 a week that Tommy Sheridan suggested. Further, the orthopaedics side of acute surgery is an example of an area in the health service that is under a lot of pressure because of the increase in the elderly population, which is a result of the good news that we are all living longer. An orthopaedic consultant would probably earn around £100,000 a year, which, again, would mean that the impact of the proposed tax on them would be higher than the figure that Tommy Sheridan mentioned. That means that one of the areas relating to old people that would be impacted on if the proposal were to lead to consultants moving south is one that is already under pressure. Could you comment on that?

Jess Barrow: The health service is under immense pressure already and the issue of recruiting and retaining staff is key. As I said, there are many reasons for that. I do not think that Age Concern Scotland is qualified to say what retains and attracts particular professionals into particular professions. It might be better to put that question to the relevant professional bodies.

Michael McMahon: You mentioned the number of reviews of local government finance that have taken place. Another is currently being carried out by an independent commission. I assume that you have contributed to that review. Have you spoken to the commission? Did you give evidence to it?

Jess Barrow: We were asked to respond to the review. We did not, owing to pressures of time and resources in the organisation.

Michael McMahon: Are you worried that, because you did not make a contribution, the commission may not have considered the points that you made earlier about the thresholds for benefits and so on?

Jess Barrow: As a voluntary organisation with very limited resources, we find it difficult to respond to the enormous number of requests for evidence that we receive. We can respond to only a fraction of what comes through the door. Unfortunately, that means that sometimes we fail to respond to requests for information to which we would have liked to respond.

Michael McMahon: I understand that. Are you concerned that the commission may not have taken into account the type of issue that you have raised today, regarding the levels at which benefit entitlements are set?

Jess Barrow: It is a concern. However, I believe that the survey that Help the Aged carried out and to which I referred earlier was submitted as evidence. The issue of benefit entitlement levels will have been raised.

Michael McMahon: Do you think that it might be best for us to await the findings of the independent commission, which has had an overview of all the options, instead of trying to thrash out the rights and wrongs of one proposal?

Jess Barrow: It is important for us to consider all the different options and to consider carefully the implications of any change. However, older people want change and a fairer system now. They have been talking about the problems for a long time and are fed up with waiting.

Michael McMahon: I understand that, but the proposal that Tommy Sheridan has made may not be the best option. It would make a change, but that might not be the best change.

Jess Barrow: I agree entirely. Presumably, that is why the committee is giving the bill such scrutiny.

Michael McMahon: That is exactly why I asked the question.

Fergus Ewing: I am sorry that I was absent from the meeting for a moment on another matter. I want us to be absolutely clear on one point. Are you expressing a view on behalf of Age Concern Scotland on whether you support the bill? If so, do you support it?

Jess Barrow: We are not expressing a view on whether we support the bill. I have endeavoured to express some of the concerns that have been communicated to us by older people, and to describe some of the difficulties that they face under the current system and some of the changes that they would like to see. However, we are not in a position to be able to support or not support the bill.

Bruce Crawford: From what you have said, I assume that, generally, Age Concern wishes to

see the introduction of a system of local taxation that is based much more on ability to pay.

Jess Barrow: The strongest view that has come through in the evidence that we have received from older people who talk to us about such issues is that there should be a system based on ability to pay.

The Convener: That brings us to the end of questions. I thank David McNeish, Caroline Dunne and Jess Barrow for their evidence.

We move straight to the next witness. I welcome to the committee Professor David Bell, from the department of economics at the University of Stirling. I am sure that David has given evidence to a few parliamentary committees before, so he probably knows the format. After he has made some introductory remarks, we will move to a question-and-answer session.

16:00

Professor David Bell (University of Stirling): I feel like a second-half substitute, as the council tax is not particularly my area. Witnesses from the Institute for Fiscal Studies would have been very welcome, but unfortunately they have been unable to show.

I have presented the committee with a paper. In it, I have tried to describe my understanding of what council tax and the service tax amount to. I have also tried to illustrate the taxes' different impacts on the incentive structures that they might set up. I have listened to a lot of the questions and answers this afternoon and it seems that evidence on what would actually happen is pretty sparse. One can clearly see the incentives once the different tax burdens are revealed, but it is difficult to conclude what the precise implications might be.

It is important to remember that the council tax is a hybrid tax. It is also regressive. Everyone speaking this afternoon has argued that council tax benefit is complex and I do not disagree with that. Strangely, council tax benefit acts like an income tax. It is not described as an income tax, but the way in which the taper works—the way in which council tax benefit is withdrawn—is similar to how income tax is levied at around 20 per cent, rather than at 5 per cent or so, at which the service tax level would start. In a way, the two systems are not as dissimilar as one might think, although they become very dissimilar at the top end, as the service tax keeps on going whereas the council tax is clearly limited to council tax liability. I think that I can deal with any further issues in response to the committee's questions.

The Convener: I will start with an issue on which we were questioning the previous

witnesses—the potential for fiscal flight. In paragraph 9.2 of your paper, you refer to

“those on high earnings, who might move their residence to the rest of the UK or outside the UK.”

In your conclusion, under paragraph 11(c), you write:

“Higher earners will have a strong incentive to avoid the SST and may seek to do so”.

From your perspective as an economist, do you believe that the marginal tax rate at 18 to 20 per cent, which would apply to higher earners, would be a sufficient incentive for a significant number of them to decide to locate elsewhere in the United Kingdom?

Professor Bell: That depends on their circumstances. There is no question but that people earning more than £100,000 would face a substantial additional bill. The question is what those people will do. There will be lots of accountants willing to sell them their services and suggest ways in which they might avoid that additional tax.

The people affected might consider ways of changing their apparent residence—not necessarily their real one—so that it appears that they are living and working somewhere other than where they actually are. The extent to which that might happen is difficult to determine, but it might apply to some key people, which could have a major impact on the Scottish economy. Just a few of them leaving might be an important factor. It is extremely difficult to predict what will happen. How much of an additional bill will J K Rowling be facing? What might she decide to do? Might she simply say that she works from her residence in Surrey?

The Convener: I think that there is significant potential for such eventualities. I asked questions earlier about areas where people might perceive that the tax was having a direct impact on them. Where J K Rowling lives might not be so important—people can still buy the Harry Potter books wherever she writes them—but there are perhaps implications for where well-paid consultants in the national health service work. Would someone on an NHS consultant's income have sufficient incentive at least seriously to consider working in Manchester or Newcastle as opposed to Glasgow or Edinburgh?

Professor Bell: I will answer that in a couple of ways. I do not have direct evidence on doctors, but one response might be—and this has happened elsewhere in the UK where there has been an attempt to attract people into public sector professions—that the health service in Scotland simply has to pay them more. If they face a £20,000 bill, their pay is upped by £20,000. Ultimately, that money comes out of the Scottish

Executive's budget, which means that it will have less to spend on other things. However, as I said, I do not have direct evidence on doctors.

While I was listening to the questions, I was reminded of some work on nurses' pay that I did for the Economic and Social Research Council—that work will be published soon. We found that wages, along with a lot of other things, matter. In particular, because of the higher cost of living down in the south-east, all kinds of schemes were being dreamed up in order to pay nurses more to attract them there, because they could not otherwise afford to live there. Pay matters. There were huge vacancy lists.

The Convener: So you foresee that if the Scottish Executive did not substantially up the pay of senior doctors, a number of them would move. Moreover, if the Executive decided to increase their pay substantially, that would be an additional cost to the Executive and, ultimately, to the tax base in Scotland, but that cost is not budgeted for anywhere in the bill.

Professor Bell: Certainly the Executive would have to pay more. As to how many people would move, I do not know. All I am saying is that, as far as nurses are concerned, pay matters.

Paul Martin: What would be the economic impact if the rate of unemployment returned to the levels that we saw in a previous generation? Would that place even more pressure on those in the higher bracket who were left to pay?

Professor Bell: Clearly, higher unemployment would reduce the tax base—the number of people who pay. Who knows how it might be spread across the different salary levels? That illustrates how the service tax would be less predictable than council tax, in the sense that it is dependent on how well the economy performs. If unemployment rises and incomes fall, there is less money to be recovered by the Inland Revenue. There could, of course, be favourable circumstances, but the point is that there is more variation and therefore less predictability in the yield of the service tax, so the Scottish Executive would have to be the lender of last resort to the councils to make up for shortfalls or perhaps have to cream off resources when the councils did particularly well in a given year.

Paul Martin: The convener talked about fiscal flight. It goes without saying that people who earn substantial sums have an impact on regeneration in communities. Losing part of that income base could pose challenges for communities that have been through the regeneration process.

Professor Bell: Clearly, we want the economy to be dynamic. There is no question about that. I cannot give direct evidence showing that if a few high-earning individuals were weeded out, Clydebanks would decline; I am not in a position to say whether that is true.

An interesting issue is that some parts of Scotland, such as farming areas, depend heavily on self-employed people. The area of north-east Scotland around Aberdeen has a high proportion of self-employed people, which would pose a difficulty for the recovery of the service tax, because self-employed people normally pay tax well in arrears. That relates to the process of collecting the tax. Self-employed people do not know at the start of a year whether they will make a profit or a loss, so that would introduce more unpredictability about the revenue that was raised.

Paul Martin: To be fair to and objective about the proposal, it would have the advantage of being levied across the board. We talk about fiscal flight. One difficulty in Glasgow, for example, is that people will move to other authority areas for lower tax rates but still enjoy the services of the Glasgow community. Under the bill, would less of that fiscal flight take place?

Professor Bell: There is no question but that levying a single rate throughout Scotland creates no incentives to move within Scotland. The impact of that on authorities that want to take a different route is an issue. If they wanted to spend more, I presume that they would have to make a case to the Executive for a larger grant, rather than increasing tax directly on local taxpayers.

Paul Martin: There would also probably be no incentive to make cost savings. They could be more difficult to achieve.

Professor Bell: On that, it is true that a council would be less answerable directly to the local electorate.

Mr Davidson: Your conclusion in paragraph 11 talks about whether the service tax could be administered within Scotland, which I have questioned. The gist is that it will be a nationwide tax that would be outwith the Scottish Parliament's tax-varying powers. If the Treasury took that view, I presume that the tax would not happen. However, if it did not take that view, what would be the difficulties of attaching collection of the tax to the balance of local services? How would that equation work?

Professor Bell: Do you mean that the local component of the revenue that an authority raised would come from the Inland Revenue?

Mr Davidson: I presume that the revenue would go to the Scottish Executive. Distribution would be determined purely by a grant-aided expenditure settlement and arguments about that. Surely, from an economic point of view, the Executive would wish to have control.

Professor Bell: The Executive controls GAE, which is weighted by factors such as the number of children, the number of older people and the

extent of deprivation. Whoever controls that formula controls precisely how much each local authority receives.

Mr Davidson: In other words, the Executive could use the service tax as another form of taxation for central funding and allocate whatever it fancied in GAE. Technically, the Executive could cut the money to local authorities.

Professor Bell: This is a slight aside, but my submission includes a couple of graphs that show that spending per head in Scotland from local government sources has fallen, whereas spending on services provided by central Government, which includes the Scottish Executive, shows no sign of falling. The shift away from local government spending towards Scottish Executive and central Government spending has already taken place.

16:15

Mr Davidson: You talk about the difficulty of estimating the revenue and you mention the north-east, which I represent, where—because of some of the policies of the Chancellor of the Exchequer—many self-employed people are already registered as being employed abroad. They might do that through a company, for example. As the saying goes, they draw drawings only to suit their needs. What difficulties would that present if we had a service tax in Scotland? That form of taxation would not relate to the earnings of the firms of such people.

Professor Bell: I presume that that practice would be more common. The question is to what extent that matters to the overall health of the Scottish economy. There are large numbers of such people about—between 5 and 10 per cent of the workforce are self-employed. In deciding how much to take in drawings, they use an accountant to minimise their tax liabilities.

Mr Davidson: Do you think that there is a threat that the service tax would result in people who had control over any form of business rushing to adopt that practice? It could even be the case that companies would seek to have employees put on self-employed contracts rather than be paid on a PAYE basis.

Professor Bell: I assume that the Inland Revenue would resist that and would investigate matters thoroughly. It is clear that there would be more money around to pay accountants to try hard to find ways round the system.

The Convener: That would be good news for accountants.

Mr Davidson: In comparison with the proposed service tax, you seem to be quite supportive of the council tax and of other ways of redistributing

wealth, a number of which you highlight in your submission. What would you do to change the current council tax system?

Professor Bell: I agree with much of what was said earlier on. The council tax impinges on a group of people, including older people, who are not completely reliant on benefits but who are on fairly low incomes. I am familiar with the situation of people in that category because my mother falls into it. The proportion of their net income that they spend on council tax is too high and ways must be found to get round that.

I am not keen about the idea of losing property as something on which people can be taxed, because it is a form of wealth. Ability to pay is not just about earned income; many people live on investment income. They are able to do that because they have a large chunk of wealth. We should not forget that someone's wealth, as well as their current earned income, offers a basis for applying taxation.

The council tax is a big burden on older people, but nursing home or residential home charges are a much bigger burden. If an older person cannot pay those charges out of their income, the council or financial advisers advise them to convert their wealth—in other words, their house—into income by taking equity release. That allows them to take £20,000, for example, out of the value of their house to provide them with an income to pay nursing home fees. A house can provide someone with an income, but the issue is extremely difficult, as we do not want to have a tax that involves people selling their houses. Equity release is a little less punitive but, in general terms, I imagine that it is still politically unacceptable.

Fergus Ewing: I want to pursue three areas of questioning. You said that you would be uncomfortable with the complete abolition of property taxes and that you would like some kind of property tax to be retained. I am sure that you accept that there are other forms of property tax—I refer to capital gains tax and inheritance tax, which would apply in some circumstances, although I believe not with sales of first homes or main residences.

Paragraph 9.4 of your paper is about excess burden and whether the service tax would suppress economic activity. You refer to research in a footnote to that paragraph. Is that the only research that you came across on the issues that you mention? It is surprising and disappointing that only one article—which is seven years old—should be mentioned.

Professor Bell: I mentioned that article because it is seen as the key article—indeed, it won an Econometric Society prize in the year that it was published for being one of the best articles on the

issue. However, there are myriad articles on the issue.

The main point of the article was contained in a response to an earlier question. The researchers used the variation in tax in the UK in the 1980s—taxes changed dramatically during that period—to try to determine what happened to the supply of labour and whether it increased or decreased. They found significant impacts over the period, mainly for women.

Fergus Ewing: Will you describe them?

Professor Bell: As marginal rates of tax came down, the involvement of women in the labour market increased. The number of women participating in the labour market and the number of hours that they worked increased, because there are—as we now know—more women than men in the labour market.

Fergus Ewing: It might be useful to get hold of a copy of that article and study it.

Professor Bell: It is a little indigestible.

Fergus Ewing: At the end of paragraph 9.4, you state:

“It is worth noting, however, that most OECD countries have been reducing labour taxation in recent years arguing that this mechanism will help reduce unemployment.”

Will you give us more information about that?

Professor Bell: I do not have a particularly strong view about whether that has been terribly successful. There has been discussion of what is called the European sclerosis and why the European economy in general has performed relatively poorly compared with the economy of the United States in respect of growth. One argument has been that social security taxes and income taxes have been too high on mainland Europe—that can be seen from one of the diagrams in the paper. I am thinking of France and Germany in particular. Attempts have been made to reduce those taxes in the belief that doing so will stimulate the economy. Economic growth in France and Germany is not currently showing signs of outstripping growth in the UK—the long-term behaviour of France and Germany has been sluggish. That is the kind of thing to which I refer. The Organisation for Economic Co-operation and Development has been one of the moving forces behind urging Governments to reduce income taxes, which will shift burdens on to other forms of tax.

Fergus Ewing: Would it be easier to see the effect of the European sclerosis by considering businesses in Scotland that have relocated? I refer to businesses such as R B Farquhar in Aberdeen setting up in the Czech Republic and Brownlie's setting up in one of the Baltic states to obtain the

benefits of lower labour costs. Further moves to increase the burden of taxation through the service tax, for example, might accelerate the undesirable trend that we can already see.

Professor Bell: High labour costs are certainly an issue, but they are more of an issue in France and Germany than here. The reality of the past 10 years is the emergence of China and the low labour costs there. If our economy is to keep ahead, we must produce the kind of goods that the Chinese cannot produce easily. If we are not able to do that, but try to compete on the basis of low cost, we will just lose business to the Chinese and, possibly, to the transition economies in eastern Europe.

The Convener: Many of the key people who have made breakthroughs with new goods at the cutting edge of science and engineering, which fit the criteria that you mention, might also pay higher levels of local tax under the bill.

Professor Bell: That might be possible. Those people are often highly mobile.

Fergus Ewing: My final question is about the figure in paragraph 3 of your submission, on council tax in Scotland. You set out the weekly council tax payments by council tax band in Scotland and in RUK in 2003. Your conclusion is:

“Council tax bills are generally *higher* in Scotland ... and incomes *lower* than in the UK as a whole. Therefore the burden of council tax is higher in Scotland.”

Professor Bell: Yes, that is particularly true for low-income people. Their incomes are low, yet the council tax bills that they face are higher than those that are faced by people south of the border.

Fergus Ewing: Am I correct in assuming that the figure looks simply at the bills that are paid, in cash terms?

Professor Bell: Yes.

Fergus Ewing: I think that I am right in saying that there are different bands in Scotland. In Scotland, a house that is valued at £50,000 is in band D, whereas in England it would be in band B, and a house in Scotland that is worth £60,000 is in band E, whereas in England it would be in band C. If one were to prepare a table that compared the burden for houses of similar value, the disparity would be even greater and the element of overtaxation—if I can put it that way without being provocative—would be higher still.

Professor Bell: Yes. I think that that is correct.

Bruce Crawford: Most of my questions have been asked, but there is one that I would like to ask Professor Bell. You will be aware of the fact that the Executive is undertaking a review of local taxation and is in the process of consulting on it.

Professor Bell: Yes.

Bruce Crawford: In paragraph 9.4 of your submission, you express some disappointment—that is probably the right word—at the fact that the Executive has not undertaken research on the impact of taxation on households. Should the Executive be doing that as part of the on-going consultation process on local taxation? Do you think that it would be a weakness not to have that information included?

Professor Bell: I think so. I can expand on that a little.

Bruce Crawford: That would be useful.

Professor Bell: The difficulty is that the Institute for Fiscal Studies is not involved, because it could do a proper costing or comparison of the two taxes. If taxes rose by 20 per cent, an extra 20 per cent of a person's income would be calculated. However, the models that the Institute for Fiscal Studies uses also take account of the possibility that that person might reduce their hours or withdraw from the labour market altogether. Those models are made up of thousands of make-believe people who have the same characteristics as the population at large.

The Scottish Executive has access to a Treasury model that does a similar task. There are many things in Scotland to which such a model could usefully be applied; taxation is just one of them. We are struggling, because the estimates of the take have to be taken with a serious pinch of salt. We are not taking into account all the effects. No model that can do such exercises is available from any of the Scottish universities. That should have been addressed previously.

16:30

Bruce Crawford: That is pretty alarming. In effect, you are saying that we are stumbling about in the dark as we try to tackle changes in local taxation in Scotland.

Professor Bell: To some extent, that is true.

Tommy Sheridan: I am disappointed, David, because your paper lacks a lot of evidence and a lot of assumptions have been made. I have questions on a number of issues and I would like you to elaborate on them. First, in relation to the previous question about economic models and the input of potential changes in taxation, the architects of the proposal used the Fraser of Allander institute approach, which was adopted for the tartan tax analysis.

Professor Bell: That does not compare. I have to be honest.

Tommy Sheridan: It is all that is available. You suggest that the estimates have to be taken with a

large pinch of salt, but the approach that the Fraser of Allander institute adopted is the most academically rigorous one available.

Professor Bell: It is the most academically rigorous approach available in Scotland, but it does not go a tenth of the way that the Institute for Fiscal Studies approach goes towards addressing the issues that affect households. It is not household based. The Institute for Fiscal Studies approach applies the tax rules to individual households, but the Fraser of Allander institute uses an aggregate model.

Tommy Sheridan: I accept that there are weaknesses—

Fergus Ewing: May we hear what the witness says?

The Convener: May we hear his answer, Tommy?

Tommy Sheridan: Sorry. I thought that he had finished.

Professor Bell: The Fraser of Allander institute uses an aggregate model with 10 or 20 equations, whereas the Institute for Fiscal Studies model uses several thousand equations.

Tommy Sheridan: The analysis in the research is not whistling in the dark. It uses the most rigorous academic research available in Scotland. Weak though it may be, it is all that is available. When you talk about weaknesses in the estimates, that fact should be mentioned to show that the research is a wee bit more robust than you suggest.

On the bill and the associated documents, you said that you were a late substitute. Did you not get a chance to read the material?

Professor Bell: I read the material before I wrote the paper.

Tommy Sheridan: Did you read the financial memorandum?

Professor Bell: Yes, I think so.

Tommy Sheridan: Page 7 of the financial memorandum states, under paragraph 32:

“On 11 November 2004, the Presiding Officer (the Right Honourable George Reid MSP) made the following statement:

‘In my view, the provisions of the Council Tax Abolition and Service Tax Introduction (Scotland) Bill would be within the legislative competence of the Scottish Parliament.’”

You are not here as a lawyer.

Professor Bell: No, I am not.

Tommy Sheridan: You are here as an economist.

Professor Bell: I—

Tommy Sheridan: When you challenge whether the proposal may be legal—

The Convener: Do not hector Professor Bell while he is giving the answer.

Fergus Ewing: There is no page 32 in the financial memorandum.

Tommy Sheridan: It is on page 7.

Fergus Ewing: You said 32.

Tommy Sheridan: It is paragraph 32, Fergus.

The Convener: Let David give his answer.

Professor Bell: I am just raising the question because I remember that when the Scotland Act 1998 was passed there was an issue about when the Treasury might intervene. I am not a lawyer. I do not know the answer, but I—

Tommy Sheridan: My point about your reading the documentation and producing a paper is that you mentioned the question whether the proposal is legal, which is well beyond your remit. Is that not the case?

Professor Bell: I am not a lawyer. I raise the point because I think that it could come up as an issue.

The Convener: I have a further question in relation to the bill's legislative competence. It is the case that George Reid has signed off the bill as being legislatively competent. However, am I correct in saying that your point is that a bill passed by the Scottish Parliament does not become an act until it has been signed by the legal officers of the UK Government? If the Treasury made representations to the law officers of the UK Government that an act was outwith the bounds of the Scotland Act 1998, that could lead to a bill not becoming an act.

Bruce Crawford: I wish that would happen.

Tommy Sheridan: There would be a mighty row.

The bill is very short. Section 2(2)(a) explains who is liable by defining an owner as someone who is

"holding any title or real right to such property in the Land Register of Scotland".

Section 2(1)(c) defines those liable as a "qualifying individual" who

"is the owner of heritable property in Scotland."

It is not correct to say that there is no property element in the service tax. We have tried in the architecture of the bill to ensure that absentee landlords who own large tracts of land in Scotland but who pay no tax on them can be taxed, based on their heritable property rights.

Professor Bell: How would that work?

Tommy Sheridan: Let us take a name such as Al Fayed, for example, and think about someone who perhaps was not paying tax in Scotland. If that person were proved to be the beneficiary of a trust deed or if he owned a heritable property in Scotland outright, his local authority area could charge him the legitimate service tax rate on his UK income.

Professor Bell: My mother lives in a part of the country in which many Americans own houses. I see no way that we could recover tax from them, even though they own a significant proportion of the housing stock in the area.

Tommy Sheridan: With the greatest respect, that would be the job of the Inland Revenue, as it is contracted by the local authorities. The point is that there is a property element in the bill.

The Convener: Tommy, perhaps we could explore that when you give your evidence. We are moving towards arguing the case instead of asking questions.

Tommy Sheridan: With the greatest respect, David Bell is here as a professor of economics; he has made some statements that I am rigorously examining. There is no problem with that.

David, paragraph 9.4 of your submission is headed "Excess Burden" and states:

"Ideally taxes should not affect behaviour."

I find that an incredible statement. I thought that the point of taxing tobacco so heavily was to stop people smoking. Surely tax is regularly used to try to influence behaviour.

Professor Bell: I am talking about economic behaviour; I am talking about the way in which the economy works. We do not want a tax system that biases how the economy behaves. That is my main point.

Tommy Sheridan: In paragraph 9.4, you also refer to women workers, although the research that you cite is seven years old. As a professor of economics, you must recognise that most women workers are in low-paid and part-time employment. Abolishing council tax would mean that they paid less tax, which would give them more disposable income. Would that not increase their desire to work?

Professor Bell: I say that in the paper. The net effect of switching from council tax to service tax would be complicated to work out. There might be benefits for those who earn less than £10,000. I am not arguing with that. What I am saying is that it is difficult to work the figures out; we are struggling to find an accurate answer.

Tommy Sheridan: Paragraph 9.4 states:

"It is impossible to say how these effects might balance out. This uncertainty is unsatisfactory."

As a youngster, I went to the University of Stirling, fortunately, and studied economics. I always remember that wee theory about the marginal propensity to consume. Given that the effect of the tax would be to put millions of pounds more in the pockets of the lowest earners in Scotland, why is there no mention in your paper of all the economic theory that suggests that putting more money in the pockets of the lowest earners will lead to greater general economic activity?

Professor Bell: That is a fair point; I have not included everything. The other thing that I have not included is the net effect of the withdrawal of council tax benefit.

Tommy Sheridan: I am going to go on to talk about that.

Professor Bell: If you want to ask me about that, that is fine.

Bruce Crawford: Can you tell us what the net effect would be?

Tommy Sheridan: Sorry, Bruce. I was asking why there is no mention of what is in screeds of economic documentation—the theory that if the incomes of the lowest earners are improved, those people are more likely to spend, which leads to greater economic activity generally. That is not mentioned.

Professor Bell: Again, the issue is extremely complicated. If those people spend a lot of their money, they will spend it in Tesco. What happens to that money? Does it recycle through the economy? It might well move down south. Tesco has extremely large profits.

Tommy Sheridan: It would have been great if you had mentioned that and then qualified it. The point is that your paper does not even mention it.

You talk about the loss of council tax benefit. Again, I ask whether you have read the documentation, which anticipates the loss of council tax benefit and mentions the generation of £269 million net more than the council tax raises. You take no account of that; you have just said that the benefit will be lost and that that will lead to a loss in economic activity.

Professor Bell: Let us go back to Stirling economics. The Department for Work and Pensions will put £400 million less into the economy. You will raise more money to circulate within the economy from high earners—although it does not matter whether that money comes from high earners or low earners—but there will be a net withdrawal from the Scottish economy of £400 million per year. You might well raise more in total

from the service tax than you do from the council tax, but that money has been generated within Scotland; it has not come from outside Scotland.

Tommy Sheridan: The point is that there is no net reduction in the amount of money available for local government jobs and services, which is what the bill is designed to pay for.

Professor Bell: That may well be the case, but there will be a reduction in the overall economy.

The Convener: Let us be absolutely clear. You are not disputing the point about the money that will be available for public services, but you are saying that there will be several hundred million pounds less in the Scottish economy.

Professor Bell: Yes.

Tommy Sheridan: Sorry?

The Convener: There will be several hundred million pounds less in the Scottish economy.

Tommy Sheridan: Sorry—I thought that you said £700 million. I was going to question your figure.

Professor Bell: I have come across the figure because I was involved when attendance allowance was being withdrawn from care home fees. The DWP is fixed on that; it will apply the rules come what may.

The Convener: On the back of Tommy Sheridan's question about predicted additional income, from reading the financial memorandum it seems to me that that predicted income does not take account of any reduction in yield because of people who choose to move south or to avoid paying the tax by other means. In your view, would it be prudent to get a full analysis of the possible impact on yield and make it part of the financial memorandum of the bill?

Professor Bell: Yes, we need that analysis.

Tommy Sheridan: My next point seems key, because you illustrated the issue with tables. The crossover point at which the SST becomes more expensive than council tax is at an income of £31,000. I have underlined the words

"those with household incomes below £31,000 would be better off, while those with higher incomes would be worse off."

Will you explain that crossover point to me?

16:45

Professor Bell: It was based on the example that I used. As a result of the myriad variations in council tax, council tax benefit and what people might be liable for, I just took a simple example of a case where someone was facing a bill of about £1,000. I took their household income, which

varied between £5,000 and £120,000, and looked at how the two taxes would broadly compare over different levels of income. I used a simplification because I could not go through lots of different examples. I know that you have done that in the financial memorandum, but it is also important to see roughly what service tax bill someone might face if they were liable for a council tax bill of £1,000.

Tommy Sheridan: What was your assumption about the household with the income of £31,000? Does it contain one, two or three earners?

Professor Bell: It was a one-earner household.

Tommy Sheridan: But you do not say what proportion of the Scottish population that income represents. Would you be surprised to know that it is less than 15 per cent?

Professor Bell: There are not that many single-earner households. There are quite a lot of family households. I gave one example—

Tommy Sheridan: But the point is important. If we understood that example to be of a family household, our assumptions would be wrong. The only way in which that system would work would be if the individual had a 25 per cent discount. You have based your example on the top 15 per cent of earners in Scotland.

Professor Bell: The example is meant to cover all possible incomes for a single-earner household. The incomes in the graph vary between £5,000 and £120,000. It just so happens that there is crossover at £31,000, but that does not mean that it was the only example that I used.

Tommy Sheridan: You would be happy for me to suggest that the graph is a picture of only 15 per cent of Scots, because 85 per cent of Scots earn less than £31,000 a year, according to the Inland Revenue.

Professor Bell: No. I accept that the graph refers to single-income households, but it looks at all incomes between £5,000 and £120,000 in that group. I agree that the crossover point is at £31,000, but the graph still says stuff about people who earn £15,000. The graph is based on the same calculations in which I show that the people who are hardest hit are those who are just £4,000 or £5,000 above what is called the applicable amount.

Tommy Sheridan: What about two individuals on £20,000, which would give a household income of £40,000? Would they be better or worse off under the service tax?

Professor Bell: A single person—

Tommy Sheridan: No, a couple.

Professor Bell: I do not have my computer here.

The Convener: If the witness has not done the calculation, it is unfair to ask him to do it on the spot.

Tommy Sheridan: Except that his submission contains all these fancy graphs.

The Convener: Those are calculations that he has carried out and can answer questions on. We are not giving a mental arithmetic challenge to the professor.

Tommy Sheridan: Sure, I do not mean to put you on the spot, David; I am just looking for an indication. I give you an example of a household with an annual income of £30,000—which puts it into the top 10 per cent of households—in which both adults would pay £450 each. That would be a household bill of £900, which would be less than the current band D council tax rate. Even people in that example would pay less under the service tax.

Professor Bell: Okay. I said to the clerk initially that I would do a three or four-page submission; I ended up doing 15 pages. I could have done a lot more. I did not cover your example, but you make a fair point.

The Convener: Tommy Sheridan's example would work if the couple lived in a band D house. However, if they lived in a band A or B house—the current average bill in Scotland is £729 for a band A house and £851 for a band B house—they would be paying more under the service tax.

Professor Bell: Yes.

Tommy Sheridan: One would then have to cross-reference that with the figures available from the Scottish Executive that tell us how many families on a household income of £40,000 a year live in a band A, B or C house. The answer is none.

The Convener: Tommy, I am asking the question of the professor. We will have the opportunity to ask you questions at a later stage.

Tommy Sheridan: David, I just wanted to raise those points with you. I hope that you took them in the best possible manner. When we want a proposal to be rigorously assessed, we hope that there is fairness in the assessment. There was an awful lot of knocking material in your paper, but not much positive material.

Michael McMahon: Tommy Sheridan has just used the word “fairness”. In the discussion this afternoon, we have heard from people who are obviously concerned about the unfairness of the council tax as it impacts on those at the bottom end. That is what the bill aims to address, but in doing so it may create unfairnesses elsewhere. We must consider the totality of the situation. Tommy Sheridan did not like the figures that I used earlier, so I will use his figures this time as an example.

I would like you to consider whether this scenario is fairer, Professor Bell. According to Tommy Sheridan's figures, someone who earns £29,999—£1 short of £30,000—would pay a Scottish service tax of £900 and someone who earns £20,000 would pay a Scottish service tax of £450. Therefore, a couple, one of whom earned £29,999 and the other of whom earned £20,000, would pay a total of £1,350. Let us say that in an identical house next door with the same number of people in the house—two parents and two children—there is only one earner, who earns £50,000. According to Tommy Sheridan's policy memorandum, that person would pay £3,900 in Scottish service tax. Two identical households that are beside each other both have £50,000 incomes, but one pays £1,350 in Scottish service tax and the other pays £3,900 in Scottish service tax for the same services. Is that fair?

Professor Bell: I must admit that that is difficult to rationalise. That is not to say that there are not lots of inequities under the current system, but the example that you use would clearly be difficult to justify.

Michael McMahon: We must look at the totality of the tax take. Creating unfairnesses across the rest of the tax system while addressing a problem at one end is not a good way of solving problems in the taxation system, is it?

Professor Bell: Sure. That comes back to the issue of exploring alternatives and our limited resources to be able to do that. We have been presented with one set of rates for the service tax. Other sets of rates would produce different outcomes, as would other sets of tapers for the council tax band. We must ask what we want out of the system and have a programme of research to try to get rid of the unfairnesses that you mention as well as the unfairnesses down at the bottom end.

Bruce Crawford: I understand what you have said about the lack of a model. Whatever the system of local taxation in Scotland, the lack of a model affects what we know about the changes that the system might bring and the impacts that it will have on the wider social and economic make-up of Scotland's economy. However, you say in paragraph 11(b) that the SST

"is not necessarily the only way to reduce the burden of local taxation on this group"—

"this group" being those on relatively low incomes. Bearing in mind your caveats about there being no model, can you suggest what the other mechanisms might be to begin to impact on that group?

Professor Bell: There are two levels at which we might begin to do that, the first of which is to operate on the council tax itself. For example, the

funding formula could be changed so that the Executive paid a higher proportion of the total tax take. However, people might feel that such an approach would remove local democracy.

Secondly, one could play with council tax benefit by cutting back the taper—which is effectively an income tax of 20 per cent—to make the withdrawal of benefit more gradual. That would allow people coming back into work, who face high marginal tax rates as a result of having received council tax benefit, to be taxed at not such a high marginal rate.

Of course, a panoply of existing benefits such as tax and pension credits are supposed to reduce poverty and make the lives of citizens whose income is at the lower end of the income distribution scale more bearable. This area is hugely complex and trying to make things fairer often seems to result in more complex rules to ensure that we take account of this, that and the other problem. In the end, the trade-off is the problem of bureaucracy and how people deal with lots of rules, as the previous witnesses highlighted.

Many Governments have wrestled with that huge problem. We should devote more resources to understanding the trade-off between hoping to make things fairer by having a more complex system with lots of rules and having a simple system such as a flat tax that might create other inequities. I can see simple solutions to council tax, but they have knock-on effects for all other benefits. I do not know what all those knock-on effects might be; in fact, I might not be able to tell you even if I went back and spent some time on my computer.

Bruce Crawford: I think that what you have said answers my question very well.

The Convener: Tommy Sheridan asked about taxing individuals who owned property in Scotland but who were not normally resident or did not earn any income or pay income tax in the UK. Would any mechanism allow the Inland Revenue to recover income tax from such a person, who might be resident and pay income tax in, for example, the United States or another European Union country?

Professor Bell: Would there not have to be a taxation agreement between the countries involved?

Tommy Sheridan: All those agreements exist within the OECD countries. There would be a problem only with Switzerland, Jersey or the Isle of Man.

Professor Bell: The Inland Revenue would have to buy into such a mechanism, because the Scottish Executive would not be able to deal with the Internal Revenue Service in the US.

The Convener: If the tax were introduced, would countries seek to protect their citizens who earned none of their income in the UK?

Professor Bell: I suspect so.

Tommy Sheridan: As far as your question is concerned, convener, those people would be breaking the law if they refused to pay a legal tax.

The Convener: As I said, Tommy, you get a chance to question—

Tommy Sheridan: Sorry, convener. I appreciate the chance.

This afternoon, there were a lot of tears around the table for the high earners when we were talking about high marginal tax rates for the wealthy. Will you confirm that people on low incomes of £6,000, £7,000 or £8,000 who move to a higher income of £10,000, £12,000 or £13,000 do not face the 20 per cent tax rate that you mentioned? That accounts only for the loss of council tax benefit. In fact, those people also lose housing benefit at the rate of 65p in the pound. In other words, right now in this country, people at the lowest end of the income scale face an 85 per cent tax rate.

Professor Bell: That will vary a little bit depending on individual circumstances. However, I have no doubt that, if we are talking about the withdrawal of benefits, people on low incomes face higher marginal tax rates than people at the top end of the scale do.

The Convener: On the earlier question about potential fiscal flight, is it not the case that well-paid professionals are more mobile and able to move if they feel that there is a financial incentive to do so?

Professor Bell: That is also true.

The Convener: As that ends our questions, I thank Professor Bell very much for his evidence. I have to say that this session has certainly been lively. We will now move into private session.

17:00

Meeting continued in private until 17:13.

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