The Commission on Local Tax Reform

Volume 3 – Compendium of Evidence

December 2015

THE COMMISSION ON LOCAL TAX REFORM

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Our Approach

1. We recognised that the formation of the Commission offered an unprecedented opportunity to consider the options for reform of the present Council Tax, and we were determined to do justice to that challenge. With the Commission jointly established by the Scottish Government and the Convention of Scottish Local Authorities, and bringing together representatives from various political parties, alongside members of the legal and accountancy professions, academia and civic society, we also recognised that the formation of the Commission was a unique opportunity to ensure that a range of perspectives and expertise were brought to bear on the evidence.

2. To maximise these opportunities, we developed a detailed evidence gathering plan which was focused on three core objectives:

   - To develop a thorough understanding of the present circumstances in relation to local taxation;
   - To access expertise and analysis regarding opportunities for reform and their impact; and
   - To actively engage with people and organisations about options for reform and to capture their views.

3. One of our initial phases of work was to undertake a series of knowledge building sessions to develop further understanding of the current landscape of local taxation and potential alternatives. We met with a range of organisations and expertise as part of this process, including the IRRV, Scottish Assessors Association, academics, and others. Further information about these sessions is available on our website.

The Evidence Received and the Research Commissioned

Assessing views on the present Council Tax and other approaches to local taxation

The call for written evidence

4. The evidence base set out in this Compendium includes independently prepared analysis of several thousand pages of written evidence submitted by over 200 respondents, including 79 organisations as diverse as Barnardo's and the Institute of Chartered Accountants of Scotland. This analysis, undertaken by ODS Ltd, ensured that we could understand the views and positions about local taxation and alternatives to the present Council Tax of a wide range of interests from across society.

Oral evidence sessions

5. To supplement this call for written evidence, we engaged 58 expert witnesses in 12 sessions where we explored specific issues in greater depth. Notes of these sessions are provided in section 3 of this Compendium.

6. In accordance with our commitment to be open and inclusive during our deliberations, all our oral evidence sessions were webcast and are available on our website.

International perspectives

7. We have sought to understand overseas experiences and practices. Within this Compendium of Evidence we have included the literature review taken forward by Policy Scotland and the University of Glasgow, and a summary of the discussions held with experts from Denmark and the Basque Country.

Listening to what the public think

8. A unique feature of our approach has been to actively engage with the public to help us understand how people react to each alternative tax instrument. Our remit committed us to do this and we believe that this adds a vital dimension to our findings, given the potential challenges associated with change.

Analysis of our online survey

9. There were two components of this public engagement. Our website featured an online questionnaire which attracted nearly 4,500 responses. The analysis of the responses undertaken by ODS Ltd, published in section 6 of this Compendium, provided us with a sense of the views that prevail and some of the anecdotal opinions held by the members of the public who were particularly motivated to contribute on this subject.

Public listening events

10. We then further developed our understanding of the views expressed and how the public thinks in a series of facilitated public listening events in 12 locations across Scotland. Reports of each of the sessions facilitated by The Democratic Society are published in section 7 of this Compendium. Although the views expressed at these events are not necessarily representative of wider public opinion, they give an indication of the views of a range of communities and groups.

11. Additionally, we worked with Young Scot which hosted an event engaging 26 people aged 16-20 from across Scotland and with BEMIS, a national umbrella organisation which supports ethnic and cultural minority communities, which hosted a workshop at its Diversity, Citizenship and Identity conference. Notes of both of these sessions are also published in section 7 of this Compendium.

Quantitative Analysis

12. Complimenting this substantial body of qualitative evidence, we undertook an extensive analysis on the Scottish housing stock, including property and land values, and how property taxes relate to household incomes. Our quantitative analysis is set out in full in our Volume 2: Technical Annex and has been informed by studies undertaken Heriot-Watt and Stirling Universities, both of which are included in this Compendium.

Analysis of Responses to the Call for Evidence

ODS Ltd

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Analysis of Responses to the Call for Evidence

ODS Ltd

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Analysis of Responses to the Call for Evidence

THE COMMISSION ON LOCAL TAX REFORM

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Executive Summary

About this report

This report provides an analysis of responses to a call for evidence on the future of local taxation in Scotland. This call for evidence was issued by The Commission on Local Tax Reform, established jointly by the Scottish Government and COSLA to examine alternatives to the present council tax.

Overview of responses

A total of 203 responses were received to the call for evidence. There were 124 responses from individuals and 79 from organisations. Responses from organisations came from local government bodies (30%), representative bodies (25%), policy, tax or economic interest groups (20%), third sector or equalities groups (13%) and others (11%). The 'other' category included public sector organisations, responses from political parties at national level, responses from campaigns and one response from a religious organisation.

Individual respondents were asked to provide some demographic information. Of the 71 who provided information, most were men (77%) and over 55 (61%). Over half lived in properties with council tax bands of Band E or higher.

Scotland's current system of Council Tax

Overall, approximately two thirds of respondents felt that the current council tax system was broadly unfair. Organisations, and particularly local government bodies, were more supportive of the current system than individuals. None of the third sector, equalities, policy, tax or economic interest groups indicated that they felt the system was broadly fair.

Respondents who felt that the system was broadly fair indicated that it was easy to understand; recognised and accepted; stable and predictable; difficult to avoid; efficient to collect; based on a broad approximation of ability to pay; based on a clear connection to the local area through property; and fair to some extent, through the system of council tax reduction.
However, many felt that the current council tax system was not fair or efficient because:

- it was a regressive system – with poorer households paying proportionately more than affluent households;
- it was not clearly linked with ability to pay;
- it impacted negatively on vulnerable households – particularly families with children, older people, disabled people and carers;
- the rules and mechanics of council tax collection caused difficulties for vulnerable households; and
- it needed to have a stronger link with local democracy – with more tax raised at local level.

Respondents felt that the main benefits of the current system were its efficiency and stability, and wished to see these retained. However, respondents wished to see a number of changes in the future, particularly:

- re-valuation of properties – which many felt needed to happen urgently, and then on a regular basis; and
- revision to the banding categories – making the system more progressive in nature, through setting a wider range of bands with new thresholds, more progressive ratios between the bands, a range of levels within each band, and potential removal of the bands entirely, basing calculations on a percentage of property value.

Some respondents wished to see a more robust discount scheme which allowed families and individuals to climb out of poverty. However others felt that reductions required to be streamlined. There were different views on whether certain discounts, such as those for single people or second homes, were required. A small number of individual respondents also suggested adding a surcharge for larger households.

A number of respondents highlighted the need for change in the relationship with Scottish Water in council tax collected, suggesting it may be confusing for customers, places full responsibility on local authorities for managing the financial relationship with water customers, and that it can be unclear how much local authorities should pay to Scottish Water.

There was also particular concern from equalities and third sector organisations that the collection and enforcement arrangements related to council tax were too aggressive. There were concerns that local authorities could take drastic action at very early stages, when this might worsen financial situations.

Many respondents also wanted to see a stronger link between local taxation and the wishes of local communities, explored in more detail later in this summary.

Alternative systems

This call for evidence asked respondents whether there were alternatives to the current system of council tax, that may help to reform local taxation in Scotland. The three main options highlighted, by both organisations and individuals, were:

- a (reformed) local property tax – in line with the suggestions for reforming council tax outlined above;
- a local income tax – either set by the Scottish Government or by each local council, with most suggesting the need for this tax to be collected nationally and redistributed locally;
- a land value tax – with most suggesting this would work through annual payment by the owner of a sum based on the economic value of the land.

These options were suggested by broadly similar proportions of respondents. Local government respondents were significantly more supportive of a reformed property tax than other respondent groups. Policy, tax and economic interest groups and ‘others’ were significantly more supportive of a land value tax than others.

Many respondents discussed their reasons for supporting, or opposing, a range of different tax systems. Some respondents made multiple suggestions, considering the pros and cons of many different tax systems while some proposed a single, specific change. The benefits and challenges of each system are discussed in detail in Chapter Four of this report.

Many organisational respondents indicated that they did not feel able to comment on the best local taxation systems for the future. However, a number provided principles for effective taxation. There was a high degree of consistency and overlap in the principles suggested, within and between respondent groups. The four core principles related to progression; stability; efficiency and locality.

Local priorities

The call for evidence asked respondents how well communities' local priorities were accounted for in the way that local taxation operates at the moment, and for their ideas on how this could improve in the future. Most felt that local priorities were not well accounted for, feeling that there was a disconnect between local priorities and the operation of local taxation. Key concerns included:

- the proportion of local government funding raised locally – which many felt should be closer to 50 per cent;
- the council tax freeze – which many felt was undermining the link between local taxation and local communities, and contributing to cuts which were having major impacts on communities; and
- low awareness among communities that council tax and non-domestic rates income represent such a small proportion of funding for local government.

Some respondents suggested that raising a higher proportion of local government funding at local level could help to better account for local priorities in local taxation. There was a range of ideas about how this could be done, including localising some taxes (such as non-domestic rates and Land and Buildings Transaction Tax) and providing local authorities with local discretionary tax raising powers. However, some – particularly individual respondents – had concerns that if more tax was raised locally, the more affluent areas would always be able to gather more tax locally than those which were less affluent, meaning that inequalities could not be addressed.

There was, however, strong agreement that local community empowerment would enable local authorities to take more account of local priorities. Some felt the new Community Empowerment Bill could provide a major driver in engaging with communities in discussions about local priorities. Some individuals suggested that there was scope for some funding to be devolved more locally than local authority level – through community councils or participatory budgeting at local level. Equality and third sector organisations stressed that it was important to ensure that everyone had the chance to participate in decision making, including those who experience inequalities and disadvantage.

Moving forward

Both organisational and individual respondents were interested in hearing about progress on discussions about tax reform. There was a strong desire for large scale debate on the issue, involving communities at local level, and recognition that key organisations and representative bodies required to be engaged in the process on an ongoing basis.

1. Introduction

About this report

1.1 This report provides an analysis of responses to a call for evidence on the future of local taxation in Scotland. This call for evidence was issued by The Commission on Local Tax Reform, established jointly by the Scottish Government and COSLA to examine alternatives to the present council tax.

Background to the call for evidence

1.2 Council tax was introduced in Scotland in 1993. Council tax is the system of local taxation used to part fund services provided by local authorities. The rate of tax payable is based on the value of residential property. The council tax system (council tax receipts plus Council Tax Reduction funding) raises around £2.3 billion every year for local authorities to spend on local services. This compares with a total revenue income for local authorities in Scotland of approximately £16.5 billion[1].

1.3 The amount that households pay depends on the banding of their property (A to H) which is based on the value of the property in 1991. The rates within each band are a proportion of the tax charged for properties in Band D (from Band A which is 67% of Band D, to Band H which is 200% of Band D).

1.4 Responsibility for setting council tax levels (at Band D) rests with local authorities in Scotland. However, the Scottish Government has worked with local authorities to freeze council tax since 2007. The Scottish Government also worked with local authorities to introduce the Council Tax Reduction scheme, which replaced Council Tax Benefit in 2013/14, and assists many on low incomes.

1.5 Scottish Ministers consider the current system of council tax as a whole to be unfair. Since devolution, there have been various debates and policy developments to progress an alternative to the existing council tax, although no large scale change has been implemented. The 2014/15 Programme for Government[2] invited local authority partners to work with the Scottish Government to convene an independent commission to examine alternatives to the current council tax system and the Commission on Local Tax Reform was established by the Scottish Government and COSLA in early 2015.

1.6 The Commission's remit is to identify and examine alternatives that would deliver a fairer system of local taxation to support the funding of services delivered by local government. The Commission brings together expertise and experience from across Scotland, and is independent of Government and any other organisation.

1.7 More information about the remit and membership of the Commission on Local Tax Reform is available at www.localtaxcommission.scot

[1] Scottish Local Government Financial Statistics, 2013/14, available here
[2] Scottish Government Programme for Government, 2014/15, available here

About the call for evidence

1.8 A vital aspect of the Commission's work involves taking evidence from people and communities across Scotland to gather their knowledge and views. To this end, it launched a call for evidence on 3 May 2015 with a closing date of 22 June. The call for evidence sought views and information about the way in which the current system works, and about future alternative forms of domestic taxation. It will help inform the work of the Commission, as it continues to gather views over the coming months.

1.9 The call for evidence was intended to be the first step in hearing people's views. It was very broad in nature, exploring three main themes:

- **Scotland's current system of council tax**:
    - To what extent does the current system of council tax deliver a fair and effective system of local taxation in Scotland?
    - Are there any features that you wish to see retained or changed?

- **Reform of local taxation**:
    - Are there alternatives to the current system of council tax that you think would help to reform local taxation in Scotland?
    - What are the main features of these, and why do you think they would deliver improvement?

- **Local priorities**:
    - How well do you think that communities' local priorities are accounted for in the way that local taxation operates at the moment?
    - If there is room for improvement, how should things change?

1.10 The call for evidence also asked for further information to enable the Commission to keep the conversation going – including details of events and networks.

Analysis methodology

1.11 The Commission on Local Tax Reform received all consultation responses, and passed these securely to ODS for sorting and analysis. Where required, the Commission liaised with respondents to ensure that the correct permissions were received in relation to publication of each response.

1.12 A database was created for organisational responses, and a separate database for individual responses, allowing for data organisation and analysis. The questions in the call for evidence were separated into their component parts, allowing for both quantitative and qualitative analysis. Where appropriate, quantitative analysis was undertaken of open responses. Each response was read carefully and sorted into a relevant quantitative category – such as yes/ no; agree/ disagree; or type of alternative proposal. Quantitative analysis and correlations between respondent groups were produced using Microsoft Excel and Survey Monkey tools.

1.13 The main focus of the analysis was qualitative. The qualitative coding analysis available through Survey Monkey was complemented by a detailed process of manual thematic coding. This involved a researcher reading each response to each question carefully, and coding these along main themes. This process allows for rich and detailed analysis of complex points. The qualitative analysis drew out the main themes emerging within each of the questions posed and the range of views being expressed. It also highlighted any specific trends among and across respondent groups.

2. Overview of Responses

Introduction

2.1 This chapter sets out the profile of respondents to the call for evidence. It explores the profile of individual and organisational respondents, and explains the respondent categories that were used for analysis.

Responses received

2.2 A total of 203 responses were received to the call for evidence. There were 124 responses from individuals (61%) and 79 from organisations (39%). A list of the 79 organisations which responded to the call for evidence is included as Appendix One. In addition, one local government response was received significantly after the closing date. This response was included in the qualitative analysis within this report, but not within the quantitative analysis.

2.3 Of the 79 organisational responses, 69 agreed to their response being published by the Commission on Local Tax Reform. Of the 124 individual responses, 97 agreed to their response being published. While all responses have been included for the purposes of analysis, we have not quoted from either organisations or individuals which did not want their response to be published. Where individuals are quoted, we have followed Scottish Government practice by not identifying any individual respondents.

Profile of organisational responses

2.4 The organisations were asked to choose a category which best described their organisation, and to state the main purpose of their organisation. However, less than half (49%) of organisations did so. In addition, there was some overlap between the categories and this self-categorisation resulted in organisations which were very similar choosing different categories on the form. As a result, the Commission's secretariat worked with us to agree meaningful respondent categories which would allow for useful comparison of views between different types of organisation. We agreed five respondent categories for organisations, outlined in the table below.

Responses from organisations by category

	Number	Percentage
Local government body (including party political representations)	24	30%
Representative body (including professional bodies and membership organisations)	20	25%
Policy, tax or economic interest group	16	20%
Third sector or equalities group	10	13%
Other	9	11%
Total	**79**	**-**

2.5 The 'local government body' category included responses from local authorities as corporate bodies, from local authority representative bodies, and from local political parties. The 'other' category included public sector organisations, responses from political parties at national level, responses from campaigns and one response from a religious organisation.

Profile of individual respondents

2.6 Individual respondents were asked to provide some demographic information about themselves. Of the 124 individual respondents, 71 provided some demographic information. This indicated that most respondents were men. Of those who provided this information, over three quarters were men and less than a quarter were women. Most respondents were older. Over half were aged 55 or over (with a third being over 65). Over half lived in properties which were council tax band E or higher. Approximately one in five respondents had a long-term physical or mental health condition. Further demographic information is provided as Appendix Two.

3. Scotland's Current System of Council Tax

Introduction

3.1 This chapter explores responses to the first broad theme within the call for evidence, which focused on views and experiences of Scotland's current system of council tax. Within this theme, the call for evidence posed two questions:

- To what extent does the current system of council tax deliver a fair and effective system of local taxation in Scotland?
- Are there any features of the current system that you wish to see retained or changed?

Is the current system fair and effective?

3.2 Of the 79 organisational respondents, 67 (85%) provided an answer to the question about whether the current system of council tax delivered a fair and effective system of local taxation. Of those, a fifth (22%) felt that the system was broadly fair, almost two-thirds (63%) felt it was broadly unfair, and 15 per cent were non-committal.

3.3 Of the 124 individual respondents, 118 (95%) provided an answer to this question. Just eight per cent felt that the system was broadly fair. Over two thirds (68%) felt that the system was broadly unfair, and a fifth (19%) were non-committal.

	Broadly Fair	Broadly Unfair	Non-committal
Organisations			
Local government body (including party political representations)	39%	43%	17%
Representative body (including professional bodies and membership organisations)	36%	43%	21%
Policy, tax or economic interest group	-	77%	23%
Third sector or equalities group	-	100%	-
Other	13%	87%	-
Individuals	**8%**	**68%**	**19%**

3.4 There were clear differences between respondent groups. Over a third of local government bodies and representative bodies felt that the current system was broadly fair. However, none of the third sector, equalities, policy, tax or economic interest groups indicated that they felt the system was broadly fair – with most feeling the system was broadly unfair. Almost all 'other' respondents felt that the system was broadly unfair, with the exception of one public sector organisation operating at national level.

3.5 Many respondents across all respondent groups indicated that the current council tax system is ‘regressive’. Many respondents used the term ‘regressive’ without explaining what that meant. However, those who did provide an explanation highlighted that the council tax places a comparatively higher burden on less well off households, than more affluent households. People gave different reasons for this, which are highlighted throughout this section. However, the main concern was that the way the council tax bandings and rates system currently works means that households living in more valuable houses (who were perceived to often be better off) do not contribute proportionately more tax. This was a particular issue for Band H, properties which are subject to three times the amount of tax applying to a band A property, but may be worth eight times (or more) the value of a band A property based on 1991 values. In addition, there is a perceived lack of progressivity within band H itself, where all properties above £212,000 are subject to the same amount of tax, despite there being no upper limit of property value in that band.

Local government bodies

3.6 Local government bodies were the group which was most supportive of the current system, although still slightly more felt that the system was unfair (43%) than fair (39%). Local government bodies which felt that the system was broadly fair highlighted that the system was:

- easy to understand, recognised and accepted;
- stable and predictable;
- difficult to avoid and efficient to collect – with high and improving collection levels;
- fair to some extent, through the system of reduction;
- based on a broad approximation of ability to pay; and
- based on a clear connection to the local area, through property.

3.7 Almost all of the local government responses indicating that the system was fair were from the local authority as a corporate body. However, almost all of the party political local government respondents felt that the system was not fair. This was largely because the system was seen to be regressive and not related to people’s income and ability to pay. However, one respondent felt that the system was not fair due to the lack of local involvement in deciding taxation levels.

3.8 COSLA indicated that while a reformed system of council tax has the potential to work well, the system needed to be made fairer, have a stronger link with local democracy, enable communities to decide on levels of local taxation in relation to the services they want and include more transparent approaches to water charges. COSLA’s response was also endorsed by SOLACE.

“The ability to set and collect local taxation is a key component of an effective local democracy, and is central to the accountability relationship between councils and the communities that they serve.”

(COSLA)

“Our aim is not to promote more, or less, taxation and spending: it is simply to make sure that the decisions about these issues are made locally... local people should decide on levels of local taxation in relation to the services they want...”

(Edinburgh Labour Group)

3.9 A small number of individual respondents supported this suggestion.

"Control of the level at which council tax is charged should be exercised by the local authority and not by the Scottish Government."

(Individual)

3.10 However, a similar proportion felt that local taxation should be reduced, with core services funded through national government or through charges to individuals.

3.11 The Scottish Local Government Partnership indicated that the current system was unsustainable and unclear. It indicated that it wished to see broader discussion about overall funding of local government, not just the proportion of funding currently raised by local taxation.

3.12 These concepts around levels of local taxation were also raised by both organisations and individuals later in the consultation, when considering potential improvements, changes and methods for involving local people in taxation decisions.

Representative bodies

3.13 Representative bodies, including professional bodies and membership organisations, had similar responses to local government bodies. Just over a third of representative bodies felt that the current system was fair, with just under half believing it to be broadly unfair. However, other representative bodies felt that the system was not fair for a diverse range of reasons, including:

- being a regressive taxation system;
- the banding system and ratios – including both revising and removing the banding system, as discussed in detail at paragraph 3.37 ; and
- the low proportion of tax gathered at local level in Scotland.

Policy, tax and economic interest groups

3.14 Almost all policy, tax or economic interest groups felt that the current system was unfair (77%), with the remainder providing a non-committal response. Those who felt it was unfair expressed very strong views that the current system did not work well, due to being regressive and creating inequality. Many within this group expressed similar concerns to representative bodies, in relation to the system being regressive and the banding system placing more burden on the poor than the rich. Respondents within this group also highlighted concerns about lack of re-valuation of properties meaning that the link with ability to pay was weakened.

"...its unfairness if often cited, being felt in particular by the poorest; this is exacerbated when it is seen to fall too lightly on the richest in society."

(School of Economic Science)

“...the decision to weight the different bands relative to Band D such that the distribution of tax payments is more compressed than the distribution of actual (and assessed) property values is arbitrary and clearly favours higher value properties...”
(Policy Scotland)

3.15 A number of respondents also felt that the freeze on council tax was reducing local control over decision making, and therefore reducing the link with local services and local democracy. Two respondents within this group felt that the system placed higher demands on renters of properties than owners. Another two respondents felt that the system was unfair as it bore no relationship to levels of service use.

3.16 While around half of the policy, tax and economic interest groups believed that it would be possible to retain and amend council tax to make it more progressive, around half strongly felt that a new system of taxation was required.

Third sector and equalities groups

3.17 Third sector and equalities groups all raised concerns with the current system, suggesting that it was a regressive and unfair system. Many were concerned that poorer households paid proportionately more than more affluent households through the current system. Many highlighted that a central principle of any taxation system should be that it is based on the ability to pay, and that people on lower incomes should contribute proportionately less to the tax system.

“Council tax is regressive. It is levied on property value, not on incomes, and the rate paid does not rise sharply with rising property value.”
(Child Poverty Action Group in Scotland)

“The current system is very prescriptive, failing to take enough account of affordability or ability to pay outside of those who claim council tax reduction.”
(Citizens Advice Scotland)

3.18 Third sector and equalities organisations highlighted a number of negative consequences of the current system:

- The Child Poverty Action Group highlighted that the poorest households with children paid over five per cent of their gross incomes in council tax compared with under two per cent for the richest families[3].
- Inclusion Scotland highlighted that the lowest earning 10 per cent of households pay 5.6% of their incomes in council tax (after council tax rebates), compared with 1.4% for the highest earning 10 per cent[4]. This means that the poorest households pay proportionately four times more than the wealthiest.
- Citizens Advice Scotland indicated that it was seeing an increase in the number of cases seeking advice on council tax and council tax arrears (a 4% increase in 2014/15 from the previous year), with council tax now the most common debt that clients seek advice on. It highlighted that households with problems were most likely to live in rented accommodation, to be single and

[3] The Effects of Taxes and Benefits on Household Income, 2012/13, ONS
[4] Unfair and Unclear, Madeline Power and Time Stacey for the Equality Trust, June 2014

be 35 to 59. More and more households were struggling due to low pay and unpredictable employment, and were often just outside the criteria for support through council tax reduction.

- A number of equalities organisations highlighted the particular impacts of council tax on disabled people and carers. There were a number of concerns, including that a number of people in this group may be asset rich and income poor, resulting in high levels of property tax but limited ability to pay. There were particular concerns about how families may cope with this, as many disabled people or carers may be restricted in their ability to move home due to their circumstances and many carers may give up employment to care, further impacting on income. There were wider concerns that the council tax freeze undermined the ability of local authorities to raise additional resources that could be used to invest in services for disabled people and carers, passing more costs on to individuals.
- There was a specific concern that vulnerable families do not have any protection if the local authority makes a mistake in the council tax bill, and later requires an additional payment.

3.19 A number of third sector and equalities organisations also felt that the mechanics of council tax collection caused more difficulties for vulnerable households. There were concerns that council tax required taxpayers to actively make payments, meaning that people who have difficulty managing their budgets may find it hard to keep payments up, or may prioritise other financial commitments. Many third sector and equalities organisations also highlighted that the rules surrounding the Council Tax Reduction scheme were complex and difficult to understand, resulting in low uptake, particularly from pensioners and couples with children.

Other respondents

3.20 ‘Other’ respondents generally felt that the current system was broadly unfair, due to concerns about its regressive nature and its lack of relationship with the individual’s ability to pay. Some expressed significant concerns that the percentage of income paid in by the richest members of society was significantly lower than the percentage paid by the poorest.

“Under the council tax the poorest shoulder a much heavier burden than the richest. Whilst the gap between the highest earning 10% of the population and the lowest earning 10% has widened greatly in recent years to a ratio of around 15:1 in the UK; the council tax differential remain fixed at around 3:1.”

(The Scottish Socialist Party)

3.21 A number of ‘other’ respondents expressed particular concern that the tax could not deliver wider economic, social and environmental benefits for Scotland’s communities – with a strong belief that taxation should contribute to these areas. For example, NHS Health Scotland emphasised the impact of inequalities on the lives of families and communities, and stressed that the council tax model exacerbates this inequality through a lack of progressivity. The Church of Scotland also highlighted that the freeze on council tax levels had impacted more on poorer people, who rely more on free and subsidised local services – having a negative effect on the common good.

Individuals

3.22 Some individual respondents felt that the current system was fair. Those who did emphasised that it was easy to understand and appeared to operate effectively administratively.

"In my opinion, yes it does represent a fair means of taxation - fair in the sense that people who earn more tend to live in bigger (some might say better houses) and according to our current system pay more than people that live in smaller houses (and odds are earn less). Undoubtedly there are outliers on either side but for the majority of people and as a nation I think it is fair."

(Individual)

3.23 One individual submitted evidence from the Institute of Fiscal Studies which highlighted that a shift away from property tax to the community charge in England in 1990 resulted in an increase in house prices of around 15 per cent, contributing substantially to house price inflation[5]. A small number of individual respondents also felt that it was reasonable to tax houses, as they are both assets on which capital gains are expected (for owners) and places where the service of shelter is provided.

3.24 However, most individual respondents felt that the current system was broadly unfair. The main concerns for individuals reflected organisational concerns – it being a regressive tax system, the banding system and property valuations being out of date, and the impact of the tax on vulnerable households (particularly older people, disabled people and carers).

3.25 One individual submitted research undertaken by Resolution Foundation[6], which explored options for reforming tax for those on low to middle incomes. This research stresses the need to reform council tax to be more progressive, and to be based on up to date valuations.

3.26 Individuals also had particular concerns that the system was not based on ability to pay. Many gave examples of how the council tax system was putting pressure on their own household.

"I have lived in my house for about 45 years and have now retired. The tax is now about 10 per cent of my income whereas when I was working it was about 6 per cent."

(Individual)

"I think the CT (council tax) is wrong. Taxes should come from those with the broadest shoulders."

(Individual)

3.27 A significant number of individual respondents felt that the council tax system was unfair because it did not reflect levels of use of council services. Many individuals were unhappy that the tax did not take account of how many people lived in the property. Others indicated that people in rural areas, older people, and people in

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[5] House Prices and Local Taxes in the Uk, Fiscal Studies (1999) Volume 20, No 1, pp 61 to 76

[6] Fairer by design: efficient tax reform for those on low to middle incomes, Resolution Foundation, 2012

disadvantaged areas may have less access to services, or may use these less, and so should not have to pay as much as others.

"The current council tax system is not fair in that it does not take into account the fact that people, not properties, consume council-funded resources."

(Individual)

3.28 In addition, individuals highlighted that the system:

- didn't appear to gather enough to enable local authorities to provide adequate services – with some expressing concern about the council tax freeze;
- could discourage home improvement, as the value of the improved property might result in an increase in tax (if sold, or if properties were re-valued);
- focused on residents rather than owners – often causing pressures on budgets for tenants and complex situations in relation to student households;
- gave exemptions or reductions to second homes, resulting in lost revenue for communities.

"Council tax discourages home improvement where the value of the improved property might result in an increase in tax."

(Individual)

Are there any features of the current system that you wish to see retained?

3.29 Most organisational respondents felt that some features of the current system should be retained. Only two organisational respondents felt that none of the features of the current system should be retained. Both were organisations which wished to see council tax replaced with a different, fairer system.

3.30 Few individuals commented on whether any features of the current system should be retained, with only a small number suggesting that any features should be retained at all. A small minority suggested that a property or land basis should be retained, and some suggested that it was important to retain concessions for people on low incomes, disabled people, and single occupants. However, most individuals did not comment.

3.31 Organisational respondents indicated that the main benefits of the current system were its efficiency and stability.

- **Efficiency** – Most organisational respondents felt that the current council tax system was relatively simple, efficient and transparent. Many cited its high collection rates and low administration costs. Most felt that the tax was difficult to avoid while being straightforward and easy for customers to understand and to pay, with simple collection and administration arrangements. A small number of respondents highlighted that the physical location of property provided a clear and direct link between the individual being taxed and the local area.

"The current council tax is relatively effective in the respect that it is a property tax and property taxes are hard to avoid and easy to collect. Property taxes can also be easy to understand."

(Shelter)

"The Scottish Assessors Association favours the retention of a property based system for the purposes of local taxation... The SAA believes that property based systems have several benefits and score well against many measures of 'good' taxes."

(Scottish Assessors Association)

- **Stability** – Organisational respondents, including local authorities, other public sector organisations and representative bodies, indicated that they welcomed the stability and predictability of the current council tax system. Local authorities largely welcomed that the amount generated through the tax did not change dramatically in response to economic trends. Some local authorities indicated that they recognised that more buoyant or responsive systems of tax may provide higher rewards, but that these systems also came with higher risks. Some highlighted that many other taxes in Scotland were personal or transactional, and more dependent on the health of the economy – and that the council tax complemented these other taxes.

"There are several advantages of council tax as a model of taxation – it provides a stable source of income for local government (in that it does not change dramatically in response to economic trends); it is difficult to avoid because individual owners are easily identified and the value of the house is verifiable."

(NHS Health Scotland)

"One of the core advantages of the council tax system is its stability and predictability and in the current challenging financial climate for public services this is of vital importance... The Council believes the benefits of stability and predictability in a system of taxation should not be underplayed."

(Angus Council)

3.32 A small number of organisational respondents highlighted other elements of the current system that they would be keen to retain. These included:

- maintaining a tax connected to either property or land;
- maintaining a locally collected tax;
- maintaining discounts and reductions for certain groups of people;
- recognition of disability and the need for support for disabled people in a tax system; and
- practical suggestions including retaining the freedom for councils to choose the instalment date, the use of an April to January instalment year for collection, and the 10 per cent statutory addition to cover collection administration costs.

"One feature of the current system is that each local council collects its own tax... This means that the council tax is clearly visible as a local tax, collected by the local council for the funding of local government. Arguably this assists local accountability."

(The Low Incomes Tax Reform Group)

3.33 A number of respondents commented on the connection with water and wastewater charges, through Scottish Water. Scottish Water indicated that it wished to see the current system retained because council tax bandings were the basis for collecting water and wastewater charges from almost all households in Scotland. Scottish Water indicated that the existing system recognised the variations in ability to pay water and wastewater charges, and automatically provided this system with no additional bureaucracy.

"Any revisions to the council tax regime would need to retain the benefits that the current system offers to household water and wastewater customers."

(Scottish Water)

3.34 However, while some local authority respondents indicated that it was important to consider water and wastewater charges within a new tax system, more respondents suggested that this was an aspect of the system which required to change. This is explored in more detail below.

Are there any features of the current system that you wish to see changed?

Banding and revaluation

3.35 There were two clear features of the current council tax system that respondents (both organisational and individual) wished to see changed. Firstly, most respondents suggested revising banding categories. Many felt that the current system was regressive, disadvantaging poorer households. A number felt that there was considerable scope to retain the simplicity of the current system, while making the system more progressive in nature, through revising banding categories. Suggestions included:

- introducing a wider range of bands, particularly for high value properties;
- altering the band thresholds;
- reviewing the ratios between the bands;
- applying rates within bands, rather than a flat sum; and
- removing bands and basing calculations on a percentage of property value.

3.36 Secondly, most respondents suggested that property values required to be re-evaluated soon, and then on a regular basis. Many suggested that a clear planned review cycle was necessary.

"If the current council tax style of property tax remains in place, then RICS recommends that frequent revaluations of domestic properties are included in future legislation and that they take place at least every five years."

(RICS)

"If council tax is to continue a review is required of the banding and the number of bands. Also, widespread revaluations are needed as the present valuations do not reflect current prices.

(Individual)

3.37 Many responses from organisations highlighted that any changes to valuations and bandings should have an overall revenue neutral impact in terms of the overall level of tax collected. A small number felt that there may be a need for some transition funding to cushion the impact of change due to revaluation. A small number of individuals suggested that the original purchase price of the property should be borne in mind at the time of revaluation, so that households didn't see significant changes in tax levels due to house values having increased unexpectedly.

3.38 The Society of Local Authority Lawyers and Administrators in Scotland (SOLAR) and others highlighted that the existing local government funding framework equalises support to local authorities through both council tax and Revenue Support Grant. It suggested that if properties are revalued, those local authority areas with the largest growth will see an increase in their tax base and that the Scottish Government in deciding its block grants to local authorities should take account of this.

Taking account of household or individual circumstances

3.39 A number of wider changes were suggested. Many respondents commented on the mechanisms for council tax reductions. There were three different ideas in this regard.

3.40 Firstly, many organisational respondents suggested that there was a need for a more robust discount scheme which allowed families and individuals to climb out of poverty. A number of respondents suggested using a tapering system, for example to support students as they move into work, or families as they move out of poverty. A number of equalities and third sector organisations stressed that the individuals who may be affected by potential changes required to be involved in these discussions.

> "We recommend that the Commission make recommendations on mechanisms to ensure that seldom heard voices are supported and are not drowned out in favour of the majority – both in terms of the way in which a new form of taxation is designed and the mechanisms developed locally to spend that tax."
>
> (Independent Living in Scotland)

3.41 Some individual respondents also stressed the ongoing need for reductions within the council tax system, largely focusing on the needs of older people who may see their income fall substantially when they retire.

> "After people retire, they should pay perhaps only 50 - 75 % of the council tax band in which they are in."
>
> (Individual)

3.42 Secondly, some organisational respondents felt that council tax reductions required to be streamlined. Some, such as the Centre for Scottish Public Policy, felt that it was important to review the current discounts – for example, for single people or second homes – and consider the impact of these approaches on local areas, particularly where under-occupancy and empty second homes are big issues. However, there were varying and contradictory opinions on this topic. Some other organisations highlighted the need for reductions for single people and some people with second homes, such as members of the armed forces.

"Consider simplifying the reductions available to support financial planning for both taxpayers and councils, and to assist efficient collection."

(CIPFA and CIPFA Directors of Finance Section)

3.43 Thirdly, a number of local authorities felt that local areas should have more flexibility in setting their own discounts and reductions. For example, one local authority suggested that council tax reductions could be used to attract key public sector workers to the area. Another felt council tax could be used to help to regulate the housing market. Some individual respondents also supported the concept of more local flexibility.

3.44 Finally, a small number of individuals felt that larger households should contribute more through tax. For example, some individuals suggested adding a surcharge for larger households, for example with three or more individuals. And one individual suggested that council tax should be something which individuals are separately liable for, with everyone over 18 having to pay.

Local power over taxes

3.45 A number of respondents suggested that more generally, local councils should have more power over taxes. Generally, organisational respondents talked of these issues here, while a number of individual respondents highlighted these issues later, when considering local priorities (Chapter Five).

3.46 A number of local government bodies and others such as equalities and third sector organisations felt that there needed to be a stronger link between local taxation and the wishes of the local community. Some felt that this could be achieved through local councils having more flexibility within the current system, for example through setting their own rates of tax for higher bands (perhaps subject to limits).

"It needs a connection to the locality, with an increased proportion of tax raised locally kept locally, alongside better participatory forms of engagement..."

(SCVO)

3.47 Others suggested that council tax systems should be fully devolved to local authority level, and that local councils should also have the power to raise additional taxes. A number of respondents, both organisations and individuals, specifically highlighted that the Scottish Government should not try to influence local tax levels.

"Currently, council tax accounts for only around 20 per cent of a local authority's income in Scotland, and the ability to vary local authority taxation income in line with community priorities is at best extremely limited and in recent years has effectively been non-existent."

(East Lothian Council)

"Local taxation should allow for local flexibility, empowering local authorities to raise local funding for local priorities. Specifically, individual local authorities should be empowered to introduce local taxes, at their discretion, to raise additional resource."

(COSLA)

"Central taxation needs to be cut, so that local taxation can raise the necessary funds for local spending."

(Individual)

"Through the 'Our Islands Our Future' campaign the Comhairle, together with the other Island Councils, has been arguing for greater subsidiarity. The ability to levy taxes and the accountability arising from this is considered a fundamental aspect of any tier of government."

(Comhairle nan Eilean Siar)

"...we see no problem with some local authorities maintaining a council tax system, while others may opt to choose from a range of different forms of taxation, including a land value tax. The most important element is that the tax is fully devolved to the local authority..."

(Reform Scotland)

Equalities

3.48 Many equalities organisations stressed that any changes required an assessment of the impact, including equalities impact. One equality and third sector organisation indicated that it was very important to think about the language we use in this debate, stressing that it was important that the discussion did not dismiss the value of those who are unable to pay tax.

"Any change in local taxation should and must take into account the ability of lower income households to pay. Households containing disabled adults and children face particular issues because, on average, their income is falling whilst the costs associated with disability continue to rise."

(Inclusion Scotland)

3.49 In addition, many equalities organisations – particularly those focused on disability equality - raised significant concerns about wider issues around council decisions, particularly in relation to charges for social care.

"We believe that the funding base for social care needs strengthened through new taxes, or substantial changes to tax rates related to funding social care. This new system needs to be fair, progressive and re-distributive."

(The National Carer Organisations)

Water charges

3.50 A number of respondents, including organisations and individuals across all respondent categories, highlighted the need for change in the relationship with Scottish Water in council tax collection. Water and waste water charges for domestic properties connected to the public water supply and sewers (and without water meters) are collected alongside council tax, based on the council tax band of the property, by local authorities. While Scottish Water wished to maintain the arrangement, many others expressed a desire for a clearer arrangement to be in place. The key concerns were:

- it may be confusing for customers – both local authorities and third sector organisations highlighted that customers can be confused about their liability

for water charges, particularly if they receive a council tax reduction, and can see the whole bill as "the cost of the council" without realising that approximately a quarter of the bill relates to water charges;
- it places full responsibility on local authorities – a number of respondents were concerned that the onus of managing the financial relationship with water customers rested on local authorities, rather than with the service provider; and
- it can be unclear how much local authorities should pay to Scottish Water – one local authority was concerned that the amount it paid to Scottish Water was not directly related to the amount it had collected in water charges.

3.51 A small number of respondents referred to arrangements setting out the relationship between local authorities and Scottish Water, whereby a formula was set up setting out the amount to be paid to Scottish Water from local authorities based on estimated council tax collection rates. Some highlighted that technology now enabled more precise arrangements to be put in place, but that arrangements had not been updated to reflect this.

"Although household water and water waste charges are tacked on to council tax, there is no corresponding relief for such charges where a household is eligible for council tax reduction... The lack of transparency (both council tax and water charges are included on the same bill) also means that often such water charges will go unpaid, as the householder does not realise they are still due."

(The Low Incomes Tax Reform Group)

"Water and sewerage charges are poorly communicated, leaving many on full council tax reductions receiving an unexpected bill."

(Citizens Advice Scotland)

"... proportionately more water charge debt is more than one year old (79%) compared to council tax debt (74%), indicating that water charge debt is somewhat more difficult (and therefore costly) to collect than council tax debt."

(Glasgow City Council Scottish Green Party Councillors Group)

Appeals and debts

3.52 Some respondents, particularly equalities and third sector organisations, felt that the collection and enforcement arrangements related to council tax were too aggressive. There were concerns that local authorities could take drastic action at very early stages, when this might worsen financial situations. There was particular concern over the use of the summary warrant, surcharge for outstanding sums and the ability of Sheriff Officers to issue a Charge for Payment (involving arrestment of wages and bank accounts) without application to the courts. And there was concern that debts could be pursued for up to 20 years (with most other debts having a time limit of six years). Organisations highlighted that this system offered individuals less protection than those in debt to other creditors.

3.53 Citizens Advice Scotland highlighted that council tax was the most common type of debt that its clients sought advice on in 2014/15, and that a third of the issues related to the way in which enforcement action was taken. It highlighted that efforts to increase collection rates had given little consideration to how to protect the most vulnerable customers from unnecessary hardship.

"Our evidence suggests that enforcement and collection of arrears is often disproportionate and causes people to fall into worsening situations."

(Citizens Advice Scotland)

3.54 A small number of organisational respondents highlighted the need for a simpler appeals process, accompanied by a plain English guide.

Detailed changes

3.55 A number of detailed changes were also suggested:

- The Army Families Federation would like to see clearer entitlement to a 50 per cent reduction for second home council tax for members of the armed forces, when they are living in a job related dwelling within the UK. It would also like to see service personnel who receive a 50 per cent discount on their council tax when living in families or single living furnished accommodation as a second home retain entitlement to this discount when they are posted off the UK mainland. It also suggests armed forces personnel should be exempt from a long-term empty homes premium both for empty properties and second homes.
- The Scottish Association of Landlords had particular concerns about landlords being responsible for paying council tax for vacant properties or houses in multiple occupancy, and the length of time that the local authority can pursue the landlord for this debt.
- A small number of individuals suggested that the council tax should be paid by owners of properties, rather than occupiers, due to concerns about affordability and complexity for private rented tenants. For example, one individual suggested splitting the property tax so that there is a component for the owner and a component for the occupier. Another suggested separating the idea of houses as assets, and as places to live, creating a distinction between owners and tenants.

"The residential property tax base should be accompanied by a residential occupier tax. Ideally the two taxes should raise roughly similar amounts of aggregate revenue. That way, landlords would pay half and the occupiers would pay half."

(Individual)

3.56 One individual suggested that immediate change was needed, proposing a supplementary levy in 2015/16 for Band H properties, in advance of a full revaluation. Another suggested that the income from the Scottish Rate of Income Tax (SRIT) could be used to fund the gap in council tax income while the system was reformed.

4. Reform of Local Taxation

Introduction

4.1 This chapter explores responses to the second broad theme within the call for evidence, which focused on views on future reform of local taxation. Within this theme, the call for evidence posed two questions:

4.2 Are there alternatives to the current system of council tax that you think would help to reform local taxation in Scotland?

4.3 What are the main features of these, and why do you think they would deliver improvement?

Are there alternatives to the current system of council tax that you think would help to reform local taxation in Scotland?

4.4 Almost all individual respondents (90%) and just over two thirds of organisational respondents commented on this question. The three main options highlighted by both organisations and individuals were:

- a local income tax;
- a (reformed) local property tax; or
- a land value tax.

4.5 Some respondents made multiple suggestions, considering the pros and cons of many different tax systems. Some proposed a single, specific change. Overall:

- approximately a quarter or organisations supported a local income tax, rising to approximately a third for individual respondents;
- over a third of organisations supported a local property tax, with a fifth of individual respondents supporting this option; and
- approximately two fifths of organisations supported a land value tax, falling to approximately a quarter for individual respondents.

4.6 Local government respondents were significantly more supportive of a reformed property tax than other respondent groups. Policy, tax and economic interest groups and 'other' respondents were significantly more supportive of a land value tax than others.

4.7 In addition, a number of individual respondents suggested introducing a community charge or poll tax system. Conversely, this option was not proposed by any organisational responses, with some organisational respondents specifically stressing that they did not wish to see a community charge or poll tax system in the future.

4.8 A small number of other proposals were made, each from a very small number of respondents, discussed at the end of this section.

4.9 While some respondents felt that there should be a new system encompassing a range of tax options, suggesting their complementary nature, others felt that there should be one single new system. A number of respondents were open to considering a range of potential options. In addition, some respondents reiterated their view that tax should be determined locally, with the power passed to local authorities to raise tax in the ways that best suit the local area.

Principles

4.10 Many organisational respondents indicated that they did not feel able to comment on the best local taxation systems for the future. However, a number provided principles for effective taxation – either to support their proposed taxation system, or to provide an indication of the type of taxation system they would be likely to support. There was a high degree of consistency and overlap in the principles suggested, within and between respondent groups:

- **Progression** – Respondents consistently stressed that a local taxation system should be progressive, recognising that society as a whole has to pay for certain people unable to care for themselves, and that the burden should fall more on those that can afford it than those that cannot. Many highlighted the importance of any taxation system in reducing inequalities, improving wealth distribution, supporting human rights and contributing to ending poverty (particularly child poverty). A number of respondents stressed that a new system must not leave families in poverty worse off than the current system.

"Understanding the systemic injustice which leads to poverty and inequality is key to building a society which is fairer and cohesive rather than divided and unequal."
(Church of Scotland)

- **Stability** – Almost all respondents wished to see a stable tax base, which was clear, certain, accountable and transparent. However, a small minority wished to see a more buoyant tax base.

- **Efficiency** – Many respondents felt that any local taxation system must be unavoidable, convenient and simple. A number highlighted the benefits of land/ property tax in this regard. Respondents also felt taxation systems needed to be well communicated, and to interact well with other taxes and benefits.

- **Locality** – Many respondents highlighted the need for a local taxation system to be based on local needs, based on involvement and consultation of local people. It was felt that this would create clear accountability connecting decision making and spending of public funds with the taxes raised. Some indicated it could also lead to better links between business and domestic taxes, and local priorities such as supporting economic growth, housing development and increasing energy efficiency. Some respondents suggested that there was a need to think carefully about how much funding for local government should come from local sources, and to have this debate in the context of discussion about overall funding for local government. These respondents felt that this discussion would help to ensure that yields from taxes were adequate, providing local authorities with enough income to allow them to provide services which reduce inequality.

"Local tax should be set and raised locally without intervention by the Scottish Government."

(CIPFA and CIPFA Directors of Finance Section)

"The main benefits of fiscal devolution to councils are – greater local democratic accountability and participation; diversity sources of tax revenue...; provide greater flexibility and control over budgets at local level; provide an incentive to grow local economies; provide a revenue stream against which to borrow for, and repay, infrastructure investment – which will in turn further enhance the local economy and tax base."

(Scottish Cities Knowledge Centre)

4.11 In addition, some respondents suggested that diversity should be an underlying principle of local taxation systems. These respondents felt that local authorities should be able to design a basket of taxes to meet local circumstances, building a broad and diverse tax base. And finally some respondents suggested that any reform should be cost neutral in overall terms. A number of respondents also referred to the final report from the Mirrlees Review[7], which highlighted the need for tax reform to be strategic, considering the system as a whole.

Example: COSLA Principles

- Local taxation should be fair and easy to understand.
- Local taxation should be administratively efficient and difficult to avoid.
- Local taxation should have regard to the stability and buoyancy of the underlying tax base.
- Local taxation should be determined locally in order to establish and maintain democratic local accountability. This includes the local setting of rates (levels).
- Local government should have the discretion to determine whether rates and reliefs are set nationally or locally.
- Local taxation should allow for local flexibility, empowering local authorities to raise local funding for local priorities. Specifically, individual local authorities should be empowered to introduce local taxes, at their discretion, to raise additional resource.

SOLACE and a number of local government bodies highlighted that they also supported these principles. Many other local government bodies highlighted similar principles in their responses.

Example: SCVO Principles

Any tax should:

- be based on the ability to pay;
- encourage more participation in local politics by de-centralising local government funding;

[7] Tax by Design, Mirrlees Review, 2011

- not underestimate the value of people who cannot pay tax;
- be straightforward to pay and collect and easy to understand; and
- be flexible to accommodate changing needs in the future.

What are the main features of these, and why do you think they would deliver improvement?

4.12 Many respondents discussed, in detail, the pros and cons of different taxation systems. However, equality and third sector organisations tended to state their broad principles without supporting a particular system.

A property tax

4.13 Approximately a third of organisational respondents and a fifth of individual respondents supported a property tax. This could include a reformed council tax, or a new property tax system (excluding a land value tax system, which is treated separately for the purposes of this analysis).

4.14 Respondents supporting a reformed council tax system reiterated the strengths of the system they had highlighted under the previous theme. These included its stability, simplicity, efficiency and familiarity, and clear link to the local area. Organisations including RICS, the Scottish Assessors Association and the Scottish Retail Consortium indicated that they favoured the retention of a property based system due to its stability, clarity and efficiency.

4.15 Respondents reiterated their desire to see a more progressive system, incorporating the changes they had previously suggested under the previous theme. A number of respondents highlighted that they would be concerned about investing a lot of time and money on a new taxation system, unless there was clear evidence that it would be significantly better in terms of outcomes and ease of administration.

"...we are confident that a tax based on a modernised council tax framework provides the most effective, coherent and sustainable route map to reforming local taxation in Scotland."

(COSLA)

4.16 Few talked in detail about the advantages and disadvantages of other types of property tax, with the exception of a land value tax. A small number of respondents mentioned the option of:

- a rateable value property tax (based on open market annual rent); a new progressive Local Property Tax as recommended by the Burt Commission[8] (based on the capital value of individual properties and payable by households occupying properties and owners of second homes and unoccupied properties); or

[8] A Fairer Way: Report by the Local Government Finance Review Committee, 2006 http://www.gov.scot/Resource/Doc/153766/0041377.pdf

- a property tax similar to that in Northern Ireland (where there are two components, one rate set by local districts and the other rate set by Northern Ireland's Government).

A local income tax

4.17 Approximately a quarter of organisational respondents and a third of individual respondents supported a local income tax. However, there were very different ideas about how a local income tax would work, meaning that respondents discussed different pros and cons of different systems. Options considered included:

- the Scottish Government introducing a flat rate on all taxable income;
- local councils could have the authority to set their own individual flat rate, and receive the corresponding revenue;
- local councils could increase the tax rate within the income bands, for example through levy of an increased rate on the earners in the higher income bands; or
- local councils could collect all income tax locally, setting their own tax rate.

4.18 Most respondents felt that a local income tax would need to be collected nationally (through PAYE and HMRC) and redistributed locally. A small number highlighted that the arrangements in place for the Scottish Rate of Income Tax provide the kind of model required (but indicated that it would be challenging for HMRC to calculate and administer as many as 32 different tax codes for Scotland).

"The introduction of specific Scottish Rate of Income Tax (SRIT) tax-codes developments that have been developed subsequent to the 2012 Scotland Act provide the kind of model required."

(Individual)

"A local income tax independent of a national income tax would be inordinately expensive to administer..."

(Wealthy Nation Institute)

4.19 A small number of respondents, including the Learning Disability Alliance and a small number of individuals, felt that a local income tax system would be more efficient – if administered centrally. The Learning Disability Alliance highlighted that the OECD estimates that the costs of collection for income tax are less than one per cent of income raised, while Audit Scotland estimates the cost of council tax collection are four per cent of income raised. However, others had concerns about this. Many local government bodies felt that this system could be complex. There were some concerns about jobs for collecting a local tax going to a UK wide organisation, rather than within the local authority.

4.20 Secondly, there were varied opinions on whether different income tax rates could be set for different local authority areas, and for people in different situations. Some felt that a local income tax could be set locally, according to local needs and circumstances. However, others felt that this could be very complex. There were concerns that people may move between local authority areas to avoid high rates of tax, with some areas becoming more attractive due to lower rates of tax. Some felt that a tax based on income would be more progressive, with a clear link between income and ability to pay. However, others felt that people in certain situations, such as disabled people, had higher necessary expenditure costs which would need to be taken into account.

4.21 There were also concerns that:

- an additional income tax may provide a disincentive for people to work;
- there was a need to consider the relationship with other benefits and the welfare system;
- employers may face additional burdens (particularly small employers) in administering the system;
- administrative arrangements for people working in Scotland for international employers may be complex;
- self employment may lead to peaks and troughs in collection throughout the year, with many settling tax annually;
- the tax basis was volatile, with any decline in the working population having an immediate impact on tax collected;
- there were risks of tax avoidance through high levels of mobility;
- there was a need to be clear whether the tax was for the local authority in which the individual worked or lived; and
- the level of taxation required would need to be high, in order to match council tax income levels – with some feeling wages are already highly taxed.

4.22 One individual submitted evidence from the OECD (Organisation for Economic Cooperation and Development) which indicated that to encourage economic growth, the tax burden should be partially shifted away from income, towards consumption and residential property. Others pointed to the final report from the Mirrlees Review[9], which highlights that there is a basis for taxing property both as an asset and as a service.

4.23 A small number of respondents suggested that a hybrid system, bringing together a property and income tax system for local taxation, would be easier to implement – enabling a gradual shift and less immediate impact on collection arrangements.

4.24 However, a number of local government bodies specifically felt that a local income tax system would not work. The main concern was that the system would be too complex. A small number of individuals also felt that a local income tax system would not work, as it would encourage high earners to move away from Scotland. There were also concerns that this tax could not cover savings and dividend income.

"Threats of further tax increases to perceived "high earners" by the current SNP administration are likely to result in a mass exodus of talent from Scotland."
(Individual)

4.25 The Scottish Socialist Party proposed a specific type of income tax, the Scottish Service Tax, which it sees as progressive and based on ability to pay. This would tax income through six bandings, overtly redistributing wealth. It proposed that the tax would be collected centrally, using the same mechanism as income tax.

[9] Tax by Design, Mirrlees Review, 2011

"The Scottish Service Tax is not just one of the clearest and most effective proposals for the task, but one that is fundamentally designed to redistribute wealth in favour of Scotland's working class and low paid majority."

(Scottish Socialist Party)

A land tax

4.26 Approximately two-fifths of organisational respondents and a quarter of individuals supported a land tax. Policy, tax and economic interest groups and 'other' respondents were significantly more supportive of a land tax than others.

4.27 Respondents used different words to talk about land tax. Most talked of Land Value Tax, but others talked of Site Value Rating, Land Value Rating and a Location Benefit Charge. Often people appeared to mean slightly different things when describing these concepts, but they did not always describe the system they were commenting on. However, there was agreement that this would be a tax on land ownership.

4.28 Most respondents talking of a land value tax meant an annual payment by the owner of a sum based on the economic value of the land. Some talked of this being the economic rental value, while others talked of the land value. Most respondents who supported a land tax were in favour of this type of land value tax. However, a very small minority were in favour of taxing land at a flat rate per unit area.

"I am more in favour of a flat-rate-per-unit-area-of-land tax rather than a land value tax."

(Individual)

4.29 Many respondents felt that a land value tax was possible because it wouldn't discourage economic activity, and would instead encourage best use of land. A number of respondents stressed that the same amount of land would remain available, but people would not be prepared to pay more for the land, meaning that the value of the land would fall to reflect the tax burden. Some respondents, particularly individuals, pointed to the Mirrlees Review which highlights that the supply of property, especially land, is not very responsive to its price. This means it can be taxed without significantly distorting people's behaviour. Some respondents highlighted that taxing land appeared reasonable because it was the equivalent to taxing rent on the land.

"The fixed (inelastic) supply of land means that its taxation is not distortionary, and these revenues could be used to reduce other distortionary taxes."

(Individual)

4.30 The main benefits of a land value tax were felt to be:

- encouraging highest and best use of land;
- stimulating growth and development of derelict and brownfield sites;
- stimulating housing development and reducing land values over time;
- discouraging land hoarding;
- incentivising owners to put land to use;
- encouraging prosperous economic activity;
- reducing tax burdens on small and medium sized enterprises;

- taxing a commodity which is often given its value through public investment;
- its potential to be implemented in a progressive way, enhancing wealth distribution and tackling inequality.

"Our main proposition for reform is a move towards a system targeting land rent rather than property rent. This is based on sound economic principle, fairness, and practicality."

(School of Economic Science)

"It is proposed that LVT in the long term would reduce the value of land, leading to lower house prices and mortgage borrowing, encouraging brown field sites back in to use, and reducing the likelihood of 'land banking' by businesses such as supermarkets."

(NHS Health Scotland)

4.31 The Green Party indicated its support for a land value tax system, and a small number of other respondents referred to a report commissioned by the Scottish Green Party which proposes the abolition of council tax and business rates, and the introduction of a land value tax on all land in Scotland[10].

"Any such taxation system should aim to deliver economic, social and environmental benefits, and we believe a system with a land value tax at its core is best placed to deliver these positive outcomes and the revenue required for vital public services."

(The Scottish Green Party)

4.32 Scottish Land Revenues Group highlighted that there was a pilot of Land Value Tax in the east end of Glasgow in 2008 and indicated that conclusions were almost entirely positive[11]. The Coalition for Economic Justice also drew attention to reports produced by Glasgow City Council's Taxation Working Group in 2009, highlighting that land value tax, local property tax and hybrids of these two tax systems scored highest when assessing fairness, efficiency, predictability and local accountability. The Glasgow City Council Green Party Councillors Group also highlighted this evidence. It provided a report from Glasgow City Council's Local Taxation Working Group, which recommended that the Scottish Government start planning for replacement of council tax with a local property tax, incorporating powers to gradually introduce land value tax elements.

4.33 A small number of respondents indicated that they felt that the land value tax system had the potential to replace all existing taxes. For example, Changing Communities felt that there were strong arguments that all taxes on producers (including income tax, national insurance, VAT, council tax and business rates) should be replaced or reduced by an annual land value tax. However, others felt that it could work well as part of a hybrid range of taxes.

4.34 The main concern that respondents had in relation to land value tax was that it would be challenging to introduce. A number of organisations felt that while the idea of a land value tax was interesting, there was limited solid data to enable the

[10] www.andywightman.com/docs/LVTREPORT.pdf
[11] Further detail was not provided in the submission. However, a report is available online critiquing this pilot, here.

system to be compared to other taxation systems. Some individual respondents pointed to the Mirrlees Review, which concludes that it would be difficult to determine the market price of land.

4.35 A number of respondents felt that it would be difficult to value land independently of what sits upon it, and that there was little data available on land sales for comparison. Some respondents, such as UNISON, indicated that it could take a long time to establish a register of land ownership and land values. Others had concerns that due to lack of data for comparison purposes, land valuations may be open to challenges.

"RICS acknowledges that Land Value Tax (LVT) has been tabled before and, notionally, the system appears reasonable and attractive. However, RICS would argue there is a lack of comparable data upon which to accurately set the values – comparable data is a key component in the mechanism of valuation."

(RICS)

4.36 However, some respondents highlighted that 80 per cent of land was already registered for ownership, and pointed to methods of land valuation used in other countries, such as the USA. Some felt that the system could be straight forward to maintain once it was set up, provided there was sufficient lead in time and clarity on the method of land valuation.

4.37 There were also concerns that:

- the tax was not related to ability to pay;
- the tax may be difficult to explain and for people to understand;
- there may be a need for support for those who struggled to pay, until they sold their land;
- it may be challenging to establish how sites in mixed residential and business use on the same land would be assessed;
- land in the city may be much higher value than in the countryside, having an impact on those living in city areas;
- poorer households may be pushed out of high value inner city land, particularly if areas are regenerated, resulting in problems for the original communities in the area and issues around social cohesion;
- it may be challenging to establish how businesses operating from home should be assessed;
- it may lead to over-development on certain sites;
- it may impact on the sustainability of some land based businesses, particularly farmers (with concerns that farmers are already experiencing difficulties in a challenging economic climate).

"...we do not support Land Value Taxation, either as a replacement for or as an addition to council tax or Business Rates. Many land based business are already experiencing difficulties in this challenging economic climate, and any tax imposed on the value of the land could have negative implications for a number of industry sectors, including farming."

(Scottish Land and Estates)

"There is an almost universal belief by farmers that high land prices are beneficial to farming. I contend that high land prices are a curse on farming."

(Individual)

"Whilst it may, for example, encourage greater payment from large rural landholdings, it bears no serious relation to your ability to pay."

(Scottish Socialist Party)

Other options

4.38 The main other option arising was a poll tax or community charge, suggested by a small number of individual respondents. Some individuals suggested that an individual charge might be fairer.

"The payment of services must be on a per capita basis, as we all receive these services."

(Individual)

"The Poll Tax system could have been a success had the Government of the day operated a system of - ability to pay - this would be based on income. The Tax could be band based - determined by income - which would basically mean all people would contribute towards the costs of the community."

(Individual)

4.39 However, a number of respondents highlighted that it was important not to consider a community charge/ poll tax/ per head charge of taxation, with this system being seen as a highly regressive form of taxation, which was unpopular and undermined by a number of administrative and enforcement difficulties.

4.40 A small number of respondents proposed new, unique domestic rating systems. For example, one individual proposed a new system based on establishing the average selling price, total rental value and local value of all properties within a 'valuation area' – which could be local authority area or smaller. Then, bands would be set based on property size and type, and charges made based on the location value.

4.41 Some organisations and individuals suggested hybrid options, using combinations of various different tax systems. The combinations were very varied, most commonly including a hybrid property and income tax.

4.42 A small number of other proposals were made, each from a very small number of respondents (one to three respondents):

- tourist taxes – suggested by a small number of respondents, but opposed by the British Hospitality Association, particularly in relation to bed taxes levied on visitors who stay in hotel accommodation;
- workplace parking taxes;
- taxes on internet retailers – to encourage fairness in competition with high street retailers;
- a localised VAT precept – to directly link economic performance to a tax revenue scheme, and provide local authorities to choose policy measures which increase local trading;

- localisation of non-domestic rates – with responsibility for rate setting moving to local level;
- direct charges for council services used – charging for services, on a graduated level so that wealthier service users pay more;
- environmental and consumption charges – based on waste or emissions - although more respondents suggested there could be environmental aspects to other taxes, such as a property tax; and
- tax on unhealthy ingredients – reducing the burden on NHS while raising tax income.

4.43 While a small number of respondents supported a localised VAT precept or sales tax, a similar number suggested that this would not be practical or desirable. There were particular concerns that this would be difficult due to the level of cross border and online shopping in Scotland.

"A local sales tax would be regressive and wholly undesirable."

(Individual)

4.44 One organisation proposed a land use and energy use levy system, which it suggested implementing in addition to existing taxes. In summary, it proposed a levy on residential land values and energy use which would be redistributed equally as credits amongst the residential population. The outcome would be net transfer from those who own more land or use more energy, to those that own or use less.

5. Local Priorities

Introduction

5.1 This chapter explores responses to the third broad theme within the call for evidence, which focused on local priorities. Within this theme, the call for evidence posed two questions:

- How well do you think that communities' local priorities are accounted for in the way that local taxation operates at the moment?
- If there is room for improvement, how should things change?

How well do you think that communities' local priorities are accounted for in the way that local taxation operates at the moment?

5.2 Less than half (44%) of the organisational respondents commented on this question. No organisation felt that local priorities were well accounted for. Local government respondents were the most likely to comment on this question, with over two thirds responding.

5.3 Almost two thirds (62%) of individuals responded to this question. Of these, most (61%) felt that local priorities were not well accounted for. Just eight per cent felt that local priorities were well accounted for, and the remainder did not provide a definitive answer in their response.

5.4 Overall, respondents felt that there was a general understanding that council tax contributed to local authority service provision. A small number of local government respondents, particularly in rural areas, highlighted that it was beneficial that local tax was administered locally, providing a connection to communities. And one local government respondent indicated that, more widely, the reduction of ring fencing of funding from Scottish Government to local authorities had helped to better connect local decision making with local priorities.

5.5 However, most respondents felt that there was a disconnect between local priorities and the operation of local taxation. Key concerns included:

- the proportion of local government funding raised locally – which many felt should be closer to 50 per cent;
- low awareness among communities that council tax and non-domestic rates income represent such a small proportion of overall funding for local government;
- the council tax freeze – which many felt was undermining the link between local taxation and local communities, and contributing to cuts which were having major impacts on communities, particularly women and disabled people;
- wider pressures on local authorities – with some feeling that councils are unable to do little more than minimum compliance with their statutory duties;
- the centralised and top down nature of local taxation – determined nationally, and without local flexibility; and

- the regressive nature of the tax – meaning that poorer households are contributing a larger share of their income to local taxation.

5.6 A small number of individual respondents commented that they felt that their local council was not responding to local priorities, and expressed concerns about management and decision making locally. In particular, there were some concerns that council services focused largely on urban areas rather than rural areas. However, a similar proportion of individuals felt that their local council was doing reasonably well in attempting to reflect local priorities, despite financial and other pressures. Many indicated that it was very hard to judge how local priorities were accounted for within local government, as decision-making structures and processes were complicated and not always clear.

If there is room for improvement, how should things change?

Level of local taxation

5.7 Organisations had largely raised their concerns about the proportion of local government funding raised locally earlier in the consultation (see Chapter Three). Here, a small number of organisational respondents pointed to examples from across Europe, where empowered local governments could raise more than half of their own income.

"We believe that permitting local communities to have a greater say on local budgets is beneficial, provided the process is equitable, transparent and properly accounted. It is vital that rural areas of urban authorities are not forgotten."

(Scottish Land and Estates)

"Local priorities cannot in any way be accounted for in the way that local taxation operates at present because local councillors, as discussed earlier, have no real control over local taxation."

(Reform Scotland)

5.8 A small number of organisations suggested that specific measures, such as localising non-domestic rates and/ or the Land and Buildings Transaction Tax (LBTT) to local government, would help to better connect communities and taxation. COSLA indicated that it believed the challenges in connecting local taxation to local priorities could be addressed through a reformed local tax at national level, along with local discretionary tax-raising powers for local authorities.

5.9 Many individual respondents expressed strong views about the level of funding generated through local taxation. There were two very different fields of thought among individual respondents. Firstly, many individual respondents felt that it was important that more local government funding should be raised locally, to better connect local taxation with local decision making. Respondents suggesting that a higher proportion of tax be gathered locally felt that this would help to better connect local service delivery with local taxation, and help to involve and engage communities in local government decisions.

"It is impossible to discuss council tax without discussing the form of governance. At present, there is a disconnect between the delivery of services and the collection of money to pay for them."

(Individual)

"Local priorities are best reflected in taxation which, based on ability to pay, is set and collected by local authorities. This also increases the likelihood of greater community involvement in local government and through increased interest and participation, a raising of standards and quality of representation and decision-making."

(Individual)

"Local taxation seems to have very little to do with local priorities. Only a tiny proportion of total local government funding is collected through local taxation."

(Individual)

5.10 Secondly, some individuals strongly disagreed with the idea of more tax being gathered at local level. This was largely because there were concerns that more affluent areas would always be able to gather more tax locally than those which were less affluent, meaning that inequalities could not be addressed. However, some also had concerns that it could cost more to deliver services in certain parts of the country, and that this should be balanced by national funding. A small number of organisational respondents raised similar concerns.

"I do not believe that local taxation meets the needs of local communities due to the areas in most need of extra services (social care, health etc.) being the least likely to be able to afford to pay for them and that funding from general taxation would be a fairer and more redistributive method of funding local authorities and one which would serve the people of Scotland far better than the current system."

(Individual)

Community engagement and empowerment

5.11 Overall, organisations and individuals agreed that local community empowerment would enable local authorities to take more account of local priorities.

5.12 Organisations suggested that the new Community Empowerment Bill could provide a major driver in engaging with communities in discussions about local priorities. A number of organisational respondents also highlighted joint ways of working with communities which would be helpful, including co-production and participatory budgeting.

5.13 Some individual respondents suggested that there was scope for some funding to be devolved to a more local level than local authorities. A small number expressed concerns that local authorities were too large to reflect local priorities, and that often local people did not feel a connection to the local authority area. Others felt that local authorities could deal with some overarching issues (for efficiencies and economies of scale) but that some local issues would be best dealt with at a smaller, community level. These respondents suggested that funding could be devolved to community councils (or similar organisations) who could take responsibility for very localised services.

“There is justification for more, smaller organizations, who raise their own funds and have a much more interactive role with their community, who have more power to act, along with the associated visible fiscal responsibility.”

(Individual)

“Give community councils proper budgets and control over local spending and you'll have a much more engaged community who will see local elections as being of equal importance to national government elections. Smaller administrative areas would be required - local devolution if you like.”

(Individual)

5.14 A small number of organisational respondents also pointed to examples of more community involvement at local level working well in Europe, where some countries have smaller municipalities with local responsibilities. Many individuals felt that there should be more accessible and engaging ways for local people to participate in decisions about local spending, through participatory budgeting or similar approaches.

“There should be some means whereby council put forward expenditure proposals to the public. Currently councils simply tell the public this is how we are spending.

(Individual)

“Why not set aside a proportion of local taxes and ask people how it should be spent?”

(Individual)

“Why not have a proportion of nominated destinations of tax revenue or capital spend for, say, 10% of local taxation to specific general areas, such as education, or the NHS, or potholes (roads maintenance) which can be altered at will by individuals from one taxation period to the next?”

(Individual)

5.15 Equalities and third sector organisations stressed that in thinking about empowerment, it was important to ensure that everyone had the chance to participate in decision making, particularly including those who experience inequalities and disadvantage. A small number of organisations with a business focus also highlighted that it was important that businesses were considered to be part of local communities.

“A fair and just system of raising and spending local tax must... ensure that all members of local communities (including communities of interest within them) have a fair chance at determining spend.”

(Independent Living in Scotland)

Other issues

5.16 Respondents also highlighted three other issues which could help to improve the reflection of local priorities within local taxation systems.

5.17 Firstly, a number of individual and organisational respondents who supported a land value tax suggested that this tax in itself could help to better connect local priorities with local taxation.

"Any move towards greater local retention of the domestic property tax receipts will help bond the community with the local government infrastructure. However, this is especially true where the tax is mainly based on land value rather than building value. Expenditure that improves land value (local infrastructure, services, etc) will, to the extent that the local community values it, be recovered through increases in land value."

(School of Economic Science)

5.18 Secondly, a small number of equalities and third sector organisations highlighted that there was a need for a rights based approach to service delivery – with clear information on the services councils provide, those they have discretion over, and those they won't provide. A number of individual respondents also suggested that clearer information would be useful.

5.19 Thirdly, a small number of organisations indicated that it was important to reduce public spending in the future. One organisation felt that it was important to embrace a preventative approach to reduce public spending (and achieve better outcomes). Another organisation was keen to see reductions in public spending through a system of charging individuals for the services that they used.

6. Further Information

Introduction

6.20 This chapter explores responses to the final theme within the call for evidence, which focused on further information. Within this theme, the call for evidence asked for information about any events, networks or other ways in which the Commission could keep the conversation about local taxation going.

We would like to keep this conversation going. Please tell us about any events, networks or other ways in which we could help achieve this?

6.21 Just a quarter of organisations and a third of individuals responded to this question. Local government bodies were most likely to respond, with almost half commenting. Suggestions included:

- ongoing, clear and early communication progress;
- maintaining an ongoing focus on the government's priorities of eliminating poverty and inequality, in all aspects of the Commission's work;
- ongoing engagement with local authorities through COSLA, the Scottish Local Government Partnership, SOLACE, CIPFA and Local Authority Directors of Finance;
- engagement with the Scottish branch of the Institute of Revenues Rating and Valuation, the Scottish Cities Alliance, Homes for Scotland, community planning partnerships, regional forums and other relevant stakeholders;
- holding events with interested stakeholders – as discussions progress, and once the Commission has produced an options appraisal, report and recommendations;
- holding community engagement events – with some areas such as North Ayrshire and Angus particularly keen to co-host a community engagement event; and
- providing a copy of the report of the findings of the Commission to all elected members electronically.

6.22 Many individuals suggested that a large scale consultation or debate was required, alerting everyone in Scotland to the potential changes and options available. Many felt that political interest and democratic involvement had increased recently in Scotland as a result of the referendum on independence, and that it was important to build on this through stimulating debate on local taxation. Individuals suggested that this could involve:

- a series of local events run by local authorities, community groups and individuals;
- opportunities to participate through online and social media surveys;
- surveys of all public sector workers (as email addresses will be easily accessible);
- information provision through TV, newspapers and mail drops;
- an email subscription list to keep interested people informed;

- engagement with new media such as Common Space, Bella Caledonia and The National Newspaper; and
- engagement with new political groups such as Common Weal, Scottish Left Project and Radical Independence.

6.23 More widely, other groups and individuals suggested:

- detailed consideration within the Commission on how Scottish Water might best be involved in the ongoing discussion around tax reform;
- including updates on the work of the Commission in the Scottish Land and Estates e-bulletin;
- networking through Scottish Property Tax Reform or the Citizens Advice Bureaux networks; and
- linking discussion on land reform and tax reform at national level.

6.24 A number of respondents simply highlighted that they would be pleased to answer any questions or attend further discussions about local taxation in the future.

Appendix One - List of Organisational Responses

A total of 80 organisations responded to the call for evidence. However, one of these organisations submitted a response significantly after the closing date. This was included within the qualitative analysis, but not within the quantitative analysis.

Seventy-seven organisations provided permission for the Commission on Local Tax Reform to publish their responses. These were:

Aberdeen City Council
Aberdeen City Council Liberal Democrat Group
Aberdeenshire Council
Action for Land Taxation and Economic Reform (ALTER)
Angus Council
Argyll and Bute Council
Army Families Federation
British Hospitality Association
Centre for Scottish Public Policy
Changing Communities
Chartered Institute of Taxation
Child Poverty Action Group
Church of Scotland
Chartered Institute of Public Finance and Accounting (CIPFA) and CIPFA Directors of Finance Section (Joint response)
Citizen's Advice Scotland
Coalition for Economic Justice
Comhairle nan Eilean Siar
Common Weal
Convention of Scottish Local Authorities (COSLA)
Devolve
East Ayrshire Council
East Dunbartonshire Council SNP
East Lothian Council
Edinburgh Labour Group
Electoral Reform Society Scotland
Falkirk Labour Group
Federation of Small Businesses
Fife Council
Glasgow Labour Group
Green Group of Edinburgh Councillors
Green Party
Historic Houses Association
Homes for Scotland
Institute of Chartered Accountants of Scotland (ICAS)
Independent Living in Scotland (ILiS)
Inclusion Scotland
Institute of Revenues and Ratings and Valuations (IRRV)
Labour Land Campaign

Land Research Trust
Learning Disability Alliance Scotland
Low Incomes Tax Reform Group (LITRG)
National Carer's Organisations (Joint response)
NHS Health Scotland
North Ayrshire Council
North Lanarkshire Council
Policy Scotland
Radical Independence Campaign - Dundee
Reform Scotland
Renfrewshire Council
Royal Institution of Chartered Surveyors (RICS)
Scottish Action Against Council Tax (SAACT)
School of Economic Science
Scottish Assessor's Association
Scottish Association of Landlords
Scottish Borders Council
Scottish Cities Knowledge Centre
Scottish Empty Homes Partnership
Scottish Green Party Councillors
Scottish Land and Estates
Scottish Land Revenues Group
Scottish Licensed Trade Association
Scottish Local Government Partnership (SLGP)
Scottish Property Federation
Scottish Retail Consortium
Scottish Socialist Party
Scottish Water
Scottish Women's Convention
Scottish Council for Voluntary Organisations (SCVO)
Scottish Federation of Housing Associations (SFHA)
Shelter
Society of Local Authority Chief Executives (SOLACE)
Society of Local Authority Lawyers and Administrators in Scotland (SOLAR)
South Lanarkshire Council
Scottish Trades Union Congress (STUC)
UNISON
Wealthy Nations Institute
West Lothian Council

In addition, 124 individuals responded to the call for evidence.

Appendix Two – Demographic Information for Individual Respondents

Sex
Of 62 respondents:

- 48 were male
- 14 were female

Age
Of 68 respondents:

- 3 were aged 16 to 34
- 12 were aged 35 to 44
- 11 were aged 45 to 54
- 20 were aged 55 to 64
- 22 were aged 65 plus

Economic Activity
Of 62 respondents:

- 30 were working full time
- 28 were retired
- 4 were working part time

Household Composition
Of 65 respondents:

- 12 were single person households
- 44 were couples with no dependent children under 16
- 9 were couples with dependent children under 16

Household Income
Of 48 respondents:

- 2 had an income of £10,399 or less
- 4 had an income of £10,400 to £15,599
- 10 had an income of £15,600 to £25,999
- 11 had an income of £26,000 to £36,399
- 8 had an income of £36,400 to £49,399
- 5 had an income of £49,400 to £62,399
- 3 had an income of £62,400 to £77,999
- 5had an income of £78,000 or more

Housing Tenure
Of 55 respondents:

- 33 owned their home outright
- 16 owned their home with a mortgage
- 4 rented from a private landlord
- 2 rented from a council or housing association

Council Tax Band
Of 48 respondents:

- Band A – 3
- Band B – 3
- Band C – 4
- Band D – 10
- Band E – 8
- Band F – 9
- Band G – 7
- Band H – 4

Ethnic Origin
Of 51 respondents:

- 35 identified as white Scottish
- 11 identified as white British
- 3 identified as white Irish
- 2 identified as ‘other’

Geography
Of 64 respondents:

- 27 lived in an urban area
- 15 lived in a rural area
- 22 lived in an area with both rural and urban parts

Notes of Oral Evidence Sessions

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Notes of Oral Evidence Sessions

03

THE COMMISSION ON LOCAL TAX REFORM

Notes of Oral Evidence Sessions

ORAL EVIDENCE SESSION 1 - SCOTTISH PROPERTY TAX REFORM GROUP

NOTE OF MEETING

Held in Verity House, Haymarket Yards, Edinburgh at 2.00 pm on Monday 18 May 2015

Commissioners:

Councillor David O'Neill (Co-Chair)	Councillor Angus Campbell
Don Peebles	Isobel d'Inverno
Andy Wightman	Jim McCormick

Apologies received from Marco Biagi MSP who was unwell

Witnesses:
Professor Mark Stephens, Convener, Scottish Property Tax Reform
Professor Ken Gibb, Director, Policy Scotland
Professor Richard Kerley, Professor of Management, Queen Margaret University, Edinburgh
Adam Lang, Head of Policy, Shelter Scotland

In attendance
Emma Close, Neil Ferguson, Robin Haynes, Adam Stewart (secretariat)

Introductions and opening statements
Following introductions, each witness provided a brief summary of key issues in relation to local taxation.

Adam Lang from Shelter Scotland set out the key issues affecting Scotland's housing sector which include: 30,000 homeless people, 10,000 people housed in temporary accommodation and around 700,000 in severe poverty. He said that between 2004 and 2014, house prices rose by 36% while incomes rose by 24% over the same period. Today's average house price of around £173,000 is 6.4 times the median salary and in 2004 it was 5.6 times the median salary. Adam proposed that tax should be used to reduce the affordability pressures in the housing market, to help create more stability in the market and to counter speculative house purchasing which increases prices further. Tax is one of the methods available to tackle the housing crisis.

Richard Kerley from Queen Margaret University noted that domestic local taxation is seen as a controversial issue and that it funds a range of different services. Some services are 'semi-nationalised', such as education where teacher numbers, class sizes, salaries and the curriculum are delivered nationally while education itself is delivered locally. He suggested that if such services were delivered centrally, it would place greater accountability on local government for other services.

Ken Gibb from Policy Scotland noted that there is not an equal distribution of houses across the Council Tax bands at present, with only 6% of houses in the top two bands. He suggested that simply adding further tax bands at the 'top' would not solve the perceived problems of Council Tax. He supported regular revaluations of houses for Council Tax purposes, noting that there hasn't been a revaluation since 1991. He noted the support for the introduction of a form of deferred payment option but that would not help non-home owners pay their Council Tax bills.

Mark Stephens from Scottish Property Tax Reform discussed the relationship between property taxes and income. He suggested it would be unwise to move away from a form of property tax. He noted that the Burt and Lyons reviews of Council Tax had equated the issue of 'fairness' in tax to the ability to pay the tax out of current income. He said it was essential to relate a property tax to the issue of fairness and noted that although Council Tax includes income-related rebates, many people on low incomes do not get any form of assistance. The deferred payment scheme only assists homeowners but does not help tenants or occupiers with mortgages. He suggested that a hybrid tax that took account of both property values and income should be explored. He expressed a preference for using rental values as the basis for tax on the basis that it was inappropriate to tax tenants on the value of an asset they do not own. Under the hybrid model, the higher the rental value of the home, the more tax the occupier would pay for a given income. He said he would be able to provide a model for this form of tax in the coming weeks.

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

1. **A ring-fenced fund for particular services (e.g. education) and the impact on local accountability**
    - It was suggested that education is the most obvious example of such a service; primary and secondary education are essentially the same across Scotland.
    - According to the 1944 Act, education is a 'national service that is locally administered'.
    - The Scottish Government should decide the funding for education across Scotland, allowing greater local accountability for the other services provided by councils.

2. **Tax principles to help the most vulnerable people in society**
    - It was suggested that any replacement tax should be progressive and transparent, with a requirement for regular revaluations.

3. **The contribution tax can make to the housing market**
    - Using economic rent as the basis for taxation is a sensible approach and it could be a national tax.
    - It was noted that the Joseph Rowntree Foundation Housing Market Task Force concluded that tax has a role in stabilising the housing market (along with the availability of mortgage finance). However if stabilising the housing market is an objective, it is difficult to use a local tax because a fixed amount of money is raised. A national tax would be preferable.
    - No country uses capital gains as the basis for taxing housing. It may create disincentives for people trading down.

4. **Should tax be paid by the owner or the occupier?**
   - If tax was paid by the owner rather than the occupier, then because the private rented sector does not operate perfectly, it takes time for the correction in rental values to take place.
   - An example of this was seen in cuts in Housing Benefit – the rent fell on tenants; rents did not fall quickly.
   - Any amendment to require landlords to pay the tax would be very difficult for tenants on low incomes. If the tenant is required to pay the tax, a rebate system can be employed to offset the burden. However if the owner pays, there is no control over what the tenant pays.

5. **Hybrid tax taking account of property value and income**
   - It may be possible to design a hybrid form of local taxation, perhaps as a property tax that is moderated by income. The problem with a property tax in itself is that it creates a perceived unfairness because it is not related to income.
   - However this could be costly and complex to administer, particularly for fluctuating incomes and has not yet been modelled.
   - Economists and politicians tend to favour property based taxes but there may be a need to take more account of the 'desirable outcomes' in relation to income.
   - Establishing a local tax based on income would need a 'seamless interface' with HMRC, but this is unlikely to be possible.
   - No other country employs a hybrid form of local tax in this way. However there are property taxes that include forms of means testing (these will be highlighted in the literature review).

6. **Council tax in the context of local government finance**
   - It was suggested that in total local taxation should comprise 50% of a local authority's revenue / spending ability.
   - Because of the mechanism by which it is set and redistributed, non-domestic rates are now perceived to be another form of central government funding.

7. **Structure of Council Tax and the need for more bands**
   - It was suggested that Council Tax bands were crudely allocated and the distribution of properties in each band is non-linear and now imbalanced.
   - The Republic of Ireland tax by comparison has 19 tax bands. However it is not clear what merit there is in having lots of bands and tax rates.
   - It was suggested that the 1991 base is now out of date. Newer properties are scaled into higher bands than older properties. The data to determine whether the distribution of properties in the bands is accurate is available.
   - The housing market has undergone structural changes since 1991 so if the bands were recalibrated, many properties would change bands.
   - There was discussion about changing the base to Housing Market Areas which are broader than local authority areas (instead of changing the 1991 value base) but this would be risky as it assumes that there has been no structural change since 1991.
   - The rebate system is limited in scope and aims to protect incomes. However many older people to do not claim rebates. An income test should be an integral part of the tax system.

- The group discussed the possible role for a tax free allowance of say the first £40,000 of property value (a nil rate band) and the possibility of incorporating other policy objectives e.g. carbon reduction. These are easier when there is a basket of taxes available to spread the risk to the revenue.

8. The frequency of revaluations of homes for Council Tax purposes

- These should be shorter than the market cycle. If the technology exists, revaluations could be conducted annually.
- In the Republic of Ireland, self-assessment of valuations gave the system a degree of credibility and gave taxpayers a sense of ownership of the tax system.
- Because of market conditions, many people have extended their houses in recent years rather than move house. Because the house is not re-banded for Council Tax purposes until it is sold, the extensions have not been factored in to local taxation, so there may be a 'wall of value' built in at present.

9. Deferred payment schemes for asset-rich, cash-poor

- Simple schemes can be employed e.g. the government rolls up the local tax debt until the property is sold. However there is usually very little take-up of these schemes, sometimes even with hostility towards them. Those who own their property outright with no mortgage often feel that their property is being taken away from them. The value of a house is often seen as a legacy to the family.
- In England there is an option to defer care home charges but there is often a poor understanding of how the figures work. And equity release now has a bad name.

10. Land Value Tax

- The proposal for LVT got no political traction in the Burt Committee's work because there wasn't an inter-party buy-in.
- Making a reform happen needs political agreement and the establishment of the Commission is a good start.

11. Testing a new approach to domestic local taxation

- There is scope to pilot a replacement tax because national considerations often overlook local variations.
- It is possible to introduce a replacement tax in phases, with protection for 'losers'.
- However a long term phasing in of a replacement tax (say over 10-20 years) is exposed to political risk.
- Pilots are often used to examine the impacts on urban / rural areas, different demographics etc.
- It was suggested that with structural changes to the devolution settlement, there is already an appetite for substantive change to a distinctly Scottish model of local taxation.

12. Appetite for change among the public

- Council tax has a culture of compliance and willingness to pay.
- The risk of a 'can't pay, won't pay' culture is low, subject to a replacement tax being broadly fair and reasonable.

ORAL EVIDENCE SESSION 2 – LEARNING FROM PREVIOUS WORK

NOTE OF MEETING

Held in CIPFA Offices, 160 Dundee Street, Edinburgh EH11 1DQ at 11.00 am on Tuesday 19 May 2015

Witnesses:

John Baillie - Local Government Finance Review Committee ('Burt Committee')
Ken McKay - Adviser to the Burt Review Committee
Stuart Adam - Institute for Fiscal Studies, contributor to the Mirrlees Review

Commissioners:
David O'Neill
Angela O'Hagan
Mary Kinninmonth
Isobel D'Inverno
Angus Campbell
Andy Wightman
Don Peebles

Apologies: Rob Whiteman, Marco Biagi MSP

Introductions and opening statements
Following introductions, each witness provided a brief summary of key issues in relation to local taxation.

John Baillie summarised the recommendations of the Burt Committee:
The Burt Committee (which reported in 2006 ('A Fairer Way – Report by the Local Government Finance Review Committee') was surprised at the extent that the multiplier between Council Tax Bands had to be stretched in order for the tax to be progressive. Such large multipliers had implications for those at the margins of each band, and hence, moving away from banding to a tax on based on the actual value of a property made more sense.

The findings from the pubic engagement suggested that fairness, in terms of ability to pay, was the public's key concern.

The Committee recommended 5 yearly statutory revaluations.

Local Income Tax was considered, but there were concerns over relying on income for such a large proportion of tax raised, as well as potential suitability concerns because of instability and unpredictability of revenues.

Ken McKay noted that in 120 years of local domestic taxation, new systems have only been introduced in times of political crisis.

Stuart Adam summarised the recommendations of the part of the Mirrlees Review which considered Council Tax:
The Mirrlees review took the view that a property tax is a good local tax because it is immobile and there is a link between who pays the tax and who receives Council services. The review recommended that Council Tax was replaced by a consumption tax on housing, similar to the concept of VAT, but charged on a recurring basis. It would ideally be based on rental values (implied rental values in the instance of home owners).

Although coming from a different place conceptually, the tax proposed by the IFS looks very similar to the property tax recommended by the Burt Committee.

Asset rich cash poor households could defer payments. For those unable to pay, a rebate scheme should apply. Single person discount should be removed.

It was suggested that a new housing services tax should also replace Land and Buildings Transaction Tax.

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

1. Why was the Burt Review not implemented?
- There was discussion on why the Burt Report was dismissed by the then Scottish Executive. Witnesses advised that the Commission on Local Tax Reform should try as hard as it can to meet consensus between Commissioners to avoid the same fate.

2. Water Charging
- The issues of water charging was discussed, and it was noted that the Burt Review recommended that water bills should be separated from council tax bills.

3. Should owners or occupiers pay the housing consumption tax?
- Over the long run, it would not matter because rents should adjust, but conceptually, a charge on occupiers would make more sense because they consume housing services.

4. Public Perceptions
- Some Commissioners were concerned that the concept of a tax on consumption of housing services would be difficult to explain to the public in a way that would be easily understood.
- The question of the single person discount was raised and whether the public would see the tax as less fair if it was removed. It was noted that this was remnant of the Community Charge, and it is hard to see how it fits into a property tax framework, as opposed to a ‘charge for services’ framework.
- The potential for public disapproval of deferment was raised, based on experience of how care charge recovery has been perceived by some. John Baillie suggested that such a scheme would be optional.

- It was noted that the Burt Review Committee found that the public was mainly interested in accountability in relation to how council money was spent. There was less interest in how the money was raised.
- Commissioners asked whether the public was aware of the consequences of a revaluation. It was suggested that the public perception was that a revaluation would mean bills automatically went up for everyone and the role of the multipliers was not well understood.

5. Revaluation

- The group discussed how a (regularly revalued) property tax would reflect improvements in local service provision and how it introduces circularity to the system.

6. Impact on households

- Commissioners discussed the need for clarity about the purpose of the tax, and the risk associated with broad assumptions about how a tax will affect different households.
- It was noted that data limitations meant that modelling at a detailed household level was difficult, but he was confident that the system the Mirrlees report proposed was broadly progressive, and more so if a rebate scheme was introduced for those lower down the income distribution.

7. Structure of the tax

- The terms ‘progressive’ and ‘proportional’ were clarified. It was agreed that a property tax on a fixed percentage of a property value would be a proportional tax structure but nevertheless be progressive compared to the current situation.

ORAL EVIDENCE SESSION 3 – WELFARE RIGHTS AND LOW INCOME GROUPS

NOTE OF MEETING

Held in Verity House, Haymarket Yards, Edinburgh at 1.00pm on Monday 1 June 2015.

Commissioners:

Councillor Catriona Bhatia
Don Peebles
Angela O'Hagan
Jim McCormick
Mary Kinninmonth
Isobel d'Inverno
Councillor Susan Aitken

Witnesses:
Jon Shaw, Child Poverty Action Group
Keith Dryburgh, Citizens Advice Scotland
Joanne Walker, Low Incomes Tax Reform Group
Trisha Hall, Scottish Association of Social Workers
Carla McCormack, Poverty Alliance
Apologies received from Mark Ballard, Barnardo's Scotland, who was unable to attend.

In attendance:
Neil Ferguson, Robin Haynes, Adam Stewart (secretariat)

Introductions and opening statements
Following introductions, each witness provided a brief summary of key issues of interest in relation to local taxation.

Trisha Hall, Scottish Association of Social Workers – Trisha explained that social workers have a duty to promote social justice and want to ensure there is adequate funding for preventative services. Every council has a statutory duty to promote social welfare but funding may not always be available for that. Pressure on services and the need for joined up thinking is seen, for example, in the analogy where a council is trying to change the diet of children, yet the head teacher has to close a breakfast club due to a lack of funding. Christine Lagarde from the IMF has highlighted that a more equal distribution of income is better for economic growth.

Carla McCormack, Poverty Alliance – The Poverty Alliance has no position on a proposed alternative to Council Tax but notes that it is regressive and should be replaced with a more progressive system to help reduce inequality for pensioners and those on a low income; the amount of Council Tax paid does not rise as fast as the property values. Families on low incomes pay 5% of their income on Council Tax, compared with 1% for 'welfare families' because the tax is levied on property value and not on income.
The tax bands are now 25 years out of date leading to an inherent unfairness. The Council Tax freeze has favoured higher value properties and led to cuts to council finding. The Council Tax Reduction scheme (CTR) is welcome, helping pensioners and others on low incomes. CTR reduces the bill by £12.76 on average per week which makes a significant difference to families on low incomes. Almost two thirds of children in Scotland are in households in work poverty.

Income redistribution is needed to reduce income inequality. Protection is needed for taxpayers who are disadvantaged through local authority errors.

Single person households get a 25% Council Tax discount but there is a higher impact on single parents who need more protection. Those on the lowest incomes need support. The Poverty Alliance and Heriot Watt University are working together to come to a position on a preferred option. A progressive system is needed, although there are positives and negatives to every system.

Keith Dryburgh, Citizens Advice Scotland (CAS) – CAS has no official position on local taxation. There are 81 Citizens Advice Bureaux (CABx) in Scotland, dealing with 580,000 enquiries each year, 29,000 of which are about Council Tax; around 100 per working day. Around half of those 21,000 are about claims for CTR and payment issues, the other half are about debt issues. One in every 20 enquiries is about Council Tax.

Council Tax queries to CABx increased last year by 12%. This is probably explained by more people needing advice on CTR and Council Tax. Queries about Council Tax arrears have increased by 13% in the last 3 years.

The majority of enquirers are from single adult households. 6% of those seeking advice are the only adult in their household. About 20% are from single parent households. About 80% of enquirers rent their home (either social rent or private rented sector), with almost half of them in employment, many on low incomes. The majority of single person claimants are males, aged 45-59. 38% of the workload is related to benefits, with debt issues on the decrease, in part because barriers to credit have been extended. People now often choose to go to food banks rather than pay day lenders. The issue is low incomes; people who are very vulnerable to unexpected costs or breaks in income. Previously it was often people with higher debts and higher income – now it is people with low debts but very low incomes so the impact of the debt is much higher.

Issues:

i. The 20 year diligence rule means that councils can seek debt over a 20 year period. Confusing Council communications can often cause arrears and often there is little evidence that the person didn't pay the tax.
ii. Interaction with other benefits – when people come off benefits they can develop arrears in Council Tax.
iii. CTR doesn't always cover water and sewerage charges – there is a lack of awareness and a lack of protection.
iv. Council Tax is regressive.

Principles – any replacement for Council Tax should:

i. focus on impacts on low income households;
ii. The tax should be a means to alleviate poverty, not a cause of it;
iii. Should be transparent and well communicated;
iv. Respond to local needs;
v. Clarify its interactions with other benefits; and
vi. Must be technically feasible and practical.

Joanne Walker, Low Incomes Tax Reform Group – The LITRG works with HMRC and others to provide information and improve accessibility for taxpayers. It has no specific position on Council Tax but agrees with the Adam Smith principles adopted by the Scottish Government for the devolved taxes and adds transparency and easy to understand.

LITRG doesn't seek a 'fairer' alternative as this is subjective. However a more progressive tax system is needed; Council Tax is based on income (to an extent) and property value, but doesn't recognise a household's outgoings and dependents.

There are 4 kinds of households: Asset rich, income rich / asset rich, income poor / asset poor, income rich / asset poor, income poor. The regressive tax structure of Council Tax needs to be addressed.

No stats available for take up of CTR, but there was only 60% take up for Council Tax Benefit. It would be better if such benefits were allowances instead of having to be claimed. There would then be less stigma and complexity.

Jon Shaw, Child Poverty Action Group – CTR is much better in Scotland than in England where the 10% budget cut fell on families. However, Council Tax is still 5% of the income of lower income households, even after CTR.

The freeze makes little difference to those on lower incomes – but cuts in services have impacted on them. In 2009/10, 2.3m households in the UK did not take up Council Tax benefit entitlement. It is no longer legally possible for DWP benefit claimants to be automatically eligible for CTR.

Universal credit – if someone enters into work, their financial support is withdrawn including 20p in the pound if CTR is withdrawn.

If the Council makes an error and pays too much housing benefit, the money is not legally recoverable. This is not the same for Council Tax. Council Tax has different timescales and processes for challenging assessments compared to Housing Benefit.

It would be essential to retain at least the same benefits in any new system.

Tax simplification tends to remove income protection and entitlement.

The aim of the SG to end child poverty is 100% devolved.

Need to consider the interaction of local taxation with Universal Credit and work out how to streamline the take-up of allowances.

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

1. **Are take-up rates for Council Tax Reduction (CTR) now improving?**
    - The transition from CT Benefit to CTR went well. There is still a need to raise awareness among potential claimants.
    - No statistics are yet available on CTR. Barriers include complex and lengthy forms that often put people off claiming, especially if they have to fill in DWP forms too. There is also a stigma associated with claiming CTR, especially among older people, although they would accept an entitlement. It was noted that it was hard to measure take-up but the number of claimants has reduced from 547,000 to 530,000.
    - However claims for CTR are not captured by DWP and there is no incentive for councils to run a take-up campaign as it means their revenues will fall.
    - **Should Councils be required to be proactive in encouraging take-up?** Not enough effort was made to publicise CTR. Part of the problem was how it was publicised – often online or in centres. But people on low incomes often have no access to a PC or find it difficult to attend the centres if they live in rural areas. People on flexible working patterns often go in and out of entitlement but it can be complicated and hard to claim entitlements in these circumstances.

2. **Are there people being pursued by the Councils for debt who are eligible for CTR but don't claim it?**
    - It was easier and cheaper for the Council to get a Solicitor to issue a summary warrant than it is to conduct an income assessment. Summary warrants should be an option of last resort.
    - It can be very intimidating for people to receive a summary warrant letter. It would be better if a more supportive letter was issued. Comparisons were drawn between HMRC's efforts to deal with income tax arrears where people are given a timescale of say 6 months or a year in which to pay and Council tax arrears which are demanded in a lump sum.

3. **Single people may have higher outgoings; is the discount of 25% sufficient?**
    - Lone parents are more likely to be in poverty and suggested that the discount should be 50%.

4. **How could Universal Credit and Council Tax be better integrated?**
    - CPAG argued for CTR to be brought into Universal Credit. The Scottish Government will have control of the housing element of Universal Credit so it should be possible to integrate the reformed local taxation with that. A system involving a percentage of income before liability to Council Tax arises was suggested.
    - In April 2016, the Scottish Rate of Income Tax will be introduced, followed by control over rates and bands of income tax from the forthcoming Scotland Bill. This would only give powers over earned income and pensions but not investment income. If there was a Local Income Tax in Scotland, there could be an allowance available – but how would LIT be collected and by who? It is also a national tax and less transparent. Would Councils have capacity to collect LIT? Council Tax makes some recognition of household circumstances but LIT would not and would not, therefore, be as progressive.

5. **In the context of the Citizens Advice Scotland statistics is Council Tax was a significant issue?**
   - It is the second most frequently raised issue in Citizens Advice Bureaux. 1 in 10 clients have an issue with Council Tax, albeit, it may be an underlying issue.
   - It was noted that other people may present their Council Tax issues directly to Councils and would not therefore be included in the CAS statistics.

6. **Is Council Tax a barrier for <u>people seeking</u> accommodation? i.e. they may be unwilling to take on a tenancy because of a higher Council Tax bill.**
   - Only 181,000 homes are in bands F to H with 6m in bands A-C in the UK. Low income households tend to be in smaller homes so this is less of an issue – however it may be a barrier to aspiration.

7. **Would it be better to tackle inequalities or the regressive nature of Council Tax?**
   - It was suggested that some people would be willing to pay more tax if they knew which services it went to fund.
   - Joseph Rowntree Foundation research has shown that less than half of the people in poverty are eligible for relief from Council Tax.

8. **What is the quality of experience for the taxpayer? Is there consistency? Is there a role for Audit Scotland?**
   - The Scottish Welfare Fund is a good example of a national programme working well at the local level.
   - With proper regulation and guidance, there should be a minimum standard. However there will always be a degree of postcode lottery.

9. **Should water and sewerage charges be billed separately?**
   - Research has been done by Citizens Advice Scotland on water advocacy and sewerage charges. It focused on principles and found that people were quite altruistic and would be willing to pay more if it helped other people with their charges. Principles have been derived from the research.
   - Taxpayers receive one letter with 2 bills, something that is poorly communicated. People in receipt of CTR do not realise they have to pay water and sewerage charges and there is a lack of protection.
   - Scottish Water pays Councils to collect the charge and is reimbursed out of Council Tax receipts if the water charges are not collected in full.
   - Water metering is in use in England but in a trial in Fife, people were pushed into debt because of the charges.

10. **Should more tax be raised or the same amount, but funding better redistributed?**
    - The Council Tax freeze has caused pressures on the funding of services which has impacted on families and children. If Councils are expected to provide the services and reduce child poverty, they must have the funding and the ability to raise funding.
    - CPAG examined whether households on Universal Credit could be removed from local taxation, but that would reduce the tax base and impact on local services. Freeze now leading to means testing and the cutting of services. CPAG has no view on whether councils should set taxation locally.

- The extent of council control over local taxation would depend on the choice of tax system. For example, with LIT there might be 32 tax rates set by Councils, with tax collected by HMRC. This would put additional burdens on employers with employees who live in different Council areas. It may not then be seen as a local tax. Additional PAYE coding would add further complexity to an already complex system, with a lack of transparency. For people on low incomes this could be very difficult.
- Also, there may be cash flow issues for Councils – if income is reported at the year end, Councils won't get the tax revenues – but still need to fund public services meantime. Difficult to transition to this system.

11. **Local Income Tax is assumed to be progressive but may not be because of dependencies, disabilities etc. in the household. Is there any system elsewhere that captures household circumstances and outgoings when assessing income?**
    - There is no one example. The income tax system and benefits, taken together, attempt to do that. In the US, income tax includes allowances for wealth and disability. May need to remodel the whole tax system!
    - It was suggested that it may be possible to create a system that takes account of benefits, with weightings or household circumstances. However it could be very complex, involving weightings for islands and rural areas as well as household circumstances.
    - The group noted that other systems and instruments such as Universal Credit have different priorities and approaches which makes creating a holistic approach and the administration of it very difficult.
    - There are statistics available on household and individual incomes and the policy assumptions made about the extent to which resources are pooled and shared in households – labour market dynamics have huge effects on household incomes. The interface with working tax credits and benefits lead to income instability – it is very hard to measure the income base of households most negatively affected by the current council tax.
    - Household income is assessed regularly in the social security system – the means test is crude and the fewer tests there are the better.

12. **It has been suggested that people in receipt of Universal Credit should be exempt from Council Tax. Would a progressive tax structure provide the same outcome?**
    - No 'number crunching' has been done. But if half the families with children receive Universal Credit it seemed implausible that existing Council Tax revenues could be sustained.
    - Universal services with adequate funding are required; not just services for the poor, which would lead to resentment among the wealthy.
    - Loughborough University has done work on what happens if you don't provide social work services – identifying the benefit of preventative spend.
    - It would be easier administratively if everyone in receipt of Universal Credit was exempt from Council Tax.

13. Would a property tax with a nil rate band of say £50,000 support households on low incomes?

- It was suggested that here has to be a link to the ability to pay beyond the value of property. A bigger family in a bigger house would need some form of means assessment.

ORAL EVIDENCE SESSION 4 – SOCIETY AND LOCAL TAXATION

NOTE OF MEETING

Held in Verity House, Haymarket Yards, Edinburgh at 1.00pm on Friday 12 June 2015.

Commissioners:
Councillor David O'Neill (Chair)
Councillor Susan Aitken
Jim McCormick
Councillor Rhondda Geekie
Councillor Angus Campbell

Witnesses:
Peter McColl, Policy Director, Common Weal
Rev Sally Foster Fulton, Chair of Church and Society Council, Church of Scotland
Stephen Boyd, Assistant Secretary, STUC
Dave Watson, Head of Bargaining, Unison
Jenny Bloomfield, SCVO

In attendance:
Neil Ferguson, Adam Stewart (secretariat)

Introductions and opening statements

Following introductions, each witness provided a brief summary of key issues of interest in relation to local taxation.

Peter McColl, Policy Director, Common Weal – Peter referred to the 3 purposes of taxation as set out in his paper:

1. To reduce inequality by redistributing wealth
2. To discourage undesirable activities through making them less attractive. E.g. land banking
3. To provide funding for public services and infrastructure

Councils have very little opportunity to raise funding – Edinburgh Council has been refused the transient visitor levy three times.

Land Value Tax achieves all 3 criteria – it reduces inequality as it becomes less attractive to hold large properties or bank land and vacant sites. It funds local services and captures the value of estates.

He suggested a Scottish Service Tax, a local income tax on those with the highest incomes to redistribute wealth.

Rev Sally Foster Fulton, Chair of Church and Society Council, Church of Scotland – Sally said that a right relationship with money has to be embedded in our social relationships to achieve wealth redistribution as well as wealth creation. Wealth is a common asset, not a private one. Tax should reflect that reality.

There is a need to address tax avoidance – people and business should pay their contribution to the society that supports their success. The gap between rich and poor is widening which is astonishing in a period of austerity.

The political landscape in Scotland has changed and people are much more engaged with politics, following the referendum on Scottish independence. More participative democracy is needed to create a fairer Scotland.

The report to the Church of Scotland General Assembly highlighted a need to review Council Tax to allow it to better support public services.

Land Value Tax is a more appropriate tax on those who can afford to pay it. There has been a war on the poor with statistics used to support it. Need to turn the 'upside down system' the right way up. The Church of Scotland is committed to giving those on low incomes a voice.

Stephen Boyd, Assistant Secretary, STUC – The 2012 STUC considered a motion for a Land Value Tax to reform local taxation. This work was overtaken by the referendum. The status quo is unsustainable and unacceptable and reflects badly on Scottish democracy.

There is a logical case for a Local Income tax but it is not possible to have anything other than a property-based tax.

STUC favours strengthened local democracy. The UK is a highly centralised taxation jurisdiction. Nordic countries provide a model of more devolution. Is the amount of tax collected locally connected to the quality of local democracy?

Dave Watson, Head of Bargaining, Unison – Local government finance has had sticking plasters over many years, so the establishment of the Commission is a welcome move.

Burt review did good work but reported just prior to an election so the timing was poor.

5 principles:

1. LAs should raise and control more of their revenue.
2. LAs should set their own business rates.
3. Property tax is the way forward – hard to avoid, cheap and easy to collect and administer.
4. There is too much ring-fencing of Scottish Government grant.
5. Taxation should be progressive. Tax should be reduced for those with less ability to pay.

Not keen on Local Income Tax as it is not a property tax. The tax would be collected centrally so does nothing for local democracy.

Attracted to Land Value Tax – but few people know about land values, and it would have administration issues.

Unison favours a local property tax based on a percentage of property value, with bands and an appeals process and regular revaluations. Consensus is essential for progress.

Jenny Bloomfield, SCVO – CTR likely to have low take-up by those eligible, possibly because it's a second form to complete.

If the tax is more progressive, how do we make it easier for those who cannot pay? Being unable to pay can affect the health and mental health of taxpayers.

SCVO has done work looking at local democracy and for example, turnout in local elections. Raising more revenue locally may encourage engagement. Participatory budgeting may also help to get more involvement.

Jenny Bloomfield highlighted a concern about some of the use of language in tax e.g. taxpayer's rights should be 'citizen's rights' – it is not just taxpayers who participate or use services – everyone does.

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

1. **<u>How do you achieve redistribution of wealth among Councils and among society</u>?**
   - There is an interaction between local responsibility and a willingness to pay tax. Society needs to be empowered and feel involved in decisions.
   - A Scottish Service tax would play a role in dealing with inequalities, funding services and reducing undesirable behaviours. Don't agree that service users should pay; services should be available to everyone and therefore funded by all taxpayers.
   - The purpose of tax and wealth was discussed. There is, perhaps, a 'myth of autonomy', saying we are only human when we are together – tax is therefore for the common good. The Church of Scotland paper refers to the 'joy of tax', ensuring that everyone flourishes and thrives. It is a dangerous rhetoric to talk about 'the tax burden' and 'tax havens'. (It was suggested that these should be referred to as 'treasure islands' rather than 'tax havens'). Some people question why they should pay tax to fund education when they have no children – but education is for those they share society with. 'My money' is really a community asset.
   - How could these issues be addressed? It was suggested that local tax should be more progressive to help build the society most people want.
   - It was suggested that the UK is taxed at quite a low level compared to some other countries. It was noted that Nordic countries achieve a better redistribution of wealth through high levels of taxation.
   - It was noted that Atkinson suggests a 65% top rate of income tax.
   - It was suggested that the wealthy are not made happy through the acquisition of material wealth while this is devastating for the poor. No one wins in an unequal society.

2. **How could people who are hit the hardest by tax be best protected e.g. should they be removed from tax? Or would that undermine their contribution?**
   - The theory of universal credit is that the state gives you enough to live on. It is odd that through tax, the state then asks for some of it back. It is complicated for people on low incomes, but a nil rate band of say £50k would be simple and help people to feel that they contribute. It was also noted that tax is not the only way people 'contribute' to society.
   - A nil rate band would be helpful but a preference for a rebate rather than a benefit was expressed as a benefit has stigma associated with it. This needs dealt with or else Councils will charge for services which is the most regressive approach of all. He pointed out that tax won't solve the issues for local democracy on its own and noted that local authorities are not local at all.

- It was suggested that a progressive tax structure would deal with a lot of the need for mitigation.

3. **How could people be heled to better understand their local taxation bill? They only get one bill each year – would self-assessment of their property value help this?**
    - An OECD report on inequality noted the lack of equality in UK incomes and how the UK rebalances that inequality to some degree through the provision of public services, making society less unequal. VAT on the other hand is more hidden and receives less attention.
    - Property is seen as a proxy for wealth – which works less well for the income poor. Deferred payment mechanisms are not common and don't work well. Need an incentive to pay rather than defer. Peter said that such payments could be written off as a gesture to a fairer society. JRF research has shown that less than 1% of households in the top three council tax bands were on low incomes, so the problem was very small in Scotland.
    - More participation is needed to help people understand the tax and what it funds. New build is taxed at a much higher level than properties not revalued since 1991.
    - In the same way that registered social landlords have helped people pay rent by allowing them to pay fortnightly, so Council tax needs more flexible payment options.
    - It was noted that there is a 10% surcharge imposed on people who struggle to pay the tax. People who struggle to pay energy bills also have to pay more.
    - It was noted that in Wales it was assumed that the 2005 revaluation would result in higher tax bills when it wasn't the case. There is a need to explain revaluation better and revalue more regularly.
    - In encouraging and incentivising online payments, there was a need to recognise the 'digital divide'.

4. **How tax could be used to encourage participation in local affairs?**
    - Participatory budgeting would help people feel that they have a stake in decision making.
    - Every opportunity should be taken to discuss the space we share.
    - Broader participatory processes such as planning and social problems could also be helpful.

5. **What work has the STUC had done to date on local taxation?**
    - The work built on a literature review undertaken by Glasgow City Council and work on Land Value Tax by Andy Wightman. However the STUC has not completed its work as yet.

6. **The Burt review was published just prior to an election and the recommendations were not adopted. Could the same happen to the report by the Commission on Local Tax Reform?**
    - The Burt report was a very good piece of work. The involvement of politicians on the CLTR will be helpful. The CLTR report must be a political solution, with political ownership and leadership. It must avoid political opportunism. It needs to be a political report with political consensus that everyone can support. The Burt review didn't make the political case for taxation, local government or local democracy.

- It was noted that efforts by different political parties to introduce a local income tax and land value tax had failed. The political context is now different and there is now a desire to get more politics into local government.

7. What other charges and taxes might Councils set?

- Councils should be able to make their own decisions about their revenues. Local democracy should include more powers and competence for local government.
- Tax devolution by the UK government has been limited, even under the proposals of the Smith Commission. The UK government and Scottish Governments fear what local government might do with such powers.
- However Unison is strongly against local authority charges, particularly for care services. The transient visitor levy might work in Edinburgh but would be unlikely to work elsewhere in Scotland.
- It was suggested that lots of local government charges originate in the council tax freeze, as councils seek other ways of raising revenues.

8. What does the panel think about the proposal (in oral evidence session 1) to remove education from local government funding, to increase accountability for other services?

- Centralisation of services rarely improves the governance and management. He sees no merit in shifting the budget to the Scottish Government. Instead he questioned what responsibilities of 'quangos' could be transferred to local government.
- It was suggested that health services were at their best when they were delivered by local government before WW2 and that more services should be delivered locally, allowing for better integration of for example, health and social care.

9. Should a replacement tax take account of the power of incomes, where dependents such as children and disabled people were present to achieve more equality?

- It was suggested that this would over-complicate the tax. The benefits system is intended to achieve that equality.
- It would also be too costly to administer.

ORAL EVIDENCE SESSION 5 – COLLECTING AND ADMINSTERING TAX

NOTE OF MEETING

Held in Verity House, Haymarket Yards, Edinburgh at 1.00pm on Monday 15 June 2015.

Commissioners:
Marco Biagi MSP (Chair)
Don Peebles
Councillor Angus Campbell (by V/C)
Councillor David O'Neill
Andy Wightman

Witnesses:
David Thomson, Scottish Assessors Association (SAA)
Laura Friel, Chair, CIPFA Directors of Finance
Alan Wood, SOLACE
Colin Mair, Chief Executive, The Improvement Service
Derek Yule, Vice-chair, CIPFA Directors of Finance (by V/C), and
Les Robertson, Institute of Revenues, Rating and Valuation (IRRV)

In attendance:
Neil Ferguson, Robin Haynes, Adam Stewart (secretariat)

Introductions and opening statements
Following introductions, each witness provided a brief summary of key issues of interest in relation to local taxation.

David Thomson, Scottish Assessors Association
SAA are administrators of tax and leave policy decisions to politicians and policy makers. SAA prefers retention of a property based tax as property is fixed, tax is hard to avoid, property is linked to the council area, there is a robust mechanism for charging, administration is efficient and there is a link between household wealth and property value.

The Burt Committee report highlighted the distinction between using property bands and discreet values; SAA has no problem with either but there could be merit in retaining a banded structure. The infrastructure for valuing homes, collection of tax and appeals processes are all in place so there is low risk. There is a transparent and helpful evidence base of 100-130k house sales pa. The transition to a new form of property tax would be easier than with certain other tax models.

The removal of the slab system to a more progressive one would remove anomalies but could result in more appeals. A banded system would be easier, faster and cheaper.
SAA promoting a revaluation and further regular revaluations. This would have 3 phases: i. initial revaluation, ii. appeals, and iii. maintenance of property data.
SAA has an ongoing relationship with Registers of Scotland (RoS), and the One Scotland Gazetteer.

Land Value Tax – SAA recognises the benefits but Burt Review highlighted concerns including the lack of demonstrative market evidence. ESPC for example only shows 20 plots for sale. Using property sales evidence is considerably easier than land sales.

Laura Friel, Chair, CIPFA Directors of Finance (and Derek Yule) – Laura Friel highlighted the key points in CIPFA's written submission including the need for a wholesale revaluation with regular revaluations thereafter, the need to review CTR and discount schemes, the need for transitional relief in the new system and potential shifts in the tax burden depending on the degree of fiscal neutrality.

With regard to Local Income Tax, there are a number of interdependencies and significant complexity.

There is a need for modelling and sensitivity analysis for any new system.

Alan Wood, SOLACE – A stable, modern and easily understood tax is fundamental. SOLACE supports a progressive property based tax with more bands, a review of the band widths and regular revaluations, say every 5 years. This would provide Councils with more certainty on future funding than the current annual budgets.

Although CT only contributes <20% of Council revenues, it has a place in the funding envelope.

There is a need to decide whether reform is intended to raise more revenue.

In moving to a new form of tax, there would need to be early and clear communications with residents.

Councils would welcome early sight of the scoping and timing of change to inform strategic planning.

Opportunity to examine the sharing of data across the public sector e.g. HMRC / DWP.

Colin Mair, Chief Executive, The Improvement Service – Administrative simplicity, though desirable, should not be a driver for any solution.

There is a need to consider what 'tax justice' means for communities.

Other places e.g. Maine, USA have different levels of local tax.

There is no need for 32 different collection agencies for local tax.

Local authorities are restricted because they have not been able to raise more tax. The norm is for local authorities to raise 50% of their own revenues. Modernising Council Tax won't achieve that – Councils should have control of Non-Domestic Rates and Land and Buildings Transaction Tax (LBTT).

Property values are in part driven by the availability of local services and attractiveness of local areas. If Council Tax is modernised, Councils will still have no more control. Scottish Government grant will never be sophisticated enough to take full account of local needs. Legislation should enshrine local autonomy over local taxes. If the powers being devolved to the Scottish Parliament were restricted, there would be outrage; the same goes for local taxation powers.

Les Robertson, Institute of Revenues, Rating and Valuation – There is a need to rectify balance of funding. Fife Council supports COSLA's 6 principles for local taxation, especially the principle that the tax rates should be determined locally. The Council Tax freeze has meant that Councils have no power or accountability. IRRV supports a reformed Council Tax with more bands.

Land Value Tax would be difficult to value but once trialled and established and owners identified, it would be similar to Council Tax to collect. It raises questions about whether the tax should be charged on the optimum use of land. Is it fair to tax the owner and not the occupier? It is not clear how LVT would apply to flats.

IRRV would not support a Local Income Tax if it is set and collected nationally. There are questions about whether only earned income is taxed or whether it would apply to other income and savings too. Income tax is collected after the year end, so there may be a short term deficit in Council revenues. With 32 tax rates there would be significant costs to employers to administer the tax. A personal tax is also easier to evade, with main residences in other countries declared.

A property tax with distinct capital values is easier to tax. It would be possible to use self-assessed values within an acceptable range of tolerance. IRRV would prefer annual revaluations and see merit in Councils having control of a basket of taxes, including LBTT, a tourist tax and environmental taxes.

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

1. Valuation issues

- The Northern Ireland Property Service invested heavily in valuation data. Computer generated valuations only worked for the 'first pass' on valuations – professionals had to manually check each one. Valuation is an art not a science.
- Ireland has a very low level of tax and the acceptability of self-assessed valuations has yet to be confirmed. The Irish system is predicated on the powers of the tax authority which can penalise heavily for false valuations.
- Websites and other tools for people to obtain valuations are usually unreliable. No national website can reliably value homes, because values are dependent on local issues and trends. National house price inflation figures have no meaning at the local level, especially in rural areas. Prices of different house types also change differently.
- The decision to use bands or discreet valuations is a question for policy makers, not administrators.

- It would be an error to include the bands in legislation – but regular revaluations should be required in legislation, say every 2-3 years to avoid confusion. Valuations should be made known 6-9 months before introduction to allow them to be contested – this would reduce the numbers of appeals.
- Valuing on a rolling basis would add to complexity and cause confusion. It helps to have a single date for valuation of all homes.
- It would not be impossible to value all homes in Scotland annually but it would bring no real benefit to do so and could introduce revenue volatility. It would also be more complex as each annual revaluation would have its own set of appeals and that could cause confusion. Finance Directors may prefer the stability of 5 year funding cycles.
- The taxpayer also needs stability in the tax.
- In some localities, house prices can change quickly over a few months (so annual revaluations could add to volatility in tax revenues).

2. What degree of public acceptance has there been elsewhere of a change to the tax through revaluation?

- In some countries, if you frivolously contest a valuation, you may incur the tax authority's costs of the appeal. It was suggested that tax bands would be the best mechanism because they are harder to contest. Public acceptance of the tax is the combination of agreeing what the property is worth and the tax being charged. House values need to be known in advance.
- No tax system has gone as long as Scotland's without a revaluation. Replacing a banded system with another one would help public understanding and acceptance.
- If most properties broadly remain in the same bands, there may not be much difference.

3. What is meant by revenue neutrality? (National, local or personal levels)

- There would be local variations – the east coast has seen significant house price increases in the past 2 decades. The Scottish Government equalisation mechanism would redistribute tax revenues across councils.
- It would however be hard for Councils to raise Council Tax further if a revaluation had already increased it.
- A progressive revalued system would be a positive message for taxpayers. The Burt Review showed that Council Tax is a small proportion of household incomes.
- It was noted that people often compare their Council Tax bill with the household next door, rather than the market as a whole and suggested that self-valuation would help to increase peoples' buy-in to the tax.

4. The panel was asked about the tax structure / relief available

- Council Tax bands only change when the home was sold – the tax system needs to link to the planning system to take account of extended properties.
- The multiplier ratios of ninths are unclear and that the distribution of properties across the bands was wrong.
- The tax should be more progressive. It was noted that 'progressive' did not necessarily relate to the ability to pay the tax, which challenges the assumption that property is an indicator of personal wealth.

- The Council Tax Reduction scheme (CTR) stops at a 'cliff edge' and said that full relief was a simple enough concept – the problem lies in water and sewerage charges where only 25% relief is available. Water charge collection rates are lower (70-80%) because there is insufficient relief available). Any system still needs forms of relief or it becomes uncollectable.
- The CTR resolves the ability to pay issue that was discussed earlier.
- There are about 23 Council Tax reliefs available. This is a complex system which needs to be simplified to better reflect the ability to pay.

5. **The panel was asked about the ability to pay and the use of deferral schemes**
   - There was low take-up in Northern Ireland as it was portrayed in the media as 'taxing the dead'. Deferral was also seen in the context of how it interacts of other taxes such as inheritance tax, therefore it was not a popular solution.
   - The perceived problem of 'cash poor, asset rich' people should not shape the tax for everyone else. It was noted however that the issue remains, and it would be perceived as a problem.
   - A very low percentage of CTR claimants are in bands G and H – so the tax is affordable and the problem is small. 30% of those eligible for CTR do not claim.
   - It was suggested that there is scope to consolidate the 19 classes of disregarded persons and 23 reliefs into one scheme.
   - Rates were replaced primarily because of single people in large high value properties. Council tax was charged to fund current public services and the deferral scheme breaks that link.
   - Few pensioners would not claim single person's discount but that there is a stigma about claiming a means tested benefit.

6. **Should the owner or the occupier be liable for the tax?**
   - Land is immobile, whereas people move – taxing property is therefore easier.
   - Taxing the owner rather than the occupier would be more difficult – there can be absent landlords and unknown landlords.

7. **The panel was asked about the use of summary warrants to deal with Council tax debts**
   - Of 175,000 homes in Fife, there are 30,000 summary warrants issued each year. They have become a form of payment for some. 10% is added to the bill, and the water charges are enforced.
   - It was noted that in parts of the USA tax debt is taken as a charge on the property after 10 years. Anyone willing to pay the arrears can take ownership of the property.
   - Councils have a statutory responsibility to re-house homeless people and it is therefore in their interests to prevent people getting into debt.
   - Around two thirds of people pay Council Tax by direct debit – this is simple and easy. Paying Council Tax is more problematic for those who don't have a regular income. The 10% surcharge for non-payment is very unhelpful.
   - There is a perception that you are better being in debt to a Council than other bodies such as lenders. Local authorities are more likely to find arrangements for repayment than evict the occupier. (Councils don't withdraw services when there is non-payment, unlike utility firms). There is a suggestion that tenants would rather not pay

rent to the Council than default to other debtors. Fife Council has teams of people working on these issues.

8. Should those people who cannot pay simply have an exemption from the tax?

- Free school meals was cited as a comparison – the stigma was removed by removing the means testing and making them free for all. It was suggested that qualification for other assistance should be a qualification for Council Tax exemption.
- It was suggested that the opposite was true in Fife – that Council Tax Reduction was used as the basis for awarding free school meals and clothing grants.
- Data protection issues can be problematic but can be overcome if people are made aware of the use to which their data will be put.
- Project Phoenix was to use incomes as the basis for benefits but was stopped because benefits must be claimed. Not automatically awarded. It is very difficult to get information from DWP.

9. What powers might Councils have to introduce other taxes?

- There could be restrictions: Councils couldn't introduce a tax if it was illegal, or because another Council introduced it.
- Additional powers would allow Councils raise up to 50% of their funding – the current system does not allow for that.

10. Should all properties in band A be exempt, if the band was suitably prescribed?

- Other exemptions or reliefs would be needed e.g. for those with mental impairments, students, under 18s etc., who are not necessarily living in band A properties.
- However no legal framework or powers exist for Councils to introduce taxes, or prescribe reliefs.
- It was suggested LBTT should be collected locally.
- Non-domestic Rates and Council Tax together comprise around 50% of Council revenues.

11. The panel was asked about the administration of Water and Sewerage charges

- It is efficient to include the charges on the Council Tax bill but it was not always clear.
- One advantage to the approach is that it shares the costs of collection. Both Scottish Water and Councils benefit from it but there should be an affordability scheme for water charges. It is very unfair to charge £30/week for people on low incomes of £100/week.

12. What challenges would a Local Income Tax would present for Councils?

- It was suggested that it would depend on the volatility of the tax. A local income tax could add to the costs of council borrowing.
- The predictability of tax revenues is important – service delivery is dependent on stable revenues and councils need to guarantee services.
- The more control councils have, the easier it would be for them to handle the unpredictability of revenues.
- There is a lack of a connection between where someone lives and where the tax would be paid. And employer's headquarters may be in another country. An alternative is to raise the tax nationally but that removes council's ability to collect

tax. Councils have a duty to set a balanced budget and would be prudent. Council tax has proved to be a stable tax; any other form of tax would be significantly less stable. Even a prudent approach to a local income tax could lead to a reduction in service provision.

- It was noted that local income tax would be more unpredictable if the rates were set locally by each council. But if it was a flat rate of tax, and the populations in each council are known, the revenues should be reasonably stable and predictable.
- However a Local Income Tax like that would not enhance local choice and accountability. People could not influence the tax at a local level. It raises the question about what the tax was for and whether council control or choice formed a part of it.

ORAL EVIDENCE SESSION 6 – IMPACT ON HOUSEHOLDS

NOTE OF MEETING

Held in CIPFA offices, 160 Dundee Street, Edinburgh at 1.30pm on Friday 19 June 2015.

Commissioners:

Councillor David O'Neill (Chair)
Angela O'Hagan
Jim McCormick
Minister for Local Government
Don Peebles
Andy Wightman

Witnesses:

Derek Young, Age Scotland
Bill Scott, Inclusion Scotland
Claire Cairns, Coalition of Carers in Scotland
Pam Duncan-Glancy, Independent Living in Scotland (ILiS)

In attendance:

Neil Ferguson, Adam Stewart, Ruth Wilson, Robin Haynes (secretariat)

Introductions and opening statements

Following introductions, each witness provided a brief summary of key issues of interest in relation to local taxation.

Pam Duncan-Glancy, Independent Living in Scotland – Pam Duncan-Glancy explained that for disabled people to enjoy their basic human rights, participate in society, lead an ordinary life and influence what happens in their community, all local policy, practice and services – and crucially the ways in which money is raised to pay for them – must take account of their human rights and the UNCRPD and promote disabled people's freedom, choice, dignity and control.

Sometimes, disabled people need local government to raise and spend money differently from the ways in which other members of the community might, in order to ensure their rights are protected. Sometimes disabled people are unduly (negatively) affected by, and their equality and human rights ignored in favour of, the majority voice in the community.

Many disabled people rely on social care services to enjoy their basic human rights and as Councils have a limited ability to raise money locally, disabled people have been left without essential support. The people who rely on that support have to pay more for it, even although many disabled people live in poverty.

Bill Scott, Inclusion Scotland agreed with the concerns highlighted by Pam Duncan-Glancy. The current system of local taxation is extremely regressive with the poorest 10% of households paying on average 4 times as much (5.6%) of their household income on Council Tax payments as the wealthiest 10% of households (1.4%) after rebates are taken into account.
Disabled people have less ability to pay local taxes because they are more likely to live in poverty.

Recent research by Scope suggests that the additional costs associated with disability amount to over £500 a month on average. Taking these additional costs into account, Inclusion Scotland estimates that the poverty rate amongst households containing a disabled person in Scotland is more likely to be around 26% - i.e. nearly twice the rate for households with no disabled people.

Any new system of local taxation should be progressive and redistribute wealth from the wealthiest households to the poorest. Likewise any new system must address the unfairness of the care charging regime.

Claire Cairns – Coalition of Carers in Scotland
As the current Council Tax system is based on property value rather than income, this disadvantages many carers who may be asset rich and cash poor. One in Five carers give up employment to care when faced with a crisis or because they are unable to access adequate support. Many more seek part time or flexible working and find that this can limit their earning potential

Where carers face difficulty with meeting the cost of council tax, it may be difficult for them to move or downsize. They may have built up a network of support locally, or their house may be adapted to suit the needs of the person they care for. If they have services in place to support them, there is no portability of care if they move out of their local authority
A reform of the tax system should seek to do two things to support carers and the people they care for:

1. There needs to be a fairer distribution than the current tax system,
2. Social care requires additional investment – its funding base needs strengthened.

There needs to be greater connectivity between government's ambitions and progressive policies and ensuring local authorities have the resources to enable their successful implementation.

The funding base for social care needs strengthened through new taxes, or substantial changes to tax rates related to funding social care. And that a new system needs to be fair, progressive and re-distributive. This fund should be ring-fenced and generated solely for public expenditure on social care with an appropriate label attached to the new tax rate, such as 'care levy'.

Carers have not been consulted on the subject of tax reform, so the Coalition for Carers is not in a position to endorse one system over another. However from carer responses to their perception of the unfair and discriminatory nature of taxation over many years there is confidence that a system of local income tax (contributions relating to the ability to pay) would be considered fairer by the majority.

The Coalition for Carers recommends that the Commission considers introducing a specific care levy to increase funding for social care and that it investigates similar schemes operating in other European countries.

Derek Young, Age Scotland – explained that older people are a large diverse group and their lead principle on any system is fairness.

Age Scotland had no preferred method of taxation although older people do view the current Council Tax system as flawed and regressive.

Derek Young said that a system based on property value is not capable of understanding the "ability to pay" (income) versus property wealth (asset). If Council Tax is to remain then the number of tax bands would have to be expanded. However in reality this could distort the housing market.

Age Scotland has no preferred system of collection but any system should be collected and distributed fairly. However Derek Young did suggest that there should be the option to increase the proportion of funds paid to Councils from Council Tax or its equivalent.

Should Council Tax remain, Age Scotland would be opposed to the abolition of the reduction for single occupants. As many elderly people live on their own and on reduced income then their ability to pay would be severely impacted if the 25% reduction was removed. They have no view on what would happen to second homes but are strongly opposed to a "per capita based system".

Land Value Tax was worth exploring however Derek Young expressed concerns that this would share the drawbacks that are true on any property based system and could be more beneficial to commercial properties as oppose to the poorest families.

Older people are likely to favour a tax which is income based. However, this would have to take account of disposable income. Derek Young recognised that this form of taxation could also be more difficult to collect and ultimately less predictable.

He wondered whether a mixed approach may be worthwhile adopting.

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

1. **Would be any benefit in moving the funding of care packages from national to local government?**
    - Most social care is already paid out via local systems however it appears that there is not enough funding available. A new mechanism needs to be introduced and payments for social care must be stopped.
    - Costs for the likes of heating/laundry/dietary have to be met from the care element of the disability allowance. As these can be considerable then a much fairer approach should be adopted where all society contributes, whether this is through a national or local taxation scheme.
    - Disabled people should not be disproportionately disadvantaged

2. **Should there be more accountability from those who provide services? How could equity and priority of funding be ensured?**
   - It was suggested that more financial freedom for local government to deliver the quality of service is needed. A more progressive system of taxes would generate income throughout the whole country for a more flexible package of social care services.
   - It was proposed that the Scottish Government should replicate its increased funding and enhanced policies for childcare for disabled people. In the long term, this would benefit whole communities and with more disabled people being able to work there is economic benefit which could be classed as preventative spend.
   - Research shows that if you provide transparency on expenditure – for example, increased funding for social care, then this is generally accepted.

3. **Commissioners asked about the ability to pay and what is a fair assessment of income; should there be a system built around exemptions or a more robust system of relief**
   - The system should be established with appropriate exemptions, as not every person with an impairment, for example, would be on a low income. Some forms of income should be ignored, such as the disability living allowance as that payment is designed to compensate the individual for their impairment.
   - Disability related expenditure should be investigated further. Therefore the nature of the income should be considered for exemptions.

4. **Commissioner asked for clarification surrounding the call for increased funding – how do you quantify the input (monies collected) v the output (consequence of spend)?**
   - The whole issue of paying for care should be explored. This will be an increased cost as there is an aging population. Therefore are questions about how society funds this in the future. At present the care charging regime does not generate a large amount of income and this could be readdressed. Additional revenue could be generated if more people are helped into work. This could be considered as an investment.
   - Any new tax system must be realistic, workable and achievable. Therefore, to move away from a property based system would generate more winners and losers and the public should be prepared for this.
   - There is a limit on what people can afford - potentially it could be more acceptable if a system was based on disposable income and therefore progressive. A property or land based system is based on existing capital wealth – whatever model used to level out the income deciles against the proportion of what household income would be paid over would still mean that the highest proportion paid out would be by people in the lowest bands.
   - Some services need more funding. However there is a need to ensure that all sectors of the community are being engaged with. People should not have to pay more for services they rely upon to live.

5. **How can minimum standards fit with the call for improved levels of social care? i.e. why is society tolerant of longer waiting times, delivery of service etc.?**
   - People who move within council areas may not be able to take their existing care package with them. This leads to disparity however they find it difficult to estimate what these costs are.
   - While there is very ambitious and forward-thinking policy making, a lack of resources can be an issue, as local funding is not always available. In Scotland we are reliant on family members providing care – a recent Government report stated that spend on older people has not really increased per head in the last 10 years even though the population is aging.
   - Strong opposition was expressed towards any reduction or removal of the single person discount should a property based local tax remain.

6. **Do organisations have the capacity to engage at local levels so that they can have meaningful engagement within their local communities?**
   - People need to be brought into the conversation in the first place but questioned whether adequate support was available. i.e. accessibility, reading materials and people's attitudes.
   - ILiS has more funding at national level however they do have a capacity issue at local level as there are 32 Councils to respond to.
   - Discussions should happen at a local level but there are funding issues.
   - Community empowerment must include disabled people. However disabled people tend to be viewed as a community interest group and there is a need to review how all groups are involved in local decision making.
   - There should not be a reliance on representative groups. He has envisaged that the Commission will recommend that all 32 councils will work from a national framework. There has to be a system which makes local autonomy relevant to local people especially when you take into account the low turnout in local elections.

7. **Commissioners asked about the purpose of local taxation and whether it could focus more on the wellbeing of the citizen?**
   - The eligibility criteria for the likes of the special reduction scheme or carers exemption etc. are not fit for purpose. Whilst it's good to know that these issues have been taken into account, it is often not publicised.
   - It can be very problematic for people who move from one tax band to another and people can see this as a disincentive – it has significant effects on low income families.
   - The way Council Tax arrears are dealt could be improved – potentially a more automatic level of collection.
   - However if tax is collected at source then people have no element of choice and therefore this could prompt individuals to have to seek help regarding their financial circumstances.

8. **Commissioners asked about wealth inequality in a property-based tax system.**
   - A system should not recognise the wealth of property but not the income of the householder – it would not be acceptable to force people to move home. It seems that all debates focus on a single system – an alternative might be to operate a "basket" of local taxes which recognise the ability to pay and includes property wealth. New York, for example, operates various tax systems, one of which includes property and is progressive.
   - It may be possible to operate a parallel system and evaluate it, then adjust local finance in the round.

ORAL EVIDENCE SESSION 7: OTHER JURISDICTIONS

NOTE OF MEETING

Held in Verity House, Haymarket Yards, Edinburgh at 2.30pm on Monday 22 June 2015.

Commissioners:
Minister for Local Government and Community Empowerment
Jackie Baillie MSP
Andy Wightman
Jim McCormick

Witnesses:
Eugene Creighton, Head of Large Cases Division, Irish Revenue
Micheál Collins, NEVIN Institute, Dublin
Peadar Davis, Ulster University
Brian McClure, Department of Finance and Personnel (Northern Ireland) (DPFNI);
Jon Rae, Welsh Local Government Association;
Nick Jones, Rhondda Cynon Taf Council

In attendance:
Neil Ferguson, Adam Stewart, Emma Close, Robin Haynes (secretariat)

Introductions and opening statements
Following introductions, each witness provided a brief summary of key issues in relation to local taxation.

Jon Rae – Welsh Local Government Association
Wales has a similar council tax system to England and Scotland, but there has been no council tax freeze. Council Tax charges have increased between 3.5% to 5% in each of the last couple of years.

The revaluation exercise (on 2003 values, introduced in 2005/06) brought about increases in tax payable in some areas, Cardiff and Wrexham notably. In some areas, there were 50% to 60% increases in tax.

The revaluation was thought necessary to ensure fairness and had a statutory basis in the 2003 Local Government Act. This ensured that the revaluation took place as a matter of law. Was not about raising money for local government, although there was some disagreement about whether this happened.

Overall 8% of properties went down the banding structure and 33% went up. An earlier sample exercise conducted prior to the revaluation suggested that 25% would go up and 25% would go down. This was probably the only controversial part of the revaluation exercise.

Overall in Wales, it was thought that the revaluation exercise was successful.

Nick Jones, Rhondda Cynon Taf Council
Revaluation led to a shift in the band thresholds, and a slight redistribution of properties though the band structure, although the majority of properties remained in Bands A-C.

For those that moved up the banding scale, 371,550 households moved up 1 band, 15,755 households went up 2 bands and 2,625 properties went up 3 bands of more.

The impact varied by region, and urban areas in particular saw more properties moving up the band structure than in more deprived areas.

There were relatively few appeals - 1.8% of the tax base.

Micheál Collins, NEVIN Institute, Dublin
A recurring property tax is an important part of a stable taxation base, and a property tax structured so that revenue flows to local government is an important part of local democracy. Micheál encouraged the Commission to include local rate setting as part of any new system.

Levying taxes on out of date valuations undermines the tax and the tax system.
Whilst exact valuation may be ideal, it may not be practical, and bands and clusters make some sense, especially if time is an issue, although Bands should be relatively wide so owner/occupiers can make improvements without being penalised.
Costs of transition are important, but the first year costs of a new scheme should be seen as an investment for the most part.

Property taxes are not income taxes – the two tax bases should not be confused, but there is a need to recognise the difficulties that low income families face. Deferral should be common-place in any system, and it is of regret that it is seen as a last resort in Ireland.
Irrespective of the chosen system, the Commission should recommend some system which recaptures most of any speculative gains that developers make from land being rezoned. The same sort of system should be in place to capture windfall gains as a result of new publically funded capital investment. Finally, there is a case for a mansion tax.

Peadar Davis, Ulster University
Peadar spoke about the work that had been done by Ulster University on whether a banded system or a system based on discrete property values should have been adopted in Northern Ireland.

Banding involves more steps than using individual property values because you have to decide on band numbers, band widths, and band multipliers and then allocate properties to those bands.

The narrower the bands, the more accurate you need to be. And there is an issue with making multipliers more progressive because increases between bands soon become unacceptable to taxpayers.

But, NI analysis showed how you could make a banded structure more progressive than the current council tax system in Scotland.

However, because Northern Ireland has good data and could use computer assisted mass appraisal, and there is a good awareness of property values (as there is likely to be in GB also) a discrete capital value option made the most sense. As it results in a proportional system it performs highly in terms of vertical equity (those with more expensive properties pay proportionally more).

But, it is expensive and computer assisted mass appraisal is really the only viable option. The operation of such systems can be difficult to explain to the public.

Peadar presented a diagram of a property tax continuum and argued that as property tax systems progress, countries should move up the continuum. GB is currently mid-way up the continuum but really should be using more sophisticated computer assisted mass appraisal systems. The capacity to introduce these types of systems exists in Scotland.

Brian McClure, Department of Finance and Personnel (Northern Ireland)
Brian McClure spoke about the history of domestic tax in Northern Ireland, in particular, that there was no introduction of Poll Tax or Council Tax in Northern Ireland and as such they retained the domestic rates system. However, the previous rates were based on values from the late 1960s.

The decision to move to a Capital Based rates system was taken at the time of devolved power but many of the key decisions were taken by direct Rules Ministers. Some of the final detail was ironed out by the reformed devolved assembly which was in power when the new system came into operation.

The tax system is different in Northern Ireland, as is the amount of services that Local Government funds. Around 75% of Local Authority Funding comes from local tax.
Other components were introduced at the time of moving to a Capital Rating system including a rebate scheme that was designed with the IRRV. This scheme was targeted most at pensioners, and subsequently a lone pensioner allowance was introduced which was a 25% discount for the over 70s.

Transition scheme was introduced, which had a huge cost in Northern Ireland terms of £32 million (this represents local tax revenue that was lost).

Valuation date was 2005 but billing date was 2007. There was rampant house price inflation in the intervening period which may have helped with acceptability of the tax.

Valuation of 700,000 properties was done via computer assisted mass appraisal. Cost was £11 million, but cost is dependent on data. The valuation and lands agency took recent sales data, and used multiple regression statistical techniques to impute values for the non-sold stock.

Every single property that had been sold had to be inspected to quality assure the source data. This was a key part of the process. Also streets that were seen as having issues that increased the chance of being over or under valued by the analysis were inspected. Although Brian didn't have the exact figures, he thinks that following these inspections, around 50% of the computer calculated values were overwritten, which was quite significant.

There was a lot of data missing and a lot of data gathering was required. This was where the majority of man and women hours were spent.

The cap was introduced after the end of Direct Rule. The cap ended up at £400,000 which was the average highest Council Tax Band in England.

Social rented sector is standardised and based on a percentage of rents because it was not thought appropriate to levy a tax based on capital values.

The key issues associated with changes to local taxation are politics and data.

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

1. Estimation, modelling and Public Engagement – what lessons were learned?

- Wales – errors in modelling were due to the 2002/03 sample that was used to estimate the impacts of revaluation, and also because band thresholds were set prior to the full revaluation information being known (i.e. they were based on the 2002/03 sample). The lesson learned was not to use a biased sample.
- Northern Ireland – Predicted analysis were published far in advance and refreshed as they went through the process. DFPNI weren't confined to using Ulster University research, and a lot of internal analysis was also done, including calibrating to census figures. Some media picked up on some large increases in bills in the predictive analysis which may have actually helped in the long run, because actual bills were much smaller. The main issue is data – the right data allows for good predictive analysis.
- Republic of Ireland – The Irish Revenue gave an estimate to property holders, with households able to challenge. It was thought there might be a tendency for households to drop bands, hence there was a move to have more bands so that the impact of this type of behaviour wouldn't have such a significant financial impact. An important feature of the Irish tax was that Irish Revenue Commissioners explained the tax very clearly and people understood the impact before the system was introduced. Whatever system is designed, clear communications to taxpayers are essential.
- Wales – At the time of revaluation, a good communications campaign was put in place by Welsh Government and the 22 Local Authorities. Council Tax revaluation was not an election issue in 2005 although there were some protests especially from fixed income groups in areas like Cardiff and Wrexham where house prices had increased significantly – this was part of the reason for the introduction of the transition scheme.

2. **Why was deferment abandoned in Northern Ireland?**
    - It only applied to pensioners and 13 people applied. It was a costly scheme to administer.

3. **Was the land registry used in Ireland?**
    - It was used to help to build the register, but it had limited use and was mainly used to validate results from the Revenue's own valuation estimates.

4. **Is every taxpayer in Republic of Ireland linked to the property they own?**
    - Yes – the whole tax system is integrated. It was the obvious route for Ireland because they were starting from scratch. This also greatly helped with compliance. It helped with stopping a "not paying" campaign, because the Revenue had the powers to collect regardless of whether people disputed it.

5. **How does Republic of Ireland capture those that aren't in the income tax system?**
    - Although there may be some, most should be either in the income tax system or the welfare system. The tax applies to households rather than individuals, so only one person in each household needs to be known. For foreigners if they can't be identified, there is a claim put against the property which accrues at a relatively high rate of interest.

6. **What are the ideal band structures?**
    - Northern Ireland banding structure for the modelling was done on a proportional basis in order to have some basis for looking at ratios. Bringing across the Welsh banding structure to Northern Ireland didn't make sense because so few were in Band H and Band I. Band structure is important, but the ratios between them are the most important. It is important to recognise that if you have very few properties in the higher bands, but a very progressive rate based on ratios, then because such little revenue is raised from the top bands, the reference rate (i.e. Band D) will have to increase to compensate.
    - The multipliers were not considered for review at the time of the revaluation because the Welsh Assembly had no power to change them.

7. **How to treat small number of very high value properties**
    - The cap in Northern Ireland is not critical to revenue raising, and it was a political decision, partly based on reference to England's council tax – there was a public perception that the highest tax bill in Northern Ireland should not exceed the highest bill in England.
    - The Irish system charges more for very expensive properties – it has a threshold for properties over £1m and the rate charged rises from 0.81% to 1.25%. This approach enhanced the perception of fairness.

8. **Was combining property taxation with something else, hybrids, or other revenue raising powers considered?**
   - In Wales, there is a debate about new systems. For example, a paper from Gerry Holtham proposed a discrete property tax integrated with some of the new taxes soon to be devolved to Wales. WLGA leaders are starting to consider these issues.

9. **Did the Irish Government consider introducing a site value tax?**
   - A site value tax was considered but it was not introduced. It may have been considered because the Green Party was in government at the time. The current government continued mentioning it, but it became known that they were actually referring to a property tax rather than a site value tax. There was never a technical decision within the Irish Government to go forward with this.

10. **Will the tax yield rise when revaluation happens in Ireland?**
    - The Revenue is not yet in a position to comment. But they are currently looking into this and there are a number of options.

11. **Any observation of impacts on property market?**
    - In Northern Ireland, new values and tax rates were published in 2006 along with a tax bill for every property. The property market was red hot, and continued to be red hot through the period when the tax bills went out. It appears that the tax had no impact on the property market, but this may have been different if the tax rate was higher.

12. **Overlap into rents – has this been passed on to tenants in Ireland?**
    - Because of financial crisis, ability to pass on to tenants was limited. But as time goes on, it is expected that this will be passed on to tenants as rents are able to rise.

13. **In Ireland is there a likely to be devolution of tax collecting to Local Authorities?**
    - This is unlikely, especially with the legacy of the lack of compliance with the household charge and it concerns over efficiency. But the Welsh experience within the UK is that local government is much more efficient at collecting than HMRC. In Northern Ireland, research found that costs would be much higher if it was collected locally. Internationally, there is some debate over moral hazard – it is thought that local government may try harder to collect local taxes.

14. **Different responsibilities across different local government systems across countries**
    - Read across between systems should be taken into account before too many comparisons are made. The Irish tax rate and average bills are relatively small.

15. Final points: 2 lessons learned/recommendations

- Make the tax more progressive, integrated with other taxes and indexed so you don't have to revalue.
- Make it easy to administer and collect.
- Revaluation is crucial. And whatever the system, it needs to be communicated and sold to the public.
- Retain property taxation. Remind people of the link between taxation and civilisation – schools, roads etc. 'Evolution rather than revolution'.
- Essential to get the upfront policy right and get everybody on board. No downstream surprises.
- Localise everything. Allow councils to decide when to revalue, what rates to charge, whether you get discounts etc.

EVIDENCE SESSION 8 – ROLE OF LOCAL DEMOCRACY

NOTE OF MEETING

Held in Verity House, Haymarket Yards, Edinburgh at 2.30pm on Friday 26 June 2015.

Commissioners:
Isobel D'Inverno (chair)
Mary Kinninmonth,
Cllr Rhondda Geekie
Cllr Susan Aitken
Cllr Angus Campbell
Andy Wightman

Witnesses:
Cllr Kevin Keenan, Labour Group Leader on Dundee City Council and COSLA's Resources and Capacity Spokesperson
Cllr Gary Robinson, Independent Councillor and Leader of Shetland Islands Council
Cllr Willie Gibson, Leader of North Ayrshire Council and Leader of SNP Group in COSLA
Cllr Jim Fletcher, Scottish Labour Councillor and Leader of East Renfrewshire Council
Cllr Peter Barrett, Scottish Liberal Democrat Councillor, Perth and Kinross Council and Leader of the Liberal Democrat Group in COSLA
Cllr Michelle Ballantyne, Leader of the Conservative Group, Scottish Borders Council
Vicki Bibby, Chief Officer, COSLA Local Government Finance Team.

The submission to support this panel discussion can be found at *http://localtaxcommission.scot/wp-content/uploads/COSLA.pdf*

Opening Statements
The witnesses jointly outlined the key points of the submission that they had previously provided in draft to Commissioners. They commented that there had only been minor changes made to the final version which would be submitted to the Commission shortly.

Key points

- COSLA's case for local tax reform is part of its wider objectives to fiscally empower local authorities
- A longer term aim is for 50% of local government expenditure to be raised by local authorities. It is not expected that this will happen overnight but reform of local taxation should be considered as part of a move to provide local democratic control over Council Tax, Land and Buildings Transaction Tax and Non Domestic Rates
- 6 principles of local taxation are laid out in the paper which COSLA urge the Commission to adopt:
    - Principle 1: Local taxation should be fair and easy to understand.
    - Principle 2: Local taxation should be administratively efficient and difficult to avoid.
    - Principle 3: Local taxation should have regard to the stability and buoyancy of the underlying tax base.

    - Principle 4: Local taxation should be determined locally in order to establish and maintain democratic local accountability. This includes the local setting of rates (levels).
    - Principle 5: Local government should have the discretion to determine whether rates and reliefs are set nationally or locally.
    - Principle 6: Local taxation should allow for local flexibility, empowering local authorities to raise local funding for local priorities. Specifically, individual local authorities should be empowered to introduce local taxes, at their discretion, to raise additional resource.
- The COSLA submission makes the case for a modernised Council Tax as having the potential to perform well against the principles that it has adopted. However, the panel was not arguing for the status quo and was clear that a number of modernisations are needed to improve the system and to address the lack of modernisation over the past 20 years.
- The main reforms that the panel highlighted as being required are:
    - A full revaluation followed by regular revaluation thereafter
    - Expansion of the current bands
    - A review of the Council Tax Reduction Scheme in order to ensure that it is up to date and relates to the ability to pay
- In addition to reforming the Council Tax, COSLA's submission states that Local Authorities should have the discretion to levy other local taxes without needing to seek approval from the Scottish Government. Although it is acknowledged that this would not necessarily have a major revenue raising potential, Local Authorities should have the ability to levy discretionary local taxes if there was support amongst the local electorate for these.
- The panel also made the case for the localisation of Non Domestic Rates and highlighted the opportunity to address the current balance of funding for local government by doing so.
- With regards to water rates, the panel also highlighted a number of areas for improvement in relation to collection of water rates on behalf of Scottish Water

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

Note – in some instances the panel indicated that they were providing personal views or that a formal COSLA position would need to be formed in relation to detailed considerations.

1. **Cross party support -** The submission has cross party support across COSLA and all participants shared the view that any changes should focus on the 6 principles, and that a modernised Council Tax would score well against these principles. Witnesses spoke about the agreement across local government that the freeze can't continue and there was a need to empower local government to support local service delivery and to help invigorate participation and engagement in local democracy.

2. **Public Support and Transition–** Witnesses reported their view that public perceptions are now growing that reform of local taxation is required, although acknowledged that opinions would be influenced by the impact of any change on their own circumstances. Evidence also suggested that local people support strengthening the link between local taxation of local public services, and the importance of local accountability. It was felt that many people also questioned the credibility of using 1991 values for Council Tax. The panel also identified that transition arrangements would likely be required, and that having good communication on what the changes are and why they are happening will be vital. The need for cross party support was also identified as a key requirement of any change.

3. **Other taxes –** Witnesses stated that Councils should be empowered to set discrete local taxes, provided that these were supported by the local electorate. Examples could be a 'tourist tax', as previously proposed by Edinburgh Council, or taxes that would target particular local circumstances or priorities, for example an alcohol tax.

4. **Localisation of Non Domestic Rates –** Participants set out their aspiration for further work joint between COSLA and Scottish Government to be done on the potential to localise non domestic rates in the near future. The panel felt that doing so would deliver a number of local benefits and incentivise Local Government to bring in investment. COSLA have a separate detailed 'Funding Review' paper on this which can be accessed at http://www.cosla.gov.uk/local-government-funding-review-appendix-0.

5. **Impact on Local Democracy –** The panel was clear that giving local government more control over raising and setting local taxes has potential to improve local democracy and voter turnout over time. At the moment, many people do not know how local government is financed, nor even sometimes what it spends its budget on. Because financial accountability has been eroded, there is less debate now between local government and local residents, and strong local choice and control over local taxation was a powerful way of reviving this. Indeed, Councils are already seeking ways to bring this debate and consultation back to the fore – for example, City of Edinburgh and others have launched interactive web tools for local residents to model how they would allocate budget, and a range of authorities are delivering participatory budgeting approaches. It was felt that this type of approach could be used to seek empower communities to determine whether to increase council tax rates and on what to spend the money raised.

6. **Link to ability to pay –** The panel reported that most countries have some form of recurring property tax, and it was felt that if discounts and reductions are well designed, then it is possible to protect those that need assistance. The witnesses also identified the potential to address multipliers and band widths to make the system more progressive, although this would require careful modelling and design once a revaluation exercise had been undertaken.
   There was some discussion about the potential to explore using income thresholds to take low income group out of the system, although some caution was advised around the need to avoid the risk of individuals reconstructing their income for tax purposes.

7. **Transition –** It was felt that a three year process of transition may be appropriate – 2 years for the valuing process, 1 year for appeals, after which the modernised system would start. The impact of any revaluation would also require some transitional relief arrangements to be brought in.

8. **Deferral –** COSLA has not looked at deferral schemes. However, the panel highlighted that any such scheme would have to be sensitive to a Council's ability to plan spend over the medium term.

9. **Fiscal neutrality –** On the question of fiscal neutrality, it was felt that the introduction of a revised system should be done on a fiscally neutral basis. It was felt that a national system of banding would ease understanding and that a system of equalisation would be required to ensure that individual areas received the resources that they required.

10. **Banding vs Discrete Values –** In relation to a question on revaluation and modernisation of council tax rates, it was felt that using discrete values rather than bandings would be more expensive to administer and that there would be an increased risk of appeals.

11. **Water rates –** It was felt that local government responsibility for collecting local property tax allowed for water rates to be collected. However, there were a number of anomalies in the current system, and in particular Councils should not be liable for any rates not paid. It was also felt that there were a number of potential areas for improvement in relation to the collection of water charges, and to ensure that the system of reliefs was also sensitive to water charges.

12. **Single person discount –** This had not been specifically addressed in the written submission, but there was general agreement that any system of discount should support households in the greatest need. It was felt that further discussion about this issue would be required.

13. **Final points –** It was felt that the Commission should try to achieve consensus build broad support for change as part of a political consensus between parties and local and national government. The panel was also clear in its aspiration that reform of local taxation needs to be thought about in the context of the overall balance of funding and the local government finance settlement.

ORAL EVIDENCE SESSION 9 – INSTITUTIONS AND PROFESSIONAL BODIES

NOTE OF MEETING

Held in Verity House, Haymarket Yards, Edinburgh at 2.30pm on Monday 29 June 2015.

Commissioners
Minister for Local Government and Community Empowerment (chair)
Isobel D'Inverno
Don Peebles
Andy Wightman
Cllr Susan Aitken
Cllr Angus Campbell (VC)
Cllr Rhondda Geekie

Witnesses
Charlotte Barbour (Institute of Chartered Accountants Scotland)
Archie Rintoul (Royal Institute of Chartered Surveyors)
David Lonsdale (Scottish Retail Consortium)
Katie Hay (Law Society of Scotland)
Maric Glaser (Chartered Institute of Taxation)

Introductions and opening statements
Following introductions, each witness provided a brief summary of key issues in relation to local taxation.

Maric Glaser, Chartered Institute of Taxation:
Chartered Institute of Taxation can advise on the practical issues for implementing a tax
Fairness is something of an ethereal concept, and the Institute would emphasise that a holistic approach is needed.
There needs to be a balance between certainty and too much of a focus on ability to pay.
People know how much they roughly they have to pay in Council Tax, and this is a good thing.
Ability to pay is a difficult concept, because it can mean different things for different households. It may be easy to go for an 'easy option' where ability to pay is the main focus, but this may not necessarily be the best thing from a holistic perspective.

David Lonsdale, Scottish Retail Consortium (SRC):
SRC are concerned about impact on household disposable incomes, the impact on retailers if a new system has an administrative burden for businesses, and the inter-relation with Non-Domestic Rates.
Because Council Tax has been frozen and Non-Domestic Rates have risen in line with inflation most years, the two taxes have moved apart.

Archie Rintoul, RICS:
RICS has 11,800 members and because of its Royal Charter, it has a role in advising government.

From the RICS perspective, a property based system is preferred, and reformed Council Tax looks like the best option. However, it needs to be revalued regularly, and it needs alterations to bands and multipliers to make it more progressive.
The option of a Land Value Tax is difficult because of a lack of comparable evidence, and it difficult to analyse as land is difficult to value. A simple "residual approach" is too simple, and will not arrive at a market value of land. It is also expensive to administer, difficult for the public to understand, and it can be difficult to find owners.
A tax on individual property values (as recommended in the Burt Review) would be more expensive and open the door for more appeals (although this is not necessarily a reason why not to go ahead with this option).

Katie Hay, Law Society of Scotland
The Law Society of Scotland represents 11,000 members.
As the Commission does not have a policy position, comments here are based on the framework that the Commission is working with.
The Law Society of Scotland support a principal based approach and stress that simplicity is key.
The integrity of the current Council Tax system is under question but in the eyes of the public it may be a case of "better the devil you know".
Communication needs to be a key part of the Commission's work and the media's interpretation of the findings of the Commission will be important.
The Commission must take account of ensuring that there are realistic timeframes for transition and a suitable buffer for transitional arrangements. For example, the timescales in place for the recently devolved taxes were challenging.
The Law Society of Scotland welcomed the progressive structure of LBTT, and there may be merit in some read across into a recurring domestic property tax.

Charlotte Barbour, Institute of Chartered Accountants in Scotland
ICAS has 20,000 members, with half of these in Scotland.
In relation to the Commissions remit, it is difficult to look at Council Tax in isolation from the rest of the system.
Fairness is difficult concept to analyse in relation to tax and it probably isn't the right terminology to use because it can mean many different things.
A move to a Land Value Tax would be very difficult.

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

1. **Commissioners asked about the balance of tax and benefits received**
    - Because so much of the local government budget goes on education and social care, many of the beneficiaries of local tax may not even be paying local tax (and vice versa), and this has in impact on accountability.
    - People often forget that there is a community benefit from services, even if each individual does not benefit directly.
    - It is unclear what Council Tax pays for – is it local services, or is it a common fund for the benefit of society?

2. **Commissioners asked about 'baskets of taxes' – including a Local Income Tax (LIT) component**
    - If the objective is to raise taxes, then a broader base may be needed.
    - LIT is attractive from an ability to pay perspective, but there are concerns over mobility of the tax base. LIT may lead to people manoeuvring to best position themselves for tax purposes. There is a risk that moving to this sort of system would undermine simplicity. In theory, if it is all explained well, then it should be possible for the public to accept, but it will be difficult.
    - The national income tax rate could be reduced and the local component increased. As well as mobility, there is a need to be mindful of tax competition and whether it is possible to introduce new taxes without creating distortions. Also, the Scottish Rate of Income Tax (SRIT) does not extend to taxing savings and dividends.
    - With relation to a SRIT/LIT hybrid, if people move out of Scotland because of the LIT component, then revenues from both LIT and SRIT are lost.
    - Each new tax will have an administration cost. A tax should not be introduced if the administration costs outweigh the benefits. In that respect, remitted LIT may be a better idea than a truly local income tax.
    - A basket of taxes is a good idea. Too narrow a tax base is not ideal and leads to the gearing effect.

3. **Commissioners asked for views about the Council Tax freeze**
    - The Council Tax freeze was introduced because of public concern over rate rises, but there is also concern from the business community about increases. Planning application fees have also gone up. In some respects, the freeze has meant that local government has had to look elsewhere for income, and businesses have taken on some of that through increased charges and fees.

4. **Would it be feasible to use local taxation to encourage energy efficiency measures in housing?**
    - A form of energy efficiency discount to incentivise people to improve their homes could be viable.

5. **Commissioners asked about the possibility of introducing self-assessed valuations**
    - Homeowners are probably aware of the value of their home, but there would be some issues with a self-assessment system and values would need verification. It would be almost the opposite of the current system – Valuation Officers would check and appeal the householder's assessment of value rather than vice versa. There may be some questions over how a scheme for recouping under-estimated tax liability would work effectively.

6. **Commissioners asked about the potential use of mass appraisal systems for valuation purposes**
    - The use of mass-appraisal systems would be easier under a banded system where accuracy is less of an issue.

7. **Commissioners asked about valuation issues, comparing Council Tax with Non-Domestic Rates (NDR)**
    - It is more difficult to value for NDR purposes because an exact figure is required. This is part of the reason for more appeals. Other reasons include the existence of rating agents and the fact that retailers with multiple sites have more to gain from appeals.

8. **How regularly should revaluations be undertaken?**
    - It was suggested that every 5 years would be appropriate.
    - There was some discussion about whether putting revaluation dates into statute would make any difference given that governments have the power to change legislation.

9. **To what extent do taxpayers understand the Council Tax system?**
    - The multipliers used in Council Tax are not understood by most people.
    - This emphasises the earlier point about the need for good communications.
    - There was some discussion about whether improvements should mean an immediate increase in rates payable, and it was generally thought that this should not happen straight away, but it should be time limited.

10. **What is the scope for introducing a Land Value Tax?**
    - Doing a comparison between two identical properties in different locations is too simple a valuation method. Valuing land for a land value tax would involve looking at a plot and deducting all costs associated with it including rebuild costs, architect fees, estate agent fees etc. to get to a bottom line land value.
    - Some rough figures of the uplift in the value of land from agricultural to residential would be that good agricultural land is worth £7000/acre, and residential land (in Dunfermline) is probably around £500,000/acre (more for the major cities).

11. **What measures would be needed to demonstrate a holistic approach?**
    - A new local tax to replace Council Tax would need to work within the context of the existing tax system, and other taxes that are being planned. It should be seen as part of a package.

ORAL EVIDENCE SESSION 10 – HOUSING PROFESSIONALS

NOTE OF MEETING

Held in Verity House, Haymarket Yards, Edinburgh at 1.30pm on Friday 3 July 2015.

Witnesses:
David Stewart, Scottish Federation of Housing Associations (SFHA)
David Melhuish, Scottish Property Federation
Sarah-Jane Laing, Scottish Land and Estates
John Blackwood, Scottish Association of Landlords, and
Matthew Benson, Rettie & Co

Commissioners:

Marco Biagi MSP (Chair)	Isobel d'Inverno
Don Peebles	Andy Wightman

In attendance:
Neil Ferguson, Adam Stewart (secretariat)

Introductions and opening statements
Following introductions, each witness provided a brief summary of key issues of interest in relation to local taxation.

David Stewart, Scottish Federation of Housing Associations (SFHA
SFHA members own 12% of Scotland's housing stock. Many tenants are vulnerable and poor.
SFHA is not advocating a particular tax solution but there are issues with Council Tax that should be addressed:
A progressive tax structure is needed – SFHA supported the move to a progressive tax structure for Land and Buildings Transaction Tax (LBTT) which is fairer and more equitable. The Council Tax freeze has benefitted higher value properties more. Council Tax should support the working poor, who are housed by SFHA members.
The new tax should incentivise house building and the best use of empty homes. There are 150,000 households on the waiting list for housing in Scotland. The Commission on Housing and Wellbeing highlighted the inadequate supply of housing across the tenures which has impacts on health and education. Tax cannot resolve this on its own but investment in infrastructure and changes to the planning process would help.
The new tax should incentivise and reward investment in energy efficiency measures for landlords and owners of housing. Tax is not the only solution to this. The SFHA welcomed the Scottish Government's move to make energy efficiency a national infrastructure priority.

David Melhuish, Scottish Property Federation
Council Tax is only one of the local government funding mechanisms. Non-domestic rates are set nationally and collected locally. There are proposals to allow local reliefs. Commission should take a holistic view.

The introduction of Council Tax was rushed, to the detriment of fairness and proportionality. There are still 8 bands based on 1991 values.
Council Tax enjoys a 95% collection rate, it is predictable and local authorities incentivise early payment.
Alternatives include Land Value Tax (LVT) and Local Income Tax – options exist to centralise the tax further. The case for LVT is unproven – there are pros and cons. SPF favours a reformed Council Tax with more bands at the top end and a review of the multiplier cap. Council Tax has a 'much better fit' to incentivise energy efficiency measures than LBTT.

Sarah-Jane Laing, Scottish Land and Estates
SLE represents rural landowners. Its members help councils achieve their single outcome agreements. Reforming Council Tax could make a contribution to local democracy. The tax can be improved without total reform. It provides an opportunity to bring empty homes into use, discourage second home ownership and improve energy efficiency.
There are risks – in rural areas, significant changes in taxes can lead to migration. Councils need flexibility to avoid unintended changes in behaviours and to provide fairness and stability.

Matthew Benson, Rettie & Co
Rettie & Co is very interested in the building of homes. Council Tax can be a means to raising revenue and also a signalling mechanism. The Firm Foundation report of 2007 said there was a need for 35,000 houses to be built pa, not 25,000. This was a 44% under-aspiration and every local authority area has underperformed against this need. Planning and infrastructure are the biggest blocks to housebuilding.
Council Tax can be a signalling mechanism if used in conjunction with the Scottish Rate of Income Tax (SRIT) and the forthcoming 'Smith powers'.
The outgoing chair of Reform Scotland has suggested lowering SRIT by 2p, paid for by increasing Council Tax. The Scottish Government compensates councils each year by £70m pa to fund the Council Tax freeze. Lots of interesting work lies ahead.

John Blackwood, Scottish Association of Landlords
SAL represents private landlords – both individuals and companies. Under the Council Tax regime, private landlords are treated as second home owners when the home is vacant. However private landlords do not want vacant homes as they have no rental income.

Vacant homes - Under recent changes to regulations, landlords have to pay up to 90% of Council Tax when a home is vacant which SAL says is unduly onerous when incentives are needed for renovation works to improve the quality and energy efficiency of stock.

6 month unfurnished property exemption - When buying property, new owners are unaware whether the unfurnished property exemption 6 month period is over as it applies to the property and not the owner.

Renting of rooms – the private rented sector (PRS) houses vulnerable people on low incomes often in houses in multiple occupation. Under Council Tax, if a landlord rents just a room, the landlord has to pay the Council Tax. This is unfair as it acts as a disincentive to landlords renting out rooms.

Unpaid Council Tax – Councils can pursue landlords for Council Tax unpaid by the tenant, even up to 10 years after that tenant has vacated the property. SAL believes there should be a limit of the liability arising on landlords.

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

1. **The impact of Council Tax on housing supply**

- Council Tax is not in itself a disincentive to the construction of new housing but it is possible that the planning system could be made more effective. It was proposed that councils that build more houses should be awarded more revenue as should those Councils that invest in the building of more housing.
- Councils should have the flexibility to invest in infrastructure for new house developments and pass the costs on to homeowners in the form of higher Council Tax bills. Rettie & Co and Dundee University are doing work on this proposal.
- Developers are often required to pay for infrastructure but this is not their core skill and it is not cost effective. In countries like Germany and Holland, Councils do the infrastructure and then recoup costs from developers and house buyers.
- There is a disconnect between today's house values and Council Tax bandings. Had the model of domestic rates remained in place, taxpayers would be paying more today. At the top end, Council Tax is perceived to be 'good value' – that gap could be sued to fund the infrastructure model proposed above. The impact of the model would be that houses could be bought for less. Research is due to be published later this year.
- **Would the increases in Council Tax have a significant impact on the top end of the market?** Band H taxpayers currently pay about £2,900 in tax each year – it was suggested that this is not significant for a £1.5m property.
- **What is the role of local taxation as a property tax?** The assumption that Council Tax is a property tax should be treated with caution – the closer the tax is tied to house values, the more volatile it will be. Instead Councils should be raising revenue and spending it on infrastructure schemes as a public good. Infrastructure then becomes an earning asset rather than a cost. This would change attitudes to Council Tax.
- State aid is often cited as a barrier to keep house building going – but at the same time state incentives are provided for the manufacture of fridges and cars.
- The model is as follows: the Council invests in infrastructure for new housing, collects tax from each property that benefits from the infrastructure. A £1,000 tax increase on band D houses would yield £35,000 of tax for the infrastructure – more than enough for a band D house. This in turn would lead to a lower house price.

2. **Do councils have sufficient flexibility in administering local taxation?**

- It was noted that Argyll & Bute Council used receipts from second homes to fund infrastructure projects. Flexibility is welcome but within parameters. And some degree of planning gain may be lost. The model relied on a partnership approach involving the Council and developers. Households need certainty to make plans – taxes are often subject to political intervention, changing every 6 months.
- **Are other examples of flexibility needed? e.g. Councils can't change Council tax bands.** Flexibility is important – local areas can have hugely different pressures and

needs. E.g. Highlands and Islands housing associations and Council set up a recyclable infrastructure fund, allowing land to be developed. Flexibility within the banding system would help cohesion within neighbourhoods.

- Greater flexibility would help the democratic mandate, with higher turnout at local elections.
- There is a huge disconnect between tax, service provision and decision making. Flexibility would help to address that.

3. Would the public accept lower house prices?

- House prices can be deconstructed into the price of land, infrastructure, finance, developer's profit and construction costs. If on a new house you pay for infrastructure over 60 years, not up front, the mortgage and deposit needed would reduce.

4. What changes are needed to the planning system?

- The planning system was not sufficiently responsive and was under-resourced. It is often influenced by a vociferous minority.
- Non-domestic rates create greater tax revenues yet rate payers have no ability to signal to Councils.
- Housing associations feel there is a need for more available land, not just changes to the planning system.

5. Is there a case for the owner to pay Council Tax, not the occupier?

- There is a need for property to be affordable and available. Landlords need to be able to improve their properties but do not get the tax breaks afforded to businesses. The Scottish Landlord Association doesn't want landlords burdened with additional tax and unable to improve the property.
- Such a move would also have an impact on social landlords. Housing associations receive government grant to allow tenants to pay lower rents. This could be affected.
- There is a relationship between people and the Council through paying Council Tax – an owner of many properties has one vote whereas tenants all each have one vote. Owners paying tax would break the relationship between tenants and the Council.
- On tenanted farms, tenants pay rent to the landlord and Council Tax on the cottage. In many cases, the rent may be nominal and the Council Tax can be higher than the rent. Changing tax liability to the owner would cause problems for the owner.

6. Further detail was requested about the Scottish Landlord Association's point on the pursuit of landlords for an earlier tenant's debt

- Landlords notify Councils when tenants change. But Councils can go back many years to pursue Council Tax debt and can pursue the landlord. There should be a time limit on this power.

7. **Further detail was requested about the SFHA's proposal for an incentive in local taxation for energy efficiency measures**

- The group noted the problems of improving energy efficiency in tenements in multiple ownership. Council tax reductions linked to investment could provide a helpful incentive.
- Land and Buildings Transaction Tax (LBTT) was not the right mechanism for such an incentive but Council Tax was a more likely tool.
- A discount was a better mechanism than punitive rates.
- Improvements to energy efficiency of homes usually take place between tenancies, so the incentive should be there to encourage landlords to do it.

8. **(i) Is there a need for regular re-valuations?**

- Wales provided an example, and that regular revaluations were needed if local taxation was to be a property based tax. He noted that revaluing for residential property was a much bigger task than for non-residential property. Automated valuation models could be used to distribute the tax base more fairly and this would need legislation to make it happen.
- If a landlord lets rooms, a revaluation would hit landlords harder. Councils should have the flexibility to take tenure arrangements into account.
- The effect of a revaluation should be minimal if the banding structure remained similar.

(ii) What effect would a revaluation have on markets?

- It was suggested that revaluing in itself would change nothing – it would depend on the tax structure. In Edinburgh the Council tax for a band D house has increased 1.6 times since 1991 in cash terms. The house price median however has increased 2.6 times. There is therefore a disconnect between house price and Council Tax. By comparison, the lowest decile homes had increased 1.75 times, while the highest decile had increased 3 times. If every home is taxed off the median, it leads to significant discrepancies. The caveat to that analysis is that incomes have not kept pace with house price growth in recent decades.

(iii) How regularly should revaluations take place?

- Non Domestic Rates involve a revaluation every 3 years. It was suggested that revaluations for Council Tax should take place no more than every 10 years.
- An alternative suggestion was for revaluations every 5 years.

9. **Should the tax be structured as a percentage of property value?**

- It was noted that the Burt review had suggested a tax at 1% of property value. This could be a large increase in tax for some people.

10. **Should the tax be based on discreet values for each property?**

- It was suggested that households and Councils need greater predictability on tax revenues.

11. Is there scope for self-assessment of house values?

- No answer was given to this.

12. Why does the SPF believe that the case for a land value tax (LVT) is unproven?

- Owners liable for LVT would seek to pass on the costs to occupiers. A tax on improved land would be less of a concern. Some other countries that have had an LVT have replaced it. There may also be concerns about the identification and predictability of revenues.
- It was noted that LVT can be used as a disaggregated tax base, separating land from buildings. There is flexibility to tax land or buildings or both. Land and derelict land are not currently taxed.
- It was suggested LVT could replace a number of taxes but it could be problematic if it was an add-on to the current tax base. Henry George used the premise that LVT would mean abolishing other taxes. It was suggested that LVT may have transition issues.

13. What is case for a Local Income Tax (LIT)?

- A LIT would struggle to keep up with developments such as zero hours contracts and fluctuating incomes.
- However it is the system that most fairly reflects incomes.

  Is there merit in a remitted LIT? e.g. Norway LIT of 28p/12p split.
- There is merit in the accountability of Councillors and it would be better if Councils had a range of income streams. The Council Tax freeze has had a detrimental impact on local services.
- There would be less resistance to Council Tax if services improved. He suggested care would be needed as people would move to avoid locally variable taxes.
- It was noted that bands G and H would have to pay considerably more to fund a 2p cut in the SRIT. If the net effect was tax neutral, it could work. Alternatively the revenue from 2p of SRIT could be allocated to Councils.
- There was a stronger link with the ability to pay than a property based tax.
- There should be no incentive to leave properties empty for tax reasons.

14. What transition issues should be considered?

- Good communications need to be in place in advance and clarity of tax liability at an early stage.
- Communications, planning and enforcement.
- Costs of administration
- There should a sufficiently long enough lead-in time. This would allow landlords to inform tenants. There is also a need for political consensus and consensus with stakeholders.
- Certainty
- Consensus with local government.

15. To what extent should Councils have flexibility to take decisions about the tax ?

- Local priorities e.g. Councils need the flexibility to levy additional tax on second homes but are restricted on what they can do with the tax revenue.
  Would Councils setting different rates of tax create difficulties?
- It was suggested that this was unlikely to cause significant difficulties.

16. Should discounts and reliefs should be determined locally or nationally?

- There should be a clear link between the discounts and the national outcomes and national policy frameworks that exist.
- The question was about the degree to which local government should be autonomous to central government.
- A balance was needed.
  Could national minimum standards with some flexibility for Councils be applied?
- There was agreement with the suggestion.

ORAL EVIDENCE SESSION 11 – INSTITUTIONAL STAKEHOLDERS
NOTE OF MEETING

COSLA Offices, Verity House, 19 Haymarket Yards, Edinburgh, EH12 5BH, 10.00am, Friday 18 September 2015

Witnesses:
Robert Black, Commission on Housing and Welfare
Eben Wilson, Taxpayer Scotland
Geoff Mawdsley, Reform Scotland
Carol Wilcox, Labour Land Campaign

Commissioners:
Jim McCormick (Chair)
Andy Wightman
Cllr Angus Campbell (by phone)

In attendance:
Robin Haynes, Neil Ferguson, Adam Stewart (secretariat)

Introductions and opening statements
Following introductions, each witness provided a brief summary of key issues of interest in relation to local taxation.

Geoff Mawdsley, Reform Scotland
Scotland's balance of funding has become out of step with other European countries. Reform Scotland wants to see a better balance of funding – say 50% of Council expenditure raised by Councils themselves. This would make Councils more accountable – Councils will have to justify and explain their actions. Autonomy will allow Councils to do things differently. These would lead to a better interaction with communities and better democratic participation and better local debate.

Recommendations:

- Council Tax should be restored to full local control to set taxes, along with business rates.
- Councils should be able to find their own solutions and should be able to replace Council Tax, rather than have a solution imposed by the 'centre'. The centre should still provide a grant to areas where services cost more or where there are areas of deprivation.
- A wider tax base at the local level is needed; most other countries have a range of taxes to choose from.

Carol Wilcox, Labour Land
Annual tax on local property is a powerful, unavoidable tax base. It would be possible to raise 100% of revenues raised by Councils from property taxes. (NDR plus Council Tax only amounts to 50% at the moment).
Council Tax has a very regressive tax structure.
Business rates and Council Tax are paid by occupiers rather than owners. This is grossly unfair and unknown in the rest of the world.

Property taxes fall into disrepute unless revaluations are done regularly. Valuations are expensive and losers tend be very vocal.
Land is easier and cheaper to value than buildings. Australia re-values land every 2 years.
Land market problems: With credit feeding speculation, banks have found it more profitable to undertake mortgage lending rather than lending for consumption and investment in productive capital. This has led to growth in property prices and wealth inequalities in society. Housing has become unaffordable for many sectors of society.
Switching business rates to Land Value Tax would be easy to do on a revenue neutral basis, with one national rate.
A tax on land with frequent revaluation would be affordable as land value is related to its potential revenue stream.
It would be more difficult to move from Council Tax to LVT because relative values have changed so much since 1990 and rates are locally determined.
Applying a national rate would be unfeasible because for some the bill would be unaffordable and it would decrease house prices. Proposal is to replace Council Tax on a revenue neutral basis for each Council area, then gradually bring them together with one rate over time.

Eben Wilson, Taxpayer Scotland
Fear is that the debate might be about how to raise more tax. This would be self-defeating. There are still huge economic deficits, growth is not returning and there are no more tax receipts available. There is a constrained envelope so the political debate is about rationing what is available. With centralisation, you get politicisation, so Taxpayer Scotland supports local decision-making.
Services would be delivered more effectively by taking a profit /loss approach to every public service. It then becomes clearer where cross subsidies are being applied – you then identify services which must be funded by tax and others that could be provided through charging for them. Councils should look for services that could be provided on a priced basis.

Bob Black, Commission on Housing and Wellbeing
In the early 1970s, rates were rising significantly and reached political breaking point. The Layfield Committee report recommended strengthening local accountability. It said that if local taxation was a more significant element of funding, it would strengthen local democracy. It also said that property taxation in the form of Domestic Rates had reached a limit in terms of yield and recommended a local income tax.
In 1975, the balance of funding raised by Councils rose from 37% to 54% then slumped to 17% by 1991.
In the 1980s the UK government was keen to make Councils more accountable but it reached breaking point and the Community Charge was introduced. Collection was low and it was perceived as unfair as it was not related to the ability to pay.
Central government increased its grant to Councils to account for the shortfall in collection, and then the Council Tax was introduced at the lower balance of funding rate.

Learning points:

- The powers of local government must be consistent with financing of the services and responsibilities.

- The ability of property taxes to fund local services is limited – we are at risk of breaking the system.

The criteria for local taxation:

- Fairness
- Efficiency
- Predictability for stable revenues
- Local accountability
- Buoyancy – as economy grows, local government should benefit.

There is a distinction to be made between core funding and discretionary spending. Education, for example, could be funded on a formula basis, with limited discretionary spending.

Variations in the grant formula have a disproportionate knock-on effect on services – it is very difficult for Councils to continue to provide services when the central government grant is reduced because their ability to fund the shortfall through Council Tax is so limited because Councils are smaller and due to the low balance of funding ratio.

The Commission for Housing and Wellbeing proposed that a reformed property tax paid by occupiers should replace Council Tax, with Land Value Tax introduced in the longer term. A safety net preventing occupiers paying no more than a set proportion of their net income should be in place.

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

1. **Views on Council Tax / property taxes**

i. Revaluation

- There was discussion about the costs and complexity of revaluation. It was suggested that assessors take the view that revaluations are technically straightforward. Property values have varied significantly since 1991 and will now result in substantial change. Formulae can be applied to similar types of properties in similar locations. It needs to be done frequently, say every 3 years.
- It was suggested that if the tax is based on a wealth asset like property, revaluation is essential, perhaps every 5 years, with a concordat for a cap to prevent unbearable increases.
- However, the lack of a revaluation can lead to reform of the tax altogether. There are good arguments for retaining a property tax – for example, it is easy to collect. But the tax base could be broadened and local control should be restored. It would be interesting to look further at how a LVT could be introduced.
- It was suggested that the issue of fairness in local taxation is about the visibility of value for money.
- It was suggested that taxes should be hypothecated to Council services so people can see where money is going.

ii. Could the 1991 values continue to be used as it successfully deals with relative property values?

- If the only change was to add bands, it may not be enough to solve the fairness issue. The experience in Wales of revaluation and adding 2 extra bands shows that.

iii. Tax structure

- The advantages of Council Tax are that it is collectable and predictable. Drawbacks: lack of accountability, not fair – it needs reform. A revised property tax is feasible and could make local taxation fairer.
- It was suggested that making the tax more progressive would be counter-productive. Only 4,800 pay the high rate of tax in Scotland. 98% of businesses are small, often funded by people borrowing against the value of their homes. Making the tax more progressive would result in behavioural changes. The tax structure is not ideal – renters pay out of their income, while larger homes are taxed on the basis of capital. Making the tax proportional would be acceptable. This could have effects – for example, people with small businesses may not be able to borrow to invest in their business over time if they are taxed more heavily. Councils should have multiple sources of revenue – Taxpayer Scotland suggests avoiding taxing the wealthy more as the supply side matters to the economy.
- It was suggested that the tax structure and reform of bands could be undertaken at the local level.

iv. Taxing on the basis of banding v discreet property values

- The Mirrlees review highlighted the distinction between the consumption and asset aspects of housing and between owning and renting. Owners may benefit from windfall gains, may pay inheritance tax and pay Land and Buildings Transaction Tax when the house is acquired. Landlords are taxed on capital gains. Occupiers pay Council Tax but no asset taxes i.e. income nor capital gains. Taxes could be paid on asset appreciation. There should be more Council Tax bands. The Commission on Housing and Wellbeing identified the affordability of the private rented sector - in 6 of the most prosperous council areas, a household with one full time earner on median wage pays 35% of net income on rent for a 2 bedroom property. Must avoid the slab increases in tax.
- It was noted that some London councils in the wealthiest areas have reduced Council Tax in recent years – this results in gross inequalities. A land value tax should be set nationally, with central grant to achieve equalisation across local areas.
- It was suggested that there is no point in replacing one centrally set tax with another.

v. Reductions in Council Tax and work disincentives / circuit breakers

- It was suggested that such decisions are choices for politicians to make. A safety net such as a net income related rebate is needed.
- It was proposed that those decisions should be decided at the local rather than national level.
- Councils are accountable for how they spend money. Making them accountable for what they raise is not an issue.
- Local authority areas can be very different – there will always be a role for central government to equalise revenues to ensure the provision of local services across the

local authorities. The concept of 'fairness' applies across Councils, not just at household level.

2. Views on a Land Value Tax (LVT)

i. Understanding

People often don't understand land value – land is invisible once it is built upon.

ii. Economic impacts of LVT

- LVT seems like a good structure for a tax – but what behaviours result from it?
- Case studies from the USA were given to show the potential effect of land value tax. Buildings and land are values separately in the USA. Over time in Harrisburg, land was taxed higher than buildings. It led to economic recovery as land was used more intensively. Pittsburgh took a different approach and didn't revalue land for over 30 years – LVT was abolished, with economic detriment.
- It was noted that LVT may act as an incentive to use land better and was an option worth considering.
- It was noted that because so much money is spent on land, the UK has the smallest housing in the developed world – there is less funding available to develop the land.
- The current system creates instability in the housing market. Council Tax could be reformed to a property-based tax, with regular revaluations. In the longer term, it would be possible to move to LVT to incentivise the productive use of derelict land. It would have efficiency benefits, but the transition would be politically challenging. **It was suggested that the land and buildings values could be split, and over time, the shift could be made to land value.**
- A Glasgow pilot study identified no practical obstacles and LVT rates could be set locally or nationally. The value is set at the maximum permitted use which acts as an incentive to bring derelict land into use.

iii. Transition arrangements for a move to a Land Value Tax

It was suggested that land is easier to value then buildings as you need to value every building.

- It was suggested that moving to discreet values for buildings would have a cost associated but with technology and databases available it should be relatively easy. It is easy to establish the total value of the land and buildings, and also the land value – deducting one from the other gives the building value.
- However moving from taxing occupiers to owners would involve careful transition planning. The tax on owners would likely be passed to tenants by landlords in the form of increased rent.
- It would be possible to design LVT to be revenue neutral.

iv. What transitional arrangements and timescales are needed?

- An aspiration for a 50% balance of funding with decisions taken by Councils was proposed. There is a big role for COSLA to demonstrate why taxes need to change.

3. Views on a Local Income Tax

- Needs a broad approach – see 'Decentralisation Decade" published by IPPR. Needs political consensus. Can't have local democracy without Councils raising half of their expenditure. Localism should follow devolution of tax powers in an evolutionary way – it may take time. If the Scottish Parliament gets full control of income tax, a local income tax may become more feasible.
- One participant raised a concern that local authority control could lead to a 'race to the bottom'. It was suggested however, that that doesn't happen in other countries.
- Councils need to demonstrate the additional services arising from additional taxes.
- It was suggested that Councils are too small and too numerous to have a local income tax; systems would have to be Scotland-wide. It would still need some form of equalisation process to redistribute tax revenues for expenditure on public services and a grant regime to support them. Councils have the discretion to decide which services it provides beyond their core duties.
- A local income tax should allow for local discretion but it would need a national system to operate it. It should be in the basket of options for Councils.
- It was suggested that it would be impossible to impose a local income tax. Income is very mobile. The extent of 'fiscal flight' and tax avoidance are unknown – but it would be unwise to increase that risk.

Other issues:

4. What is the scope for increasing local taxation?

- One participant suggested having a referendum on increasing Council Tax? It was noted however that there is no such power in Scotland.
- **Does the panel agree with the suggestion put to the Commission that people would pay more tax for better services?**
- Studies suggest that support wanes when financial figures are applied.

5. Is a mix of local taxes possible? E.g. the public event in the Western Isles discussed other local taxes such as a marine tax.

- Other options that could be available to Councils include sales taxes, tourist taxes – but without obligation on Councils to do so.

6. Is there scope for deferral schemes for households that are 'asset rich but income poor'?

- The Commission on Housing and Wellbeing recommended safety nets and such a deferral scheme would be welcome.

7. The panel was asked for views on the administration of water and sewerage charges

- The approach seems to work well in the interests of administrative efficiency but it the charging mechanism could be made clearer on Council Tax bills.

ORAL EVIDENCE SESSION 12 – WATER AND SEWERAGE CHARGING

NOTE OF MEETING

COSLA Offices, Verity House, 19 Haymarket Yards, Edinburgh, EH12 5BH, Wednesday 23 September 2015

Witnesses:

Tom Harvie-Clark	Head of Strategy and Economic Regulation, Scottish Water
Belinda Oldfield	General Manager for Revenue, Scottish Water
Jon Rathjen	Team Leader, Water Industry Team, Scottish Government
Alan Sutherland	Chief Executive, Water Industry Commission for Scotland

Commissioners:
Marco Biagi MSP
Cllr Susan Aitken
Isobel d'Inverno
Jim McCormick
Dr Angela O'Hagan
David O'Neill (by phone)
Andy Wightman

Opening Statement
Jon Rathjen provided an opening statement on behalf of all four witnesses.
Water charges represent 30% of the total revenues collected by Councils (Council tax, water charges and sewerage charges).
Water charges are based on council tax bands and discounts are similar to those available for Council Tax. Water charges in Scotland are therefore progressive and stable, and collection rates are high. Councils have built up their administrative expertise over time.
Processes are established by Order in Parliament. The most recent Order applies for the next 4 years.
The formula used guarantees income levels for Scottish Water to invest in water infrastructure.
Any change to the arrangements for collecting water charges would have a significant cost.

The group then discussed the following issues. Views of witnesses are set out in the bullet points.

1. History of water charging in Scotland
- Regional Councils dealt with the collection and management of water charging until 1996, when three regional water authorities were established.
- Scottish Water was established in 2002 and councils have collected water charges on behalf of Scottish Water since then.

2. Achieving clarity on bills

- The water charges are separately itemised on the Council Tax bill. The Commission has heard evidence that some people find this unclear, particularly those in receipt of Council Tax Reduction who pay no Council Tax but still incur water charges.
- Jon Rathjen said that work is continuing with Citizens Advice Scotland on the style and format of billing. However, generally water services in Scotland have a good record of delivery with few complaints.

3. Amount of water charges

- Alan Sutherland explained that the amount of water charges are related to the council tax band of each house. This is widely accepted by customers. Tom Harvie-Clark said that customers value the stability of the charges and there have been very few complaints since 2005.
- Jon Rathjen added that the charges are harmonised across Scotland, and are the same in each local authority. Alan added that this benefits rural areas in particular, where it costs more to supply water. If the geographic harmonisation was removed, it would have a significant impact on rural areas.
- Revenues help to invest in existing services and public health benefits.

4. Water metering

- Jon Rathjen explained that water meters are widely used across Europe, especially in areas of water deficiency as a tool for rationing water usage. Scotland however has 90% of the water in Great Britain.
- The introduction of water meters in Scotland would add around £60 to each household bill per year (the average water charge (excluding the sewerage charge) per household is currently £165pa).

5. Collection rates

- Belinda Oldfield explained that the collection rates vary across local authorities from around 92.5% to 99%. The average collection rate is 96.6%.
- The average in-year collection rate for water charges is 95% while for Council Tax it is 96%.

6. Water charges in other countries

- In England water is supplied and charged by private water companies.
- Welsh Water is owned by Glas Cymru, a single purpose company with no shareholders and is run solely for the benefit of customers.

7. Is the water charge really a tax?

- As it relates to the provision and consumption of a service, it is a charge rather than a tax.

8. Discounts for particular households

- There are water charge discounts of 25% for single occupancy and up to 25% for households in receipt of Council Tax Reduction, and other discounts for example, for disabled people and students.
- Other discounts could also be made available to make the system aligned with Council Tax and fairer.

- Charges and discounts are set by Scottish Ministers in legislation.

9. Revenues collected

- Water and sewerage charges now amount to around £800m in Scotland.

10. Costs of billing separately from Council Tax

- If charges were billed separately by Scottish Water, administrative costs of collection would be around £25-35m pa and around £35m in initial set-up costs. (2008 figures) – see post meeting note below.
- Currently Scottish Water pays Councils £18m pa to collect water and sewerage charges.
- It would take time for Scottish Water to build up expertise in the administration of the charges and this would add further administrative costs.
- Replicating Council Tax discounts would be very complex; Scottish Water would need all the same information that Councils currently hold about households. It may be possible, through legislation to establish appropriate data sharing arrangements but Scottish Water would have to adopt and harmonise data from 32 different systems.
- The single system would need to be capable of coping with changes to tax structures etc.
- Having a single system would also introduce the risk of a 'single point of failure'.
- The introduction of a separate system would involve a cultural change for customers – there may be a risk of non-payment when people receive a separate bill from Scottish Water for the first time.

Post Meeting Note: The costs could peak at perhaps 20% higher than this whilst the billing operation normalises during initial bedding-in phase of between 12 and 18 months. These figures, which reflect varying productivity levels, exclude the annual charge for bad debts, which was estimated could add up to £16.1m per annum after the initial bedding in period, and potentially peaking at £30.1m in year one. These costs at the time of estimation were based on running a system that does not have significant complexity in the tariff structure**.**

11. The impact of changing the structure of local taxation on water charges

- There could be significant transitional costs especially if metering was introduced.
- Total revenue would be the same.
- Complications include new properties coming on stream, and the need for ghost bandings and ghost discounts.
- The system would need ongoing updating, essentially replicating what Councils do for Council Tax.
- If water charges replicated a proportional or more progressive local taxation base, there would be a significant impact on the water charge bills for the highest banded properties.
- Transition to a new system always creates winners and losers and reactions.

12. Combining Council Tax and Water and Sewerage Charges into one tax

- This might improve collection rates and improve understanding of charges. It could also align Council Tax Reduction and water charge discounts.
- However it could lead to a lack of transparency in terms of what is charged and a lack of responsibility.

- Alan Sutherland said that in England the social discounts were unwound in favour of metering. A social tariff was proposed but people were reluctant to pay to allow for a social tariff.
- Water charging in Scotland offers significant social protection. Belinda Oldfield said that in Scotland, £139m of social discounts apply each year.

13. Other work on social protection

- Work is continuing with Citizens Advice Scotland to explore options for discounting and how best to reach customers.

14. Comparison with Wales

- Alan Sutherland said that Wales is not a good comparator as 30% of customers use water meters which produce quite different results from Council Tax bands.
- Social protections have been removed in Wales.

International Literature Review

Professor Ken Gibb, Linda Christie,
University of Glasgow/Policy Scotland

04

International Literature Review

Professor Ken Gibb, Linda Christie,
University of Glasgow/Policy Scotland

04

Commission on Local Tax Reform: International Evidence Review Executive Summary

Kenneth Gibb and Linda Christie

July 2015

Introduction

The broad-based Commission on Local Tax Reform was established by the Scottish Government and COSLA to investigate reform of the existing council tax system in Scotland. Reform would be based on a number of criteria, not least that the proposals should be based on fairness. As part of the evidence-gathering, Policy Scotland at the University of Glasgow was asked to complete an evidence review drawing on international evidence and experience about local taxation, different models of local taxes and, in particular, experience with local tax reform in recent years.

Council Tax: Design and Critique

The council tax was introduced in 1993 in the wake of the community charge (poll tax) political uproar. The council tax is a banded property tax. All properties were valued at 1991 prices and then allocated into eight bands. All bands were set at a rate relative to the benchmark band D property. However, each band was set as a fixed percentage of band D, compressing the tax bill compared with actual property value distributions. Thus, a property in band A paid 2/3 of band D and a property in band G paid twice the band D rate. Single adult households received a personal discount and in addition a rebate system ensured that low income households qualified for up to 100% rebates (tapered away as income rose above relevant social security thresholds).

The council tax was grafted onto the community charge system of local government finance with nationally levied rates on non-domestic property and a simplified grant system. The council tax has not undergone any subsequent general revaluation (except in Wales) but there have been other important changes. The UK coalition government ended national rebates in England, and cut the assumed level of support by 10%. In Scotland, the Government chose to fund this cut from the block grant and essentially maintain the rebate system as was (now called council tax reduction). Second, as part of the concordat with local government the Scottish Government has been running a council tax freeze for eight years again paid for out of the Block. Third, after the 2007 Scottish election, the then minority SNP government explored but then rejected replacing council tax with an income tax drawing on their powers to vary Scottish income tax rates.

The main criticisms of council tax are as follows.

- The failure to revalue for more than 20 years undermines the credibility of a tax that is based on property values and their relative distribution. Successful property tax systems employ statutorily enforceable programme of regular revaluation.
- The weighting of the banding system protects those with higher property values and means that the council tax is a larger burden on low value properties. Despite the rebate system and the personal discounts, the council tax is seen by many as unfair in terms of reflecting ability to pay.
- There is evidence at a UK level that low value property markets face a higher council tax burden than higher value markets.
- The freeze on taxes is a large and growing cost on the Block and is of greater benefit to those living in high value properties. COSLA and others have argued that it also cumulatively weakens local democratic accountability.

Summary of Evidence Review

The evidence review drew on a combination of formal digital literature searches using social science search engines, google, snowballing from the sources identified, grey literature searchers and more discrete subjective-knowledge-based sourcing of material. The search yielded more than one hundred usable sources of information.

Preliminary questions for the evidence review included trying to set the UK in an international context and also setting out key sources of confusion about the impact or incidence of local taxes. While the UK, in an OECD context, has a proportion of GDP devoted to property taxes, when we look at local taxes as a whole, the UK's position is unusual not because the tax take as whole is high but because it is dependent on property taxes only, rather than the mix of taxes found elsewhere. Second, how we decide to interpret the impact of property taxes i.e. as a tax on consumption or on wealth, shapes in turn how we define whether it is fair or not. Arguably, one may also want to look at the fairness of the tax system as a whole but the point is, once one has taken a view about the nature of the tax in isolation, then the parameters of the debate about its fairness are fixed in place.

The evidence review conducted a high level overview of other cross-national studies from OECD, IMF, UN Habitat and several academic studies, making the following general points:

- There is a wide variety of local taxes in operation across the OECD and property or income taxes, for instance, vary in design term considerably.

- Land and property taxes are generally considered to have specific positive features which lead them to be widely supported by analysts: they are hard to avoid, local government services are delivered to occupiers and owners; public services can lead to uplift in land values; as an autonomous source of revenue they are accountable and they are visible and salient and thus also accountable; land registry systems have wider value in the property market. Property taxes may make a small but significant contribution to improving the performance of the housing market. But property taxes have negative dimensions too – they are presumptive and their visibility makes the unpopular and they are prone to political intervention as a result including failing to regularly reassess property values.
- Around the world, governments use a battery of policy to soften the unpopularity of property taxes, premised on a current income fairness incidence perspective. These include the use of rebates, deferral systems, limits on payments, progressive rate structure, caps, delayed reassessments and 'circuit breakers' that limit payments.
- Several countries have recently embarked on property tax reform. The reasons for the reforms have been related to national tax reforms, local government finance reform, specific changes to local taxation based on principles of reducing inequality, raising revenue or tax simplification.
- There are clusters of countries that employ variants of land value taxation and others that rely to a greater or lesser extent on local income taxes. These are both often used in combination with other local taxes. The UK is unusual for its reliance on one domestic local tax. There are in-principle and empirical debates for and against combining local taxes: can they be revenue-neutral (and be perceived to be so); can they reduce revenue-risk and can they better align local service demand to specific forms of tax payment?
- There is extensive evidence of the wider economic impacts of property taxation. Apart from impacts on housing investment decisions, recurring taxes are widely preferred to transaction taxes (which may impede mobility); there is also scepticism about the ability of tax breaks to encourage investment location decision-making.

The evidence review also looked at a number of systems and described a range of national approaches in more detail.

Slack and Bird (2014) distinguish four general issues for property tax reform: establishing the preferred tax base, how to assess the tax base, how to set the tax rate and thus the tax bill, and, how to run the system itself? Almy (2013) concludes that '*unless the tax structure is simple enough to be efficiently administered, and fair enough to gain the confidence of the population, administrative reform by itself will not succeed.'* Slack and Bird

(2014) identify six principal challenges and differentiate ways forward as a result of those challenges into promising and those that are less promising.

- Salience. The high visibility of the tax requires change to be transitioned and for improvements in local services to go alongside tax reform.
- Liquidity Constraints (e.g. the cash poor- asset rich problem). These suggest deferral and other payment options and against value phasing-in change.
- Perceived Regessivity based on comparisons with current income. This suggests a range of ways of reducing this impact including low income exemptions.
- Volatility in terms of large movements in individual taxpayer bills. The authors argue for annual evaluations and for phasing in reform.
- Presumptive Tax. The antagonism to the form of tax requires education and consultation, phasing-in and good systems of appeal.
- Inelasticity. The tax base is less buoyant than incomes and this is a problem for revenue risk rather than the tax payer and is another argument for more regular i.e. annual revaluations.

Overall, reform is multi-dimensional, political and complex:

> *"…property tax reforms could clearly be designed and implemented much more sensibly than appears to have been the case. To do so, however, countries need to recognise clearly both the nature of the task facing would-be reformers and also the complexity of the task they face….inextricably related to very long-lived assets and often deep-rooted social beliefs and norms." Slack and Bird, 2014, p.26*

Conclusions

The review had six main conclusions.

First, there is a disconnect between the economic and in-principle arguments about local taxes in general, and property taxes in particular, and how they are perceived by people and politicians.

Second, the prior question of how one judges the incidence of property taxation is also fundamental. If one starts from view that the property tax is one on housing services as opposed to wealth then completely different conclusions are arrived at as to tax fairness and any interpretation of the evidence will be conditioned by ones' perspective on incidence).

Third, land and property taxes may have desirable impacts on housing markets and land use but that also depends on design – there is plenty of international evidence suggesting it can go wrong (Slack and Bird, 2014; Almy, 2013; Norregaard, 2013).

Fourth, the synthesis of different local tax experiences across countries, tell us a lot about property tax reform and how difficult it can be to achieve. The reform criteria set out by Slack and Bird can be used to assess the council tax (or indeed other options that might arise) – it would seem to suggest that there were many in-built problems with council tax as a model from day one.

Fifth, systems of local tax and the inter-governmental finance and distribution of services are highly idiosyncratic. They are the product of long periods of evolution and punctuated periods of reform. With such different contexts, design details and complex interactions with other taxes, one must be cautious about reading too much into the simple transferability of local tax systems across nations with often very different governance institutions. Policy transfer in order to reform local tax problems should not be embarked on lightly.

Finally, it is apparent that, internationally and unlike the case in the UK, cities and national systems of local government typically have more than one local tax at their disposal and frequently have many taxes at their disposal although one would need to evaluate the administrative cost of their development and running costs as well as their buoyancy and capacity to generate revenues.

International Literature Review for the Commission on Local Tax Reform

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1 Introduction

This paper presents findings from our international evidence review. It focuses on comparative high-level analysis of local taxation and individual national systems of local taxation, analysed, broadly since 2000. The first substantive part of the paper is an overview of the key messages from a number of high-level cross-country syntheses of local tax evidence. These include a review of studies conducted for the OECD, IMF and UN Habitat. They allow for analysis of a wide range of developed economies' local taxation systems. Second, the paper draws on lessons from specific national systems and studies applied to them. The research examined also allow us to generate wider principles, key messages and, interestingly, tell us much about the challenges of the reform of local tax systems, especially those pertaining to property taxes.

2 Method

A structured approach to the literature review is important for ensuring the identification of current literature, its limitations, and quality, and to help answer the specific research question. The aim of this review was to carry out a systematic search of: '*how international tax systems impact on the issues relevant to the LTC's remit*', with particular focus on '*the impacts on individuals, households and inequalities in income and wealth*'. The search for sources was based on several key strands:

- A key word database search for academic papers and books;
- A key word search in Google scholar and Google for academic and grey literature;
- A search of key literature by specific international organisations (i.e. OECD);
- The key exclusions and rules: post 2000; OECD plus transition countries;
- Reviewing papers in light of personal knowledge/experience literatures;
- A snowball additional search involving reviewing the references of selected outputs.

Methodological considerations

The initial trawl of the literature on local property tax models since 2000 highlights a number of important methodological considerations:

- There exists an extensive academic literature.
- The terms "local property tax" and "local income tax" are rather broad terms, making the search labour intensive, if we were to ensure key literature were not missed.

Given the breadth of papers available, we carefully sifted the evidence to filter out anything unreliable and focussed on those papers providing a comparison of country systems, or provide in depth discussion and analysis of country tax systems most relevant to the UK.

The evidence review is modelled loosely on the *What Works Scotland* evidence bank approach[i]. The *What Works Scotland* approach to evidence reviews is a rigorous and standardized search strategy based on academic journal articles using key word searches, alongside a grey literature search on similar principles. The search uses social science databases and more open search engines via Google. A more inductive snowballing search exercise was also undertaken, using specific subject knowledge of the report's authors and by making one review of the references of the papers selected. Table 1 below provides a summary of the search inclusion and exclusion criteria, which also included a focused review of the most appropriate publications:

The scope of the evidence review focuses on existing international studies considering the range and impact of property tax and other local tax systems. Unlike a systematic literature review, all relevant studies are not identified or appraised for their methodological rigour or quality. Rather, the review provides a snap shot of the range of studies providing insight on the impact of local and/or property tax systems, and the potential relevance to the Scottish local tax context.

The academic databases and key search terms used reflect the social science field most relevant to the area of study, including: economics, politics, public policy and finance. A broad search of the grey literature using google scholar also revealed a range of key country papers relevant to the field of study, and which helped to identify some key sources. The OECD database was searched as a key source.

The approach taken generated large numbers of results (Table 2 suggests more than 10,000), though once exclusions were applied we were left with a manageable though large number of papers and reports numbering roughly one hundred separate retrieved documents. The literature review that followed was based on this set of papers along with relevant other studies known to the authors on the basis that they were known to make a useful contribution to the task in hand. This is inevitably a little ad hoc but is outweighed, we believe, by the added-value they make to the review.

Table 1: Search Criteria

Search Criteria:
Search 2000 – 2015
OECD Countries
Transitional economies as second order search
Exclusion Criteria:
1. Detailed micro case studies of specific locations within a country
2. Detailed technical accounts of a specific local tax system e.g. valuation practice
Brainstorming of important sources:
Classic or standard UK reviews including grey literature (i.e. The Burt Review; The Lyons Review)
US Lincoln Land Institute
IFS Mirrlees review
Northern Ireland reform of rates in early 2000s
International review based academic journals e.g. Journal of economic literature/economic perspectives
Academic Database of journal articles and working papers:
ProQuest IBSS (International Bibliography of Social Sciences)
Key words:
Local taxation/taxes; local property taxes/taxation; land value taxes/taxation; site value taxes/taxation; local income taxes/taxation/local government taxes
[comparative/international reviews of…]
[OECD, European]
[evidence reviews/literature reviews]

Table 2: Indicative summary of the main search results:

Database	Search Criteria	Results and Exclusions	Total Selected
ProQuest IBSS	"local property tax"; 2000 - 2015; Fields: Title and Abstract; Language: English Only; Peer Reviewed:	33 Results	4 selected
ProQuest IBSS	"local income tax"; 2000 - 2015; Fields: Title and Abstract; Language: English Only; Peer Reviewed:	5 results	3 selected
ProQuest IBSS	"land value tax"; 2000 - 2015; Fields: Title and Abstract; Language: English Only; Peer Reviewed:	9 results	8 selected
ProQuest IBSS	"local government tax"; 2000 - 2015; Fields: Title and Abstract; Language: English Only; Peer Reviewed:	6 results	0 selected
Google Scholar	"local property tax"; 2000 - 2015;	6,310 results	too high a yield to search individually
Google Scholar	"property tax literature review"; 2000 – 2015	2 results	1 selected
Google Scholar	"local property tax" AND "literature review"; 2000 – 2015	729 results	included duplicates already retrieved.
Google Scholar	"local income tax" AND "literature review"; 2000 – 2015	204 results	Some duplicates. Going through first 10 pages 24 papers retrieved
Google Scholar	"local government tax" AND "literature review"; 2000 – 2015	370 results	Some duplicates. Going through first 10 pages no extra retrieved
Google Scholar	"property tax in developing countries"; 2000 – 2015	11 results	6 retrieved
Google Scholar	"local government tax in developing countries"; 2000 – 2015	2 results	0 retrieved
Google Scholar	"local income tax"; 2000 – 2016	2920 results	Too high a yield. first 10 pages checked. 20 retrieved. Duplicates already retrieved.
OECD	"property tax"' Between 2000 and 2015	58 results	All reviewed and 23 selected
OECD	"local property tax" Between 2000 and 2015 AND All Fields containing '"local property tax"' Published Between 2000 and 2015	150 results	Looking through first 5 pages: duplicates of articles already found
OECD	'"land value tax"' Restricted to Language(s) English Including Multilingual Summaries Published Between2000 and 2015	54 results	Looked through all and none selected as duplicates of articles previously found
OECD	"local government tax"' Restricted to Language(s) English Including Multilingual Summaries Published Between 2000 and 2015	220 results	Looked through first 5 pages: duplicates found and 5 selected

Box 1: OECD Analysis of Local Taxes and Sub-Central Tax Autonomy

OECD publishes a wide range of data and analysis of local government finance for member countries. Appendix Table 1 of this evidence review summarises the distribution of local taxes across the OECD members in 2010 (Slack and Bird, 2014).The data covers 34 countries from the United States to Luxembourg but also including central and East European countries, Japan, Korea, Australia and New Zealand, as well as Mexico, Chile, Turkey and Canada.

Six countries rely on property taxes for 90% or more of their local tax revenue (including the UK, Australia, Ireland and Canada). At the same time, ten OECD countries rely on income taxes for at least 75 per cent of their local tax revenue (including the Scandinavian group, Denmark, Germany, Iceland, Luxembourg, Slovenia and Switzerland). It is not clear from this table to what extent this incorporate elements of tax sharing with national income taxation. Six countries rely on taxes on goods and services to support at least 48% of local tax revenues (Slovakia, Turkey, Chile, Czech, Hungary and, surprisingly, the Netherlands). Only Greece relies on 'other taxes' to raise 50% or more of its local tax revenue.

The UK, Ireland, Australia have just one tax raising all local tax though Sweden, Luxembourg, Israel and Finland all have one tax raising more than 90% of their local tax revenues. On the other hand, twenty countries operate a diverse system with at least two taxes where the smaller contribution is at least 20%.

Blochliger and Nettley (2015) use a number of metrics to provide an indication of the degree of sub-central tax autonomy enjoyed by State and local governments across OECD countries (based on 2011 data). For reference, 10 of the 34 member states have either: state, regional or Lander governments as well as local government. The authors define tax autonomy in terms of the extent of freedom of lower tiers of government over tax policy in their jurisdiction in terms of tax base and tax rates with special attention given to the specifics of tax-sharing arrangements (which is sometimes difficult to isolate and to contrast from intergovernmental grants). The authors are also able to compare change over time from 1995 to 2011 (though note that OECD membership expanded considerably over this period).

The authors report that policy changes in the form of expansion or reduction of local control or a swapping between sub-central taxes and intergovernmental grants arises largely from legislative amendment and explains increased autonomy in countries like Belgium, Italy or Spain – all involved in a 'long term decentralisation process' (p.6). Cyclical factors, associated with economic change impact on tax revenues and autonomy as well: income taxes are more elastic with respect to economic growth or decline than are, for instance, property taxes.

Between 1995 and 2011, the share of taxes allocated to the sub-central level increased from 13.5% to 15.5% and where tax base and rate-setting was decentralised, the share of autonomous local tax revenue also increased. The authors also found that the frequency of tax-sharing and powers that only allowed tax-setting fell. The authors argue that this process of decentralisation was more marked at State/Region/Lander level; whereas local government was more stable in terms of degree of autonomy. This is in strong contrast to the narrowing of autonomy of local government functions and finance in the UK since the end of the 1970s.

3 Preliminaries

We begin the analysis by reviewing important facts and concepts. There are three key points to take on board:

- The UK property tax burden is high in OECD terms but this can be misrepresentative if treated in isolation.
- Second, there is considerable variety in the practice of local taxation across OECD and Europe.
- The position taken on the technical *incidence* of the property tax is crucial to the analysis and to distributional research on different local taxes.

First, it is regularly pointed out in the UK literature that UK property taxes impose a higher burden on the UK than property taxes in other OECD countries. Smith (2015) points out that overall taxation as a share of GDP across the OECD rose from 25% in 1965 to 34% in 2012. During that period, however, property taxes fell from 7.9 to 5.4 per cent as a share of all tax revenues. OECD evidence also suggests that both in terms of total property taxes as a proportion of GDP and recurring property taxes as a proportion of GDP, the UK is at or near the top of the tables. UK figures (2010, OECD Revenue Statistics for 2011) on this basis are 4.23% and 3.42% respectively. However, an examination of the literature suggests that this is not quite so straightforward.

- The appropriate comparison for a local tax review is to focus on the level of recurring taxes on immobile property only (including commercial non-residential property) i.e. not national and transactions related taxes, estate duties, etc. but also to compare it with all local taxes as a share of GDP. Note, however, that in the UK, non-domestic property taxation is not a local tax.
- The international evidence indicates that in general property taxes are relatively low yielding taxes (and this is widely seen as a criticism and scope for future development). In fact, many countries choose to levy other taxes such as on incomes, sales and other form of revenue-raising (e.g. alcohol and gambling license fees).
- The Burt Review (2006, pp.26-27) shows clearly that most countries use multiple local taxes (23 out of 28 in their study) and that local income taxes (personal and corporate) tend to have a much higher yield (averaging 4% of GDP for those who use them) with sales taxes similar to property taxes (1.7-1.8% of GDP).
- Slack (2013) contrasts London with 6 other leading cities – whereas London has control over council tax, the other cities have much more fiscal discretion: Frankfurt, Madrid, Tokyo, New York, Paris and Berlin all have at least five local taxes to work with.[1]

[1] These included estate taxes, sales taxes, dog licenses, allocations of land transfer taxes, parking fees, resident taxes, urban planning taxes, excise duties, gambling taxes, etc.,

- This all means that several countries generate a higher local tax yield as a share of GDP – they just do not rely on a single tax related to property the way the UK does. Indeed, the UK property tax share is large precisely because there are no other forms of local tax. However, this is not to say that critics of property taxation are wrong when they argue that the UK as a whole has a strong reliance on property taxes (once we include stamp duty/LBTT and, less so, other property-related wealth taxation such as inheritance tax). Neither is this to claim that these are all uniformly efficient or well-constructed forms of taxation.
- Box 1 and Appendix Table 1 are arguably a more useful guide regarding local taxes and local autonomy. Appendix Table 1 covers the OECD for 2010, assessing different levels of local tax and as a share of all local spending. Twenty countries have at least two taxes where the smaller contribution is at least 20%, only three countries are wholly reliant on property taxes locally (UK, Ireland and Australia) and nine countries raise more than three-quarters of their local taxes from income taxes[ii].

Second, and has already been suggested, there are a wide variety of approaches to local taxation in OECD countries. A 2007 study for the Northern Ireland Assembly (pp.2-3) noted:

'Countries' systems of local taxation tend to fall into two broad categories; those primarily reliant on income tax, and those dependent upon property tax. Generally, within the EU, income taxes dominate. In Belgium, Denmark, Finland, Germany, Iceland, Luxembourg, Norway, Sweden, and Switzerland, more than 80 percent of tax revenues are derived from personal and/or corporate income tax. On the other hand, property taxes contribute more than 80 per cent of local tax revenues in Australia, Canada, Ireland, the Netherlands, New Zealand, the U.K and the U.S.A. Other countries which employ a local property tax, albeit to a lesser degree, include Austria, Finland, Germany, Portugal, Spain, Belgium, Denmark and France.'

and

'Austria, France, Greece, Italy, Portugal and Spain are unusually fiscally diversified; they rely on a mixture of local tax sources. On the other hand, as indicated above and illustrated bellow, the U.K. is somewhat unusual in its exclusive reliance upon property taxation.'

A third important introductory comment to make concerns the *incidence* of local taxes i.e. who does it fall on and how we interpret its degree of progressivity. The incidence of a local income tax is straightforward – it can be measured directly as a percentage of current income. This is not so in the case of the property tax. There are several perspectives (Bird and Slack, 2004):

(1) As a tax on housing services it is regressive as housing generally constitutes a relatively larger share of consumption by poor people. This is the most common and

most widely understood feature of property taxes both in terms of public attitudes, political perceptions and as a driver of much property tax reform e.g. the desire to redesign taxes (and that of specific income-related rebates) to be more progressive in terms of current incomes and to protect the asset rich cash poor.

(2) As a tax on capital (tied up in housing wealth), it is essentially progressive since ownership of capital as a rule is relatively concentrated within higher income groups. This failure to tax this wealth appropriately may also be more expensive for the economy in the sense that it ties up more potentially productive wealth in predominantly unproductive second hand housing.

(3) Those who think that tax falling on land is in effect paid out of economic rent and that this is inherently equitable to tax such unearned increments arising from public actions. Again, it is argued that failure to levy such a land value or site value tax prevents an opportunity to promote the more efficient use of land.

(4) Others who view property taxes as essentially a user price or benefits taxes and tend to think it makes little sense to consider whether the price of public services or indeed anything else commodified in this way is regressive – it is inherently a voluntary exchange and does not therefore raise questions of incidence, as understood in the three cases above.

These are not straightforward to reconcile or to adjudicate over. This is all the more important when conducting an evidence review because it is clear that prior beliefs about the nature of incidence determine the types of empirical research subsequently undertaken. In other words, the way empirical work is defined precludes any answer to which is the appropriate view on incidence. This is centrally important because it makes it that much harder to have a sensible discussion about the distributional effects of property taxes. It also makes discussion of the economic and incidence implications of their reform even more complex.

Progressivity is also not completely straightforward. The literature would indicate that the general rule of thumb would be to examine the proportion of income given to a specific tax for a given sub-group of the population e.g. decile, quintile or quartile – and in turn to see whether the proportion rises as you go up the income distribution (progressive), stays the same (proportional) or falls (regressive). Thus a regressive property tax would account for a higher share of income for a lower decile than for higher deciles.

But even that is not the whole story. More decisions have to be made and communicated:

- Are we dealing with current annual incomes by household, in gross or net terms?
- Are we adjusting (equivalising) for household size and needs?

- What about longer term measures of income and wealth?
- Are we looking at the target tax (e.g. the council tax or a proposed alternative) in isolation or also in terms of how it impacts on the incidence of all taxes on the population?
- If there are multiple taxes we need to assess their contribution together, as well as possible interactions between them.

Table 3 Mirrlees Review – A Good Tax System and the Current UK Tax System

A Good Tax system	**Current UK system**
1. Taxes on Earnings	
A progressive income tax with a transparent & coherent rate structure A single integrated benefit for those on low incomes or high needs A schedule of effective tax rates that reflects evidence on behavioural responses	An opaque jumble of different effective rates as a result of tapered allowances and a separate NI system. A highly complex array of benefits. A rate structure that reduces employment and earnings more than is necessary.
2. Indirect Taxes	
A largely uniform VAT, with a small number of targeted exemptions based on efficiency reasons and equivalent taxes on financial services & housing No transactions taxes Additional taxes on alcohol & tobacco	VAT with extensive zero-rating, reduced rating and exemptions. Stamp duty on transactions of property and securities. Additional taxes on alcohol and tobacco
3. Environmental Taxes	
Consistent price on carbon emissions Well targeted tax on road congestion	Arbitrary & inconsistent prices on emissions from different sources, set at zero for some. Poorly targeted tax on fuel consumption.
4. Taxation on Savings & Wealth	
No tax on the normal return to savings, with some additional incentive to retirement saving Standard income tax rates applied to all sources after an allowance for the normal rate of return on savings, with lower personal tax rates on income from already taxed company shares A lifetime wealth transfer tax	Normal return taxed on many but not all forms of savings – additional but poorly designed incentives for retirement savings. Income tax, NICs and CGT together imply different rates of tax on different types of income: wages, profits, capital gains, etc. Some recognition of corporation tax in dividend taxation but not in capital gains tax. An ineffective inheritance tax capturing only some assets transferred at or near death.
5. Business Taxes	
Single rate of corporation tax with no tax on the normal return on investment Equal treatment of income derived from employment, self-employment or running a small company No tax on intermediate outputs but land value tax at least for agricultural and business land	Corporation tax differentiated by company profits with no allowance for equity financing costs. Preferential treatment for self-employment and distributed profits. An input tax on buildings (business rates) & no land value taxation.

Source: Mirrlees, et al (2012), Table 1, p.663

Slack and Bird (2014) make a good point that thinking about incidence in terms of tax reform involving property taxation is inherently problematic since the regressivity or otherwise is difficult to measure because we are dealing with the distributional effects of a largely *capitalised* tax[iii] on a particular form of gross wealth (empirical estimates of incidence typically reflect the ex ante assumptions made about the nature of property taxes and hence what their incidence is measured against) and, in addition, property prices are lower than they would be in the absence of the property tax.

Box 2: Property Taxation Explained:

Economists generally regard property taxes, in terms of taxes on immovable property, as good taxes for local government (IMF 2013), albeit in practice, property tax reform has been difficult (Slack and Bird, 2014). Arguments supporting property taxes include that it promotes local autonomy and accountability due to the links between local services; that it is difficult to avoid and easy to collect; that property values reflect implicit demand for local public services (and inter-jurisdictional differentials) capitalized into property values; and, that residential property taxes are appropriate for funding local government spending given that residents are thought to be significant users of local services.

Arguments often deployed against property taxes include that they are perceived to be unfair because they are insufficiently related to the ability to pay or benefits received, and also in terms of regressive incidence based on a tax on housing consumption which places a larger burden on poorer households; they are a tax on property which relates to service delivery that are thought (at least in part) to be unrelated to property; they produce a low yield and may not provide sufficient revenue to support local expenditure requirements; and, depending on their design, property taxes may discourage highest value land use and urban development..

In most countries, higher level governments play an important role in the design and operation of local property taxes. Importantly, the extent to which local property taxes can be a relatively efficient tax depends largely on intergovernmental fiscal transfer equalization relating to the spending and taxing powers assigned to local governments.

Property tax design issues are a common complex issue relating to: tax base calculation method (i.e. what should be taxed); assessment methods (i.e. how should it be determined: area-or value-based assessment); tax rates (i.e. who sets them; how are they differentiated; can it be understood by the taxpayer); collection systems (i.e. the type pf administrative system directly affects the collectability of the revenue collected).

Property taxes are also visible taxes, paid directly by taxpayers and often having to be paid in advance. Also, given that they tend to pay for local services that are being used, in the case of services not being highly regarded by taxpayers, this causes a sense of discontent in the system. Albeit transparency is good from the decision-makers perspective, it makes them difficult from a political perspective in terms of increases to the system and as Norregaard (2013) points out that their unpopularity can be attributed in part to their transparency and the limited scope for tax avoidance and evasion.

There are also the different views on *incidence*: those who regard the property tax as either a regressive tax (i.e. a tax on property where housing is a larger part of poorer peoples' consumption) or a progressive tax (i.e. a tax on capital and a higher share of rich peoples' income). For example, given that property taxes don't reflect current real cash flow, they are often disputed by asset-rich individuals who are cash poor (i.e. the elderly). Property tax yields are also thought highly inelastic and can be volatile in terms of changes in individual tax bills, particularly after revaluations.

Regardless of administering difficulties with the property tax, it remains one of the main revenue tools across the developing world, where despite evidence to suggest that a *"collection- led rather than a valuation-pushed reform of the property tax is a more prudent approach…reforms in many low- income developing countries still focuses primarily on assessment approaches"* (McCluskey et al, 2013, p.179)

An ideal local tax system would be efficient, fair, and support Government spending. To minimise inefficiency effects, economic theory argues that tax should be levied on those tax bases where there is least likely to be any behavioural change from the imposition of a tax. However, it is difficult to achieve in reality. Table 1, reprinted from Mirrlees et al (2012, p.663), provides a summary of what might be regarded 'a good tax system' compared to the UK's current tax system. For many economists, the Mirrlees review acts as a benchmark for tax reform to focus on.[iv]

A synthesis of the comparative literature provides an overview of the high-level studies that explicitly compare and contrast national systems and consider issues of relevance to taxation reform. Box 2 summarises the arguments about property taxes made in this paper.

4 Key Messages from High-level Comparative Studies

What are the main points that resonate from the cross-country synthesis?

First, there are a wide variety of local taxes in operation in terms of critical features of their design. This is true for both property and income based systems of local taxation. These include:

- The nature of the tax base and its assessment. Typically, property tax bases are developed based either on rental values, capital values, land values only or area-based measures. All are generally required to have some form of regular general revaluation process built-in as well as a system for enforcement and appeal.
- Who sets the rate of tax and how it is adjusted? In other words, to what extent are local governments free to set tax rates annually – most countries adopt some form of central influence or control over the size of increase, perhaps through indices link to cost of living or other rules (Slack and Bird, 2014, suggest that across OECD on average local governments only have discretion over 16% of their property tax revenue). In most Latin American countries property tax rates are set by the state government and in Germany, for instance, it is set by the Federal government in conjunction with the Lander who set a base rate for municipalities.
- A contentious question generally is the appropriate balance between local autonomy and higher level influence or control often manifested through tax and grant sharing to achieve national policy objectives or to assist with resource or need equalisation (i.e. national equity issues at a local level). In practice it is not realistic to wholly separate local tax from the wider system of local government finance or indeed from the tax burden as a whole.
- As is discussed below, for property tax systems, there are many examples of policies that seek to mitigate or ameliorate the high visibility and perceived current income regressivity of the taxes.

Second, recurrent local land and property taxes take on several different forms but commentators argue that key positive features reappear. Almy (2013) argues that many countries do not have a uniform national property tax system i.e. local authorities tailor the system to their local needs. He contends that the principal generic arguments for a property tax are that 1. they are hard to avoid or 'flee'; 2. local government services are provided to occupiers/owners; 3. the tax captures some of the uplift in land values following public investment; 4. as a dedicated source of revenue, the property tax provides a degree of local autonomy [true of *any* genuinely local tax]; 5. its high visibility provides accountability and transparency; and, 6. land registration/cadastral systems have wider value and can support the functioning of wider property markets. Blochliger (2015) argues that econometric analysis suggests that property taxes can play a small but significant role in reducing house price volatility. They can also underpin sustainable land use via land valuation taxes by helping to constrain urban sprawl and promoting the development of brown field sites.

However, the positive elements also contain the source of problems for property taxes (Blochliger, 2015). Almy (2013) stresses that property taxes are under-utilised as a source of revenue despite their positive economic merit (being difficult to avoid, taxing wealth and incentivising land use). The property tax is what Enid Slack calls a *presumptive tax* – it is widely felt to be imposed on taxpayers and its visibility, perceived regressivity and frequent valuation disagreement leads to unpopularity with citizens and politicians. Almy argues that this in turns leads to 'legislative neglect', that is, a relative lack of willingness of legislators to actively renew, update and maintain the property tax in terms of revaluation, tax rate setting and the relationship with the wider local government finance system. Presumption and its political consequences are integral to any discussion of tax reform involving property taxes.

Third, governments respond to the saliency of property taxes by using a battery of policies to ameliorate the unpopularity of property taxes and in particular their perceived regressiveness for particular income groups (and not just low income households). Many of these schemes have distributional and other (arguably) unintended or cumulative consequences. Across the OECD, these include:

- Banding, as in the case of the council tax, though in principle the weights chosen between each band relative to the benchmark could be organised in different ways.
- Caps on tax bills. This is a common way of reducing the cost of living effects of annual increases that are perceived to be politically challenging – this may involve real or nominal freezes, other limits to increases, with more or less discretion for local government within such systems. There are also constitutionally-binding limits on tax bill increases such as Proposition 13 in California.
- Property tax reliefs and exemptions are in general terms universal but everywhere different in their specifics. Many types of property or land uses have exemptions or other concessions, as do household circumstances in some countries. At the same time, property tax in both the domestic and non-domestic settings may be allowance for tax deductibility for property taxes.

- Deferrals, rebates and abatements are widely used, again varying in their national specifics. Deferring payments have been available in different forms among other places, in Denmark, France, Germany, the Netherlands, Spain, Sweden, parts of the United States and Northern Ireland (Almy, 2013) till the point of sale or as a lien on estates. Evidence from Northern Ireland and the United States suggest they are not popular with taxpayers (Northern Ireland Assembly, 2007). Rebate schemes focus on low current incomes and face the high cost of delivering means-tested benefits, even if they are well-targeted.
- Income-related 'circuit-breakers' that protect households from paying an excessive share of income on property taxes or do so on some kind of sliding scale. These are common in North America.
- Delays in revaluation – this can be a form of regressive subsidy to the extent that the property tax is a wealth tax and housing wealth is held more by higher income groups who would benefit from the failure to uplift property values through regular revaluation.

Fourth, several countries have embarked on property tax reform in recent years. The main examples are: Denmark, Estonia, Hungary, Iceland, Latvia, Lithuania, Macedonia, Netherlands, Russia, Sweden, Greece, Ireland and the UK (council tax in 1993 and, separately, Northern Ireland rates in 2007) The reasons for the reforms have been related national tax reforms, local government finance reform, specific changes to local taxation based on principles of reducing inequality, raising revenue or tax simplification.

Fifth, several countries employ variations on Land Value Taxation or Site Value Taxation (Dye and England, 2010) – see Box 4. The Lincoln Institute for Land Policy identify present and recent examples in Australia, New Zealand, South Africa, as well as Estonia and Fiji. Examples also abound from within the United States: Connecticut, Hawaii, Pennsylvania and Virginia are four states with such taxes or who have recently piloted them. Other commentators (e.g. Andy Wightman's presentation to the Commission on land value taxation) have cited examples from across Africa (e.g. Namibia), the Americas (e.g. Argentina), Asia (e.g. Japan) and other parts of Europe (e.g. Denmark, Latvia).

Sixth, a number of countries rely primarily or extensively on local income taxation (see Box 3). We must however distinguish between locally-raised income tax and sharing nationally collected revenue, subsequently assigned to local government. Corporate income tax is also often used locally in a way analogous to non-domestic property taxation (and as well as property taxation).

Those countries where the largest source of local tax revenue is income tax (i.e. Denmark, Finland, Germany, Norway, Sweden, Switzerland) tend to have local governments who have significant responsibility for redistributive services (i.e. people related services: social services and housing (Slack and Bird, 2014).

Local income tax may also supplement property taxes and other local taxes – this is actually very common (e.g. France, Switzerland, Belgium, Norway, some US States and Denmark – Northern Ireland Assembly, 2007). Burt (2006), however, argues that public opinion does not support the introduction of supplementary taxes because it is perceived to be a way of crating more tax revenues rather than redistributing existing levels of revenue (i.e. a neutral overall yield).

Box 3: Income Tax Systems Explained

Any system based on income tax would need to address the structural question of service decentralisation and the extent to which income taxes are truly local or assigned form national sources. The tax base would normally be earned income and would need to affix income earned to place of residence and not place of employment. Of course, there is no fundamental reason why other forms of income accruing to households could not also be included other than simplicity and transparency (and indeed that would be more consistent with the national income tax system – Burt, 2006).

A local income tax would normally be added to the national income tax structure and set of allowances. In other words it would be as progressive as is the national system. The common sense view is that this is the basis of a 'fair' system measured in terms of current incomes, and is widely supported in public or social attitudes surveys (Burt, 2006), though the decision not to tax property may be viewed as less progressive in terms of the taxation of wealth. Again, the debate is about the correct interpretation of tax incidence and whether or not the focus should be on the progressivity of a given tax or the tax burden as a whole. The extensive use of local income tax is also associated in countries like Denmark with a different balance of services by local government in the form of greater decentralisation of core welfare functions like health care.

Local income taxes face specific challenges on a number of fronts. First of all, unlike taxes on property, taxes on income are volatile and elastic. The tax base is mobile, increasingly so, and there is a danger that differential tax rates may induce mobility, that tax can be avoided and not collected as planned (Smith, 2015). In many of the countries more reliant on income taxes, corporate income taxes often make up an important share of tax revenues and these are also subject to fiscal mobility and tax avoidance questions. These tax flight issues operate across local authority boundaries. The tax yield for a local income tax depends on three factors: the number of taxable units, the tax rates and local economic conditions (Burt, 2006) - deficits and surpluses may be more common requiring financing and more short run central government intervention.

In New York city, a progressive local income tax is levied in addition to other multiple local taxes (including property) with a top rate of 4.25% for those earning more than $150,000. The Northern Ireland Assembly research (2007) considered that the unique wold city nature of Manhattan made this a viable tax less subject to fiscal mobility problems than elsewhere – but cautioned that this would be less likely in more normal urban circumstances.

Local income tax, second, is a tax on productive economic activity and may be detrimental to economic growth in a way that well designed taxes on land and property (inherently less productive) are not. Linked to this is the idea that additional taxes on income may lead to a net reduction in labour supply depending on the balance of income and substitution effects - this is why a sense of the size of the local tax rates implied is so important. Burt (2006) tried to model this and also found there is some evidence that high combined national and local income taxes discourage entrepreneurship.

Burt (2006. P.2) summarised their criticisms of a local income tax: First, the tax base should be as broad as possible. Around one-third of UK tax receipts already come from UK income tax. A property tax on the other hand would widen the tax base. Second, wealth, as well as income, should be taxed. Again, depending on your view of the incidence question, property may be viewed as a store of wealth. Third, additional income tax is a disincentive to work. Fourth, yield would be more volatile than under a property tax, and runs revenue risks because of more mobile taxable units (i.e. people engaging in 'fiscal flight'). Finally, local income tax is a "fair" tax 'only if it was levied on all income but this would be extremely complex and expensive to do so'. Only applying the tax to earned income 'would arguably not be "fair"'.

Some systems also distinguish between truly local taxes, or assigned national income taxes redistributed locally, or, systems that split the two in some way (and would also need to decide the extent to which tax rates are set locally and whether they are limited in some fashion). Compared with the UK, local income taxes at local level are often associated with greater local responsibility for service delivery as is the case in Denmark or Sweden – the level of service decentralisation would not apply to a country like the UK (NIA, 2007).

Finally, local property taxes have wider impacts on economies:

- On the housing market they may operate to counter-act well known tax biases in favour of home ownership, which may exacerbate market volatility and wider problems resulting from excess favouring of home ownership. Alm et al (2011) looked at the impact of the US housing market collapse after 2006 and argued that rather than falling house prices damaging the property tax yield, price falls only fed into valuations with a lag and that many local governments were able to compensate through adjusting tax rates that would have realistically been possible using other forms of tax such as on local incomes.
- Property taxes influence economic decisions more generally as part of the total tax system. Widening the tax base to include more immovable property and land may reduce revenue risk, lower reliance on more mobile (within and between nations) and volatile sources of taxation such as incomes. It may also, on a revenue neutral basis, allow for lowering marginal tax rates on income by shifting tax towards property.
- Recurrent property taxes are often argued to be preferred to taxes on transactions that may be inefficient because they restrict mobility and they have much more volatile and unpredictable yields.
- Many countries operate incentives through the local property tax system to encourage investment into specific places, though it is contentious as to what this does for economic efficiency more generally (Norregaard, 2013).
- Local government has an important impact on the overall burden of taxes and this would still be the case if they were 100% funded by central government grants, even if the visibility and saliency were completely altered.

5 Combining Local Taxes

A striking feature of the Burt analysis was that 23 out of 28 countries studied adopted multiple local taxes - usually a combination of property and income taxes (see Appendix Table 1 for OECD data in 2010). However, Burt (2006) argues that public opinion does not support the introduction of supplementary taxes because it is perceived to be a way of creating more tax revenues rather than redistributing existing levels of revenue (i.e. a neutral overall yield). Any effort to introduce such taxes to either supplement a reformed council tax or a new property tax undoubtedly needs to address this saliency issue.

There are as many different sets of hybrid systems as countries that run them. Slack (2013) presents seven completely different fiscal arrangements across hybrid taxes in seven global cities (see below). The income tax element may be a supplement or the core form of local tax; it may be a national surcharge on the national income tax that is then redistributed locally or in some cases it may be a genuinely local contribution. Again, as with property taxes, the rate and the total bill may be capped in different ways by the national government.

On the other hand, there may be value in developing multiple local taxes, of which income tax is one component, and which the net overall tax take is revenue neutral (i.e. the same tax take as presently with the council tax alone). Slack's (2013) contribution compares and contrasts the local fiscal powers open to a number of leading global cities (e.g. London, Paris, New York, Tokyo, Madrid, Berlin). She finds that all of them bar London had access to at least five local sources of revenue. London relies wholly on the council tax.

Box 4: Land Value Taxation

Land Value Taxation (LVT) has a long pedigree going back to Ricardo, Henry George and Lloyd George. This idea of taxing land alone, normally at its highest and best land use (i.e. in the UK its existing use or the use it has specific planning permission for) is seen as a tax on the ownership of the land asset rather than a tax on its economic use or development (McCluskey, et al, 2007; Dye and England, 2010; Wightman, 2010). In that sense, the tax is one on economic rent and is economically efficient and widely supported by economists (Mirrlees, et al, 2011). LVT or site value taxation as it is also known have been deployed in many places and remain in use today (Wightman, 2010; Dye and England, 2010), such as Australia, New Zealand and South Africa, as well as Estonia and Fiji. Examples also exist from within the United States: Connecticut, Hawaii, Pennsylvania and Virginia. Other commentators (e.g. Wightman's 2015 presentation to the Commission cite examples from across Africa (e.g. Namibia), the Americas (e.g. Argentina), Asia (e.g. Japan) and other parts of Europe (e.g. Denmark, Latvia).

As an exercise for the Green party, Wightman (2010) calculated a broadly revenue neutral LVT replacement of council tax premised on land constituting just over 24% of property value and setting the tax rate at 3.16% of land value. This would lead to 75% of properties in bands A-D facing lower tax liabilities but all properties in bands F-H paying more. A significant first round distributional impact – though one would anticipate that the market would respond to the tax over time, which might, through general equilibrium capitalisation processes, induce second round effects. Note also that non domestic rates would also be included in the LVT system. Smith (2015) raises an important implementation issue – there is a risk that introducing LVT may initially lead to significant land value falls as a result of the capitalisation of future tax liabilities into the value of land. At least at the outset, the economic impact of the LVT may not be as benign as its proponents claim or at the very least careful consideration would have to be given as to how it is introduced (perhaps by phasing it in or offering compensation to those initially affected) and indeed the sole reliance on it for revenue might be reassessed and constitute further reason for combining different local taxes.

We could go further - should LVT be a national or a local tax? Muellbauer and McLean (both in: IPPR, 2005) argue from different perspectives regarding whether it would be better to adopt a national LVT as part of the policy menu to improve the efficiency of the housing market (Muellbauer) or as a local tax reflecting spatial land and planning issues locally (McLean). Wightman also argues that the LVT might employ a national element e.g. 1% on value and the rest set locally, so as to capture the non-local elements of land value variation (where that part of the revenues is redistributed back to councils on a per capita basis).

The tax is clearly radical and would imply significant redistribution. Issues would therefore arise as to how lessen the impact on asset rich cash poor households or indeed lower income households more generally. Here, proponents like Wightman share the views of Muellbauer on council tax reform i.e. adopt generous allowances for low income households and tax deferral options. The challenges arising from redistribution and also from the costs and feasibility of setting up the tax base are non-trivial. There would need to be a comprehensive valuation of all land and this will need to be regularly updated and revalued periodically.

What are the arguments for a combined tax revenue-neutral approach? First, logically, the two taxes would individually have less marginal impact on households introducing a degree of progressivity and limiting the burden of the property tax. This would also alter the distributional outcome of the local tax burden. Second, this would be a simpler alternative to applying circuit breakers to the property tax and may actually allow the authorities to develop a more pure property tax albeit with a more modest yield (pragmatically, this may help overcome the residual resistance to property taxes).

Third, Hollis et al (1992) develop a coherent argument in favour of linking local tax type to service provision - services more related to redistributive/need functions could be funded by a combination of national grants and local income tax while more local amenity or facility related services would be funded by property taxes. A similar division might logically be applied to non-domestic or business property taxes.

Burt (2006), however, strongly argued against multiple taxes in general and income tax as a supplementary tax to the property tax on the grounds that it would be perceived as a revenue increase by taxpayers, that it would be more complex, less transparent and more costly to operate. All of these challenges would need to be overcome if a multiple tax solution was to be advanced. This property tax and supplementary income tax approach would lessen the fairness problems property taxes face but would benefit from the technical superiority of the property tax element. It should be able to reduce the reliance on caps or other circuit breakers on property tax liabilities. It could also overcome worries about fiscal flight because either tax element will be that much smaller in yield or tax liability terms than if there was only one tax. Depending on their mix, there need be less reliance on means-tested benefits. A final issue will be how one transitions from the existing system to the new approach – a goal of implementation should be to minimize the maximum losses any below average income household might face in a given year.

6 Contrasting National Systems of Local Taxation

In this section we provide a bit more detail on specific national tax systems.

a) Northern Ireland

The domestic rating system (i.e. a tax on property) is unique to Northern Ireland (i.e. council tax in rest of the UK), which uses a hypothetical net annual value (NAV) for each rateable property, with the rate liability calculated by applying a rate in the pound to the assessed NAV. Domestic rates were made up of both the regional rate (set by the Assembly) and the District rate (set by local councils). Northern Ireland avoided both the Community Charge (poll tax) and council tax but introduced a new form of property tax in 2007.

The rating system remained relatively unchanged since its inception in 1852, until it came under scrutiny following the formation of the new Assembly in 1998, followed by a rating review in 2001 resulting in the *Review of Rating Policy: A Consultation Paper in May 2002,* and concluded in 2007 with the new tax. The outcome was extensive support for a new local tax system, with no strong desire recorded for the retention of the existing system and in fact general public agreement that a capital valuation based system would be fairer, supporting a move from rental to capital values for the domestic sector (McClusky and Wood, 2010).

The Policy Paper *'Reform of the Domestic Rating System in Northern Ireland: A Fairer Share'*, published in July 2004, assessed the various options for a new system based on capital values, resulting in a reformed residential property tax (McClusky et al, 2007), by moving to a rating system based on capital values and thought to be a more transparent system for understanding the rationale behind assessed values (NIE, 2002b).

McCluskey et al's, (2007, p145) analysis, which used property values as a proxy for ability to pay, suggests that a discrete capital value system provides greater performance (in terms of winners) and greater fairness than either the former rental valuation tax base (NAV rating system) or the type of banded system associated with council tax. In particular, McCluskey et al (2007) demonstrate that the banding system would incur more losers in more-deprived areas. The application of a banded rating system is thought to provide a `fair' tax system, which is to some extent proportional and progressive. The capital value system is simply based on two operations: the valuation of property and the setting of a rate.

The outcome was a new Northern Ireland domestic rating system in April 2007 (based on domestic valuation of 1 January 2005), where rates are levied on the value of the whole property and no distinction made between the land value and the improvements. However, the actual reform process extended beyond the assessment of residential property to include: method of valuation; capping and minimum payment; transitional arrangements; provision of reliefs; rating of vacant domestic properties; appeal system; frequency of revaluations; and valuation assumptions. A political concern was that a clear majority of taxpayers would either pay the same or less under such a system, in revenue neutral terms, and implementation would progress under transitional arrangements to assist those who may face increases under the new system and with a commitment to regular revaluations, initially every five years, in order to ensure that the system is up-to-date and reflects changes in the property market (McCluskey and Wood, 2010).

The Northern Irish approach is essentially the same as that proposed in Scotland by the Burt Review in 2006. More recently, there followed a severe property crash in Northern Ireland in 2008, with the 2007 rating system thought to be having little impact on house prices or behaviour, sparking a rating review in 2009, to consider alternatives for improving the tax system in the short-medium term, and the feasibility of longer-term tax alternatives and/or supplements.

b) New Zealand

Advocates of Land Value Taxes (LVT) historically referred to New Zealand (NZ) as a good practice example. However, 1989 saw a significant increase in commercial land values which were used to inform the tax rate being levied the following year, resulting in the then Government decision to remove the tax in 1991 for what were thought to be practical and political reasons, with the tax replaced by a property tax (IPPR, 2005). Property taxes account for more than 90 per cent of the whole sub-national revenue system (Presbitero, et al. 2014)

Property taxes are managed and collected by local authorities, and thought to be the most important source of revenue for local government in NZ, where local councils would choose their preferred rate levying approach: either, the capital value of land, or annual land values, although the majority (i.e. 50 Territorial Local Authorities) are thought to have used land values (NIA, 2007). The tax approach in NZ over the last twenty years has been a broad-base low-rate approach (BBLR), which involves lowering tax rates and widening tax bases to try to avoid creating tax preferred investments or income sources. As such, as tax rates increase, the costs associated with imposing the tax also increase more than proportionately. The system has resulted in high investment and low returns in the property market. This obviously means that high rates of tax create concerns. It also means that there are greater than proportional economic gains.

More recently, a Tax Working Group (TWG) was established in 2009, to assess the NZ tax system, resulting in the 2010 report: "A tax system for New Zealand's future". The principles underlining the approach included reducing relying on the taxation on internationally mobile factors of production and seek a broad base low rate reduced revenue risk tax system as a whole (within which local taxes would complement the aggregate approach). The working group also supported the UK Mirrlees Review approach to taxing rental returns to property net of a risk free rate of return. A new land tax was seen as a way of broadening the tax base to allow marginal rates to come down overall.

c) Canada

In Canada, local governments are largely run by the provinces. Following 30 years of tax reviews and proposals, property tax reform was finally implemented in Ontario, Canada in 1998. The property tax is the only local tax levied in Canada mainly by local government, although the state government levies almost 40 per cent of total property tax revenues. Thus Canada's property tax system is often thought not a truly local tax (i.e. where local taxes would be set and administered by local government and retaining all the revenue collected) (see see Bird, Slack and Tassonyi, 2012).

The initial and subsequent tax review was thought a major challenge to the political system, limiting the province's ability to launch and maintain the new system provided (Slack and Bird, 2014). At the same time as the review of property tax, the province implemented significant changes to structure of local government, reducing the number of local authorities from 800 to 445 between 1996 and 2004 (Tindal and Tindal 2009).

The business community were characterised to be relatively over-taxed under the old tax system, thus, many of the new tax measures were thought to be explicitly intended to reduce the ability of local authorities to tax business more heavily than housing. Hence, the property tax reform had two critical components: market value assessment (i.e. a uniform assessment system based on 'current value' or market value) was implemented across all provinces, and variable property tax rates (i.e. an explicitly 'classified' property tax system). Local authorities were free in principle to set their own tax rates, optional systems and to levy different rates on seven different classes of property established by the province. The result was a 'classified' property tax, where all real property was taxed at a uniform rate (Slack and Bird 2014).

d) *Sweden*

Swedish taxes and tax rates are set by the politicians in the Riksdag (i.e. Swedish Parliament) and by the municipalities and county councils, where the collection of taxes is undertaken by the Tax Agency (the Swedish Tax Administration merged the ten regional authorities and the headquarters into one on January 1, 2004), for the whole country. Taxes are then divided between the state, the county councils and the municipalities finance all public expenses.

The general structure of the Swedish tax system can be traced back to medieval roots, when an ancient land tax was phased out for income and property taxes raised by local government with introduction of a progressive tax system in 1902, and income tax gradually becoming the most important source of revenue by the mid-20th century. By the 1970s, individuals were the main source of direct taxes, as opposed to households. However, the trend in the late 20th century has been towards a system of indirect taxation, especially in social security contributions by making benefits taxable. For example, indirect taxes (i.e. VAT and excise duties) increased relative to GDP from 12 per cent in 1970 to 12.8 per cent in 2000, and to 13.5 per cent in 2010 (STA, 2012).

The local income tax in Sweden constitutes the main source of revenue for local government, who are responsible for the main welfare systems and have a large degree of local autonomy with regards to the setting of local income tax rates. As such, tax policy is an important issue for local policy making due to the progressive nature of the tax system in place. Swedish local governments have the constitutional right to set the local income tax rate, where only income is taxed locally and property taxes being set at the national level.

In the 1970s, the problem of narrow tax bases and high tax rates received a lot of attention at a time when inflation increased. As such, taxpayers were thought to have adapted their behaviour in ways that made both the tax system and the economy as a whole less efficient. As a response, the government in 1981 lowered marginal tax rates and reduced the value of debt interest deductions.

More radical reform followed in 1991 with local tax rates being lowered to about 31 per cent) and the tax on capital income being separated from the tax on earned income and levied at a flat rate of 30 per cent (STA, 2012), and financed by a general broadening of the tax base by higher rates of indirect taxes.

Local government taxation by municipalities is thought to be significantly higher relative to other international countries (OECD review, 2006, p.174) given their responsibility for setting proportional income tax rates, aside from general national government freezes (i.e. where national government is responsible for determining the income tax base and sets the tax rate for higher income brackets). However, subsequent reforms to Swedish local income taxes has meant removing capital income tax from the local tax base, leaving it a tax on households' earned income. Hence, around 80 per cent of taxpayers only pay at the local level as central government only collects from those who are over the middle-class range.

e) *Republic of Ireland*

Ireland has an income tax, a VAT, and various other taxes, where taxation of earnings is progressive, with little or no income tax paid by low earners and a high rate applied to middle to top earners. However a large proportion of central government tax revenue is derived from value added tax (VAT), excise duties and other taxes on consumption.

The tax burden in Ireland in recent years is thought by some to be *too low* with scope to increase as a share of output. It has also been suggested that there is *no scope for fiscal adjustment on the revenue side* and *the tax burden on labour is too high*. Whilst at the same time others have argued that the tax burden *is not high enough on high earners*. Overall, it is thought there has been little progress on the potential for (revenue neutral) shifts in the structure of taxation in Ireland in recent years (O'Conner, 2013, p.153).

Ireland abolished the residential property tax in 1978 and kept the local rates on commercial property. The non-residential property tax base had not been updated since 1852 and is now the subject of rolling revaluations by the Irish Valuation Office (IVO).

The progressivity of Ireland's income tax system was thought to be far less than other OECD countries and suggested that it might benefit more from a revenue neutral shift towards consumption or property tax (OECD, 2010). The wider principle of neutrality was one of the key guiding principles of a recent Commission on Taxation (2009) in Ireland.

Recent reforms of tax in Ireland have involved changes to the local residential property tax system, now using a banding system similar to that in the UK, with 19 different bands, and a clear indication of *the movement toward the use of capital improved valuation* (McCluskey et al, 2013, p. 176). The property values are self-assessed by owners who determine the market value (i.e. using online guides or register of general sales) of their property and selecting the most relevant value band. An annual lump sum household charge was also introduced in 2012 for one year and subsequently replaced by a residential property tax in 2013.

The residential property tax rate is set centrally, although from 2015 local authorities are able to vary the central rates by plus or minus 15 per cent, and all revenues collected go to the local authorities. Property owners have the choice of paying their local property tax in one single payment or deducted at source from salary or occupational pensions. It is thought these recent tax reforms would have most likely been opposed without the introduction of banding to provide taxpayers with reassurance of greater stability and predictability (Slack and Bird, 2014).

f) Land Value Taxation (LVT) in the United States

LVT may be a pure land tax or a two rate tax with a higher rate on land than on building improvements. In the USA, examples date back to 1913. Pittsburgh and Scranton taxed land values at a higher rate than buildings. In 1981, 15 municipalities in Pennsylvania introduced a two rate land and property tax.

The LVT was introduced in Pennsylvania mainly as a result of the perception that wealthy landowners were withholding land for speculative purposes. LVT was thought to offer a more equitable outcome and an efficient one in that there would be no opportunity to pass the tax on to other users and no incentive to withhold land from the market. Indeed, municipal officials in Pennsylvania viewed LVT as a local policy able to help reverse economic decline and revitalise the economy through its impact on land markets.

However, when revaluation assessments were announced in 2001, it was apparent that there had been large movements in values and a significant redistribution in the tax burden. And this led to problems familiar to property taxation more generally.

LVT also requires consistent administration and assessment procedures, consistent professional staff and accurate, credible valuations. This has not always been the case. In Alleghny County, problems with deficient assessment practices leading to Pittsburgh rescinding a two rate system of property tax in 2001, ordering a five year freeze on property assessments and firing 42 assessors. LVT was also blamed for inaccurate assessments and clumsy rate setting procedures in Pittsburgh. In Philadelphia, a two rate land and property tax was phased in, in part because it was felt that revenue from a pure land tax would be an inadequate substitute for a traditional property tax

7 Reforming Property Tax systems

There is considerable interest in and experience of property tax reform internationally. As we have seen, several countries have recently introduced reforms and many more are evidently contemplating change. Many countries and systems of local government wrestle with the potential of property taxes versus the limited political room for manoeuvre they fell they can operate within.

Slack and Bird (2014) distinguish four general issues for property tax reform: establishing the preferred tax base, how to assess the tax base, how to set the tax rate and thus the tax bill, and, how to run the system itself? Almy (2013) concludes that '*unless the tax structure is simple enough to be efficiently administered, and fair enough to gain the confidence of the population, administrative reform by itself will not succeed.'*

Table 4 below from Slack and Bird (2014) is a helpful analysis of the challenges and possible ways forward with reform. They identify six principal challenges and differentiate ways forward as a result of those challenges into promising and those that are less promising.

- Salience. The high visibility of the tax requires change to be transitioned and for improvements in local services to go alongside tax reform.
- Liquidity Constraints (e.g. the cash poor- asset rich problem). These suggest deferral and other payment options and against value phasing-in change.
- Perceived Regessivity on current income measures. This suggests a range of ways of reducing this impact including low income exemptions.
- Volatility in terms of large movements in individual taxpayer bills. The authors argue for annual evaluations and for phasing in reform.
- Presumptive nature of the tax. The antagonism to the form of tax requires education and consultation, phasing-in and good systems of appeal.
- Inelasticity. The tax base is less buoyant than incomes and this is a problem for revenue risk rather than the tax payer and is another argument for more regular i.e. annual revaluations.

It is striking that most of their 'challenges' demonstrate common problematic approaches to reform: for instance, property tax capping and limiting tax assessment/revaluation as well as a range of attempts to make property taxes more progressive. Overall, reform is multi-dimensional, political and complex:

"...property tax reforms could clearly be designed and implemented much more sensibly than appears to have been the case. To do so, however, countries need to recognise clearly both the nature of the task facing would-be reformers and also the complexity of the task they face....inextricably related to very long-lived assets and often deep-rooted social beliefs and norms." Slack and Bird, 2014, p.26

Table 4 Strategies for Property Tax Reform

Issues & Problems	Promising Approaches	Problematic Approaches
Salience: property tax is more visible than other taxes	Link tax reforms with improvement in local services Phase-in Withhold tax at source and other payment options	Assessment limits PT capping
Liquidity constraints: imperfect association between taxpayers' incomes and PT especially for seniors	Tax deferrals for seniors More payment options Phase-in	Assessment limits PT capping
Perceived regressivity: taxes higher as a % of income for low income taxpayers	Tax credits deferrals bundle with other tax reforms Bundle with spending changes low-income housing exemptions	Banding Classified tax rates Progressive tax rates Assessment limits PT capping
Volatility: potentially large swings in taxes for some taxpayers	Annual reassessment Index base Taxpayer education Communication in understandable forms Phase-in	Assessment limits PT capping
Presumptive Tax: taxbase is inherently arbitrary	Taxpayer education Consultation Accessible appeals process Phase-in	Self-assessment Classified PT rates Assessment limit PT capping
Inelasticity is problem for LG, not for taxpayers: taxes do not increase with econ growth	Annual reassessment Index base phase-in	

Source: Slack and Bird 2014 Table 1.

8 Conclusions: Reflections from the Evidence on the Commission's Remit

The purpose of this evidence review was to examine systems that exist abroad and how they impact on the issues that the Commission will consider as part of their remit for Scotland. The Commission remit has been convened to identify and examine alternatives to the council tax that would deliver a fairer system of local taxation. In doing so, the Commission will consider, to paraphrase:

- *The impacts on individuals, households and inequalities in income and wealth.*
- *The wider impacts, including housing market and land use.*
- *Administration & collection, including transition and subsequent operation.*
- *Potential timetables for transition, given the 2017 Local Government elections.*
- *The impacts on supporting local democracy, ie financial accountability and autonomy.*
- *The revenue raising capacity of the alternatives*

What does this international review tell us thus far with regard to these criteria?

First, there is a disconnect between the economic and in-principle arguments about local taxes in general, and property taxes in particular, and how they are perceived by people and politicians. We have seen that academic commentators are widely positively disposed to property taxation as an instrument for doing good but that there is also recognition that as a salient, highly visible, presumptive tax, arguments over incidence are trumped by the question of ability to pay from current income. Ironically, this has led to many of the difficulties we see with property taxes around the world as governments attempt to assuage voters by softening the incidence of the property tax through reforms like circuit-breakers, postponing revaluation and by employing other ostensibly progressive measures to alleviate the symptoms. Finding the right way to compensate low income tax payers remains a critical issue for property taxation.

Second, the prior question of how one judges the incidence of property taxation is also fundamental. If one starts from view that the property tax is one on housing services as opposed to wealth then completely different conclusions are arrived at as to tax fairness and any interpretation of the evidence will be conditioned by ones' perspective on incidence. At the same time there are several issues with local income taxes – they are only as fair as how they are defined in practice and how progressive the wider income tax structures that they operate within actually are (i.e. there is a degree of path dependence with the wider income tax system). There are other questions about the degree of local autonomy they afford and the extent to which they may have volatile yields, operate pro-cyclically and whether they induce fiscal mobility of households and firms.

Third, land and property taxes may have desirable impacts on housing markets and land use but that also depends on design – there is plenty of international evidence suggesting it can go wrong (Slack and Bird, 2014; Almy, 2013; Norregaard, 2013). Those measures aimed at addressing perceived problems with property taxes (saliency, presumptive nature and regressive incidence) that ameliorate often lead to technical problems and political unwillingness to revalue. The international evidence shows remarkable variation in all of those key aspects of property taxes: tax base, assessment method, tax rate-setting and help for households. This generates a large set of design choices for land and property taxes in practice, even if there are a smaller set of general principles, ones that we have attempted to highlight in this paper.

Fourth, the synthesis of different local tax experiences across countries, tell us a lot about property tax reform and how difficult it can be to achieve. One use of Table 4 above would be as an aid or criteria with which to assess the council tax (or indeed other options that might arise) – it would seem to suggest that there were many in-built problems with council tax as a model from day one. Anticipating that there may be short run transitional problems in advance of desirable long-term impacts is a key way to lay the ground for reform (such as what we saw with the initial capitalisation effects thought to be associated with the introduction of a land or site value tax).

Fifth, systems of local tax and the inter-governmental finance and distribution of services are highly idiosyncratic. They are the product of long periods of evolution and punctuated periods of reform. With such different contexts, design details and complex interactions with other taxes, one must be cautious about reading too much into the simple transferability of local tax systems across nations with often very different governance institutions. Policy transfer in order to reform local tax problems should not be embarked on lightly.

Finally, and returning to Burt and the other cross-national reviews, it is apparent that cities and national systems of local government typically have more than one local tax at their disposal and frequently have many taxes at their disposal. More taxes of lower yield but revenue neutral overall may also of course reduce revenue risk as well. This is most clear where we consider a local income tax as a (minor partner) supplement but it may be true of other local taxes though one would need to evaluate the administrative cost of their development and running costs as well as their own buoyancy and capacity to generate revenue. In an international context, nonetheless, it remains odd to restrict oneself to one form of domestic local tax.

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Appendix Table 1: Local Taxes in OECD Countries, 2010

	*Income**	*Goods & Services*	*Property*	*Other***	*Local Taxes as % of Local Expenditure*
Australia	0	0	100	0	n.a.
Austria	61.4	9.9	15.4	13.3	59
Belgium	36.7	9.9	53.2	0.3	31.9
Canada	0	2	91.2	6.8	n.a.
Chile	0	59.7	40.3	0	n.a.
Czech	0	48.5	51.5	0	39.7
Denmark	89	0.1	10.8	0.1	34.1
Estonia	89.6	2.6	7.8	0.1	45.5
Finland	93.6	0	6.3	0.1	45.7
France	8.4	25.3	53.8	12.5	39
Germany	78.1	6	15.8	0.1	36
Greece	0	21.4	24	54.7	11.9
Hungary	0.2	80	14.2	5.6	19.3
Iceland	77.4	2	20.6	0	67.1
Ireland	0	0	100	0	13.5
Israel	0	4.8	95.2	0	39.1
Italy	25	32.9	9.4	32.7	41.4
Japan	48.6	19.4	29.8	2.2	n.a.
Korea	16.8	26.7	16.3	40.1	n.a.
Luxembourg	92.2	1.4	4.4	2	31.1.
Mexico	0.3	1.7	59.3	38.7	n.a.
Netherlands	0	50	47.6	2.3	8.6
New Zealand	0	8.7	91.3	0	n.a.
Norway	88.5	1.4	4.8	5.3	38.3
Poland	58.2	8.3	29.1	4.4	26.8
Portugal	34.6	26.4	33.9	5.2	24.6
Slovak	0	49.2	50.8	0	11.4
Slovenia	78.5	6.5	11.9	3.2	40.3

Spain	20.6	39.2	29.6	10.6	41.9
Sweden	97.4	0	2.6	0	64.1
Switzerland	84.3	1.3	1.4	13.1	58.5
Turkey	24.5	49.8	11.1	14.5	n.a.
United States	5.2	21.4	73.4	0.1	n.a
UK	**0**	**0**	**100**	**0**	**12.6**

Note: *includes income and payroll taxes; **includes social security contributions, other property-related taxes and other taxes

Source: Slack and Bird, 2014

[i]Web Reference: http://whatworksscotland.ac.uk/

[ii] A detailed annotated spreadsheet assessing OECD country local tax systems constructed by the authors and Emma Close from the Commission secretariat is available from the Commission on Local Tax Reform on request.

[iii] Tax capitalization concerns the embedding of future expected tax liabilities or indeed the net benefit or cost of services paid for out of taxes – into capital values. These may also reflect inter-jurisdictional differences in taxation and/or services provided. Relatively higher local taxes, or relatively less attractive net bundles of benefits of services minus taxes, or a comparatively high cost compared to other local authorities – may all reduce capital values (and vice versa for lower cost outcomes).

[iv] Mirrlees favoured a land valuation tax and a tax on housing services (to proxy for VAT). More immediately, they proposed a reform of council tax to make it more closely related to property values, regularly revalued and reducing the discounts and exemptions available. The review also proposes major changes to the taxation of home ownership, rented housing and transactions taxes..

International Perspectives from Denmark and the Basque Country

05

International Perspectives from Denmark and the Basque Country

05

Commission on Local Tax Reform
Oral evidence – Perspectives from Denmark and the Basque Country
23 September 2015

Witnesses:
Jan Olsen, Chief Economist, Local Government Denmark (by video link)
Roberto Cañón, Head of Finance, Galdakano Municipality, Basque Country (by telephone)

Commissioners:
Isobel d'Inverno
Jim McCormick
Dr Angela O'Hagan

Statements

Jan Olsen provided an overview of the system of local taxation in Denmark:

- The system of local taxation in Denmark mirrors the highly decentralised system of local government in the country.
- National standards are in place, but there is strong political consensus that local government requires a high degree of local determination regarding how these are delivered.
- The 98 municipalities determine how resources are spent at a local level, and the system of finance is localised to reflect this. The system of funding also draws on a number of different tax instruments. The overall system is made up of the following components:
    - 25% general grants from central government
    - 64% Income Tax
    - 8% Property Taxes (based on land not buildings)
    - 2% Company Tax
    - 4% Other taxes
    - Overall, these generate 362bn Danish Kroner in local taxation
- Local Income Tax accounts for the most significant source of taxation and on average, 24.9% of income is paid through local taxation. he local income tax operates on the same basis as national income tax, with the exception that it is not administered on a progressive basis. On average, around 20% of income is paid as a national income tax.
- Local governments have freedom to set the local tax rate according to local preferences and politics. The lowest rate is 22.5% and the highest is 26.6%.

The following issues were then discussed:

- Collection Arrangements: Since 2007, the system of local income tax has been operated on a national basis, replacing previous local collection arrangements in order to improve efficiency. The system is data driven, based on earning information provided via employers.
- Tax Competition: In keeping with the decentralised approach, the system gives local elected representatives the responsibility for managing local economies, and that this can lead to some tax competition. Of the 98 local municipalities, around 20 have changed their rates in 2015.This was felt to be positive and that doing so also encourages local areas to take responsibility for driving their own economic prosperity and self-sufficiency rather than looking to the centre. It was also reported that high income areas tend to have lower income tax rates locally than lower income areas.

- Role of National Government: It was reported that local municipalities forecast and collectively agree overall limits with national government each year spanning the whole of local government expenditure.
- Valuations: The Danish tax is based on land not buildings. Since 2007, valuations have been automated based on market prices rather than determined through physical valuations. The system operates at an individual property level based on pricing information from the wider neighbourhood. Separate information for land and building values are provided. Whereas the previous approach was to undertake revaluations every two years, the system is now constantly updated. However, it was reported that the system is often criticised and has a large number of appeals. The system is under review with a view to improving its accuracy in the future.
- Equalisation: the Danish system includes a detailed system of equalisation to ensure that different tax raising capacity and circumstances are accounted for across the country.
- Discounts and Benefits: It was reported that reduction schemes and other benefits were not part of the local government framework but were instead managed via the social security system.

Robert Cañón provided an overview of the system of local taxation in the Basque Country:

- The Autonomous Community of the Basque Country has a population of 2.189.000 inhabitants and 251 municipalities. Since 1979, the Basque Country has its own Statute of Autonomy, which provides the Autonomous Community with a wide competence framework.
- In the Autonomous Community of the Basque Country four levels of government come together: the administration of the Spanish state, with such competences as defence, immigration, ports and airports; the administration of the Autonomous Community, with competences like the police, health, education, industry; the regional administrations, with competences like public infrastructures or social action; and the local authorities, with competences like cleaning of public spaces, the supply of water, collecting of garbage, sports and cultural services.
- The Economic Agreement, established by law in 1981, guarantees the economic self-sufficiency of the Basque Country for the exercise of its competences. According to the Economic Agreement, the Autonomous Community has the ability to regulate, manage and collect its own taxes, according to the general structure of taxes in the Spain state.
- The Basque Country is organized in three regions or Historical Territories: Araba, Gipuzkoa and Bizkaia. Each and every region in the Basque Country has its own legislative body. Importantly, competences in financial and tributary matters are exercised by each of the Historical Territories. They have the ability to approve regulations with the force of law.
- Therefore, the state taxes (like the Income Tax, the Corporation Tax or the Value Added Tax) are regulated and collected by the regional governments. Once the contribution to the Spanish state (6%) is discounted, 70 % of the remaining resources are assigned to the administration of the Autonomous Community. The remaining 30% is distributed between the regional governments and the local authorities (municipalities).
- In local authorities, there is strong dependence on regional taxes with around 50% of income comes from these. It was also reported that a system of equalisation is operated by the Regional Government, based primarily on population size.
- However, local authorities can establish five different local taxes:
    - The Property Tax (tax imposed on real estate)
    - The Vehicle Tax

  - The Economic Activity Tax
  - Tax on Buildings, Installations and Works
  - Tax on the Increase in Urban Land Value

- The first three taxes are obligatory. The last two ones are voluntary. In general, it was reported that medium or big size municipalities collect all the local taxes. Local authorities do not have the power to create new taxes that differ from those listed above.

- Overall, these local taxes account for around 33% of the budget of a medium size municipality. In addition, the local authorities can establish user charges for the provision of services (the supply of water, collecting of waste, sports or cultural services, licenses etc) or for the utilization of the public local domain (the installation of tables and chairs for restaurants, scaffolding etc).

- Property tax is the most important tax in the local fiscal system, and accounts for between 15 and 20% of budget.

- The management, collection and inspection of the property tax is the competence of local authorities. In small and medium size municipalities these competences can sometimes be delegated to regional governments.

- However, the management of the land registry (cadastre) is the competence of the regional government. The property tax base is the cadastral value of the property. According to the legal regulation, the cadastral value must be close to the market value of the good. The cadastral values are therefore updated annually based on the consumer prices index.

- In practice, however, the cadastral values tend to be very old and much lower than market values. The regional governments are reviewing the cadastral values in order to bring these closer to market values.

- In terms of discounts, local authorities can establish exemptions. Some of these are obligatory (for example, buildings owned by the State or the Autonomous Community) and others are voluntary (e.g. housing for large families).

- The property tax rate is determined by the local authority, and can set this at between 0.4 % and 3 %. In the region of Bizkaia, the average tax rate is of 1.1 %.

- The property tax is a linear (flat) tax not a progressive tax.

- Collection rates are quite high, at close to the 85%, and it was reported that this help to ensure a high level of resources available to local authorities.

- The local tax system hasn't been modified since 1989 and it was reported that this has resulted in some important modifications not having taken place.

Secretariat, 24 September 2015

Views on Local Taxation: Analysis of the Online Survey

ODS Ltd

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Views on Local Taxation: Analysis of the Online Survey

ODS Ltd

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Views on Local Taxation: Analysis of the Online Survey

THE COMMISSION ON LOCAL TAX REFORM

Contents

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Executive Summary

About this report

This report provides an analysis of responses to an online survey issued by the Commission on Local Tax Reform exploring views on the future of local taxation in Scotland. The Commission was established jointly by the Scottish Government and COSLA to examine alternatives to the present council tax.

A vital aspect of the Commission's work involves taking evidence from people and communities across Scotland to gather their knowledge and views. To gather views about local taxation in Scotland from as wide an audience as possible, the Commission ran a survey from May to September 2015. This survey complemented other evidence gathering activity the Commission was undertaking over this time.

Responses received

A total of 4,492 responses were received to the online survey. The survey was made available on the Commission's website and promoted through events, social media and coverage in the mainstream media. The survey generated a good response, and provides an indication of opinions from those who proactively chose to opt in to a survey and provide their views. It was not intended or designed to provide statistically significant results which could be extrapolated to the Scottish population.

Respondents could choose to complete the survey with or without providing information about themselves. 3,091 people (69%) provided at least some information about themselves. Analysis of this information indicates that certain groups are over-represented within the survey response. This includes men; people in the 55 plus age group; full time workers; couples without children under 16; home owners; and people in properties rated at council tax Bands D and over (the higher council tax bands).

Certain groups are under-represented within this survey response. This includes women; 16 to 24 year olds; unemployed people; single people with no child dependents; people renting from a council or housing association; and people in properties rated at council tax at Bands A, B and C (the lower council tax bands).

Priorities for local taxation

In the first question, survey respondents were asked for their views on seven statements about priorities for local taxation. Responses to two statements identified clear trends:

- Three quarters of respondents broadly disagreed that everyone should pay an equal amount of tax.
- Over half of respondents broadly agreed that the amount of local tax you pay should be based on your income.

Responses to the other five statements were more mixed. However around half of respondents felt that the amount of local tax you pay should not be based on:

- the extent to which you use local services;
- the value of the property you live in; or
- the value of the land you own.

Opinion was mixed in terms of whether councils should set local tax rates according to the priorities of their local communities, or whether local tax rates should be set by the Scottish Parliament. However, overall there was a preference that councils should set local tax rates according to the priorities of their local communities.

Question Two asked respondents to look at the list of statements again, and choose one top priority for a local taxation system. Responses echoed the response to question one, with the largest proportion of respondents identifying that their top priority was that 'the amount of local tax you pay should be based on your income'.

Statement	Top Priority
The amount of local tax you pay should be based on your income	39%
The amount of local tax you pay should be based on the value of the property you live in	13%
The amount of local tax you pay should be based on the extent to which you use local services	13%
The amount of local tax you pay should be based on the value of the land that you own	11%
Everyone should pay an equal amount of tax	7%
Councils should set local tax rates according to the priorities of their local communities	8%
Local tax rates should be set by the Scottish Parliament	4%

Analysis of trends based on the socio-economic and demographic profile of respondents highlighted that:

- the top priorities for men and women were almost identical – with no significant differences;
- younger (16–24) and older (65 plus) people were slightly more likely to say that their top priority was that local tax should be based on income, when compared to other age groups;
- people who were working full time were less likely to support a tax based on income than others, and more likely to support a tax based on property value;
- disabled people were more likely to identify a tax based on income as their top priority than others, and less likely than others to identify as a top priority a tax based on property or use of local services;
- single people (with or without dependents) were more likely to support a local tax based on income, and less likely to support tax based on property;

- people on higher incomes were less likely to identify a tax based on income as a top priority, and more likely to support a tax based on the value of property, use of local services, or everyone paying an equal amount of local tax;
- those renting their property were more likely to support a tax based on income and less likely to support a tax based on value of property, or use of local services; and
- those in lower tax bands (A to C) were more likely to support a tax based on income, and less likely to support a tax based on use of local services.

Views on the council tax system

Question Three asked respondents the extent to which they agreed with a series of seven statements about the current council tax system. Respondents were asked to indicate whether they strongly agreed; tended to agree; neither agreed or disagreed; tended to disagree; strongly disagreed or didn't know.

Initial analysis highlights that:

- Over half of respondents felt that the council tax system was easy to understand.
- Over two thirds of respondents did not feel that the council tax system was fair.
- Over two thirds of respondents felt that paying council tax was a simple process.
- While almost half of respondents felt that it was not clear how the council tax they paid was spent on local services, over a third felt that it was clear.
- While more than a third of respondents felt that the council tax system did not protect people who cannot afford to pay, almost a third felt that it did.
- While over a third of respondents felt that councils did not have enough control over council tax rates, a similar proportion felt that they did.
- Almost two thirds of respondents felt that the current council tax system should be replaced with a different system of local taxation.

Further analysis highlighted that:

- Younger people (aged 16 to 34), people on low incomes and single people (with or without dependent children) had less positive views about the current council tax system than others.
- More people on lower incomes felt that councils had enough control over local tax rates, and that council tax should be replaced with a different system.
- People with physical or mental health conditions were slightly less likely to believe the council tax system was fair and easy to understand, but overall responses were very similar to those without conditions.
- Homeowners were more likely to believe the system was easy to understand and simple to pay, compared with those renting their property.
- As income increased, people were more positive about all aspects of the council tax system. The same trend was evident as council tax band increased.

Finally, Question Four asked respondents an open question - if they could change one thing about the current council tax system, what it would be. 3,324 respondents answered this question.

Almost half of the respondents to Question Four said that the main thing they would change about the current system is the basis of taxation. A hybrid tax was the most frequently mentioned of these options, with many supporting a mix of tax based on property, land, wealth and income. Many didn't comment on their reasons for these suggestions. However, those who did felt that hybrid options which took into account a combination of factors would be fairer than a single system.

The most commonly suggested change to the existing council tax system was a review of the current bands. Approximately a quarter of respondents raised this issue. Linked to the priority of re-valuation, many respondents also felt that the council tax bands needed to be re-calculated to reflect up to date property values. Many felt that this provided an opportunity to introduce a new threshold and potentially new bands for higher value properties. Many also indicated that the new bands should be smaller, with more graduation, to provide a fairer and more progressive system. Overall a fifth of those discussing the council tax system specifically felt that higher tax rates were required for high value properties. A small number suggested removing bandings entirely, and instead developing a tax based on a proportion of property value with no upper limit.

Other comments included:

- Approximately six per cent of respondents indicated that the system needed to be more transparent. Those commenting on transparency generally felt that members of the public required more information and more choice about how the funds gathered through council tax were spent locally.

- Approximately five per cent of respondents indicated that the council tax system needed to be fairer. When respondents described this in more detail, they expressed that richer people should pay more, and less affluent people should pay less in local tax than they currently do.

- Approximately five per cent of respondents felt that the system needed to encompass more people who were liable to pay tax. Some expressed concern that households, not individuals, were liable for the tax, suggesting that larger households benefited from this. Others suggested that it was unfair that some people were exempt from or received reductions in council tax, including second homes and people in receipt of benefits.

- Approximately five per cent of respondents commented on where the power to set local tax rates and mechanisms should lie. Of these, approximately three quarters felt that local authorities should have more power over local tax, and the remainder felt that the Scottish Government should have more power over local tax.

- Approximately four per cent of respondents felt that the freeze on council tax should be removed. Many simply stated this, without providing further commentary. However, others indicated that they felt the freeze was impacting on the ability of their local council to provide local services.

1. Introduction

About this report

1.1 This report provides an analysis of responses to an online survey issued by The Commission on Local Tax Reform exploring views on the future of local taxation in Scotland. The Commission was established jointly by the Scottish Government and COSLA to examine alternatives to the present council tax.

Background to the survey

1.2 Council tax was introduced in Scotland in 1993. Council tax revenues contribute to the funding of services provided by local authorities. The amount of tax payable is based on the value of residential property. The council tax system (council tax receipts plus Council Tax Reduction funding) raises around £2.3 billion every year for local authorities to spend on local services. This compares with a total revenue income for local authorities in Scotland of approximately £16.5 billion[1].

1.3 The amount that households pay depends on the banding of their property (A to H) which is based on the value of the property in 1991. The rates within each band are a proportion of the tax charged for properties in Band D (from Band A which is 67% of Band D, to Band H which is 200% of Band D).

1.4 Responsibility for setting council tax levels (at Band D) rests with local authorities in Scotland. However, the Scottish Government has worked with local authorities to freeze council tax since 2007. The Scottish Government also worked with local authorities to introduce the Council Tax Reduction scheme, which replaced Council Tax Benefit in 2013/14, and assists many people on low incomes.

1.5 Scottish Ministers consider the current system of council tax as a whole to be unfair. Since devolution, there have been various debates and policy proposals to progress an alternative to council tax, although no large scale change has been implemented. The 2014/15 Programme for Government[2] invited local authority partners to work with the Scottish Government to convene an independent commission to examine alternatives to council tax and the Commission on Local Tax Reform was established by the Scottish Government and COSLA in early 2015.

1.6 The Commission's remit is to identify and examine alternatives that would deliver a fairer system of local taxation to support the funding of services delivered by local government. The Commission brings together expertise and experience from across Scotland, and is independent of Government and any other organisation.

1.7 More information about the remit and membership of the Commission on Local Tax Reform is available at www.localtaxcommission.scot

[1] Scottish Local Government Financial Statistics, 2013/14, available here
[2] Scottish Government Programme for Government, 2014/15, available here

About the survey

1.8 A vital aspect of the Commission's work involves taking evidence from people and communities across Scotland to gather their knowledge and views. To gather views about local taxation in Scotland from as wide an audience as possible, the Commission issued an online survey on 3 May 2015, hosted on its website. Survey responses were downloaded for analysis on 25 September 2015. The survey explored:

- **Views on priorities for local taxation** – exploring the extent of agreement with seven statements:
    - The amount of local tax you pay should be based on your income
    - The amount of local tax you pay should be based on the value of the property you live in
    - The amount of local tax you pay should be based on the extent to which you use local services
    - The amount of local tax you pay should be based on the value of the land that you own
    - Everyone should pay an equal amount of local tax
    - Councils should set local rates according to the priorities of their local communities
    - Local tax rates should be set by the Scottish Parliament.

- **Top priority for a local taxation system** – exploring seven main priorities including income based; value of property; use of services; value of land; everyone pays an equal amount; councils set rate/ needs of locality; and Scottish Parliament sets rates.

- **Views on Scotland's current system of council tax** – exploring the extent of agreement with seven statements:
    - The current council tax system is easy to understand
    - The current council tax system is fair
    - Paying council tax is simple
    - It is clear to me how the council tax that I pay is spent on local services
    - The current council tax system protects those who cannot afford to pay
    - Councils have enough control over council tax rates
    - The current council tax system should be replaced with a different system of local taxation.

- **Top priority for changing the current council tax system** – an open question asking if you could change one thing about the current council tax system, what it would be.

Analysis methodology

1.9 The Commission on Local Tax Reform downloaded all responses to an Excel database, and passed these securely to ODS for coding and analysis. ODS then undertook two main analysis tasks:

- Responses to all the quantitative questions were tabulated. Tables were produced setting out all responses to each question. In addition, tables were produced which correlated every question which gathered demographic and socio-economic information about individual responses with each quantitative question. This enabled a robust analysis of the trends emerging in line with demographic and socio-economic information about respondents.

- ODS coded all responses to Question Four, which was an open question. This manual thematic coding involved reading each response carefully, identifying key themes and areas of comment, and consistently coding these responses. This identified how many respondents mentioned particular issues in their open-ended responses and allowed for an analysis of the people making each type of comment and any trends in terms of demographics and socio-economic information.

2. Overview of Responses

Introduction

2.1 This chapter sets out the profile of respondents to the online survey. It explores the demographic and socio-economic profile of the respondents, and sets out any areas of over or under representation in the profile of respondents.

Response level

2.2 The survey was made available on the Commission's website. It was promoted through events and social media, and coverage in the mainstream media.

2.3 The survey was not intended or designed to provide statistically significant results which could be extrapolated to the Scottish population. It was set up to provide an indication of views about local taxation in Scotland from as wide an audience as possible. As the survey was available on the Commission's website, it was open to anyone in the world to respond, not just those living in Scotland. It was completely anonymous, to encourage responses. And it was self selecting, with people choosing whether to respond to the survey or not by proactively seeking it out. This means that the profile of the people completing the survey was not always in line with the profile of the Scottish population (as explored below).

2.4 A large number of individuals, 4,492, submitted a completed survey. Often a response from just over 4,000 individuals in Scotland can be confidently extrapolated to the Scottish population. This would provide 99 per cent confidence that the answers of those who did not respond to the survey would be close to those who did respond (within two per cent).

2.5 It is therefore very important to recognise that this while the survey is not statistically representative, it generated a good response, and provides an indication of opinions from those who proactively chose to opt in to a survey and provide their views.

Responses received

2.6 Respondents could choose to complete the survey with or without providing information about themselves. 3,091 people (69%) provided at least some information about themselves.

- **Gender** – 2,843 people answered this question (63%). Of these, 1,833 were male (65%) and 990 were female (35%). Another 20 indicated that they would prefer not to say. For comparison purposes, 48 per cent of the Scottish population is male and 52 per cent female.

- **Age** – 3,041 people answered this question (68%). Overall, almost half (43%) were aged 55 and over. A fifth (22%) were aged 45 to 54 and a similar proportion aged 35 to 44 (17%) and under 35 (17%). The vast majority of those aged under 35 were in the 25 to 34 age bracket.

- **Employment** – 3,002 people answered this question (67%). Over half (55%) were working full time and one in ten (11%) were working part time. A quarter (26%) were retired. A small proportion were students (2%), looking after the home (2%) or unemployed (2%).

- **Health conditions or illnesses** – 3,030 people answered this question (67%). Almost one in five (19%) said that they had a physical or mental health condition or illness lasting or expected to last 12 months or more. A small proportion (3%) indicated that they would prefer not to say.

- **Household** – 3,012 people answered this question (67%). Half (51%) were couples with no dependent children under 16. A quarter (25%) were single with no dependent children under 16. A fifth (22%) were couples with dependent children under 16, and a small proportion (2%) were single with child dependents under 16.

- **Income** – 2,770 people answered this question (62%). Of these, almost one in ten (8%) had a household income of less than £10,400. Over a quarter (27%) had a household income of £10,400 to £26,000. A third had a household income of between £26,000 and £49,400 and a fifth (20%) between £49,400 and £78,000. One in ten (10%) households had a total income of £78,000 or more.

- **Housing tenure** – 2,980 people answered this question (66%). Most either owned their home outright (41%) or were buying their home on a mortgage (40%). Some (12%) rented from a private landlord, and small proportions rented from a council (3%) or a housing association or trust (3%).

- **Council tax band** – 2,763 people answered this question (62%). Overall almost a third (31%) were in Bands A, B and C; 41 per cent were in Band D or E; and over a quarter (27%) were in Bands F, G and H.

- **Ethnic group** – 2,947 people answered this question (66%). Over three quarters (78%) identified as white Scottish. In addition, 16 per cent identified as other white British. The remaining six per cent identified as another ethnic origin, including white Irish; Asian, African and Caribbean, and ‘other’ ethnic origins.

2.7 Overall this analysis indicates that certain groups are over-represented within this survey response. This includes:

Table 1: Profile of Over-Represented Respondent Groups

Group	Survey Percentage	Population Percentage	Percentage Point Difference
Men	65%	48%	+17%
55 plus age group	43%	30%	+13%
Full time workers	55%	40%	+15%
Couples with no children under 16	51%	24%	+27%
Home owners (with or without mortgage)	81%	62%	+19%
Council Tax bands D and over	62%	39%	+23%

2.8 Certain groups are under-represented within this survey response. This includes:

Table 2: Profile of Under-Represented Respondent Groups

Group	Survey Percentage	Population Percentage	Percentage Point Difference
Women	35%	52%	-17%
16 to 24 year olds	3%	12%	-8%
Unemployed people	2%	5%	-3%
Single people with no child dependents	25%	35%	-10%
Renting from council or housing association	6%	24%	-18%
Council Tax bands A, B, C	28%	61%	-33%

2.9 It is important to bear the profile of respondents in mind when reading the remainder of this report. Where relevant, we have highlighted trends or divergences in responses based on the demographic or socio-economic profile of responses, throughout this report.

3. Priorities for local taxation

Introduction

3.1 This chapter sets out responses to Questions One and Two in the online survey. These questions explored broad priorities for local taxation. We explore the overall responses to each question, and highlight key trends, similarities or divergences in responses between people with different demographic and socio-economic profiles.

Question One

3.2 Question One asked respondents their views on seven statements. It provided a list of different statements that could apply to a local taxation system. Respondents were asked to rate on a scale of one to ten the extent to which they supported each statement. A response of one meant that they did not support it at all and a response of ten meant that they fully supported it.

3.3 The responses to all seven statements are set out in the table below. The table sets out the percentage of those who responded to each question who selected each of the options, from one to ten. The small minority of respondents who did not respond to each statement have not been included for the purposes of this analysis.

3.4 Overall, initial analysis highlights that:

- Almost two thirds of respondents do not support at all the statement that everyone should pay an equal amount of tax.
- Over a third of respondents fully support the statement that the amount of local tax you pay should be based on your income.
- Almost a third of respondents do not support at all the statement that the amount of local tax you pay should be based on the value of the property you live in.
- Over a third of respondents do not support at all the statement that the amount of local tax you pay should be based on the extent to which you use local services.
- Almost a third of respondents do not support at all the statement that the amount of local tax you pay should be based on the value of the land that you own.
- Opinion is mixed in terms of whether councils should set local tax rates according to the priorities of their local communities – with a fifth not supporting the statement at all and a similar proportion fully supporting the statement.
- Opinion is mixed on whether local tax rates should be set by the Scottish Parliament – with over a quarter not supporting the statement at all and over a fifth fully supporting the statement.

Table 3: Responses to the Seven Statements within Question One
Note: A response of one meant that they did not support it at all and a response of ten meant that they fully supported it.

	1	2	3	4	5	6	7	8	9	10
Statements										
The amount of local tax you pay should be based on your income	20%	2%	3%	2%	7%	4%	9%	11%	5%	**37%**
The amount of local tax you pay should be based on the value of the property you live in	**30%**	5%	7%	6%	11%	7%	9%	8%	4%	14%
The amount of local tax you pay should be based on the extent to which you use local services	**35%**	6%	6%	4%	10%	5%	7%	7%	3%	18%
The amount of local tax you pay should be based on the value of the land that you own	**30%**	4%	5%	4%	10%	6%	7%	9%	5%	20%
Everyone should pay an equal amount of tax	**59%**	7%	6%	3%	6%	3%	2%	3%	1%	10%
Councils should set local tax rates according to the priorities of their local communities	**21%**	4%	5%	4%	13%	8%	10%	13%	6%	18%
Local tax rates should be set by the Scottish Parliament	**27%**	6%	7%	6%	13%	5%	5%	6%	3%	21%

3.5 It is interesting to note that opinion on many issues was polarised, with a concentration of responses at either end of the spectrum (rating either one or ten). Approximately half of respondents chose either response one or response ten in relation to each of the statements. This indicates strong and clear views from many respondents.

3.6 To explore views further, we grouped responses into broader categories. Responses one to four became a ‘broadly disagree’ category; responses five and six indicated no strong views either way; and responses seven to ten became a ‘broadly agree’ category. This indicated that there were clear trends in responses to two statements:

- Three quarters of respondents broadly disagreed that everyone should pay an equal amount of tax.
- Over half of respondents broadly agreed that the amount of local tax you pay should be based on your income.

3.7 Responses to the other statements were more mixed. However around half of respondents felt that the amount of local tax you pay should not be based on:

- the extent to which you use local services
- the value of the property you live in; or
- the value of the land you own.

3.8 Overall, there was a preference that councils should set local tax rates according to the priorities of their local communities, rather than the Scottish Parliament setting local tax rates – but views were mixed on these statements.

Table 4: Responses to the Seven Statements within Question One, Grouped into Broadly Disagree and Broadly Agree

	1	2	3	4	5	6	7	8	9	10
			Broadly Disagree			**Neutral**			**Broadly Agree**	
The amount of local tax you pay should be based on your income	20%	2%	3%	2%	7%	4%	9%	11%	5%	**37%**
			27%			11%			**62%**	
The amount of local tax you pay should be based on the value of the property you live in	**30%**	5%	7%	6%	11%	7%	9%	8%	4%	14%
			48%			18%			35%	
The amount of local tax you pay should be based on the extent to which you use local services	**35%**	6%	6%	4%	10%	5%	7%	7%	3%	18%
			51%			15%			35%	
The amount of local tax you pay should be based on the value of the land that you own	**30%**	4%	5%	4%	10%	6%	7%	9%	5%	20%
			43%			16%			41%	
Everyone should pay an equal amount of tax	**59%**	7%	6%	3%	6%	3%	2%	3%	1%	10%
			75%			9%			16%	
Councils should set local tax rates according to the priorities of their local communities	**21%**	4%	5%	4%	13%	8%	10%	13%	6%	18%
			34%			21%			**47%**	
Local tax rates should be set by the Scottish Parliament	**27%**	6%	7%	6%	13%	5%	5%	6%	3%	21%
			46%			18%			35%	

3.9 We then explored levels of agreements to each statement for each demographic and socio-economic characteristic, to explore whether there were any trends or divergences in responses in relation to the profile of respondents. Throughout this section we have set out tables to highlight these trends and divergences.

Gender

3.10 Analysis highlighted that women and men had very similar responses. The proportion of respondents rating statements between one and ten were almost always identical or within one or two percentage points, for men and women. The largest difference in opinion was one divergence of ten percentage points, when responding to the statement that 'Local tax rates should be set by the Scottish Parliament'. While 21 per cent of women strongly disagreed with this statement, this rose to 31 per cent for men – indicating less support among men for local tax rates to be set by Scottish Parliament.

Age

3.11 Analysis of responses by age shows that older respondents were less likely to support a tax based on the value of the property you live in. In addition, younger and older respondents demonstrated more support for a tax based on income than those in the 25 to 64 age bands. Older people were also less likely to support a tax based on land than younger respondents. The figures highlighting these trends are set out below.

Table 5: Analysis of responses to statements in Question One based on age

	Aged 16 - 24	Aged 25 - 34	Aged 35 - 44	Aged 45 - 54	Aged 55 - 64	Aged 65 plus
The amount of local tax you pay should be based on your income ***Trends in 'strongly agree'***	57%	33%	27%	33%	39%	46%
The amount of local tax you pay should be based on the value of the property you live in ***Trends in 'strongly disagree'***	18%	23%	23%	25%	30%	35%
The amount of local tax you pay should be based on the value of the land that you own ***Trends in 'strongly disagree'***	12%	17%	21%	27%	30%	37%

Employment status

3.12 Analysis of responses by employment status shows that those working full and part time were less likely to strongly support the idea that local tax should be based on income, when compared with students, retired people and unemployed people. Retired people were also slightly less likely to support a tax based on the value of the property you live in. Students often appeared to have different views than others, but because of the relatively small numbers involved (97) it is not possible to generalise about the views of the student population.

3.13 People who were working full time were also slightly more likely than others to support a local tax based on property. Views on a tax based on land were very similar across the different groups. Students were slightly more likely to support a tax based on land than other groups. It should be noted however that the number of students who responded to this survey was reasonably small (97).

Table 6: Analysis of responses to statements in Question One based on employment status

	Working full time	Working part time	Looking after home	Retired	Student	Unemployed
The amount of local tax you pay should be based on your income ***Trends in 'strongly agree'***	30%	38%	42%	45%	67%	46%
The amount of local tax you pay should be based on the value of the property you live in ***Trends in 'strongly agree'***	16%	9%	10%	11%	9%	14%
The amount of local tax you pay should be based on the value of the land that you own ***Trends in 'strongly agree'***	21%	19%	22%	18%	28%	20%

Disability

3.14 We compared the responses from people with a physical or mental health condition or illness, and those without. This highlighted the people with physical or mental health conditions had stronger support for a tax being based on income (47%) than others (34%). Views across all other statements were very similar between those with a condition and those without.

Household type

3.15 Single people (whether with or without dependent children) indicated higher levels of support for a tax based on income than others. Couples with child dependents (the largest households) were least likely to strongly support local tax being based on income. Views on a tax based on property and based on land were broadly similar across the groups.

Table 7: Analysis of responses to statements in Question One based on household type

	Couple with no child dependents	Couple with child dependents	Single no child dependents	Single with child dependents
The amount of local tax you pay should be based on your income *Trends in 'strongly agree'*	37%	26%	42%	54%
The amount of local tax you pay should be based on the value of the property you live in *Trends in 'strongly agree'*	13%	15%	13%	10%
The amount of local tax you pay should be based on the value of the land that you own *Trends in 'strongly agree'*	19%	20%	23%	23%

Household income

3.16 There was a clear trend that households with higher incomes were less supportive of a tax based on income, and households with lower incomes were significantly more supportive. This was the clearest and most obvious trend in divergences of views based on any demographic or socio-economic characteristic. The table below highlights the trends in those strongly supporting with the statement around local tax being based on income.

3.17 Those in the higher income bands were more likely to support a tax based on use of local services, and an equal taxation for everyone. Views on a tax based on property and a tax based on land were more mixed. However, there was a broad trend that those in the lower income brackets indicated more support for a tax based on property and land than those in the higher income brackets.

Table 8: Analysis of responses to statements in Question One based on household income

	The amount of local tax you pay should be based on your income *Trends in 'strongly agree'*	The amount of local tax you pay should be based on the value of the property you live in *Trends in 'strongly agree'*	The amount of local tax you pay should be based on the value of the land that you own *Trends in 'strongly agree'*
Less than £5,200	66%	39%	35%
£5,200 to £10,399	62%	28%	29%
£10,400 to £15,599	58%	35%	21%
£15,600 to £25,999	49%	37%	19%
£26,000 to £36,399	35%	27%	17%
£36,400 to £49,399	30%	21%	21%
£49,400 to £62,399	26%	23%	19%
£62,400 to £77,999	27%	19%	24%
£78,000 plus	18%	23%	17%

Housing tenure

3.18 People who rented their homes (from a council, housing association or private landlord) were more supportive of a tax based on income than those who owned their property. And people who rented their homes were also more supportive of a tax based on land. Owners were also more likely to say that everyone should pay an equal amount of tax than those who rented their property. Views on a tax based on property were very similar across respondent groups.

Table 9: Analysis of responses to statements in Question One based on housing tenure

	Buying on a mortgage	Own it outright	Rent from council	Rent from Housing Association/Trust	Rent from private landlord
The amount of local tax you pay should be based on your income *Trends in 'strongly agree'*	28%	39%	65%	57%	47%
The amount of local tax you pay should be based on the value of the property you live in *Trends in 'strongly agree'*	14%	12%	14%	16%	16%
The amount of local tax you pay should be based on the value of the land that you own *Trends in 'strongly agree'*	19%	17%	34%	40%	30%

Council tax band

3.19 People in lower council tax bands were more likely to support a tax based on income, land or property than those in the higher council tax bands. Those in higher council tax bands were slightly more likely to support a tax based on use of local services and were more likely to say that everyone should pay an equal amount of tax.

Table 10: Analysis of responses to statements in Question One based on council tax band

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
The amount of local tax you pay should be based on your income ***Trends in 'strongly agree'***	47%	43%	37%	36%	32%	35%	32%	27%
The amount of local tax you pay should be based on the value of the property you live in ***Trends in 'strongly agree'***	25%	17%	14%	16%	13%	11%	9%	6%
The amount of local tax you pay should be based on the value of the land that you own ***Trends in 'strongly agree'***	32%	23%	23%	22%	19%	14%	13%	12%
Everyone should pay an equal amount of tax ***Trends in 'strongly agree'***	3%	5%	8%	7%	13%	15%	12%	16%
The amount of local tax you pay should be based on the extent to which you use local services ***Trends in 'strongly agree'***	17%	16%	17%	14%	22%	22%	26%	21%

Ethnic origin

3.20 Responses from people of different ethnic origins were very similar, with no clear divergences or trends in responses from people of different ethnic groups.

Question Two

3.21 Question Two asked respondents to look at the list of statements again, and choose one top priority for a local taxation system. Responses echoed the response to question one, with the largest proportion of respondents (39%) identifying that their top priority was that 'the amount of local tax you pay should be based on your income'.

Table 11: Which of these options is your one top priority for a local taxation system?

Statement	Top Priority
The amount of local tax you pay should be based on your income	39%
The amount of local tax you pay should be based on the value of the property you live in	13%
The amount of local tax you pay should be based on the extent to which you use local services	13%
The amount of local tax you pay should be based on the value of the land that you own	11%
Everyone should pay an equal amount of tax	7%
Councils should set local tax rates according to the priorities of their local communities	8%
Local tax rates should be set by the Scottish Parliament	4%

3.22 The response to this question emphasised that there was significantly more support for a local tax based on income, than one based on the value of property, use of local services or land value. It also highlights that while in responding to Question One most people clearly felt that everyone should not pay an equal amount of tax, there was a small proportion of respondents (7%) who felt that everyone paying an equal amount of tax was their top priority for a local taxation system. The response also re-emphasises that there was more support for councils setting local tax rates according to the priorities of their local communities than local tax rates being set by the Scottish Parliament.

3.23 Again, we explored responses for each demographic and socio-economic characteristic. This analysis supported the demographic trends identified earlier, finding that:

- the top priorities for men and women were almost identical – with no significant differences;
- younger (16–24) and older (65 plus) people were slightly more likely to say that their top priority was that local tax should be based on income, when compared to other age groups;
- people who were working full time were less likely to support a tax based on income than others, and more likely to support a tax based on property value;
- disabled people were more likely to identify a tax based on income as their top priority than others, and less likely than others to identify as a top priority a tax based on property or use of local services;

- single people (with or without dependents) were more likely to support a local tax based on income, and less likely to support tax based on property;
- people on higher incomes were less likely to identify a tax based on income as a top priority, and more likely to support a tax based on the value of property, use of local services, or everyone paying an equal amount of local tax;
- those renting their property were more likely to support a tax based on income and less likely to support a tax based on value of property, or use of local services;
- those in lower tax bands (A to C) were more likely to support a tax based on income, and less likely to support a tax based on use of local services;
- those in higher tax bands were more likely to believe that everyone should pay equal amounts of local tax;
- there were very few trends in relation to ethnic origin, however those of 'other British' origin were slightly more likely than others to believe that the top priority was that local tax should be based on use of local services.

3.24 In addition, 125 respondents indicated that they had a different top priority for a local taxation system (beyond the seven statements). Of these, a third said that they would support a hybrid system. Different options were suggested, including a mix of property, land, income, household size and use of services. Other priorities were identified by a very small number of people, including:

- generally wanting to pay less tax;
- creating a simpler and more efficient system;
- improving debt collection;
- introducing a poll tax or flat charge; and
- scrapping local tax completely – with local services funded through national tax.

4. Views on the council tax system

Introduction

4.1 This chapter sets out responses to Questions Three and Four in the online survey. These questions explored views on the existing council tax system. We explore the overall responses to each question, and highlight key trends, similarities or divergences in responses between people with different demographic and socio-economic profiles.

Question Three

4.2 Question Three asked respondents the extent to which they agreed with a series of seven statements about the current council tax system. Respondents were asked to indicate whether they strongly agreed; tended to agree; neither agree or disagreed; tended to disagree; strongly disagreed or didn't know.

4.3 Initial analysis highlights that:

- Over half of respondents felt that the council tax system was easy to understand.
- Over two thirds of respondents did not feel that the council tax system was fair.
- Over two thirds of respondents felt that paying council tax was a simple process.
- While almost half of respondents felt that it was not clear how the council tax they paid was spent on local services, over a third felt that it was clear.
- While more than a third of respondents felt that the council tax system did not protect people who cannot afford to pay, almost a third felt that it did.
- While over a third of respondents felt that councils did not have enough control over council tax rates, a similar proportion felt that they did.
- Almost two thirds of respondents felt that the current council tax system should be replaced with a different system of local taxation.

4.4 A table highlighting responses to each statement is provided below.

Table 12: Views on the current council tax system – responses to the seven statements within Question Three

	Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree	Don't know
The current council tax system is easy to understand	21%	**37%**	14%	16%	11%	>1%
	58%		14%	27%		
The current council tax system is fair	5%	14%	12%	27%	**41%**	1%
	19%		12%	**68%**		
Paying council tax is a simple process	34%	**42%**	10%	6%	7%	>1%
	76%		10%	13%		
It is clear to me how the council tax that I pay is spent on local services	10%	28%	16%	21%	**24%**	1%
	38%		16%	**45%**		
The current council tax system protects those who cannot afford to pay	9%	**21%**	19%	20%	**21%**	10%
	30%		19%	**41%**		
Councils have enough control over council tax rates	13%	**21%**	19%	18%	20%	8%
	34%		19%	**38%**		
The current council tax system should be replaced with a different system of local taxation	**43%**	19%	13%	8%	13%	4%
	62%		13%	21%		

4.5 Again, we explored responses for each demographic and socio-economic characteristic. This analysis highlighted trend in relation to:

- **Men and women** - Views of men and women were very similar. However, slightly more men than women strongly felt that council tax was not fair (45% compared with 38%). While broadly similar proportions of men and women felt that the council tax system should be replaced, men felt this more strongly (50% of men strongly agreed compared with 27% of women).
- **Age** - Younger people (aged 16 to 34) had less positive views about the current council tax system than others. This group was less likely to say the system was easy to understand; was fair; was simple; protects people who can't pay; or is clear in terms of how council tax is spent.
- **Employment** - People who were working full time or retired were more likely to say the system was easy to understand and that it was clear how their council tax was spent than others. Students were more likely to feel that paying council tax wasn't a simple process, and more likely to say that the council tax system should be replaced.
- **Health conditions** - People with physical or mental health conditions were slightly less likely to believe the council tax system was fair and easy to understand, but overall responses were very similar to those without conditions.
- **Income** - People on lower incomes were less likely to feel the system was easy to understand, fair, simple; protects those who can't pay; or is clear in terms of how money is spent. More people on lower incomes felt that councils had enough control over local tax rates, and that council tax should be replaced with a different system. As income increased, people were more positive about all aspects of the council tax system.
- **Household composition** - Single people (with or without dependent children) were less likely to believe paying council tax was simple, and less likely to believe the system protects those who can't pay.
- **Housing tenure** - Home owners were more likely to believe the system was easy to understand and simple to pay, compared with those renting their property. While 40 per cent of owners strongly agreed it was simple to pay, this fell significantly for council tenants (16%), housing association tenants (19%) and private renters (17%). Renters were more likely to support a different local tax system than home owners.
- **Council tax band** - Views on the council tax system are generally more supportive as the council tax band increases – with those in higher bands more likely to say the system is easy to understand, it is simple to pay, it is clear how money is spent and it protects those who can't pay.
- **Ethnic origin** - There were no clear trends or divergences in opinion based on ethnic origin.

Question Four

4.6 Question Four asked respondents if they could change one thing about the current council tax system, what it would be. This was an open question. 3,324 respondents (74%) answered this question. Responses to this question varied significantly. Often, respondents did not make a single point and instead made multiple comments about the existing system and the future of local taxation.

Changes to the council tax system

4.7 Overall, one per cent of respondents said that the current system was fine and did not require any changes. However, most suggested changes.

A re-valuation and review of bands

4.8 The most commonly suggested change was a review of the current bands. Approximately a quarter of respondents raised this issue. Many felt that a re-valuation was urgently required, to ensure that the system reflected up to date property values. There was particular concern about the variation between valuations for existing properties (in 1991) and new build properties since then. There were also concerns that some properties were not re-valued when improvements were made to them, until they were sold. Many felt that re-valuation would ensure that people better understood the council tax system.

> ***"A revaluation is overdue - get that done as soon as possible so people can understand the basis of their tax."***

4.9 Linked to the priority of re-valuation, many respondents also felt that the council tax bands needed to be re-calculated to reflect up to date property values. Many felt that this provided an opportunity to introduce a new threshold and potentially new bands for higher value properties. Many also indicated that the new bands should be smaller, with more graduation, to provide a fairer and more progressive system. Overall a fifth of those discussing the council tax system specifically felt that higher tax rates were required for high value properties. A small number suggested removing bandings entirely, and instead developing a tax based on a proportion of property value with no upper limit.

> ***"Redo the council tax bands to better represent the range of property values in the system and to ensure more is raised from those in the most valuable properties."***

> ***"Current valuation bandings are grossly out of date. In my area the top band H is for all houses over £212,000. That is far too low, either revalue current bands or introduce more bands for the higher value houses."***

> ***"Needs to be many more gradations - absolutely unacceptable that the highest CT is only about 3x the lowest."***

A fairer system

4.10 Approximately five per cent of respondents indicated that the council tax system needed to be fairer. Many of these respondents simply stated that the system should be fair, without providing further detail. Many stated that the system should be less regressive, and more progressive. When respondents described this in more detail, they expressed that richer people should pay more, and less affluent people should pay less in local tax than they currently do.

"The current system is unfair to those on a low income as they are required to pay a greater proportion of their income in taxation."

"Make it more progressive: rich pay more, poor pay less."

"A fairer, simpler system which reflects ones ability to contribute."

4.11 Many felt that the unfairness in the council tax system was exacerbated by the fact that properties had not been re-valued since 1991, meaning that the system did not relate to present day property values. In addition, respondents highlighted particular concerns about fairness for:

- single person households - with a number feeling that they should receive a 50 per cent reduction in council tax rates;
- disabled people - with some expressing concern about levels of awareness around council tax reductions;
- pensioners - with concern about lack of income and reliance on savings; and
- households renting their property privately – with a number suggesting that landlords should be liable for council tax rather than tenants.

A more transparent system

4.12 Approximately six per cent of respondents indicated that the system needed to be more transparent. Those commenting on transparency generally felt that members of the public required more information and more choice about how the funds gathered through council tax were spent locally. Some felt that there was a need for awareness raising around the sources of income for local government, highlighting that council tax was a small proportion of overall funds. Others felt that local people should have more of an influence over the choices that are made about how to spend (and cut spending) locally. A small number of respondents indicated particular concern that local tax was being used to pay for pension contributions for council officials. A small number of responses suggested that funds should be devolved to a more local level, to more local level decision making within local authority areas. Finally, a small number of respondents felt that the Scottish Water charges should be removed from council tax collection, to make it clearer to members of the public what services they are paying for and which organisations they are paying.

Taxing more people

4.13 Approximately five per cent of respondents felt that the system needed to encompass more people who were liable to pay tax. The main concerns expressed included:

- households are liable for council tax, rather than individuals – meaning that some felt that large households benefited;
- one individual is liable for council tax, rather than the whole household – meaning that this person is liable for any arrears rather than everyone else;
- some individuals and households are exempt from or receive reductions in their council tax – which some people felt was unfair; and
- second homes often receive reductions in council tax liability – which many felt was unfair.

4.14 It is worth noting that the language used and sentiments expressed in some of these responses was very similar (but not identical), possibly suggesting a response to a campaign in this field.

Removing the council tax freeze

4.15 Approximately four per cent of respondents felt that the freeze on council tax should be removed. Many simply stated this, without providing further commentary. However, others indicated that they felt the freeze was impacting on the ability of their local council to provide local services.

“I would ask for the current council tax freeze to be lifted. It appears to be okay for some families, but for others, particularly ones with disabled members, it is not and the reason is that local authorities are struggling with budgets and they have started charging disabled people for services. The most vulnerable people in our society should not be targeted like this...”

> ***“The freeze on Council Tax should now be stopped but protection for those who cannot afford to pay it must continue.”***
>
> ***“I am willing to pay more to maintain services. The freeze should be dropped.”***
>
> ***“It needs to go up even a little each year to cover the costs of the services it provides rather than having to close libraries, delay road repairs, etc”***

Administrative issues

4.16 One per cent of respondents said that they would like to pay over 12 months rather than 10. And two per cent said that they would like to see a review of the debt collection processes for council tax. However, views on this issue were very mixed. While around half of respondents commenting on this issue felt that debt collection for council tax was too strict and too strongly enforced, a similar proportion felt that local authorities were too lenient and should enforce debt collection more strongly.

Alternative tax systems

4.17 Almost half of the respondents to Question Four said that the main thing they would change about the current system is the basis of taxation. Most of these respondents reiterated their earlier views that the council tax system should be replaced with an alternative form of tax. A hybrid tax was the most frequently mentioned of these options, with many supporting a mix of tax based on property, land, wealth and income. Many didn’t comment on their reasons for these suggestions. However, those who did felt that hybrid options which took into account a combination of factors would be fairer than a single system.

Power to set local tax rates

4.18 Approximately five per cent of respondents commented on where the power to set local tax rates and mechanisms should lie. Of these, approximately three quarters felt that local authorities should have more power over local tax, and the remainder felt that the Scottish Government should have more power over local tax. Many respondents who felt that local authorities should have more power over local tax also felt that the council tax freeze should be ended.

4.19 Respondents who felt that local authorities should have more power over local tax generally indicated that this would create better links in terms of local accountability, local democracy and meeting local needs. A range of ideas were suggested, including:

- giving councils control over council tax levels;
- giving councils control over a wider range of options to raise tax; and
- increasing the proportion of tax raised locally.

"Councils should be have more control over local tax and how to spend it."

"Increase the proportion of tax raised locally rather than depend on government grants."

"Councils should have a range of options to raise income; property, income, sales etc, and should raise the majority of tax themselves."

4.20 Respondents who felt that the Scottish Government should have more control over local tax indicated that a central decision about tax rates would lead to more consistency, and would avoid differences across the 32 local authority areas. Some of these comments indicated a high level of dissatisfaction and distrust in local councils, and indicated that council tax was set too high due to unnecessary council spending. Some respondents suggested more widely that the number of local authorities could be reduced, resulting in savings. Some felt that a council tax set at national level would work well, while others felt that council tax should be abolished and replaced with national funding.

"...a national 'Local Services' tax but distributed by central government - that way all of Scotland pays the same."

"Council tax should be abolished, and there should be no 'local income tax'. Local authorities should get all their income from central government through general taxation."

Notes of Public Listening Events

07

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07

THE COMMISSION ON LOCAL TAX REFORM

Notes of Public Listening Events

Date	Location	In association with	Facilitated by
12 August 2015	Edinburgh	**Citizens Advice Scotland**	Democratic Society
19 August 2015	Stornoway	**Comhairle nan Eilean Siar**	Democratic Society
26 August 2015	Dundee	**CAB Dundee and Dundee City Council**	Democratic Society
27 August 2015	Edinburgh	**Scottish Council of Voluntary Organisations**	Democratic Society
31 August 2015	Arbroath	**Angus Council**	Democratic Society
1 September 2015	Perth	**Letham St Marks Church of Scotland**	Democratic Society
7 September 2015	Glasgow	**Various women's groups, hosted by Glasgow Caledonian University**	Democratic Society
8 September 2015	Glasgow	**NG Homes North Glasgow**	Democratic Society
14 September 2015	Galashiels	**Scottish Borders Council**	Democratic Society

The Commission's programme of engagement also included three additional events as follows:

Date	Location	In association with	Facilitated by
3 September 2015	Glasgow	**Young Scot**	Young Scot
14 September 2015	Glasgow	**BEMIS Scotland**	BEMIS Scotland
5 October 2015	Aberdeen	**Aberdeen City Council**	Secretariat

REPORTS FROM WORKSHOP EVENTS FACILITATED BY THE DEMOCRATIC SOCIETY

Introduction

The Commission on Local Tax Reform was set up early in 2015 "to identify and examine alternatives that would deliver a fairer system of local taxation to support the funding of services delivered by local government". A full description of its remit and membership can be found at http://localtaxcommission.scot

The Commission is putting the evidence at the heart of its work through a series of local events, a call for evidence and various formal and informal discussions. It is seeking to listen to as many views as possible about what local tax reform could mean and what it should look like. In terms of process, the Commission will seek out views through engagement exercises with communities across Scotland. The findings of these will inform the Commission's final analysis, report and recommendations.

Councillor David O'Neill, the co-chair of the Commission and President of the Convention of Scottish Local Authorities (COSLA) said:

"Across Scotland people are looking for the debate to break new ground, and that's why I am determined that this Commission will be listening to people and organisations from all parts of the country, and setting out what it would take to give our local communities a real say about what matters most to them, and the best way to pay for it."

Discussion event programme

One of the ways in which the Commission is listening to views is through a programme of conversations with different communities in different parts of Scotland.

These interactive events have been hosted by the Democratic Society and have provided an opportunity for a wide range of people to have a say about the future of local taxation. Each event lasted around 2.5 hours and was attended by members of the Commission who heard the expressed views first hand. Some events were held in the evening, others during the daytime, to allow people with different working patterns to attend.

The workshops were designed to explore the initial findings of the Commission; the public were invited to comment on these and engage in the debate, bringing their own ideas, opinions and critiques.

How the workshops were run

The workshops were open to the public. They were advertised and promoted in local and national media, as well as on the Commission's website. A number of events were convened to enable the Commission on Local Tax Reform to work with specific communities of interest – for example, Housing Association tenants or faith groups. These specific workshops were additionally promoted within, where appropriate, the host organisation's networks including their membership and the specialist press. A number of events were arranged with assistance from the local authority. In these cases, the local authority also hosted the event and promoted it locally: for example, in libraries, community centres, schools, residents' associations and Community Councils.

Workshops were designed by the Democratic Society, in collaboration with the Commission, with the objective of maximising the inclusion of every participant. The format provided a range of different opportunities to express views, in plenary, break-out groups and through individual feedback either verbally or in writing. Participants were able to provide their views confidentially on postcards distributed at the event, so there was a route for views that they felt uncomfortable expressing more directly. Participants were also supported by the facilitator to contribute their point of view when they seemed to disagree with stronger voices or the majority view.

Overall, the programme was designed to ensure that a wide range of different communities and perspectives were heard. As such, the findings of the public listening events serve to provide a rich understanding of how the public perceive and react to the tax systems discussed and they demonstrate the anecdotal opinions held.

It is important to note that, being open to the public, and with some targeting specific communities of interest, the findings from the events cannot be aggregated to demonstrate the proportions of the Scottish population holding particular views.

The information presented and the questions asked

At the workshops, representatives of the Commission described three possible models for local taxation, each one drawn from earlier evidence.

The three models presented were:

1. Property Tax
2. Land Value Tax
3. Income Tax

Staff and members of the Commission were present through the discussions to answer any technical questions that participants wanted to raise.

Commissioners and members of the Secretariat explained the different models and then asked participants to discuss five statements about each model. The five statements were the same for each model and provide the framework for this report.

1. I found this tax easy to understand.
2. This is a fair way to decide how much tax everyone will pay.
3. This tax takes people's ability to pay into account.
4. This is a good tax for local government to change in response to local preferences.
5. I think this would be a good local tax system.

After discussion of the three models, participants were also asked to raise any further comments they felt important. They were also prompted to consider the possibility of blended solutions comprising elements of the three models, as well as their own ideas.

The process was facilitated by staff from the Democratic Society who placed emphasis on neutral facilitation and allowing open discussions about each tax model. For each group discussion, participants elected a 'scribe' from their own number who had responsibility for note-taking and feeding back the key discussion points from their sessions. These were collected by the Democratic Society who reviewed, collated and summarised. Where debates and disagreements arose, every effort has been made to present all points of view fairly and accurately.

Report preparation

These reports have been independently written by the Democratic Society summarising solely from group feedback discussions on each tax system, written comments from individuals and groups and notes taken during table discussions of the tax models by the Democratic Society team. Should any questions arise, these should be directed to the Democratic Society through www.demsoc.org

Acknowledgements

This series of reports was possible thanks to the Commission on Local Tax Reform and members of the public who joined us from across Scotland to contribute their thoughts and ideas about models for local tax. The thanks of the whole team go to them.

Edinburgh discussion summary

This workshop was held in Edinburgh on 12th August 2015 with the support of Citizens Advice Scotland. The views expressed here are those of participants, not the Democratic Society nor the Commission. The following people were present:

Commissioners: Cllr David O'Neill, Don Peebles and Andy Wightman
Secretariat: Emma Close, Robin Haynes, Neil Ferguson and Ruth Wilson
Facilitators: Dr Andy Williamson and Niamh Webster (Democratic Society)
Participants: 12 Advisors from Citizens Advice Bureaux across Scotland

Overview

It was clear from the discussions that participants did not strongly favour one single system for tax reform. They thought each model proposed had a number of positive and negative aspects. Participants were primarily concerned with fairness. Perceptions of fairness and simplicity of administration were held by them to be more important than the technicalities of how fairness was achieved.

Participants thought that the identification of who pays was an important part of building simplicity. They noted that there were many different potential complexities relating to individuals' circumstances – such as occupants and landowners, beneficiaries of inherited properties and tenants or those who owned second homes. For any tax option, it was considered important to be clear about who would be liable for paying tax and what they would pay.

It was felt that transparency and accountability were essential. Participants said that tax had to have a clear connection with local services and thought that better transparency and accountability would increase people's willingness to pay.

Key Points on each tax system

Property tax was a familiar system, and therefore easy to understand. However, participants identified problems with the existing system and recommended re-valuation and/or re-banding if this were to be the Commission's recommendation. They thought that property tax had a weak link with ability to pay, although "houses are easier to find than people" so they thought there would be less risk of non-payment. They thought that because tax would be based on property value rather than occupancy, that there was also a weak link between tax payers and likely levels of service use.

Land tax was more difficult for participants at this event to understand. They found it much more complex than systems based on property and income. There was confusion on where the onus of payment lay – with tenant or landlord – and how this would work in the private rented sector (PRS) compared to the social rented sector (SRS). Although participants thought it broadly fair as a means of deciding how much tax people should pay, they did not favour it.

Participants thought that an **income tax** had the potential to take into account people's ability to pay in the local taxation system. It was also considered an easy system to understand due to their familiarity with centrally collected income tax. There were, nevertheless, a number of clarifications sought on how this system would work in practice, suggesting that its simplicity might mask complexity. Participants feared that there was a risk of increasing the poverty gap, because local tax income would depend on local residents' wealth. The difficulty of defining the detail of how it would be calculated was interpreted as a negative point by these participants.

In the wider discussion of **Mixed tax systems and other considerations**, several comments arose but no wholly new models were proposed at this event. Participants found that there were benefits in having a basket of taxes for local government to rely on, including tourist taxes and those not related to property or income. They thought that whatever system was introduced, it would have to be well communicated and simpler than the current arrangements. Furthermore, participants strongly believed that it should be perceived as fair and should not impose undue impact on taxpayers during the transitional period.

Tax Model 1: Tax based on Property

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Participants were familiar with tax based on property and felt it was the easiest tax system to understand. However, they also said that there were improvements to be made to the current system that could be achieved with re-valuation and re-banding. They highlighted that increasing the number of bands added complexity and it was unclear how re-valuing properties would lessen this:

"It is not clear to me how or when valuation would take place."

The group suggested that the way to improve property tax - if a property tax remained - was to increase the number of bandings, keeping the current spread but increasing the charge.

Fairness

Participants felt that this system would affect local authorities in deprived areas more than those in more 'well-off' areas, because the latter would have greater capacity to raise revenue. They were concerned that this would have a negative impact on areas of low income or deprivation in which property values are low, resulting in low revenue raised, and poor services.

Participants felt that a property tax model would not take into account the number of occupants per household and therefore would not be proportional to a household's potential impact on services. This, they thought, might lead to unfairness for taxpayers from low-occupancy households who pay the same tax as high-occupancy households but use fewer services. Participants felt that this possible disparity affected the fairness of the system.

Participants worried that the impact of re-valuation or pricing for improved property or new-build property was unclear, and that this could lead to a disincentive on owners to improve their property.

Participants were concerned with the impact that this model would have on tenants in the private rented sector (PRS) and the social rented sector (SRS), feeling that people were confused about who should be responsible for payment. They cited the example that if a house is rented, not owned, then it is not always clear whether the landlord or the tenant would pay the council tax.

Ability to pay

Participants felt very strongly that a tax based on property did not take into account people's ability to pay:

"People's ability to pay is not considered at all in this system."

The group noted that the property tax would not include any assessment of income, outgoings or personal circumstances. They also noted that the banding system means everyone in the same band would pay the same, which participants felt would not be fair in all circumstances.

Good tax for local government to change in response to local preferences

There was a strong view that the current council tax system, based on property values, created a poor link between taxation and services. Participants believed that the lack of transparency led to non-payment, citing the example of young people who often did not know what council tax was and where it went, and evaded council tax as a result. Additionally, participants felt that there was a low general level of understanding of the various different taxes and charges homeowners paid, for example for water and sewage.

The group felt that under this model, there was widespread lack of accountability for local authorities because of a lack of transparency in expenditure.

Participants suggested improving transparency of council tax payments by improving the billing procedure, to give clearer information about what the revenue raised is spent on. This arose from a discussion of the billing procedure and duplication of bills that can lead to problems such as overpayment.

Overall rating

Participants were divided in their overall opinion of the system for a variety of reasons. The tax system was rated highly for ease of understanding but low for fairness and taking into account ability to pay. There was general agreement from the group that the current system based on property was undesirable. However, they thought that the system could be improved, for example by increasing accessibility and transparency, and by re-valuation and re-banding. On balance, though, they felt the system, even if improved, would still not sufficiently tackle issues of fairness and ability to pay.

Tax Model 2: Tax based on Land

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Participants found this tax system difficult to understand and therefore difficult to explain. They thought that Citizens' Advice Bureau clients would struggle with the concept, particularly in urban areas with flats and high-rise buildings. They also thought that, due to this model's complexity, it would be hard to implement and collect revenue:

"This system is the least easy to understand."

Fairness

There was some confusion around the assumption that landlords would be responsible for payment of the tax. Participants thought that, as councils own the land on which council estates are built, they should ensure that council tenants paid no more in land tax than they did in council tax. They sought clarification on how a land tax model would work for tenants in private and social rented sectors. Participants were concerned that this system would not make sense to renters who had to pay the tax in addition to rent and might not understand why the landlord had increased the charge to cover the land tax:

"If you don't own the land, why should you pay land tax on it?"

Participants were concerned that this could lead to unfair increases in rent prices through over-charging.

Participants considered that this tax system could result in an increase in evictions if landlords had to collect the tax from their tenants. Participants also thought that there might be a reduction in the number of landlords, who might feel compelled to increase rents in order to cover the expense of the tax and unwilling to risk tenants not paying the higher rents:

"Landlords might not be able to pay their tax if their tenant withholds rent or delays payments - or refuses to pay the amount due for the tax."

Participants felt this might also cause an increase in landlord debt.

There were a number of clarifications sought on the banding system and classification system for how land values would be set, to address such issues such as houseboats being classified for a tax based on land value.

Ability to pay

Participants felt that the tax based on land did not take into account people's ability to pay. They recognised that it can be hard to relate wealth and income to the value of land, and thought that in some circumstances this could be an unfair way to tax people. Participants also felt that the ability to pay would be different for landowners and tenants. They were concerned that people who are renting might struggle to pay the amount that reflects the value of the land:

“There would be difficulties with perception between land value and land ownership.”

Good tax for local government to change in response to local preferences

Participants felt that this tax system did not make the link between tax and local services transparent. They repeated the issues of transparency and accountability in council spending to emphasise the lack of any clear link between payment and council services. It was felt that improving the link could only be achieved with full discussion on the revenue-raising capacity of the local authority.

Overall rating

Participants felt this model was too complicated. They believed there could be problems arising from variations between land value, land occupancy and land ownership. They felt this could lead to problems for tenants, landlords and councils relating to non-payment and possible eviction increases. Participants were particularly concerned with the risk of non-payments and increasing numbers of eviction proceedings in the private rented sector. They also noted the wider impact that this might have:

“There is a massive social impact of rent arrears.”

Tax Model 3: Tax based on Income

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Although participants understood income tax as a concept, and thought that a local income tax would be easy to implement, they found it more challenging to understand than they initially thought they would. It raised a number of questions on which they sought clarification, including:

- Would current exemptions and reductions apply?
- Would personal savings be taken into account?
- Would water and sewage still be charged separately?
- Would the number of dependents (children) be taken into account?
- How would the tax differentiate between households and individuals?
- How would it affect the self-employed?

The number of questions suggested that while this might be a superficially simple model, it had many underlying complexities. There were also some discussions of how to tax asset wealth instead of income where it was argued that those who were asset rich but income poor would be ignored under this model.

Fairness

If higher-wage areas raised more tax, participants thought that this would be unfair on low-wage areas. Similarly, they thought there would be a disparity between where people live and pay council tax, and where people work and use services. They noted that many people work in different local authority areas to where they live, for example people who commute to major cities from outlying areas. They thought this would lead to some disconnect between what services they would use and what they would be paying. Participants were concerned that this would contribute to a lack of accountability and undermine the relationship between local people and their local authority.

Participants felt there was a risk that areas of low-income within individual council areas would be disproportionally affected by this system and would see deterioration in council supplied services compared with those in richer areas. Against that, it was noted that there was potential for this revenue to be redistributed from areas of high-income to areas of low-income. They felt that all areas covered by a local authority should receive the same quality of services; council tax raised from a proposed income tax model should be redistributed and spent across the whole council area in order to be fair.

The group raised concern about the potential impact on individuals that would come with change to this model from the current one. Collection of revenue could cause problems for people, they thought, as some taxpayers might see big shifts in tax burden. Participants worried that if benefits or discounts were delayed in their implementation, people could build up debt while waiting for the changes to take effect.

Ability to pay

Participants felt that taking into consideration people's ability to pay and individual circumstances were important for any new tax model. The group felt that the model based on income fully took into account people's ability to pay, and because of this, regarded it as broadly progressive:

"This tax system could be quite progressive."

Participants felt it was important that everyone should pay through the same means and were largely satisfied that this could be done through the PAYE system, collecting the tax at source. Participants recognised that the responsibility for collection lies with the employer, and that this system was therefore likely to put the onus of tax collection on employers and businesses, instead of on the local authority. Participants considered the relationship between HMRC and councils unclear; clarification and greater transparency surrounding the responsibilities of councils is needed.

Participants were concerned about the potential impact of this model on people who receive benefits and how they would be protected during the implementation of this system. Some noted that different levels of administration and different computer systems would have to work seamlessly together. They understood that local coding would be possible but difficult, recognising that the Scottish Government has no competency to direct HMRC.

Good tax for local government to change in response to local preferences

The discussion on how to improve the link between the taxes raised and the local authority brought up the issues of revenue raising capacity of the local authority and fiscal autonomy. These issues were not discussed further as they were broader than the tax models under scrutiny.

Overall rating

Participants thought that consideration for people's ability to pay was an important aspect of a reformed tax system and that an income tax model was the most appropriate system from that perspective:

"People's ability to pay is fundamental to this."

There were some substantial clarifications and questions to be answered in terms of the detail and implementation, though largely this system was viewed favourably.

Mixed Tax Systems and Other Considerations

The groups were given the opportunity to raise the issues they felt were relevant and also to consider how combining different tax systems might work. The themes raised were as follows:

Themes

Basket of taxes better than a tax based solely on income: Participants considered additional taxes, including a tourist tax, as possible options to augment other models. They were concerned that if income in an area dropped then councils funded by an income tax might have to provide more services on lower revenue and services might deteriorate. A broader base would mitigate that effect, so they thought that a mixed system would be beneficial. However, they noted that any reformed system must be cost-effective and fit for purpose if people are to be willing to pay it.

Perception of fairness: Participants felt that, although any new tax model should be fair, it would be important that a reformed system should not be overly technical or complex to achieve a fairer system.

Payment of council tax and services provided: understanding the link
Participants had a good understanding of the link between their payment of council tax and the services provided in their local area. They noted, however, that their clients at Citizens Advice Bureaux largely did not clearly understand this link:

"I personally understand the link between council tax and local services, but from my experience as an Advisor at Citizens Advice Bureau, there is a clear lack of understanding from clients and the wider community – people don't know what it is they're paying for."

Participants felt that the level of understanding would depend on how the information on spend was communicated. To improve chances of this being done well, the group felt that any changes should prioritise improving the link to the local authority through increased transparency of expenditure. They stated that accountability should play an important part, with reform of the tax system taking on a joined-up approach with recent community empowerment legislation which enables communities to hold authorities to account.

Accountability and Transparency: There was concern among participants about local authority accountability overall. It was suggested that this could be improved by greater transparency and increased revenue-raising capacity. They thought that a visible, efficient and fair local tax system has the potential to increase local democracy through making local councils more accountable to their local area.

Participants thought that how money is spent is more important than the issue of where the money is raised - i.e. raised locally or centrally. Participants felt that how much someone pays is often related to how much accountability they expect of the local or central government.

Accessibility, better use of technology and increased digital use: Participants felt that the current system is difficult to understand even for those with good numeracy and literacy skills and that reform could improve this. Such reform, they thought, should also make it easier to access digital tax services and online information, although this might require some additional investment in digital literacy.

Exceptions: There were some issues of fairness that needed clarifying at this event in relation to the following specific circumstances:

- Inherited second homes in which beneficiaries cannot afford to keep up council tax payments, or where there is disagreement between beneficiaries selling.
- The elderly and retired living in larger homes.
- Those on means tested benefits who already struggle to pay for everything. The cost incurred in pursuing these people for collection has a disproportionate impact.

Additional Points for the Commission

Participants were invited to give additional individual and anonymous written comments at the start and end of the event. Here are the points and questions raised:

- *"Include water and sewage charges with new council tax billing and collection arrangements."*
- *"Take into account any current existing reductions or discounts that people already qualify for in the transition to a new system."*
- *"More bands for council tax with a lower starting point and higher top end, which would be more equitable for all."*
- *"Disconnect council tax payments from Scottish water payments."*
- *"Any reform of the tax system should consider the following:*
    - *What will happen to current arrears?*
    - *Vulnerable people's ability to pay*
    - *Better arrangements for those in arrears – not treating directly as non-payments and court orders – need improved negotiation."*

Stornoway discussion summary

This workshop was held in Stornoway on 19th of August 2015. The views expressed here are those of participants, not the Democratic Society nor the Commission. The following people were present:

Commissioners: Marco Biagi MSP, Cllr Angus Campbell
Facilitators: Andy Williamson (Lead Facilitator), Niamh Webster (Support Facilitator) and Alistair Stoddart (Support Facilitator)
Participants: 17 members of the public

Overview

As well as general discussions, this event brought up issues of particular relevance to the Outer Hebrides, with participants voicing concerns about the uncertain future of crofting tenures and the possible impact of Council Tax reform. Participants were especially worried that the relationship between landlord and tenant might become difficult for crofting tenures if a land value tax was introduced.

More generally, they focused on the concept of fairness, emphasising that the reformed system must be transparent and the council accountable. It was also particularly important to participants that there be a clear link between tax raised locally and spend on local service provision. This sense of fairness was deeply felt; it incorporated a recognition that taxation, if not managed well, can place a disproportionate burden on some of the most vulnerable members of society who struggle to meet the cost of living:

"In reforming Council Tax, it is really important that you recognise the amount of people (working and otherwise) who really struggle to exist."

People at this event were generally favourable to seeing some form of taxation on property, but expressed dissatisfaction with the current system. One suggestion was to alter the current council tax system to bring it up-to-date through changes to the banding and current house values.

In relation to a local income tax system, participants were concerned that population variances between densely populated areas and rural areas could result in differences in the council's revenue raising capacity. They thought this could mean rural areas such as the Outer Hebrides were less able to raise revenue than other areas, though costs were sometimes higher because of the islands' sparse population and numerous holiday homes. The concern was that this disparity in wealth would result in a decrease in the quality of services in deprived areas where income is lower and higher quality services in areas where income is higher. The focus of the discussion assumed a correlation between rural areas and lower income, with lower earning individuals living in more remote, rural locations. This correlation was made on the basis of attendees' personal experiences and observations. The principle, however, appears to be transferable to local councils in poorer urban areas: if the council is less able to raise revenue, they may only be able to offer lower service quality.

Participants believed that Council Tax should not be reformed without recognition of the wider impact of change on other parts of the system. They felt it was important to address the effect this would have on other taxes such as rates for non-domiciled residents and second homes.

Key points on each tax system

Familiarity with tax based on **property** made it easy to understand. However, participants in Stornoway felt that the system would be significantly improved if valuations were brought into line with today's property values. Additionally, they thought that not taking into account people's ability to pay was detrimental to the overall system.

Participants considering the **land tax** were concerned that landlords could take advantage of tenants by increasing rents disproportionately – citing land value tax as the reason. There were also concerns for leaseholders of crofting tenures due to the impact a shifting burden of payment responsibility might have on the landlord-tenant relationship.

While it was largely agreed that an **income**-based system most obviously took people's ability to pay into account, participants noted that ability to pay does not necessarily translate into willingness to pay, so evasion or avoidance could be an issue. Participants also raised the issue that the income tax system would lose the direct link between local people paying tax and the local council delivering services.

Mixed tax systems and optional features – Participants were reluctant to favour a mix of systems as they felt that the added complexity for people's understanding outweighed the benefits of a wider tax basis. Throughout all discussions a key concern was that the reform of the tax system should result in a system that is clear, transparent, easy to understand and fair.

Tax Model 1: Tax based on Property

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Participants were familiar with the system so agreed that the principle is easy to understand. They also recognised that there can be difficulties in classifications of properties. However, they sought clarification on how the system would work for self-employed people. Would they pay domestic or business rates? Concerns were raised that property valuation could be subjective.

Fairness

Some participants felt this was a fair system because they thought property ownership to be an accurate measurement of personal wealth, something they identified as a key indicator of a fair system:

"Owning a house and house size are both measures of wealth."

Participants felt there would be a need to update property valuations, as the existing valuations are out of date and properties that have been modernised and refurbished need to be re-assessed:

"The 1991 valuations are irrelevant now."

They suggested that adjustments to the tax band should be made for the number of occupants and also that the age of occupants should be taken into account when setting the rate to be paid.

Throughout the discussions, participants explained they saw this tax as having an unfair impact on some groups. For example, it was felt that this tax model does not take into account people who find it difficult to pay, such as widowers, pensioners and low-income families. In cases where an individual has inherited a home and/or where they, through no conscious choice or planning, own empty homes, they may face real hardship. Based on the personal perspectives of the group, discussion explored circumstances in which a person has not planned, desired or budgeted for an additional property aside from the one they live in and so might struggle to pay taxes as a result of circumstances beyond their control. Participants suggested that introducing categories to account for these groups could be added to the system to improve the discounts and reductions system.

Participants felt there were not enough bands at the lowest end and at the highest end of property values; in effect, the bands at either end of the spectrum pool together too wide a range and so some are paying proportionately more tax relative to property value. This may mean that people at the lowest end of the bands are paying more than they can afford and people at the higher end are paying less. Participants were also concerned that unfair banding could introduce difficulties for people at the thresholds:

"It's too big a jump for people who fall just above the threshold."

Ability to pay

Participants felt that this system did not take into account a person's ability to pay and so could not be said to work for all members of the community. Some participants suggested that assumptions about the wealth of a property owner should not be made on property size. This may relate particularly to income and expenditure, both of which are highly variable and not necessarily linked to property value.

Participants suggested that the system did not clearly take into account exceptional circumstances, such as people who inherit a traditional family home and cannot sell due to family disputes. This was seen as particularly relevant in the Outer Hebrides in relation to the inheritance of croft houses.

Good tax for local government to change in response to local preferences

Participants felt this system kept a strong local link because it is a distinct and separate bill to the home, compared to income tax where payments are taken through the PAYE system:

"it's obvious, rather than hidden in your pay cheque."

A reformed property tax was seen to have the same flexibility for local authorities as the current system, but participants suggested that it would improve the link between payment and council services if it could raise more tax than just 15% of local government budgets.

Participants raised the issue that taxes would be paid where people lived, not where they worked, and these could be in different council areas.

Overall rating

Some participants felt that that "tweaks" to the current system would fail to overcome its inherent problems, and that there needed to be a more holistic approach and radical re-appraisal. However, participants largely felt comfortable with this model if it could be adjusted to reflect the modifications and improvements that they had proposed in discussion. In particular, as explored above, these modifications included re-assessment to reflect up to date property values, accurate means testing and a greater focus on equality and individual circumstances.

Tax System 2 – Tax based on Land Value

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

While some participants found this system straightforward, many felt there was insufficient detail provided as to how the model would work in practice. For example, participants noted that unfamiliarity made the system harder to understand and in particular they sought clarification on whether a landowner could have different rates for properties. Participants also wanted to know more about other land value taxation systems used in European countries.

Participants were concerned that people would struggle to understand how land values will be worked out and that any re-valuation for Council Tax would make this tax system more challenging overall:

"The disparity in land valuation will be difficult to understand."

Participants raised concerns about the potential complexity of the implementation of this tax system in relation to crofting land and community land ownership. They struggled to understand how valuation would work due to low land values in the Highlands and Islands:

"…land value in Highlands and Islands is virtually zero."

Fairness

Participants strongly expressed the view that this system would not sufficiently recognise the issues of crofts, nor land owned by families for generations in the Outer Hebrides. The issue of crofting tenure, which affected many people in the area, would be complex. Also, participants felt the system did not work for urban areas; i.e. there were complexities with working out how much people pay in a block of flats.

Participants felt there were a number of negatives to this system, one of which would be that it could encourage high-density housing. They also noted that sales of land might become increasingly difficult as the value of land would become a more important element of the purchasing decision.

Participants expressed concern that community estates could be unfairly penalised if tenants could not pay, and that this could have a detrimental impact upon the locality.
They were further concerns about the risk of landlords charging more than the actual level of tax in order to compensate for potential risk of non-payment:

"This tax system could lead to landlords treating community estates unfairly and penalising them harshly for non-payment."

Ability to pay

Participants felt this system did not take ability to pay into account. It also would ignore household occupancy and the impact this would have on the occupants' ability to pay.

Participants raised the issue of charities who are landowners and community ownership projects, noting that this system would not be fair if it did not take their ability to pay into account. Participants recommended that the system should have exemptions or discounts for these groups.

They identified risks associated with tenant non-payment and resulting eviction:

"Could this lead to the next Highland Clearances?"

Participants were concerned that the burden of collection would fall on landlords. They felt that the administrative onus of tax collection would be unduly expensive and place an unfair burden of responsibility on landlords. Additionally, participants were concerned that benefits and council tax reductions would be difficult to assess and implement with the landlord as the tax collector.

Good tax for local government to change in response to local preferences

Participants were divided in their answers to this question. Some felt this system had the potential to respond to local needs. Others doubted that this tax system would be any improvement on the current system. Some participants felt they did not have sufficient information and knowledge about this system to answer fully, so understanding was limited.

Largely, participants felt that the land tax system would break the link between taxpayers and the council. Some people might not be aware of the tax paid to the council because it would be hidden in their rent.

They cited the local example of croft houses which will be paying their landlord, and therefore have no link with the council.

Participants also raised concerns about property currently owned by the council and used as social housing. How would the council pay itself tax?

There was a concern that this system could lead to social differences in the community with some people, as landowners, paying tax to the council and others, as tenants, paying tax to their landlords.

Participants felt that there could be unintended consequences of shifting the burden of collection, and that it could appear that the council would be using the system to make savings, with one participant suggesting the council could be:

"just cutting costs in tax collection by changing to this system".

Other participants felt this system would be difficult to implement and administer, voicing the opinion that the system seemed:

"very unwieldy".

Overall rating

Overall, it was felt that a land value tax would be high risk because of the high levels of influence that landlords and valuations would have on the tax rates.

While participants felt that this system had many negative points, they did believe that it might work better in combination with other taxes as an additional tax, and could be fair if it were altered as outlined above. Participants voiced other concerns that existing local boundary disputes could escalate on the introduction of valuation:

"I think this would be really tricky to implement – and it will inevitably be compared with the system we have right now."

Participants at this event felt that this tax system was especially unsuitable for areas with crofting tenure and community estates, however they recognised that there were a number of merits of the system including that it might work better as a tax system for non-domestic properties and land.

Tax System 3: Tax based on Income

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Participants initially found it easy to understand, as they were familiar with income tax and the PAYE system, but through discussion many questions arose – such as the status of non-domiciles and discrepancies between high and low areas of population – demonstrating that it was not as straightforward a system as people initially thought:

"Income tax as we know it is straightforward and easily understood."

Fairness

Participants were concerned that this system might be perceived as a disincentive to work, as tax may be avoided by having no income.

Participants were also concerned about ease of avoidance and of potential evasion with this model through concealing income or through receiving income from abroad.
They raised the issue that the burden of collection could fall on businesses, adding to their existing tax collection responsibilities through PAYE and National Insurance. They felt this was unfair on businesses and also might cause cash flow problems. Some participants thought it was an unfair trade-off for local authorities to make cost savings in terms of collection:

"Who is liable?"

Participants in Stornoway were concerned about the population differences across Scotland and the impact that could have on the total revenue raised through income tax. They thought that the Western Isles would raise less money due to the low numbers of taxpayers compared with other areas of the country. The same could be said of council areas of primarily low-income taxpayers compared to high-income taxpayer areas.

Ability to pay

Evasion and avoidance – participants noted that willingness to pay is not taken into account when considering the ability to pay and evasion or avoidance could be a problem.

Participants noted that this system does not take outgoings into account such as care costs, children etc. They also felt that it was detrimental to the ability to pay that the system did not take household income into account, such as family income from other adult earners in the household.

Good tax for local government to change in response to local preferences

Some participants were sceptical about the potential benefit to local areas if this tax were raised by central government. The relationship with HMRC confused participants:

"The local council will have no ability to do anything about it."

Participants felt that there should be a redistribution of funds. If central government was responsible for the tax it should take into account the demographics of each local area when allocating budget across local authority areas.

Participants thought that without a bill to pay directly to the council, people would not have a direct relationship with the council. Participants were concerned that this would have a negative impact on the local community as if people become remote from the council, this undermines engagement between the individuals living in an area and the individuals with the power to make decisions about that area.

Participants suggested that a local income tax could lead to councils striving to increase levels of local income in order to be able to tax it. This was seen as a positive outcome as it could simultaneously result in improvements in living standards and in local service provision. Participants also thought this could be an incentive for businesses to locate to the locality and contribute to improving life in the community.

Overall rating

Participants were divided in their opinion on whether this was a good system for local taxation:

"There are too many unknowns."

Participants were concerned that it was too risky and susceptible to fluctuations. On the other hand, however, they felt that compared with the other systems it posed fewer risks.

Mixed Tax Systems and Other Considerations

The groups were given the opportunity to raise the issues they felt were relevant and also to consider how combining different tax systems might work. The themes raised were as follows:

Themes

Participants took the whole room discussion as an opportunity to highlight their key concerns with reform of local council tax. They were keen to see a new system based on the principles of fairness, transparency and an accurate reflection of the ability to pay, but did not feel that any of the models presented here offered a good solution.

The ability to pay was thought to be the most important consideration for reform. The best system would therefore be one that best reflects this:

"The bottom line is, it needs to be fair, equitable and based on the ability to pay."

Participants were keen that the reformed local tax should be clear and easy to understand, noting that mixed systems can be less straightforward. In particular, they recognised that they were uncomfortable with a mixed system as it was new and unfamiliar.

Participants were concerned about transparency and that increases in complexity would lead to reluctance to pay:

"The more complicated the tax is, the more opaque the tax system becomes."

Property tax was something that participants wanted to retain, noting that:

"A house is a form of wealth and so there should be some recognition of this in the tax system".

This was particularly prevalent when compared with an income tax system:

"If I chose to save the money, rather than buy a house I would be taxed on any income I earned on that money, so why not on the value of my house?"

Additional Points for the Commission

Participants were invited to give additional individual and anonymous written comments at the start and end of the event. Here are the points and questions raised:

- "Should HMRC collect all tax and redistribute to all 32 councils?"
- "Try out a land tax and review it after five years."
- "Don't reform the system, just add other taxes such as an air passenger tax."
- "Unify the health boards and local authorities, in line with the recent Health and Social Care integration and fund them through central government."
- "Any reform of the tax system should take account of the most vulnerable in communities and how they will be affected by the reform."

Dundee discussion summary

This workshop was held in Tannadice, Dundee on 26th August 2015. The views expressed here are those of participants, not the Democratic Society nor the Commission. The following people were present:

Commissioners: Councillor David O'Neill & Dr Jim McCormick
Secretariat: Emma Close & Neil Ferguson
Facilitators: Andy Williamson & Alistair Stoddart
Participants: 8 members of the public

Overview

It was clear from the discussions that workshop attendees did not strongly favour one of the three systems for tax reform over the others; each model proposed had positive and negative aspects. Instead, participants thought that mixing tax systems to find the correct balance was perhaps the best way to go about reforming local tax.

There was disagreement over various issues including the extent to which a local property tax can be made fairer; the viability of a local land value tax; and the overall benefits of a local income tax. Most participants were particularly concerned with ease of understanding and ability to pay. A recurring theme was the importance of exploring the entire tax system, as opposed to just one small part of local tax, in order to ensure all taxes were fairer within a broad and balanced tax system.

Key Points on each tax system

Property – Participants were familiar with this system, but thought that the way it works at present is unfair, impersonal and unrelated to income. There was a feeling that a property-based system could be made fairer through re-valuation and re-banding, but that the focus on property assets over income would need to be balanced by other elements in the tax system.

Land – Participants found land value tax hard to understand initially. They felt that it was based on something more stable than income or house values and could therefore give councils a more reliable income stream. However, participants also felt that it shared the problem of property-based tax: with both models, there is little scope for flexibility in relation to personal circumstances. Participants were concerned that those who did not pay the tax directly (because they were tenants rather than owners) would lose the connection between the money they paid and the council services they received.

Income – Participants found the concept of a local income tax very easy to understand, but there was confusion amongst the group about how the system would be implemented. The group found the system reasonably progressive and linked to ability to pay but were concerned about tax avoidance and impact of regional borders. There was some debate about the cost of administering such a system across 32 local authorities, given the volatile and variable nature of income tax receipts.

In a wider discussion exploring other aspects of local tax, the group concluded that mixing taxes to find the correct balance across the whole tax system was a desirable approach. Participants also welcomed the idea of an "empty homes tax" as a means to encourage people to live in or to sell their property. Charges for services were also discussed and most of the group were against an increase in charges due to possible negative consequences such as a decrease in the use of council services. Overall, the group felt that simplicity was a more important virtue than efficiency when it came to assessing an overall local tax system.

Tax Model 1: Tax based on Property

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Participants considered a local tax based on property was easy to understand, but some noted that this could be because of familiarity, as it is the system that most closely resembles the current model.

While participants made it clear that they found the model easy to understand in principle, they suggested there was a need for clarity on how a reformed property tax model would work.

For instance, attendees felt that any reformed council tax system should involve re-banding and re-valuing, with one attendee noting that *"a property tax based on out-of-date housing valuations is insane".*

However, participants were not clear on how new values or bands should be decided, and they noted that this could lead to confusion.

Fairness

There was a split between attendees over whether a local tax based on property could be considered a fair way to decide how much tax people should pay.

Some thought that it was an extremely unfair model because it was "impersonal and cannot react to personal circumstance.":

"If someone loses their job, or takes a large pay cut, but still lives in the same property, the property tax model will not take this into account."

It was also highlighted that a local property tax did not take into account household occupancy, so a household with seven occupants paid the same as a similar property with two occupants. Therefore, some participants felt that the property tax model was unfairly focussed on buildings instead of people.

However, other attendees felt that a local tax based on property could be made fair "with adjustment of bands and re-valuation" of property in order to make it a more progressive system. It was not clear how this process could take into account occupancy.

It was also noted that while a local tax based on property could be deemed unfair due to its focus on property wealth over actual income, this perceived unfairness could be "balanced out by a range of taxes in a broad based tax system". For example, the national income tax system could help make amends for any unfairness in the local property tax system, and vice versa:

"The whole tax system must be looked at to assess the overall fairness of each tax within that system."

Ability to pay

Participants felt very strongly that a tax based on property “did not reflect people’s ability to pay”. Nearly all participants showed a high level of dissatisfaction with the system’s sensitivity for taking into account people’s ability to pay. This observation was also closely linked to the concerns highlighted when considering the fairness of the system.

Participants returned to the idea that this issue could be balanced out if a local property tax was part of a broader tax system with a range of models in place.

Good tax for local government to change in response to local preferences

Many participants felt that the level of tax raised by a local property tax, “or indeed any local tax”, does not link directly to services provided. This is because current council tax only accounts for 12% of funding for local government.

This raised the issue of local democracy and subsidiarity. Here, participants felt that there is a need for more powers to be devolved to local government and communities to decide how their local taxes should be spent in their local areas. One participant noted that a local tax based on property *could* be a good tax for local government to change in response to local preferences but *only* if local government and communities had more freedom to decide how to raise and spend local government revenues.

Overall rating

Overall, participants were split in their opinion on a property based local tax. Some were strongly against the idea due to the issues discussed around fairness and ability to pay. Others thought it a “reasonable” system, which could be improved via re-banding and re-valuation. One participant was “very satisfied” with a property based local tax system providing “it was part of the mix in a broad and balanced tax system.”

Tax Model 2: Tax based on Land

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

In terms of ease of understanding, most attendees noted that while conceptually land value tax was "not that difficult to understand," they needed time to understand the way the system would work in practice:

"The principle of land value tax is easy to understand, but there may need to be more explanation in order for people to understand how it will be implemented."

Participants felt that if any form of land value tax were to be implemented, "a lot of time and effort would need to be put into explaining the system to the general public." The reason for this was partially because most people have "no concept of how it will work as there is nothing within the current tax system to compare it with." In contrast, income and property taxes already exist either as part of a national tax system, or existing local taxation.

Fairness

Many participants believed that a tax based on land value could be "fairer than just a property tax" due to the possibility of lower charges for people who live in social housing. They thought that a high density population on a single plot of land (for example in a block of flats) would share the tax burden that a single household on a similar plot of land would have to bear alone.

For this reason, some participants believed that land value tax had the potential to be more progressive than a tax based on property. This was not, however, a universal belief: two people in particular found land value tax an unfair way of deciding how much tax everyone will pay due to limitations in the system's capacity to take into account people's ability to pay (as detailed below), which they believed outweighed the advantages.

Ability to Pay

While there were those who noted that a land value tax had the potential to be fairer than property tax, especially for social housing tenants, the group were mostly in agreement that the tax "does not relate to ability to pay".

One participant noted that land value tax was "the same as property" in this respect, and gave rise to the same concerns around lack of flexibility around personal circumstances.

There was also a discussion around the possibility of private renters not paying any direct council tax, as the landlord would be responsible for paying any land value tax. Some attendees were concerned that landlords would pass on the cost of tax to tenants by increasing rent without taking into consideration their ability to pay.

Good tax for local government to change in response to local preferences

Some attendees thought that a land value tax *"may break links between tenants and their local authority";* tenants might not need to pay any council tax if it is paid by the land owner and included in the cost of rent. Therefore, it may be harder for these people to understand the connection between their council tax and local services.

It was noted that if a local land value tax *“does not include all types of land then it will not link into services provided”* and not cause enough of an impact to respond to local preferences. It was suggested that including non-domestic rates in a land value tax could allow local government more flexibility and leverage to respond to different local situations, land usage and land ownership.

While attendees noted that they understood that the remit of the Commission was to focus on domestic local tax rates, some also noted that the Commission should *“be brave”* and comment on opportunities for councils to use land value tax for *“all types of land”* including non-domestic land such as *“big estates”.* One participant went so far as to say that “land value tax is pointless if it doesn’t tax all land” in a local authority area.

Another attendee thought that land value tax could be more readily changed in response to local preferences, because *“land value is less volatile than either property value or income.”* In this scenario, a reformed property tax that is regularly revised to reflect the changing values of properties could become volatile and would not guarantee councils a certain level of income. In contrast, land values, being more stable, potentially provide a more reliable basis for calculating tax.

Some participants also felt that land value tax could help councils to achieve local ambitions due to *“positive knock-on consequences”,* such as encouraging the building of new developments and infrastructure. Councils could charge a higher rate for undeveloped land and provide tax breaks for land that is used to enhance infrastructure.

One participant described land value tax as having the ability to create:

“Strategic economic levers that a council could use to create other benefits to the community, more so than with a different more progressive form of tax.”

Overall rating

Overall, most of the group felt that land value tax “might be worth looking at in more detail”, especially as part of a solution that uses multiple tax systems. The group suggested that a land value tax could be “an element of a good system”.

However, a vocal minority of attendees were particularly against the idea of a land value tax and strongly disagreed that it would be a good local tax system.

Tax Model 3: Tax based on Income

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

The attendees were in "no doubt" that a local tax based on income was "simple, straightforward, and easy to understand". One participant noted that "people are already very clear on the concept of income tax" due to the existing national income tax.

Participants also felt that a local income tax made it easier to understand how taxes would be spent, as "so much pence in the pound from your pay would go into local services." One attendee noted that a local tax based on income had a "superficial" appeal due to ease of understanding and they stressed that this superficial appeal "was not necessarily a bad thing".

However, as with all of the systems being discussed during the workshop, attendees felt that it was difficult to understand how the tax system would be implemented in practice.

Some attendees noted that other countries, such as Scandinavian countries, used a local income tax system; given this observation, they believed that a local tax based on income "can work because it happens elsewhere". However, there was confusion around how Scotland could create and implement a local tax system: attendees were "unsure" of how the transition to a local income tax will take place. Participants wanted much more clarity of "how we can go from our current situation of not having a local income tax, to it being implemented in full across all local authorities in Scotland".

Fairness

In terms of fairness, attendees found a local income tax "reasonably progressive".

However, participants highlighted concerns over the fairness of "regional borders". Participants noted that some wealthier people tend to live in different local authority areas to where they work. An example was given of someone who works in Dundee, but lives in Perth & Kinross. That person would earn their income in Dundee, but give the tax they pay on their income to Perth and Kinross Council. This may result in Dundee City Council receiving less funding if the majority of higher paid employees live outside the Council area and commute into the city.

There were also concerns from attendees about the possibility of people avoiding paying a local income tax, especially wealthier people who may have the resources to hide their earnings from the collecting council.

When asked by the facilitator if implementing a local income tax would perhaps force local councils to deal with the problem of tax avoidance as it could encourage a localised focus on the issue, attendees were unanimous and adamant that councils would not be able to stop people unfairly avoiding tax.

Participants agreed that a local income tax would be "expensive to collect and police". One participant added that "the human resource cost of pursuing unpaid tax could be more than what the council would earn back in receipts from those you catch". It was then suggested that a local income tax could lead to further inequality, as those on high incomes with the resources and knowledge to avoid tax would do so to the detriment of other taxpayers on lower incomes.

One participant stressed the importance of having a broad tax base and highlighted that if both local and national tax were based on income, “there would be too much tax demand in one area of taxation, which does not create balance and does not take into consideration any non-income based assets”:

“If a local tax on income was introduced on its own it would overload the tax base, as all taxes would be focussed on the individual.”

Ability to Pay

Attendees felt that a local tax based on income took into account people’s ability to pay “reasonably well”. However, it was noted that the local income tax system only considered “earned income and not wealth”, including other assets such as property and investments:

“Local income tax takes ability to pay into account, except for the very rich who may not have an earned income as all their earnings could come from investments.”

Once again the issue of wealthy individuals avoiding a local income tax was raised, but the discussion of ability to pay raised concerns about self-employed workers whose income could vary wildly, or worse still, be concealed from the collecting local authority.

Good tax for local government to change in response to local preferences

Attendees noted that a local income tax “has capacity to be responsive to local needs, especially if local councils can set their own rates and bands”. They also noted that such flexibility could bring various “consequences”.

These consequences included a possible disincentive for people to live in specific local authority areas if rates were higher than in one area compared to those of neighbouring councils.

Participants believed that another possible consequence was the expense of the process, from setting up and maintaining 32 separate local tax revenue offices:

“What is the body of work that needs to be done to set up a Local Income Tax system? How much would it cost to implement? It sounds like it would be a difficult and expensive process.”

Another possible consequence highlighted by attendees was the potential drop in the collection rates for a local income tax. Attendees noted that the current council tax has a very high collection rate versus a lower collection rate for national income tax.

The final consequence participants highlighted was the possibility of local income tax generating a “volatile yield”. Attendees found the method “unstable” and noted that there would be “variability of receipts generated in each year of collection”. This would be linked to personal circumstances, which are inevitably more fluid than the state of a property or land:

“Local income tax could be an unstable way of generating income for our local authorities. If a major employer in an area announces mass redundancies, there would be a significant fall in tax received by the council where the laid off workers live. Conversely, a local income tax could encourage bidding wars between councils to get big companies into their area.”

Attendees considered that a local income tax could provide flexibility for a council to respond to local preferences, as councils would have freedom to alter rates. However, the group also noted that the local income tax system potentially generates consequences that could constrain a council’s ability to maintain a guaranteed revenue stream. These consequences include expenses incurred in administration and variability of local earnings.

Overall rating

Many attendees felt that the idea of a local income tax was “reasonable and has its benefits”. This was a conflicted view and there was disagreement between the group around the overall benefit of the system. Some strongly favoured the system due to its perceived fairness and its capacity to take ability to pay into account. Others were very dissatisfied with the system due it being “easy to avoid” and the possibility of marked differences in rates in each local authority area.

Mixed Tax Systems and Other Considerations

The groups were given the opportunity to raise the issues they felt were relevant and also to consider how combining different tax systems might work. The themes raised were as follows:

Themes

The correct 'balance' - After considering the three tax systems presented the group discussed the possibility of "mixing" taxes to create the best system. There was a feeling that a mix of local tax systems could provide the "correct balance" to ensure fairness and efficiency:

"If there is a greater the range of taxes available for local authorities to use, there will be less need for exemptions. Exceptions are inefficient and a mixture of local taxes could help ensure that people pay a fair amount of tax."

However, some attendees felt that a "balance of taxes across the entire tax system" was required; that is, local tax must also be balanced against national tax:

"Mixing tax systems generally it is fine, but if we only explore reforming one aspect of local tax then mixing taxes is less credible. If the tax system is looked at overall then it is better to mix taxes, as it will have more impact."

Empty home tax – Attendees suggested some additional taxes that could be implemented to address other issues. One suggestion was an "empty home tax" to encourage people to live in a local authority area or sell their house in order to allow others to buy the property and live in the area.

One participant noted that in some local authorities in Scotland second homes are taxed at a significantly higher rate but include a period of grace to allow people to sell their home or settle their relative's estate.

Charges – The issue of charging for local services was discussed, for example charging a fee to use leisure services. Once again the group highlighted the potential "consequences" of raising charges for local services:

"Councils could charge more for people to use the swimming pool or the gym, but will that encourage people to live healthy lives? There are natural limitations to the degree councils can push local charges."

Simplicity over efficiency - Finally, the group discussed whether they would prefer a simple but slightly inefficient local tax system, or an efficient but complex system. Participants were clear that they preferred simplicity to efficiency.

Additional Points for the Commission

Participants were invited to give additional individual and anonymous written comments at the start and end of the event. Here are the points and questions raised:

- *"Change over from council tax benefit to council tax reduction first announced as existing regulations/guidance will remain in place for one year. Subsequently extended but no new guidance published and many sources on council tax benefit have now been removed. Public are now confused and ill-informed about the current situation."*

Edinburgh discussion summary

This workshop was held in Edinburgh on 27th of August 2015 with the support of the Scottish Council for Voluntary Organisations (SCVO). The views expressed here are those of participants, not the Democratic Society nor the Commission. The following people were present:

Commissioners: Marco Biagi MSP and Don Peebles
Secretariat: Robin Haynes, Adam Stewart and Ruth Wilson
Facilitators: Andy Williamson, Millicent Scott and Niamh Webster
Participants: 8 members of the public

Overview

The lively discussions among participants centred on the principles of fairness, equality and transparency:

"The biggest issue is fairness."

These key principles shaped the discussions on each proposed tax system, with participants finding that each system failed to fully satisfy the requirements of all three. Participants thought both property and land tax systems failed to take into account people's ability to pay, while the income tax model was too vulnerable to avoidance and evasion.
This led to a lengthy discussion on the optional features and new models, in which participants brought new ideas forward, having considered the strengths and weaknesses of each proposed system.
There were several participants who felt that people who are the least well-off in society would be affected negatively by reform and change in the tax system – they believed it important for the Commission to consider this.

Key points on each tax system

The discussion on **property tax** focused closely on the issue of ability to pay, with participants considering that this system would not take account of individual circumstances sufficiently enough to assess their ability to pay. They felt particularly strongly about this in relation to those who are the least well-off in society and who struggle in the existing system. They further commented that current information from the council was poor quality and inaccessible, making it difficult for people to see and to understand the basis on which tax decisions are made. They felt that the management of information critical for building tax estimates would need to be improved to make this model viable.

Participants thought that an **income tax** was in some ways fairer than property tax as it took into account people's ability to pay:

"I don't mind paying more tax when it's in relation to income."

Nevertheless, participants considered the income tax model to have significant drawbacks, consequently deeming it not to be a good model. They thought the risk of tax avoidance and evasion would be too great with this model.

The **land tax** model proved unpopular due to concerns regarding changes in land value due to external factors such as gentrification, and the resulting impact that this might have on people's ability to pay. Participants also noted there were potentially positive aspects, including the flexibility it offered to councils to change rates to reflect market changes. However, they felt that there were too many unknown aspects: for example, they could not assess what impact this model would have on community ownership projects.

In the wider discussion of **mixed tax systems and other considerations,** participants raised three new ideas and proposed two mixed systems. They also considered the important aspects of means-testing and preventing tax avoidance and evasion.

Tax Model 1: Tax based on Property

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

The groups were divided in their opinion of how easy this system was to understand, with some finding it is easy and others, complicated. Some participants highlighted that the current system is unnecessarily complex because of council communications; a future system based on similar principles would need to address this issue of communication:

"You don't know where you stand – it needs to be clearer."

Participants felt that understanding could be improved by an increase in transparency. Some of the group suggested that council tax bills could be clearer and more accessible, using (for example) infographics to display council expenditure:

"It would be helpful if councils could show what this is going towards, then people would be more comfortable."

Other participants suggested a different kind of transparency: people need to see a visible local impact in order to understand the work of the council and the services provided in the local community. Participants thought this would be important so that people could see how their taxes are spent:

"They don't care about bills or summaries – they want to see projects and things in action as evidence in their local area."

Fairness

Participants thought it would be unfair to do re-banding and re-valuation because house prices are rising and increasing the value of some homes. While this might make the property value more consistent with the market, they thought that some people might no longer be able to afford the council tax.

Participants were concerned that any reform of the tax system should consider the possible impact on the least well off in society and suggested that the Commission should take this into account. On this basis, they did not think that this model would be suitable as it stands. In order to make it fairer, they suggested that there could be an exemption from council tax for people whose income is under £12,000.

Participants wanted to highlight that they felt this tax would be particularly unfair on certain groups of people. There were some participants who felt strongly that a property tax would be disproportionately unfair on women because women might have lower pensions as a result of historically lower salaries. They also felt that this model would be particularly unfair on tenants in the Private Rented Sector (PRS) where rents are higher than in the Social Rented Sector.

Ability to pay

Participants felt that this system would not take individual circumstances such as expenditure into account. They highlighted an example of disabled people, who may have further care costs which would not be visible or factored into the reductions and discounts system.

Participants raised the issue of those who are cash poor but asset rich, and who might not be able to afford council tax despite living in a valuable property. Deferring collection was suggested as a potential solution for those in this situation, i.e. delaying payment until point of sale or division of estate upon inheritance.

Participants also felt there would be a disconnect between landlords' and leaseholders' abilities to pay. Participants felt that the system should not ignore the issue of ownership in this way:

"Private landlords own the property; why should tenants have to pay?"

Good tax for local government to change in response to local preferences

There was general agreement from the groups that it would be easy for councils to change or alter the amount of local tax collected based on property values. This would enable them to appropriately address fluctuations in local service needs.

There was confusion on classification of properties affected by this local tax model. Some participants felt strongly that the issue of vacant property, including business premises, should be included in the discussion on domestic property tax reform. This was raised at the workshop as participants felt that these areas were closely connected to the issue of council tax reform, although technically falling outside of the remit of the event. Some participants suggested they would like to see other taxes implemented as a priority before reform of the council tax. Participants suggested that taxing empty properties should be a priority:

"I would tax all the empty houses, buildings and offices!"

Overall Rating

Overall, participants largely agreed that this system, in its current state, would not be good for local taxation. However, some thought it could be more acceptable if improvements were made to the current system. They suggested this could be done through improving public understanding of the system and taking people's ability to pay into account.

Tax Model 2: Tax based on Land

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Some participants felt that understanding the system was difficult because it was new, with some suggesting they would need more time to familiarise themselves with the model. There were a small number of participants who noted that it was easy for them to understand:

"It's not difficult, it's just new."

Participants thought it would be difficult to measure land and put a value on it. They were also unsure how high-rises and other similar buildings would be valued for land tax and how this tax would be distributed through the owners of such buildings.

Participants were confused about where the responsibility for payment lay in rented properties and expressed concerns that landowners would pass on high tax costs to tenants. It was suggested that this could cause problems and disputes between tenants and landlords.

Fairness

Participants felt that this system of taxation would have wider positive impacts; they thought this might encourage community ownership instead of private ownership. They believed this to be a further benefit of this system, in encouraging public decision-making and providing social return on investment:

"Reform of the tax system should be part of longer-term developments."

Following on from the above point, a subtle distinction was that participants felt that community projects, whose purpose is to regenerate the community, are hugely beneficial to the community. These should not be penalised for owning or using land. To mitigate this risk, participants thought that they should be exempt from land tax in order to preserve this.

Participants were concerned that external elements might have an impact on an individual's land, which would negatively affect the value of the land and future sustainability:

"Environmental exploitation, such as fracking, needs curbed."

Participants felt that land tax would be a disincentive for land banking, and would give rise to an opportunity for strategic use of land as an asset. The group felt that the value of property can be separated from the land, but if land were taxed as a separate commodity, this would change the uses and perceptions of land:

"Land value tax comes as an interesting proposition – this could have a big impact."

Participants were concerned about taxation on large estates of land and how reforming local tax could address this issue. The group felt that land value tax would require landowners to pay tax in this way. They were made aware that agricultural land, etc. is classified outside the scope of the discussion of domestic council tax, but participants felt it was relevant for rural communities in relation to the issue of fairness:

"What about wealthy landowners who get subsidies to not use land on large estates; how does this sit in terms of fairness?"

Ability to pay

Participants were concerned that dramatic changes to a local area would affect land values, e.g. gentrification of an area. Participants voiced concerns that individuals with fixed incomes might no longer be able to afford their taxes if their land were to increase in value, triggering higher tax.

Participants felt that that land value would not always be an accurate reflection of wealth; there was a concern that small land ownership would not be taxed fairly. They suggested that a small house with a large garden might already be taxed in other ways, and they felt that an increase, to account for large gardens, would unfairly penalise those with large gardens and small houses.

Participants felt that landowners should be responsible for the burden of payment, and landlords should not pass this responsibility on to their tenants. Participants suggested that the Government should include conditions to prevent landlords from diverting the onus of payment on tenants:

"Why should renters pay other folks' land value – the onus should be on the owner."

Good tax for local government to change in response to local preferences

Participants thought this system would provide enough flexibility for councils, as tax could be adjusted to reflect changes in market values:

"I suppose it can be raised and lowered easily."

Participants were concerned about the administrative costs of changing to this system, given its difference from the existing measures.

Participants thought this system would be fair unless the council raised land taxes significantly. They discussed the potential of having a 'cap' on revenue raised, but agreed that this would not be a realistic solution, noting that land values will change outwith the council's control.

Overall Rating

Overall, it was felt that a land value tax would not be a suitable system for local tax. Participants felt resoundingly that this tax did not take into account people's ability to pay. Participants felt that this system might work better for large estates and land in rural areas, but would be complicated in implementation in urban areas. Participants also voiced concern that the system would be unfair on renters and suggested that landlords and landowners should be responsible for the burden of payment. Participants at this event felt that this tax system might unfairly penalise community ownership projects that own land from which the community benefits.

Although largely unpopular, participants recognised that there were a number of merits of the system, including the flexibility offered to councils to change rates and revenue. Despite this, they were concerned that this might mean councils would increase tax by large amounts. They felt that a dramatic tax increase might mean that some people would not be able to afford to remain in their local area. Participants felt that fluctuations in land values could also happen outwith the council’s control, due to changes in the housing market or gentrification of local areas.

Tax Model 3: Tax based on Income

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Participants felt that although a tax based on income is easy to understand due to its similarity with the current income tax system, it would need to be simplified. They felt that many people did not understand the system, even though they paid income tax and seemed to find the existing process acceptable:

"Everyone knows that income tax works, but it's not clear how it works."

Participants explored the likelihood that awareness of the existing system was not the same as understanding, and that many people lacked a comprehensive knowledge of how taxation is calculated. They were concerned both with the work that would be required to improve people's understanding and the cost of facilitating this.

Fairness

Participants widely agreed that this system was generally fair, although they noted with concern that this system would still not effectively address the issue of tax avoidance. Participants suggested that avoidance is particularly problematic at the 'top end' of the income bracket where people are wealthy:

"How can we ensure there are no loopholes that wealthy people could slip through?"

Ability to pay

Participants were particularly concerned that this system does not include any measurement of wealth other than income, and felt that this was an important flaw in the system. Highlighted was the example of people who are asset-rich, much of which might not be covered by income tax.

Good tax for local government to change in response to local preferences

Participants thought that local authority revenue based on income tax would be volatile in relation to the economic system. Participants were concerned that there would be frequent fluctuations causing disruptions for both the council and taxpayers. Participants highlighted potential problems such as a factory closure in an area; the need for local services would increase at the same time as revenue decreases.

Participants felt the current system was unclear and that clarification was needed about the administrative costs of its set-up. They were concerned about the relationships between systems such as HMRC and Scottish Parliament, and how this would work:

"Seems very convoluted; with many different layers it would be hard to administer."

Overall rating

Participants thought that the theory behind an income tax was a good way to decide how much people would pay, but in practice they felt that there were some caveats that needed to be addressed:

"In principle it's good, but it's not going to work."

Participants were concerned in particular that some wealth is visible in income, but other wealth is in investments, shares and other assets that would not be visible or taxable as income:

"Wealth 'mis-distribution' is a problem for income tax - those with wealth may escape the tax."

Despite being largely in agreement that this would be a fair tax system, participants felt there were problems with the model, notably in understanding and addressing the risk of avoidance.

Mixed Tax Systems and Other Considerations

The groups were given the opportunity to raise the issues they felt were relevant and also to consider how combining different tax systems might work. The themes raised were as follows:

Proposal of new systems

Three individuals proposed new, different models of taxation, although none gained support from other participants. The three ideas were as follows:

- **'Locational Benefit Levy' –** One participant suggested a separate distinct system of taxation, as proposed by Dave Wetzel (Labour Land Campaign). The participant suggested that this system is complementary to land value tax, but could be applied to any model. The tax would be collected and pooled, and paid out to 'the qualifying occupier' in an equal dividend. Individuals would be defined from the electoral register. The system can be considered innovative as the payment is in credits, which could be used to pay the levy or rent. The participant proposed that this system offers a means of transferring those who have most use of the land to those who have the least use of the land. They also proposed that this system changes the perception of the current council tax system as a punitive system.

- **National Local Tax –** This system would be one tax payment to cover local authorities' expenditure, replacing the council tax. The participant proposing this felt that it would be hard for all the different local authorities to raise tax separately, and so felt there would be benefit from doing this as a country. The participant that proposed this was not concerned about having a local link via direct payment to the local council, and that taxes should be gathered centrally and redistributed to councils based on needs.

- **Separate taxation for landlords and tenants** – This system would create a separate procedure for the Private Rented Sector. They felt this would address problems of property or land value not necessarily being an accurate reflection of a tenant's ability to pay. They also thought this could address potential problems in the landlord/tenant relationship in a land value tax system. They felt that landlords should have to pay the same amount as the landowners.

Recommendations for a new system

Protection for the most vulnerable – Participants were concerned that there might be a big impact on the most vulnerable in society when the tax system is reformed. They felt strongly that the Commission should take this into account when considering the options for reform:

"In practical terms, we should try and look at how we provide this new tax with safeguards in the current system so we don't miss the people who might lose out the most."

Addressing inequality – Participants felt strongly that tax avoidance and evasion should be prevented. They suggested that it would be possible to reduce poverty and inequality by putting systems in place where wealthy people are taxed on wealth, assets and income, and cannot avoid or evade tax:

"Ordinary people are always the focus – instead we should be making sure wealthy landowners and property owners don't avoid paying their fair share."

Means testing – Some participants brought up the 'means testing' method as a way to decide how much people should pay, and suggested that there should be means testing for the wealthiest, who might be more able to pay. They also felt this could address problems of avoidance or evasion:

"Poor people are means tested; it's degrading and they have to go through all their assets. But this doesn't happen at the top end - why shouldn't this happen at the top for wealthy people who can afford to pay more?"

Transparency in Water and Sewerage charges – Participants felt that there should be increased transparency in all the systems; that council tax billing should be clearer that water and sewerage charges are included in the cost. This would also help people to understand why there are increases in costs, despite the 'freeze' on council tax.

Mixed tax systems

Wealth and Income – Participants proposed having a mixed system for wealth and income tax. They felt this would be more equitable as this tax would address more than just income, and be able to reach those who are asset-rich.

Income and Land – Participants also suggested mixing income tax with land tax. Participants felt, that after discussions on tax based on land, that there should be some form of taxation on land because they felt that landowners should pay tax:

"Income Tax model puts no pressure on people who own land."

Additional Points for the Commission

Participants were invited to give additional individual and anonymous written comments at the start and end of the event. Here are the points and questions raised:

- *“With all this happening, no-one knows what is going on.”*

Summary of the Arbroath listening event

This workshop was held in Arbroath in association with Angus Council on 31st August 2015. The views expressed here are those of participants, not the Democratic Society nor the Commission. The following people were present:

Attendees:

Secretariat: Robin Haynes, Neil Ferguson and Ruth Wilson
Facilitators: Millicent Scott and Niamh Webster
Participants: 9 members of the public
[Note – Commissioners were absent from this meeting]

Overview

Participants thought that fairness was the most important aspect in the reform of local tax, and raised this particularly in relation to the impact of reform on specific groups who are more vulnerable, such as students and people who are less well off:

"Everyone has to see it as fair."

Participants at this event were concerned about how local tax system reform could address the local issue of 'empty homes'; second homes and holiday homes which have a negative impact on the local communities as they prevent families from using these properties. In this way, land tax was considered a possible solution for taxing second homes more appropriately, as was a suggestion of prioritisation for locals in house selling, coupled with a 'second home premium' form of taxation. Participants at this workshop were not satisfied with any of the proposed systems for reforming local tax. The strengths and weaknesses of each system were considered, but the flaws of each prohibited universal acceptance.

Key Points on each tax system

Participants discussed the positives and negatives of the current system based on **property value**, and used these to suggest changes to improve the system, including re-valuation to bring the system up to date with current local house price values.

As positive attributes, participants felt that this would be a good local tax to be responsive to local needs to raise more or less because collection rate is generally very high with the current system and that avoidance is low. Some participants felt that it would be important to retain some form of local taxation based on property value:

"Property tax is so easy to collect so it would be foolish to get rid of it."

On the other hand, some participants saw an inherent flaw with a tax based on property value, in that they felt that properties should not be considered as an accurate reflection of wealth. In this way, they felt that this system was not able to take into account people's ability to pay.

Throughout the discussion on **land tax,** participants found it an unfamiliar concept and were largely concerned about ease of understanding. However, participants agreed that it was similar to property tax in the way it was implemented, and as a result, they noted similar concerns that were raised in the discussion on property tax. A key concern was that the tax would not necessarily reflect the occupier's ability to pay in the case of rented properties.

Some participants felt strongly that consumption of services should be considered when deciding how much tax is to be paid by households. This was raised as a key concern in the discussion on land value, although this could also apply to other tax systems.

Despite the similarities between land and property taxes highlighted by participants, land value tax was generally considered to be the less popular of the two:

"Preference for a property tax over a land value tax."

The key principle that concerned participants throughout all discussions was one of fairness, and this shaped the discussions on a tax based on **income.** The participants were concerned that 'ordinary people' would bear the burden of payment, suggesting that those on low incomes would contribute very little, and those who are very wealthy would find it easier to avoid this tax system. They felt that the tax base would be significantly narrowed by targeting earners as the sole contributors.

Initially, participants thought that it seemed fair because it was closely related to earnings and participants felt that this tax took account of people's ability to pay more so than the other proposed models. However, throughout the course of discussion, they raised concerns including the risks of avoidance and evasion, and it became clear that there was not strong support for this system to be approved by participants.

Mixed systems and other considerations: The discussion included a suggestion from participants on how best to combine the proposed systems together. They suggested using elements from the property tax system and land tax system to retain some reference to property value and to be able to tax empty plots of land. They also suggested combining income and property in order to take into account household occupancy and household expenditure.

The discussion primarily focused on the impact of local tax reform, considering groups that could be penalised by reform (such as students), and recipients of welfare benefits with the current system.

Tax Model 1: Tax based on Property

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Some participants felt the system was easy to understand, others felt it was complicated, particularly in relation to how property values are determined. This led to a discussion that the general public, as taxpayers, do not fully understand how it works, and general agreement that the system needs to be simplified.

Fairness

Participants agreed that the current valuations are out of date and the period between valuations has been too long; participants felt that it has not been possible to reflect changes that influence property values adequately:

"Things change too dramatically."

Participants suggested that values could be looked at more regularly to improve this system on property tax. It was suggested that re-valuation could be done every 5-10 years, as property values will become less relevant as time goes on:

"1991 valuations are out of date."

Participants also felt that the ratio of tax to value is not always clear and they felt it is disproportionate in some cases, due to lack of re-valuation:

"It's not clear how property values relate to tax; it's very rough and ready."

Participants thought it was necessary that property as a commodity is taxed, and suggested that this was largely a fair way to do this:

"If we got rid of property tax, the only time people would pay tax on property would be when you buy it."

One popular suggestion was that there could be more bands added to the system in order to make it a fairer spread from low to higher tax rates. They noted that the bandings are dependent on the values of properties, and if valuations were to be updated, re-banding or additional bands might not be necessary.

Participants discussed whether the tax should reflect consumption of local services. They felt it would be beneficial if the tax could relate to the use of services but agreed this would largely be unworkable as it would be difficult to measure service use on an on-going basis:

"The main issue is that this form of taxation doesn't take into account how much local services are used."

Some attendees noted that re-valuation and re-banding could act as a disincentive to improvements to your own home for risk of increased tax due on the property.

Ability to pay

Participants were concerned about external factors that might cause changes to the value of your house, including gentrification. They felt that if value increased, it might affect people's ability to pay and they might not be able to afford the increased tax as a result:

"What about changes to your local area that could affect your house price?"

Similarly, participants were of the opinion that house values can be indicative of the council's provision of services. They raised the idea that council's actions have a big effect on house values, suggesting that if councils reduce the tax in a local area, and make fewer improvements, that this could have a negative impact on the value of your house.

Participants voiced concerns that property and property value cannot be taken as a proxy for wealth. They were concerned that a house value cannot always be defined as an accurate reflection of wealth, and in this way, they felt that this system would not be able to take account of people's ability to pay.

Participants were concerned that this system worked for the majority of people, but took no account of individual circumstances and exceptional cases. They felt that the system needed to be flexible enough to cater for these specific groups of people in order to be fair:

"We can't have a system that just suits the biggest group of people. What happens to the people on the outside? Tough luck."

Participants felt that there needs to be a mechanism to deal with specific circumstances. They felt that this system lacked the necessary flexibility to be able to do this:

"What about the extremes – like having a large house but limited income versus small house but large income?"

Participants were concerned that a property tax that included the suggestion of regular re-valuations, may act as a disincentive to improve property, as improvements may cause property tax to increase. They felt that this was a potential impact of the property tax on the perception of fairness.

Good tax for local government to change in response to local preferences?

Participants recognised that it would be easy to collect this tax, as current collection rates are very high, and a similar tax based on property could expect this trend to continue.

Participants noted that it would be difficult to avoid paying this tax, as properties are based in local areas:

"Hard to hide, so easy to collect."

Overall rating

Participants felt that this was not a good system as it was presented, because it does not take ability to pay into account and so is still unfair. They suggested that it could be updated and improved, yet some group members felt that this would not entirely address the unfairness of the system. Those who felt there was potential for the system (subject to modification) stressed the importance of re-valuations which, they felt, should be done every 5-10 years and there should be no option to avoid re-valuation:

“Only if it’s *[the valuation]* kept up to date.”

Participants were more concerned about re-valuations than re-banding; they felt that rates for bands could be re-set when the new valuations are established.

Tax Model 2: Tax based on Land

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Participants felt that this was slightly harder to understand because it was a new idea:

"To start with, I didn't find this model easy."

They suggested that it would have to be used with property tax initially and agreed that once land has been valued, it would be easier for people to understand:

"Change is always difficult."

Fairness

Upon discussing how land tax would work, participants felt it was similar to property tax and would work in a similar way. While this contributed to their ease of understanding, participants were concerned that the same problems of fairness applied in a similar way to this system.

Participants thought that the land tax would have the effect of forcing people to develop it, which would be a positive thing. They felt that land usage could change as a result of this. Participants noted that this tax is closely tied to the land reform agenda, which they considered a good thing.

Some participants thought that payment of council tax should reflect consumption of local services:

"An old lady living in a mansion will not use lots of local services – but pay a lot of council tax based on her high-value home – this would not be fair."

Participants were concerned that some people may avoid paying the tax through finding 'loopholes'. They suggested that people might change the use of the land from business to residential to make a profit and avoid paying council tax on domestic property while they 'land bank' and wait for value to increase. In addition, participants were concerned about the impact on planning applications and that local authorities, who have to make plans 10-15 years ahead, may be forced to approve residential areas and allow land to be 'land banked'.

Participants were concerned that avoidance could be an issue with land tax. They suggested that people might avoid paying land tax if they do not have a vested interest in the local area. Participants also highlighted that there are a lot of unknown landowners in Scotland and were concerned that it would be difficult to collect tax from these people, especially if the land is owned by individuals or companies from abroad.

Ability to pay

Participants felt that the burden of payment should lie with the landowner in cases of rented properties. They felt it was more appropriate that owners, not occupiers, pay the tax, as the value of the land might not accurately reflect the renter's ability to pay.

Some participants felt that land value tax might make it more difficult for young people to buy their own property:

"I feel many of the issues are also tied to the land reform agenda. We need to help young people get onto the property ladder and I feel most of this is hinged on land rates that might become more expensive. We need to help first time buyers and land needs to be affordable. We also need to empower people to self-build, by offering benefits and reductions for self-building."

Good tax for local government to change in response to local preferences?

Participants felt that this tax could diminish the relationship between local people in the community and their council, because local people would not necessarily be the ones paying the local tax in the case of rented properties. They felt that this disconnect could have a negative impact, similarly suggesting that the person who is paying tax may not be using local services in local area:

"It's important that people feel close to their council – and paying your tax to the council is a way of doing this."

Overall rating

The group highlighted several clear benefits of this system, particularly noting that it could act as an incentive to build on vacant land. While there were some positive attributes noted, throughout the course of the discussion it became clear that some participants had some concerns. Some participants at this event felt strongly that there would be a disconnect between tax paid and services consumed with this model, and suggested that people living on the land should be paying the tax, based on their use of local services. They felt that this would be a problem with this system as landowners, not tenants, would be paying the tax based on land value alone:

"It's unfair because the gap between paying tax and using the local services is too big. If you can't afford to pay for what you consume, then maybe you shouldn't be living on the land?"

Tax Model 3: Tax based on Income

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Participants thought that people would understand a local income tax because they are familiar with paying income tax at a national level already.

Participants were of the opinion initially that it was a fair local tax to implement, however, this perception changed as they discussed further:

"We were less convinced that it's fair when we looked into it in more detail."

Participants felt that the practicalities were more difficult to understand; they were not clear on how this system would work in relation to HMRC and whether this would be collected centrally or locally. Participants highlighted some concerns about how this would sit alongside other income tax current system. They also felt that it would be a complicated way to decide how much people would pay because of these factors:

"In principle it's easy to understand, but the devil is in the detail."
"We aren't that that keen on it – it would have to be a genuinely local tax."

Fairness

Participants felt that the PAYE system was a good way to pay income tax, yet they had reservations on how this would work for all circumstances. Participants were concerned about people hiding income to avoid paying tax, and were concerned about how self-employed people would do accurate self-assessments. Participants were also concerned that the PAYE system would not be able to tax those who are paid cash-in-hand. They suggested that property tax is, in some circumstances, a more suitable way to tax those who are cash-rich:

"Sometimes a fancy house might be the only sign of wealth – in that way property tax is better than income tax."

Participants were concerned that income could be understood in different ways. They were primarily concerned about benefits being included as taxable income.

Participants required further information on how this would work if it were taxed through PAYE on an individual's income. They felt it would be important that the system was flexible enough to take into account household earnings, suggesting the example of large one-earner households, and the inability of the system to accommodate this:

"How would this work if one person earns 100k and the wife stays at home? What if they both earned 50k?"

Participants were concerned that basing the tax on earnings would be narrowing the base of collection, particularly in poorer council areas. Participants suggested that raising revenue in wealthier cities such as Edinburgh would be easier than in less well off cities such as Dundee:

"I think this could mean a weaker tax base for councils."

They noted that there might be a greater demand on services in less well off areas, and with lower revenue collected, the council will be less able to provide quality services and this could result in increasing inequalities:

"I'm concerned about poorer areas, which would be able to raise less revenue, while also having a higher demand on services."

Participants were concerned that average earners would feel the greatest burden of payment with this system, as people at the top end might be able to avoid paying the tax. Participants were also concerned by the fact it was only a tax for earners, which would not be able to reach certain groups of people and would miss others:

"Ordinary people will be hardest hit and wealthy people will get away without paying much – just like the poll tax."

Participants were concerned about the potential for avoidance from wealthy people. They felt it would be easier for wealthy people to avoid paying the tax through altering their taxable income:

"I feel that the burden would fall on average workers, as rich people might avoid paying tax by using clever accountants."

Ability to pay

Some participants were concerned that this model would not be an accurate reflection of ability to pay because it would not take into account any high outgoings or expenditure:

"If you're taking off three layers of tax off someone's payslip before they even get it, then it's not making any connection with people's mortgage or anything else they pay out."

Participants were concerned with the potential problems of how this system would reach income earned abroad, which may not be taxable in the UK. They felt this model might struggle to reach these people, thus limiting the tax base.

Participants were also concerned about the impact on vulnerable people and suggested that similar schemes for reductions and discounts should apply to the income tax system. They were also concerned that this could have a big impact on those who are classified as just above the threshold for reductions and discounts:

"It must be recognised that there are some people who are on the margins, without being on benefits. This system could make it more fragile and difficult for these people."

Participants were particularly concerned that this tax would make it difficult for young people attempting to create personal wealth and buy property. They felt that without taking into account expenditure, this system could be regarded as similar to the poll tax:

"All these different levels of income tax will be a hard sell! I don't think it's based on ability to pay; it's based on income without taking outgoings into account. In this way, local income tax has potential to become another poll tax because it would be harder for families to afford."

Good tax for local government to change in response to local preferences?

Participants thought that it might be problematic to have different levels of income tax, because any alterations or fluctuations could cause confusion for the public, such as a drop in council tax, but a rise in UK income tax.

Participants were concerned that a system based on income might be subject to fluctuations, such as redundancies, that would make it fragile as a tax base for councils:

"There could be lots of problems with unexpected job losses which would have a big impact on the council's ability to raise revenue."

Participants were concerned about the impact on cities that have a high number of commuters. They felt that high-earners who commute from different local authority areas would use services in the cities and not contribute to this. They felt that collecting income tax nationally and divvying up the tax according to need could rectify this:

"It should be a national income tax to make this more fair."

Participants noted with concern that some local authorities might use lower tax rates as an incentive to attract high earners to their area. They thought that this could have a negative impact on quality of services in areas without high earners, and would suffer as a result of diminished revenue.

Overall rating

There were some features that participants liked about the income tax, including familiarity and ease of payment through the PAYE system, although participants were largely critical of the system. They were particularly concerned that this would be unsuitable for local government to change because of risk of fluctuations in revenue raising capacity, and the impact on vulnerable groups of people in relation to the burden of payment. Participants suggested that wealthy people might be able to avoid paying this tax as it is based on income, not wealth.

Mixed Tax systems and Other Considerations

Participants at this workshop considered their prior discussion of each of the proposed systems and highlighted benefits, suggesting mixed tax systems, including a combination of income and property, and a combination of property and land.

The main concerns iterated by participants was the potential impact of reform on specific groups who might be penalised by certain systems, such as renters in the case of land tax where landlords become tax collectors being at risk of eviction on non-payment.

Participants also proposed additional ideas for reform, including a recommendation to keep the system up to date. While there was one proposal to eradicate local taxation entirely, the groups were largely in favour of retaining a local element relating directly to the council in tax systems.

Themes

Income and Property – Some participants suggested a mixed system of income and property, integrating them to take account of household occupancy and household income.

Property and Land – Participants suggested that property and land taxes could be unified as a single charge for domestic properties. Participants felt that this would encompass the benefits of a visible property tax (elements they were keen to retain) while including the additional benefit of tax collected from unoccupied land.

Broad tax base – There was a discussion around how much revenue is raised by the current council tax, with participants noting their surprise at how little revenue is raised through these means. Participants felt that as revenue raised increases, the greater the tax base needed to facilitate this. Participants suggested it would be necessary to have a selection of different taxes to ensure there was a broad tax base:

"For councils' stability, we need a 'battery' of taxes."

Additional Ideas

One participant suggested eradicating local council tax in its entirety, in addition to a redrawing of local authority areas.

Participants felt strongly that land should be taxed, but were concerned about how to collect this from landowners who live abroad. There were also concerns that there is a lack of information about many landowners in Scotland, and that this may prevent tax being collected.

Participants were concerned about the high number of 'empty homes' in the local area of Arbroath. They also felt that this was an issue in the Western Isles. In this way, they felt that a land or property tax would be a good way to collect revenue for the local council, as these properties would not be taxed through income tax:

"There's so many empty homes in Arbroath – we have to do something about this."

Participants suggested that second homes as holiday homes should pay a premium. This was an issue for participants because they believed that the number of second homes greatly reduced the opportunities for people to own homes in local communities. It was also suggested that families are priced out by second homeowners and unable to afford homes in local towns that have become sought-after holiday destinations. They felt it was more beneficial for towns to be occupied by families contributing to the local community, as opposed to empty properties that could have potentially been family homes. Participants highlighted the example of Guernsey, where on purchase of property, there is priority for local people, with second homeowners paying a premium. Participants suggested a similar system for taxation.

Renters were highlighted as a category of people that could be penalised by land tax system. Participants were concerned about a risk in evictions as a result of a land tax with landlords as intermediaries; the concern was that if renters cannot afford the tax on a regular basis, the landlord could evict them on non-payment. They would not have the same protections and help for cases of delay of payment as with the current system where tax is paid to the council directly.

Participants wanted to see the same reductions and discounts applied to any reformed local tax system. They suggested that means-tested benefits already considered by the system should be taken into account by the reductions system.

Attendees felt that students were treated unfairly for council tax purposes. Participants felt that while eligible for council tax exemption as a student, they were immediately liable for council tax upon completion of studies, with no recognition for the reality of many students who remain unemployed with no income for some time. They also noted the complexities with defining some students' status and ability to pay, such as PhD students who may work part-time.

Some participants noted a further discrepancy with the system, questioning how it would be fair to charge single person discount for council tax, while applying full charges for water and sewerage.

It was suggested by participants that household occupancy should be taken into account more definitively in reforming local tax. Participants suggested that none of the tax systems proposed would take account of household occupancy and the impact this has on people's ability to pay. Participants suggested that houses with a number of earners should contribute:

"We need a combo of local income tax and property tax to even it out; we will always have some freeloaders!"

Recommendations for reform

Keep up to date – Participants at this workshop agreed that the reformed system that is chosen must be updated regularly, suggesting that property values will need to be updated regularly.

Central or local? – Participants discussed the alternative of raising revenue wholly centrally, with local authorities receiving distribution of taxes. While this idea had some support, most of the participants at the event agreed that an important caveat to central control would be that the local authority might become less accountable to local people. In this way, participants agreed that retaining a local element in taxation was important for local council accountability.

Additional Points for the Commission

Participants were invited to give additional individual and anonymous written comments at the start and end of the event. Here are the questions and points raised in Arbroath:

- "With 33 years' experience as convener of finance for Angus, I have been involved in setting local taxation for rates, poll tax and council tax. It is my opinion that a value based rates system, regularly updated at maximum every five years, would be the best system and would concentrate council's thoughts on how to minimise the tax rates each year."
- "Local government finance is challenging; we cannot afford to have a system which isn't effective."
- "I think a mix of taxes may be the answer."
- "Any change needs to be neutral for the middle 40% of population, by wealth and income."
- "Local authorities need to be able to raise a higher proportion of their taxes."

Summary of the Perth listening event with faith groups hosted by Letham St Mark's church

This workshop was held in Perth on 8th September 2015. The views expressed here are those of participants, not the Democratic Society nor the Commission. The following people were present:

Attendees

Commissioner: Andy Wightman
Secretariat: Neil Ferguson and Adam Stewart
Demsoc Facilitation Team: Niamh Webster and Millicent Scott
Participants: 24 members of the public

Overview

Participants at this event were concerned with a variety of different issues, evaluating each system not only in the light of the key questions but a broader scope of criteria. Given this perspective, they did not conclude that any of the models presented to them were completely satisfactory, and instead they preferred a mix of models. However, they also suggested ways in which the current Council Tax could be revised in order to make this fairer in their opinions. They wanted to see re-valuation of properties and more bands added to the Council Tax. There was also more discussion in Perth than in many other locations of the impact of changing the tax system on those more able to pay:

"This is a big question: this is about fairness, justice, protecting vulnerable people, while also not just exploiting the richest."

"The most important thing to bear in mind when talking about reform is fixing the system to take into account people's ability to pay. It's not about letting the poor off and taxing the rich!"

Key Points on each tax system

Participants did not feel that a **property tax** would be a fair way to decide how people pay local tax. They did however agree that any reform would have to include re-valuation to reflect current property values and they thought it would be fairer if there were an increased number of bands in the system. Still, they did not think that it would be fair tax.

Participants raised concerns about the impact this tax might have on people less able to pay, such as those living in high-value houses but without high incomes to match. They therefore felt that this system was flawed, and that it would not be sufficiently flexible to take into account people's individual circumstances:

"This is very unfair!"

There was some disagreement among participants on whether a property tax would be easy for local authorities to change in order to raise additional revenue for the provision of local services. Some participants felt that politicians would be reluctant to increase tax rates because it might be a politically unpopular decision. Others did not agree that this would be a significant consideration.

Participants were divided on whether a **land tax** was easy to understand or not. The main feature that participants liked about the system was that, through inclusion of vacant land, it had the potential to increase the tax base for local councils.

However, they found flaws with the system that related to the question also raised with property tax, namely that the value of land people owned would not take into account their ability to pay.

There were several participants who were particularly concerned that this system might lead to overcrowding, with people building homes on the same plot in order to share the tax burden.

Participants in Perth considered the **income tax** system to be unfair in several ways, including the potential risk of avoidance and evasion which they considered high. They also were concerned that the definition of income could exclude of any forms of income other than salary and that this would be unfair if only those who with an employer and earning a salary were to be taxed:

"This was the most interesting system proposed tonight."

Mixed tax systems were discussed in terms of the systems presented, which attendees felt were unfair; they instead favoured a mixed system which would take into account both earned income and asset wealth in terms of property and land. There was an additional suggestion of a local purchase charge, but this did not meet with vocal support from other participants at this event. On the whole, participants agreed that it would be an improvement if property valuations were brought up to date and more bands added to allow for greater variations in house values.

Tax Model 1: Tax based on Property

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Many participants at this event struggled with understanding how the current system for Council Tax works, but felt that their understanding was eased by the explanation offered at the event. With this increased understanding, participants considered it to be a simple and straightforward concept:

"This was clearly explained and I understand it better now."

Some participants felt that the opposite was true; they thought that they understood how the system worked, but discovered through the course of discussions that it was more complex than they had realised. They particularly struggled with the detail of how this would apply for particular groups of people; some participants suggested that it was more complicated to understand in rented properties:

"Initially it seems easy to understand but not really!"

Fairness

Participants unanimously agreed that the system based on property value was an unfair way to decide how much people should pay. They particularly felt that this system would be unfair in situations where a person with a low-income lives in a high-value property, for example elderly people who have bought their home, but no longer have a high income:

"Some people might live in a nice big house but with very little disposable income."

Some participants suggested re-valuation of properties. Several said they would like to see a full re-valuation of the entire system and all properties.

Participants wanted to retain some elements of property tax locally, but suggested improvements to make the current system fairer. They suggested increasing the number of bands in order to take into account people's varying ability to pay:

"I do think that property should come into Council Tax – but possibly increase the number of bands."

Some participants voiced concern about how the tax would be implemented with regards to non-domiciled residents. They were concerned that some might be more able to pay Council Tax than others in the same value properties.

Ability to pay

Participants were concerned that this system would offer no flexibility for changes in people's circumstances. They were concerned about situations where household income decreases dramatically, which might have a big impact on the household's ability to pay, for example if working people are made redundant:

"At point of purchase, people might think they're able to afford the Council Tax, but this could change."

Participants struggled to see how a system based on property value would reflect people's ability to pay, suggesting that this would be near-impossible to achieve:

"It is beyond the wit of somebody to work out some system to offset this."

Some participants felt that the system would disadvantage people renting property. They were concerned that tenants' ability to pay would not always reflect the sales value of the rented property. They therefore suggested that landlords should primarily be responsible for Council Tax, incorporating this into the rental price so as to avoid tenants being responsible:

"Make landlords pay and cap their ability to pass it on to tenants."

Good tax for local government to change in response to local preferences

Some participants were broadly happy that property tax would be easy for local authorities to change in response to local preferences. They felt it offered enough flexibility for councils to vary the amount of revenue they could raise.

Some participants felt that this system was too dependent on the demographics of the local council area. They were concerned that in places without a high number of affluent people in expensive properties councils would not be able to raise enough funds to pay for necessary services. They were further concerned that the areas with the highest levels of deprivation would therefore also be the ones where the worst services were provided.

Participants also voiced concerns that councils' revenue-raising capacity will be affected by this tax system, resulting in their inability to raise as much revenue as needed. They feared that local politicians would be reluctant to increase tax levels in order to increase spending, as this might be politically unpopular. Participants were similarly concerned that politicians would be reluctant to change bands to reflect up-to-date values:

"Politicians know they need to update the bands – but they know that this frightens voters."

Participants suggested that a solution to this problem could be to raise public awareness of the banding system in order to raise people's awareness of the injustices of the system. They thought that this could help address the problem of public trust.

Some participants struggled with understanding how properties could be re-valued, however they suggested that the more modern property market and the fact that properties are advertised for sale online could make the valuing of properties easier than in 1991:

"Perhaps this is easier now in the days of Zoopla etc. rather than being stuck with the 1991 rates."

Overall rating

Participants were concerned about the tax system's lack of capacity to take into consideration people's ability to pay. They were concerned about the impact this system might have on local authority areas that are less affluent in terms of property values and their relative ability to raise revenue through this tax.

The group at this event suggested that the system could be improved in terms of fairness by re-valuing properties, and adding more bands into the system.

Tax Model 2: Tax based on land value

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Although some participants felt that this was a simple system to understand, there were others who struggled with the concept. They suggested that it would be more difficult to comprehend compared to the current system of Council Tax. It would be difficult to understand how the value of buildings could be separated from the value of the land they were built on:

"I don't think people will have any idea how much land is worth compared to buildings."

The participants at this workshop felt that a land tax system would have similar potential pitfalls to those they had already identified with the property tax system. They suggested land would need regular re-valuation to ensure that the tax stayed up to date.

Participants knew little about how a land tax would be implemented and raised the question of how obligations for land value tax would be distributed between properties built on the same plot of land, such as flats and tenements.

Participants were concerned about the cost of administration and implementation of this system; they felt that it might be expensive to do re-valuing and that on-going, frequent monitoring would be difficult.

Fairness

Participants felt that, like property tax, this tax would not recognise the diversity of individual circumstances:

"The land tax system wouldn't necessarily be any fairer than property tax."

Participants were concerned about the onus that this tax would place on landowners. They felt that although some landowners are wealthy and able to pay tax, there are others who have low income and would struggle.

It was important to participants at this event that consumption of local services was reflected in the amount that people paid in local tax. They were concerned that this tax system would not reflect residents' use of local services.

Some participants were concerned about the consequences of the land tax on land use. They were concerned that people might make changes to the use of their land to avoid paying this tax and that this could have an impact on land value as a whole. They were worried that the value assigned to land would be based solely on the location and local amenities, which they felt could affect land values outwith owners control. They were concerned that this would be unfair.

Participants were concerned that land values might not be indicative of wealth. They raised concerns that property value might be much higher than land value and they felt that this could be unfair in some circumstances:

“A big expensive house may be on a little bit of land, but a modest bungalow could have a large garden, thus the land may be liable for a higher tax payment.”

“I’m worried that you would end up with bigger homes of less value paying more in tax than fancy new flats.”

Participants felt that it could be unfair if landowners were responsible for the burden of tax if they were renting out their property. The owner would then not be the one benefiting from local services that local income tax paid for and so it would be unfair if they had to pay this tax on their land. Participants were concerned that landlords would prefer tenants to pay the tax as per the current system. They thought that this would be fairer in terms of retaining the relationship between payment of local tax and consumption of local services.

Ability to pay

Participants were concerned that people’s ability to pay would be hampered by gentrification of an area. Gentrification could lead to inflation in land prices which could result in people not being able to afford to remain living there:

“What about if you buy some land and then a bunch of shops and fancy restaurants pop up – and make your land value go up?”

Participants felt that people’s ability to pay could be taken into account if land values were regularly revised:

“They need to build in a review system so that it can be kept up to date.”

Participants felt that this system would not be able to take people’s ability to pay into account because it did not reflect individual or household income. Participants thought that this was a flaw in the system and that it had a big impact on how fair they considered this system to be.

Participants were concerned that this system could lead to overbuilding and overcrowding, with people living very close together on the same plots of land in order to reduce the amount of land space that would be liable for tax:

“People might end up living so close to each other that they could shake hands with their neighbours through the windows of their own homes.”

Participants also highlighted a concern that this tax system could lead to overcrowding, if people felt they could pay less if they lived on smaller plots of land:

“How would this work for flats? Would this result in people squeezing in?”

Participants noted that this system could prevent ‘land banking’, but felt that an incentive to build should not always be considered positive. They were concerned about the unknown consequences of this tax as an incentive to deliberately encourage building on empty land:

"This could help prevent land hoarding but it might also be a perverse incentive to build"

Good tax for local government to change in response to local preferences?

Most participants thought that local government could use this tax system to vary levels of revenue. However, they thought it would be necessary to have regular reviews of land value in order to keep the system up to date. Participants were particularly concerned that re-valuing would be necessary to ensure there were no dramatic changes in values which would impact the revenue that a council could raise:

"This would be difficult to change unless it was constantly assessed."

Some participants were concerned that land uses might change frequently from domestic to business. They thought that this could be disruptive for a council's cash flow.

Participants thought that this tax system could potentially expand the tax base for local councils, as vacant plots of land would be a source of revenue.

Participants were concerned that council's might not be able to raise as much tax with this system if big contributors, such as large landowners, moved to a different local area with more competitive land rates. Participants felt that people who own large areas of land might leave local areas, fearing that the council will charge them high taxes on their land. Participants were concerned that this might negatively affect councils' revenue raising capacity.

Overall rating

Participants thought that this tax system could overcome the problem of 'non-doms' escaping tax liabilities. They felt that this would be a benefit of a land value tax as it would increase the tax base and the revenue-raising capacity of the local council. However, other participants were concerned that offshore ownership could create problems for local councils in identifying who should be responsible for payment.

Participants felt that it was ultimately very subjective; they agreed that a house is easy to value while land values would be harder to comprehend:

"It's so subjective; really hard for everyone to agree on correct and reasonable land values, especially compared to property values where everyone can plainly see if a house is fancy and expensive."

Participants were not very convinced that this system would be a good way to raise local tax and there was large agreement from all participants at the event that there needed to be a clear cost-benefit for changing to this tax system.

Some participants also felt that there were too many negative potential consequences for local councils, and suggested the alternative of using this as a national tax instead.

Tax Model 3: Tax based on Income

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Some participants initially felt that the theory behind an income tax was easy to understand, as it was conceptually simple:

"It's easy to get to grips with; the more you earn, the more you pay."

However, they discovered some complications with the system during the discussions. Such as what might count as "income" for the purpose of this tax:

"Some issues crept in and it got confusing pretty quickly."

Fairness

Participants were concerned that this tax would be solely based on earned income, and would not take into account other sources of income such as dividends from investments. They felt that this would leave lots of wealth untaxed and that this would be unfair:

"It's a bit controversial if wealth is not being taxed."

Participants were concerned that this would narrow the tax base in areas with relatively high concentrations of people not earning – for example, retired people or unemployed people:

"This places a greater burden on a smaller number of people."

Participants wanted to see a system where revenue would be redistributed across council areas. They were concerned that less affluent areas would collect less revenue locally, and wanted to see a redistribution of wealth to mitigate the disproportionality and inequality between areas. They were concerned that without some checks and balances, social demographics would not be taken in to account with this system.

Participants were concerned about how people would be classified as liable for income tax. They were particularly concerned about how self-employed people would pay this tax and the potential for them to avoid it.

Participants were also concerned that this system would have a bigger impact on the ageing population. They were confused about how this system would apply to people on a state pension, as opposed to those who were working and receiving earned income.

Ability to pay

Participants were worried that this system would disproportionately penalise middle class people of their earned income. They felt that there should be more tax burden placed on the wealthiest people in society – who often are not paid a salary. They were also concerned that wealthy people sometimes avoid paying tax, and that this system would make it easier for them to avoid, while making it unavoidable for middle class salary earners who pay income tax through PAYE:

"This squeezes ordinary people."

Participants were concerned about the lack of speed with which this system could respond to changes in people's circumstances affecting their ability to pay:

"How quickly will the system be able to adjust if people are made redundant?"

Participants were very concerned that this system would make avoidance and evasion easy. They feared that reducing this risk and enforcing the system would be expensive:

"It would be a simple system if everyone was honest!"

Good tax for local government to change in response to local preferences

Participants were concerned that the risk of frequent fluctuations in revenue raising capacity would make the system more volatile. This volatility would be disruptive for councils and inhibit their ability to make financial plans:

"This could be bad for forecasting."

Participants were concerned about the impact that people moving house could have on a council's ability to raise revenue. Would this disrupt the system, cause fluctuations, and increase the administrative cost, they asked. They gave the example of lots of people moving from Scotland to England and they were concerned about how the system would apply in these cases.

Participants were concerned that administration costs would be high if each of the 32 different local authority areas in Scotland were to charge and collect their own tax.

Concern was also expressed concern about HMRC's involvement in the proposed income tax system. They felt that it would be necessary to have a relationship with HMRC for the purposes of the income tax system, but worried that this relationship between a UK authority and local authorities would be confusing and could slow down the process and cause delays in the council receiving the revenue.

Participants suggested that a national income tax might disempower local authorities and so were in favour of a local level of taxation fixed by local authorities without the involvement of a UK-wide agency.

Overall rating

Overall, participants were divided in their opinion on whether this would be a good system for local tax. There were some who felt that this system was fairer than the others because it would take into account people's ability to pay. Others however felt that there were too many flaws with this system, including the high risk of avoidance and the narrow tax base.

Mixed Tax Systems and Other Considerations

The groups were given the opportunity to raise the issues they felt were relevant and also to consider how combining different tax systems might work. The themes raised were as follows:

Themes

Mixed tax systems: Participants thought that all the tax systems presented to them were unfair and seemed on the whole to favour a mixed system which would take into account both earned income and asset wealth in terms of property and land:

"No tax is perfect, so mixing could be good."

Income and Property Taxes – Participants suggested that a mix of taxes would be a good way to raise local tax. They suggested a mix of income tax and property tax in order to take account of people's ability to pay.

Local 'purchase charge'– A participant suggested that there could be an additional local 'purchase charge' which would be implemented on top of VAT as a local charge that would be an additional source of revenue for councils. Other participants, however, had voiced concerns that this could result in people going to different council areas to get goods cheaper depending on the local rates applied. Furthermore, the tax would not apply to internet shopping and would therefore be detrimental to local businesses.

Improvements to current system – Some participants felt strongly that it was important to retain a tax based on property value, but felt it should be reformed to make it more progressive. They suggested that the current system could be updated and improved. Properties should be re-valued and bands should be reassessed:

"We haven't exhausted possibilities of change in the existing system."

They also suggested that the interests of certain groups of people should be taken into consideration, such as those who may need reductions for example single person households. They also felt that redistribution would help councils provide support for vulnerable people.

Re-valuation – Lots of participants agreed that re-valuing should be a high priority:

"Councils are frightened of making this change and hiking up tax – it will depend on who is in charge."

Participants considered the example of successful re-valuation in Wales, although they noted that even if this were done in Scotland as well, it would not make the system fair for everyone:

"The problem is that there will always be winners and losers, and losers will always give more feedback."

They were particularly concerned that this could act as a disincentive to move to certain areas for fear that the tax might increase to an unaffordable rate. This could also result in people moving home frequently as values increased, which could be disruptive for families.

Band differentiation – Participants felt strongly that re-banding should not be done nationally. Instead they thought it should incorporate different bands for different local areas, with councils given the power to set and change bands.

Constant review necessary – Participants felt that all the proposed systems would need regular reviews.

Housing crisis and property tax – They felt that property tax encouraged people to share housing and that an income tax could help to address this problem. They also recognised that people could benefit from sharing the cost of property tax, while the same could not be said of an income tax alternative:

"When housing is scarce you don't want to have people living alone in a 7-bed house."

Some participants felt that a property tax could be unaffordable for people living alone in expensive properties but with a low income. They cited the example of an elderly lady living alone in a large house, such as a previous family home, when she no longer has an income. In this situation, the property tax system would not be fair on her. They were further concerned that if people become unable to pay property tax they might need to move out of their property which could cost society more as a result.

Tax system should encourage stability – Participants had concerns about creating a tax system where people could be incentivised to move frequently. They felt this could be bad for small towns in Perth where there is a large retired population. They felt it would be important to keep stability and cohesion in communities and that a tax system should encourage stability.

Second homes – Participants felt that second homeowners should pay full council tax, and that all councils should already be implementing this now that they have the power to do so. They felt that although second home owners do not use local services, the empty houses in local areas have a big impact on the local community and should therefore pay tax at the same rate as people living locally permanently.

Additional Points for the Commission

Participants were invited to give additional individual and anonymous written comments at the start and end of the event. Here are the issues raised:

- "We need to stop using property tax and do something entirely different."
- "Why are we changing if there's no need to change – collection is high, it only accounts for 12% and public acceptance is good."
- "No matter how much they get in, they don't necessarily spend it wisely."
- "My concern long term, as we head towards full fiscal autonomy, is that we do not raise taxes in general to a level compared to that of Scandinavia. I would not like to see unbridled levels of tax - I think efficiency is key. This is why I believe a reformed property tax with the necessary tweaks to make it fairer/ more just, is probably the answer."
- "Don't move to a land based or income tax based system. Keep the present system, but change it to address some of the existing unfairness."
- "Council tax has never increased in line with house values – this is very unfair. This needs to change!"
- "This has been a real chance to demonstrate justice and fairness. I really feel communication is important as carrying the electorate with the decision is crucial and will hopefully avoid the poll tax issues."
- "This is an impossible task but a necessary one. We hope politicians will be brave and grasp the obvious need for developing the present system."
- "The tax system must redistribute wealth from the rich to the poor, those with the broadest shoulders must carry the burden. A tax system that drives down house prices is needed to stop a housing bubble, likewise rents need driven down."
- "Any reform of a property-based tax system might penalise low-income property owners. Relief would need to be provided in the interest of community stability, ie. does not force people to move house."
- "Thank you for being willing to listen. I believe that a fair system of taxation will reflect a person's ability to pay."
- "Tax must be more personal."
- "Some communities are almost all second homes – the owners must pay the full or higher tax so that communities can become alive again by deterring the ownership of second homes."
- "Second homes and empty properties should be highly taxed to discourage the harmful behaviour."
- "A tax system that places the local tax burden on landlords rather than tenants (with calls to prevent the cost being passed on) is needed."

Summary of the Glasgow listening event with women's groups hosted by Glasgow Caledonian University

This workshop was held in Glasgow on 7th of September 2015. The views expressed here are those of participants, not the Democratic Society nor the Commission. The following people were present:

Attendees

Commissioners: Jackie Baillie MSP and Angela O'Hagan
Facilitators: Millicent Scott (Lead Facilitator), Niamh Webster (Support Facilitator) and Alistair Stoddart (Support Facilitator)
Secretariat: Ruth Wilson and Adam Stewart
Participants: 14 women from a range of women's groups hosted by Glasgow Caledonian University.

Overview

Consideration of each system was structured around a series of criteria; of these, two were weighted as extremely important by participants: fairness and ability to pay. For the most part, these two aspects overlapped significantly. The minutes have been structured to divide discussion points into sections for clarity, but it should be noted that the conversation linked the two in practice. A fair tax system is one that is sensitive to personal circumstances and does not incur a higher levy than an individual can afford. Most participants felt that tax systems, even if they brought additional or higher taxes, would be acceptable if they were fair:

"I like paying tax if it's fair."

While many specific points were raised (detailed below) the broad consensus was that a system should be particularly sensitive to the needs of the most vulnerable, poor members of society, and that it should also be robust against the inclinations of the wealthiest members of society to avoid paying tax.

Key Points on each tax system

Participants did not wholly support the model based on **property value** due to its unfairness on certain social groups, yet were reluctant to abandon it altogether. Positively, it was seen as simple to understand and protected against multiple property ownership and vacant homes. Updating the system through re-valuation would be a way of increasing fairness and validity, but far more thorough caveats would need to be introduced if the system were not to disadvantage low-income individuals and particularly families.

The key aspect that participants liked about the **land tax** was that it would act as an incentive for using land. Unlike the other two tax systems, there is no obvious precedent for a land tax, but in general it was considered easy to understand once explained fully. Absentee or anonymous landowners were likely to prove challenging in Scotland; addressing these might be a necessary prerequisite for the system to work. While similar issues of fairness and ability to pay were discussed as for property tax system, broadly a tax based on land was thought to be more sensitive to personal circumstances. Administrative costs, unpredictability (fluctuations in land value) and the impact of land use were all considered problematic but not insurmountable.

There were mixed feelings about a tax based on **income**. Participants felt people would be familiar with the tax given precedents in existence, but the administration (particularly the involvement of HMRC) would introduce layers of complexity. In terms of fairness, the tax would be sensitive to personal circumstances and lower income earners, but might disadvantage city councils (where high earners work but do not live in a city). High income earners might be able to evade the tax. In particular, concerns were raised about how fluctuations in the job market and earning capacity would impact: conceivably, an individual might go from a high earning job to unemployment within 24 hours; would this system accommodate the rapid change in ability to pay? Overall, this approach was considered acceptable, subject to some caveats and safeguards.

Tax Model 1: Tax based on Property

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Participants felt that this was an easy tax model to understand because they were familiar with it; this was a unanimous view. Extending the point, the group also highlighted that people know what the model is because they have to pay a physical bill for it:

"Everyone in our group found this straightforward and easy to understand."

Going beyond the basic concept, the group believed that the public's understanding of the system could be improved through increased transparency on how the final tax bill is worked out. Showing calculations, process and assumptions would support comprehension.

Fairness

The concept of fairness provoked an extensive discussion; several different areas emerged for consideration, grouped below by topic:

Some participants wished to retain some form of the existing property tax but felt that the current system could be improved. They suggested a re-valuation of properties to bring the system in line with current values, recommending that this exercise should take place regularly to take account of periodic changes in market prices. This would make the system more 'fair' in that the value of property would be more consistent with the current market. The counter-argument proposed that regular re-valuation would incur too great a burden on councils. Another issue of concern was that re-valuation might result in increases in property value which some people might not be able to afford:

"Increasing values of properties might put some people into poverty who've had the house for a long time."

Participants also discussed the impact of re-valuation, and that it could lead to disputes between neighbours. One area for potential conflict would be valuation – discrepancies in estimate could easily arise as valuation can be considered a subjective exercise. Similarly, boundary disputes could arise and would affect values. Such disputes would create difficulties and would need to be settled as part of the valuation process and as a 'first step' before the new system could be implemented. In this respect, individuals' perception of 'what is fair' would be a first hurdle:

"A new system would be required to set this system up. It would be very complicated and would lead to lots of arguments and complaints!"

There was disagreement on banding, with some participants suggesting that this part of the system should be removed altogether, while others proposed that banding enables councils to use fewer resources in re-valuing properties. One suggestion was that banding should be done nationally to support local authorities, but that councils should set the tax levy.

Participants felt strongly that it was important to change the perceived notion of home owning as an "asset" for tax purposes. Instead, they emphasised that "assets" in this context should be seen as homes and an important part of the community. In particular, they identified a need to change the language around this – a "property" is someone's "home". The group were concerned that people have a right to have a home and that they should not be penalised by the tax system for this right:

"More a 'housing' tax than a 'property' tax."

The issue of household occupancy and the number of contributors towards the tax payment was discussed at some length; participants were concerned that this system might be unfair on people living on their own - they might have to pay a similar tax sum to that of a number of occupants co-habiting. A group of people living together, many of whom might be economically active, could afford to pay more council tax. Participants felt that this should be a key concern, given that living alone is becoming an increasing trend. Conversely, the group also identified a benefit of the system: people might make a decision to share accommodation in order to decrease costs, which in turn might support a more efficient use of accommodation.

Participants were concerned that this would affect people's ability to pay council tax, with people in the private Private Rented Sector (PRS) paying more than those in the Social Rented Sector. The former sector is known to be more expensive.

There was some discussion as to whether this system would disproportionately and unfairly disadvantage women because women earn less than men. This risk was considered linked to the economic disadvantages already faced by women relative to men. Specifically, the group noted that there are income differences between men and women, particularly after a relationship has broken down and the woman has spent time out of employment (and dependent on her partner) in order to raise children. She is then disadvantaged in the workforce having gaps in her employment history that may undermine her ability to earn.

The group considered that this system, allowing local authorities to set values, may have an impact on low-income families in rural areas; specifically, local authorities might be incentivised to increase value to raise more revenue. This could force low-income families to move in order to be replaced by wealthier people better able to afford to live in these locations.

Participants felt that reform of the local tax system should be part of a wider reform, taking into account properties other than domestic properties, including business premises and plots of land. They were also concerned about properties in rural areas that are used as estates or for agricultural purposes. The owners of these estates are unknown in many places in Scotland which could mean they avoid tax payments, which was considered unfair. Participants felt there was a potential danger that an undue burden may be placed on urban property owners while rural property and landowners may be able to avoid tax liabilities due to anomalies around property use.

Thinking in terms of local community, the group did not want to remove all links between tax and property; one important reason was that removing a property tax could incentivise people to buy second homes. They felt that that this was already problematic for local communities that have a high number of empty homes.

Ability to pay

The group felt that this system would take no account of people's ability to pay. They felt it made an unfair and inaccurate assumption about wealth based on property value. Some of the discussion points between fairness and ability to pay were closely linked.

Participants considered that this system would not take into account several vital considerations that underpin affordability: namely, income and expenditure, and also personal circumstances. They also believed that location would have a strong impact on affordability: some places have higher value properties than others. This might disproportionately affect some people in the same income band, creating potential difficulties in affording the tax. Other considerations that inter-relate to this include how houses are valued overall, the cost of property to maintain and the number of contributors to the household who are economically active.

Following on from the arguments relating to affordability, participants believed that this system would not take into account whether the taxpayer is a tenant or landlord. They considered it particularly unfair that renters may be asked to pay tax on the basis of the property value as, given discrepancies between the rental and purchase markets, the rental income for a given property may not be analogous to its value. Depending on how property value is finally calculated, renters may not, therefore, have the ability to pay a tax that reflects the value of the property:

"Assumes big house equals big income."

Participants were concerned that property should not be considered as an accurate proxy for wealth, highlighting specific examples such as 'Help to Buy' schemes where the value of the property cannot be a reflection of the owner's wealth and income.

They also felt that women and families might have to pay more tax than they could afford if they have to live in relatively expensive rented properties because of a lack of social housing. They noted that a lack of social housing is problematic because it reduces the homes available and so competition introduces qualifying criteria that not all may meet. Women and families therefore rely more on private lets when they don't qualify for social housing. As a result, they might have no say over the value of the property they live in. Participants said that many people may end up living in high-value properties through circumstances beyond their control. They additionally felt that the same could apply to people who rent in social housing; they have no say where they get allocated and so could have no say on the value.

Good tax for local government to change in response to local preferences

Participants felt that if a local authority had the ability to change revenue for a specific purpose it would be easy for them to do it in this way. They thought local authorities would need complete control of the tax in order to do this. They also noted that this could help to increase accountability for local councils.

Overall rating

Participants felt that the underlying flaw in this system is that it lacks consideration of individual circumstances. Entire groups of society (women, renters, those living alone, those on low incomes) might be unfairly disadvantaged; conversely, landlords and absentee land owners might benefit. This discussion of fairness was inextricably linked to the discussion on ability to pay. Despite the disadvantages of the system, the group was reluctant to abandon it completely, believing that ensuring property is linked to taxation would protect against an increase in vacant properties:

"It's too simplistic and doesn't take into account complexity of people's lives.

Tax Model 2: Tax based on Land

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Participants found this system of taxation relatively easy to understand once explained, although they noted initial confusion based on the unfamiliarity of this concept. Of all the models, this tax was the least similar to any existing precedent:

"People are used to paying tax on the house as opposed to the land."

In particular, there was a great deal of uncertainty around how land value would be calculated. The group thought that people would struggle to understand how these values had been worked out.

Fairness

Participants were concerned about issues surrounding land ownership; the fact that some landowners are unknown in Scotland would act as a barrier to tax collection. They suggested that a detailed mapping exercise could help to identify these anonymous owners. There were some participants who suggested that more men own land than women and that this tax system would have a greater impact on men as a result.

Participants thought that this tax could incentivise people to build on otherwise empty plots and so would reduce 'land banking'. They considered an advantage of the model is that it would bring old land back in to circulation for re-development. Connected to this, the group discussed how land might be classified, considering that employing terminology such as 'sites' instead of 'property' might help to differentiate the degree to which land is considered taxable and also eligible for development.

While generally bringing unused land into circulation was broadly considered positive, it was also suggested that some land should be protected from productive use and land building. This is because other productive uses of land also need to be considered and protected: green spaces; grazing; social gardens and crofting were some examples cited. Participants were very concerned about forced productive use of land and suggested that if land had alternative 'productive use', as a green space for example, then it should be protected and classified as outwith liability for land tax:

"This system is a good mechanism for incentivising building, but we were concerned that not all land should be built on and the system should take care not to encourage that."

"I'm keen to see land put to better use."

Participants were concerned that this could raise land values in cities to unaffordable prices. This market trend could, in turn, make some cities too expensive for some people to live in. Participants suggested that this had already happened in cities such as London.

In general, participants felt that the model was similar to property tax, but would be slightly more progressive, as it would target more wealthy people who own large tracts of land rather than just those who own expensive property. Participants thought that this would also widen the tax base through increasing the number of contributors.

Ability to pay

The participants thought that there were some similarities with property tax and raised similar issues relating to ability to pay. Participants felt that both systems did not take into account affordability because they would not be sensitive to individual circumstances. Specific issues cited as examples included an elderly lady living in a large house who might have very little income and single parent families after a break up where one parent remains in the family home, yet might not have the income to reflect the property value.

The group also considered that this system would take no account of household occupancy and the number of persons bearing responsibility for the tax. Similar to property tax, they felt that without taking into account the number of eligible contributors to a land tax, the system would not reflect ability to pay. Participants also highlighted examples of the increasing trend of young people who return to the family home. Participants thought that this change in circumstances should be reflected in the tax liability for the household.

Participants were largely concerned that the system would not take into account ability to pay, such as income and expenditure, which led to concerns that this would have a big impact on 'ordinary people'.

Good tax for local government to change in response to local preferences

A recommendation the group thought that it would be fairly easy to implement was an adjustment of tax rates in bands. They thought that reassessing the value of the land would be more complex, but that rates could be increased as according to the banding system:

"We think that this would be easy for councils to adjust."

Participants felt that there could be large differentiations between council areas because of rural and urban distinctions. Participants were concerned that urban areas might be of higher value and thus the council's revenue raising capacity would be much greater than those in rural areas with less taxable land of high value.

They also felt that land value might fluctuate frequently, depending on the amenities of the local area such as shops and restaurants that might come and go. They were concerned that this would make the council's revenue unpredictable.

Overall rating

There was some diversity of opinion amongst participants. Most thought it would be a good system while some others were more sceptical:

"This instinctively feels right."

Some participants highlighted that it had the potential to be progressive, as they felt that it would address some issues of ability to tax land such as estates and land that has not yet been built on. However, there were some concerns that this might have an adverse impact on poorer families, whose income and expenditure would not be taken into account when deciding how much they should pay.

Participants thought about the wider impact that this tax system could have; they suggested that it would be fair to have a tax system based on land value because they felt that their higher rates of payment could be used to help the council support vulnerable people in the locality:

"I'd like to say something about this example of an 'old lady living in a mansion'; this is only looking at the tax sides of things, not the revenue side of things. Lots of councils are making cuts to services etc. We could think of the old lady as a pathetic figure or a benevolent figure; if she was able to do so, she might be paying for services for poorer families and helping other people a great deal."

Participants were concerned that implementing this system would be expensive, requiring extensive resource and administration. They were concerned that valuing land would be expensive and timely.

Tax Model 3: Tax based on Income

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Participants were concerned that the administration of this system would be complicated, particularly with the extra administrative level of payments collected and processed by HMRC. Participants believed that this additional layer of bureaucracy could cause delays, affect benefits or even result in sanctions; these specific anxieties arose from a more general concern about how a potential reliance on HMRC might work in practice.

Participants suggested that while there might be administrative complications, in practice this model might be simple for individual people because they would be familiar with the principle of an income-based tax and would also not have to deal with a physical bill.

Fairness

Some participants were concerned that cities and central urban areas would not raise enough revenue if high-earners lived (and therefore paid tax) in other council areas. They believed that the highest earners would live in suburban commuter towns outside the city and that inner city areas in particular would not receive the income tax needed.

Participants thought that this system could be fairer for low earners than the property and land value systems of taxation because low income would be recognised and supplemented by welfare payments and proportionately lower tax. Their ability to pay would be taken into account.

Tax avoidance and evasion would, it was believed, be easy for skilled and wealthy people: income is (relatively) easy to hide. As a result, participants were concerned that this system would narrow the tax base considerably and decrease council revenue. For example, they believed that homeowners living on dividends would not be liable for a tax based on income:

"People who already avoid tax don't pay through PAYE. Even though it's immoral, the law says it doesn't matter."

Some people at the workshop were concerned that taxing only earned income would narrow the tax base. Partly in response to the issues raised around tax avoidance (and the circumstances that might facilitate that) they felt strongly that *all* income should be included in calculations. They proposed that assets and investments should also be taxable:

"This system would let people who are capital rich off the hook."

Ability to pay

One suggestion, supported by several group members, was that it would be necessary for this system to be based on household earnings, not individual earnings. They felt that this would be a more accurate assessment of ability to pay and would be fairer if everyone who had income contributed. There was some confusion on whether this would be the case if this system was implemented and how it would work in practice.

Participants felt that this model would not necessarily take into account people's ability to pay: expenditure or other costs would not be factored in and they suggested that people should be taxed on their disposable income rather than earned income:

"It takes into account people's income, not their disposable income."

Participants were concerned that people's circumstances and employment status could change frequently and that it might be impossible for local councils to keep up with the pace of change in resultant income. They were concerned that this would affect people's ability to pay should events beyond their control reduce their income significantly.

Participants liked that this system had the potential to benefit more women; an income-based taxation would take into account those with no earnings, which would have particular relevance for women whose time is spent in unwaged work such as unpaid caring:

"In an ideal world the tax system would take into account work that is unwaged."

Good tax for local government to change in response to local preferences

Participants were concerned that fluidity in the labour market would introduce complexity into the system. They suggested that unknown fluctuations could be disruptive for councils and affect their revenue raising capacity.

Participants were concerned that administration of the system would be complicated and expensive to run. They were also concerned that it would not be easy for the council to make changes; the system itself would not allow for much flexibility.

"It sounds quite difficult to set up, let alone adjust."

Overall rating

The overall verdict on this system was mixed: participants could see positives and negatives. To a great extent, these were focussed on social factors and the ability to pay, which was largely seen as fair and reasonably sensitive to personal circumstances. The disadvantage that concerned the group the most was the possibility that it was too easy for wealthy members of society to evade. There was a strong feeling that richer individuals have the resources to 'hide' wealth and minimise taxation and that this system would, comparatively, be vulnerable to that trend. It was acknowledged that no system can ever be perfect, and that the detail or less obvious problems would always be an issue:

"When you're trying to find a system that fits all, it will inevitably run in to other problems."

"When you're trying to develop something new, every system needs to be thought through properly. We need to find a system that works for everyone – we're only looking at one side of the picture and there are lots of other social factors that need to be considered before making up our minds."

Mixed Tax Systems and Other Considerations

The groups were given the opportunity to raise the issues they felt were relevant and also to consider how combining different tax systems might work. The themes raised were as follows:

Themes

Mixed tax systems - Participants agreed that no single tax would work on its own and that a combination of different elements from across systems was needed. We also collated isolated arguments or discussion points from group discussions that did not fall easily under the other headings, allowing people to express their views beyond the parameters of the event. Participants also felt that it would be useful to consider each system in more detailed terms of how it would work in practice. They felt that they would be able to see the pros and cons more clearly if the process was mapped out in this way.

Local Accountability – Participants felt that retaining local tax was important because the local council is the 'port of call and face of delivery' for many people. They need to be able to receive money from local people and spend money to improve local areas.

'Buy-in' to Council Tax – There is a perception that Council Tax is paid by everyone, yet participants observed that because the tax is currently calculated per household, it can't be assumed that everyone pays. They noted that ensuring the tax is levied at everyone is an important refinement if people are to 'buy in' to the services that the Council provides.

Wider discussion of tax – Participants welcomed the opportunity to discuss the local taxes but expressed a wish to broaden the context – the local tax systems should not be considered in isolation. Thinking more widely, participants felt that the Council Tax 'freeze' should be ended and that tax should be considered in conjunction with welfare and benefits. They saw it as critical that income and taxation should be considered together. Participants proposed a 'Citizens Basic Income' which, they felt, related to the issue of local taxation. Even without a detailed discussion and solution around income, participants felt that local tax could begin to address some of the inequalities they perceived:

"Local tax can address the imbalance in society between the wealthiest and the poorest by looking at wealth."

Commercial Tax Avoidance – Again, drawing discussion beyond local tax considerations, participants were concerned that reforming the commercial tax system was a low priority. The risk inherent here is that focussing on domestic tax while deprioritising commercial tax will have minimal impact on the need to tackle commercial tax avoidance by corporations:

"Council Tax is just a drop in the ocean – its impossible to ever increase it enough to fill the gap needed. It's large corporations versus local people."

Council Expenditure – There were some concerns about local council expenditure. Participants had the perception that comparatively high sums of money are taken through council tax but that the services that local people need and use are not adequately provided. This in turn links to the spending priorities of councils which may not always resonate with tax payers:

'How can clearing bins be more of a priority than caring for people?'

Additional Wealth Tax – Participants suggested the addition of a wealth tax. Participants felt that this would ensure that the tax system would relate to overall worth, including asset worth combined with income and investments.

Income tax only – Some participants suggested that there should only be one form of tax on income and all other taxes should be abolished.

Water and Sewerage Charges – Participants suggested that council tax and water charges should be billed separately. At the moment they are on same bill and people do not always understand their bills – in particular, participants suggested that some people who receive council tax reduction do not realise that this does not apply to water and sewerage. While dual-purpose billing is simpler for collection and administration of tax, people who cannot fully interpret the bill may unfairly face fines and penalties for non-payment.

Second homes – One discussion point was the issue of second homes in areas of increasing desirability – this, it was felt, causes property values to increase. Unfairly, the higher prices incurred through second (and potentially vacant) homes may make the tax unaffordable for local people who live in the area. Participants suggested a solution, namely that all local authorities should double the tax for second homes.

Additional Points for the Commission

Participants were invited to give additional individual and anonymous written comments at the start and end of the event. Here are the points and questions raised:

- *“Don’t try and save money by coming up with a ‘one size fits all’ solution.”*
- *“I’m worried about where the burden of payment lies. The tax system must acknowledge and build in issues around household incomes, how resources are shared or pooled.”*
- *“We need a wider debate and we need to start the discussion on taxing the crown estate.”*
- *“Wealth tax.”*
- *“Three models to base a country’s future on is not enough, there needs to be a bigger debate not just the disadvantaged but we need to take into consideration about the business world, otherwise they wouldn’t be able to survive.”*
- *“The purpose of tax needs more emphasis. Good public services need investment. Applying local charges for public services hits the poorest hardest.”*
- *“I got the impression that the meeting divided into two:*
Those who were most concerned about the wealthy not paying enough
Those who were concerned about the poor paying too much”
- *“It has to be a fair system, especially around the ability to pay – whichever one is used.”*
- *“Although complex to administer, some form of income-based tax is in my opinion, the fairest model – particularly for women who are more economically disadvantaged.”*
- *“I’d like to see land tax incorporated into the final detail. Any tax needs to be/must be progressive and simple (ability to pay).”*

North Glasgow - Housing Association discussion summary

This workshop was held in Glasgow on 8th September 2015 in association with NG Homes Housing Association. The views expressed here are those of participants, not the Democratic Society nor the Commission. The following people were present:

Commissioners: Dr Jim McCormick and Dr Angela O'Hagan
Secretariat: Robin Haynes and Neil Ferguson
Facilitators: Alistair Stoddart and Niamh Webster
Participants: 12 members of the public

Overview

The event produced a lively and varied discussion in which group members did not reach a consensus view on one tax system. The positives and negatives of each were discussed at length, with attendees taking different positions. This led to a thorough exploration of the strengths and weaknesses, at the end of which the broad conclusion was that a mixed tax system would be the most secure. The crux of disagreement came around fairness and ability to pay, which were closely linked in debate. There was also variation of opinion about how easy each model was to understand. A general point was that the details of how each system would be implemented were of great importance: the process of evaluating, setting tax thresholds and determining eligibility all matter greatly and some attendees felt they could not reach a verdict on a system without more information about how it would work in practice.

Key Points on each tax system

There was significant discussion in the groups about the **property tax** system and very mixed responses: participants disagreed as to whether this would be a good system or not. Some found it straightforward and relatively fair, whereas others found it complex and weighted against groups of people in certain situations. Participants agreed that any tax based on property would involve significantly reforming the current Council Tax model in order to render it more fair, but even then the group did not reach consensus on approving the system.

Participants at this event on the whole found the **land tax** model difficult to understand and had many questions about how it would be calculated, implemented and applied in different situations. They found the concept had many similar problems to those they associated with the property tax. It would not, they thought, take into account people's ability to pay, nor their personal circumstances. Participants also suggested that this tax would have to be implemented in certain ways in order for it to be fairer and on the whole many seemed sceptical towards it.

The **income tax model** was the model that participants at this event felt was the easiest to understand of the three models and it was the most highly rated. However, opinion was still divided about whether this would be a fair and practical model for local tax. On the positive side, this system most closely reflected an individual's ability to pay and in this respect, was fairer than the alternatives. However, the group were concerned that disparity between demographic groups (women earning less than men, pensioners and low-income families) could be hit hard whereas high wage earners might find ways to evade taxation. The role of HMRC in collecting the tax provoked mixed responses: on the one hand, a reduced administrative burden on councils was welcomed, on the other, concerns were raised that money raised locally in Scotland should stay in Scotland.

A session on **mixed tax systems and other considerations** gave the group the opportunity to raise and explore the issues they saw as important; these optional issues included: water and sewerage, the way water is billed, mixing different tax systems and some suggestions for new kinds of local tax.

Tax Model 1: Tax based on Property

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

The group were split on whether they found the concept of a local tax based on property easy to understand. Many in the group found it "straightforward" and "quite easy to understand"; others found it "confusing and complicated".

There was particular confusion over thresholds for tax, with one participant noting that "more clarity is required on various bandings". Participants also felt that the current banding system of A-H is "too fudged" and that bands were too broad, not reflecting the range of properties people inhabit.

The group also felt that any process of re-valuation would need to be explained clearly as it was perhaps "a bit technical for some people to understand".

Fairness

Attendees were also split on how fair they found the local property tax system. Some were adamant that the system was inherently unfair, whereas others felt that a local property tax "could be made fair with some tweaking" – the changes envisaged were rebates, re-valuation and re-banding:

"I would definitely prefer for properties to be re-valued, there is too much discrepancy between property values in 1991 and now."

Some participants felt that a reformed local tax system based on property would be made fairer by reviewing the property banding process. Participants thought that the "*current bands are out of date*" as many properties are worth much more now than in 1991. They also observed an increase in the variety of property types available on the market since 1991.

Some participants suggested that a local tax based on property would be fairer if a "bigger spread" of bands were available to reflect the range of properties. If this were introduced, then the perceived phenomenon of certain tax bands "subsidising" others might decline. The conclusion was that this change would lead to more people paying a fairer amount of tax based on a more accurate valuation.

The group discussed taxpayers of certain bands "subsidising" the (council-provided) services of others. There was an assumption that band H taxpayers were subsidising services for band A taxpayers, however they then considered that since more people live in band A properties, it could be argued that collectively band A taxpayers contribute more than those in band H.

The discussion of perceived subsidies also led to the discussion of home occupancy relative to service use. Many attendees felt that a local tax based on property was not fair because people living in properties with a low number of occupants were paying the same amount as people living in a similarly banded property with a higher number of occupants. It was observed that multiple occupancy households are likely to use more council services than those living in a property with just one or two people. Therefore, a local tax based on property could disadvantage single or low number occupancy homes as “not everyone pays a fair share”.

Overall, there was disagreement over whether or not a local tax based on property could be “made fair.” While some highlighted desired changes such as re-banding, re-valuation and a rebate system, others thought the system was unfair, partially due to issues around ability to pay, as noted below.

Ability to pay

Attendees were in agreement that a local tax based on property did not take people’s ability to pay into account. The discussion focused on people living in rented property, people of pensionable age and those inheriting property as three groups who might be disadvantaged by this system.

Participants noted that some renters might be on a lower income and could struggle to pay local property tax. Some participants thought that “owners should pay for a property tax, not the renters”, whereas others felt that “private landlords shouldn’t be penalised as they have already paid more for a buy-to-let mortgage”.

Another observation was that a local property tax did not take into consideration pensioners, who might live in larger houses that they had paid for years before, but no longer have an earned income and so are less able to afford to pay higher rates of council tax.

Similarly, participants were concerned about those who inherit larger and more valuable homes, but who cannot afford the associated property tax:

> “New owners who inherit the old family home may not be able to pay a local property tax if they are on a lower income.”

It was noted that if a reformed local property tax were to be introduced then there would need to be some form of rebate system or discount in order to take into account people’s ability to pay.

Good tax for local government to change in response to local preferences

There were mixed views on how flexible a local property tax would be for local government to change in response to local preferences.

Other attendees were slightly more sympathetic towards local authorities and considered how they would be able to use property tax to respond to local preferences. One attendee said that “councils’ hands are tied” when it came to being flexible with local tax income, as too much funding depends on central government. However, some of the group recognised that the high collection rate of property tax was a benefit for local councils. Overall, the group agreed that there should be a “radical change to the process” to ensure local governments are able to use tax effectively to respond to local preferences.

Overall rating

Most of the attendees were adamant that a local tax based on property is “not a good local tax system” due to issues around ability to pay and fairness, but there was not a full consensus. Some attendees stated that if a reformed property tax were to be brought in “homes would need to be re-valued and banding would need to be changed to make it fairer”. One participant felt that that a local property tax would be a good local tax system “as long as some sort of rebate existed to help those who could struggle to pay”.

Overall, attendees felt that a local tax based on property was a system that had “room for improvement”.

Tax Model 2: Tax based on Land

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

There were mixed opinions among the group about how easy land value tax was to understand. Some found the model easy or "very easy" to understand, others felt they "needed more time to fully understand the system". Another comment was that land value tax feels "mysterious" and "hard to grasp because it is quite a new concept for many people":

"Land value tax is quite difficult to understand. There are quite a lot of issues for us to get our heads around in order for us to fully understand the system."

The various "issues" that puzzled the group focussed around how the value of land would be decided. The group posed questions such as "What is the unit of measurement? Would the land value be set per square metre?" and "Would the land value be set at its current value, or how much the land was originally bought for?"

Many in the groups noted that they would find land value tax easier to understand if it were simply the land owner who paid the tax, as opposed to working out how the cost of the tax would be passed on to residents who live on the land, but do not own it.

Fairness

There were mixed opinions on whether or not land value tax was a fair way to decide how much tax people should pay.

Some thought the tax was fair because it "reduced people hoarding land, stopped land-banking and discouraged speculation":

"Land value tax has the potential to be fairer as it would encourage others to pay tax on land that they are currently sitting on and not paying any tax on."

However, others believed that this tax would be unfair because it would not take people's personal circumstances into account, in particular, their income, or the number of people living on the land.

Attendees were concerned that there could be occasions where a large property owner could pay less tax than someone who owns a smaller property, but in an area that is considered to have more valuable land. It was decided that "more clarity was required" in order for a proper assessment to be made about the fairness of land value tax.

Ability to pay

Participants were mostly in agreement that land value tax did not take ability to pay into account. The group noted that, like property tax, land tax produced "no link to income or personal circumstances". To address this, there was once again a request for a "rebate system for those not on fixed incomes, or those who don't necessarily have a lot of income".

However, some participants thought the issue of ‘ability to pay’ could also be solved if it were only the landowner who was required to pay land tax. This was because, under those circumstances, “less people would have to pay for land value tax”.

Some were “unsure” about the benefits and problems that would come with land tax and affect ability to pay – they felt they needed “more information” in order to feel confident enough of the facts to provide a well-informed opinion.

Good tax for local government to change in response to local preferences

The group felt that land tax could be a good tax for local government to change in response to local preferences, but this would “depend on how the system was implemented”. On the positive side, “it would be easier to work out the value of land than to work out the value of property”.

Attendees also thought that “collection of land tax could be easy for councils once it was implemented, but initial administration could be very hard”.

The group also felt that councils could vary rates of land tax in order to encourage people to live in certain areas or encourage business and economic growth in the local authority area. Participants understood that this involved the broader issue of commercial rates, which is outside of the Commission’s remit, but they noted that the issue of land value tax and business rates was “definitely something to be considered”.

Overall rating

There were split opinions on the overall rating of land value tax. Many saw the system as “generally positive” because burden of payment could shift from residents to landowners. This would, of course, depend on how the tax was implemented:

“Land value tax could be a better tax system as it removes an additional layer of payment for many people, especially those who live in council houses.”

Participants also liked land value tax due to its potential to “limit land-banking”.

However, other attendees strongly disliked the idea of a local tax based on land value as they felt “it would not work in practice” and that it would be “too difficult for the general public to understand and for councils to implement and administer”.

Finally, the topic of nationalisation of land was brought up in relation to land value tax. Participants dismissed this idea agreeing that “nationalisation of land is a no-go area”.

Tax Model 3: Tax based on Income

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

The key word used by participants to describe a local tax based on income was "straightforward". The group felt that the system was a "simple concept and reasonably easy to understand".

However, there were questions raised about how it would be calculated for this purpose. For example, they asked whether income would be banded in a similar manner to property value in the property tax model, or how councils would otherwise calculate amounts due.

Fairness

Many participants felt that a local tax based on income would be a "very fair system especially if based on P.A.Y.E".

Others noted there were "pros and cons" in terms of the fairness of the system. Their concerns included the "inequality of women's and men's wages" and they questioned whether the system would be flexible enough to take these variations into account. Participants were also concerned about how much pensioners would be required to pay, particularly those who had been "contributing all their working life". They observed that a local income tax "may cause problems within the household" if salaries were significantly different.

Participants were also concerned about "tax avoidance", especially by the wealthy and by people getting paid "cash in hand". One participant noted that a local income tax might not be fair because "self-assessment is a grey area and there could be too many loopholes to encourage people to avoid paying the tax".

Other participants felt that a local income tax was fair because it had the potential to be "more transparent". This was because "money raised locally would be spent locally".

Ability to pay

Participants were in no doubt that local tax based on income "related to ability to pay much more than the previous two models" and it provided the "most direct link to ability to pay". The group also noted that it would be easy for a local income tax to match ability to pay as the "tax would come directly out of payslips".

However, participants also felt that income should be calculated not just on salary, but also on other sources of income: for example, money earned on rental properties owned abroad. They were concerned about tax avoidance if this model were to be used. One participant remarked that paying this tax "depends on disclosure of assets and wealth held abroad".

Although participants generally agreed that a local income tax took into consideration people's ability to pay, it left the door open for people "who can pay, but won't pay, to avoid paying any local tax".

Good tax for local government to change in response to local preferences

There were mixed views about the flexibility of this tax to change in response to local preferences. Some thought it would be a good tax from a local government perspective as "it would be easy for councils to collect and change, as HMRC would do the collecting for them". However, some thought that localised income tax would give local councils more power as it would give them "more freedom from Scottish Government to set local rates".

Some attendees called into question the efficacy of HMRC collecting income tax. They would "only be confident in a local income tax if it was fully devolved" as they were "concerned about all local tax revenue generated in Scotland coming back to Scotland".

Others were concerned about administrative arrangements including the possibility of creating 32 individual local income tax offices in the 32 local authorities. One participant noted that "one size does not fit all" and that a local tax administered at HMRC level would not be able to provide the flexibility required for local authorities to respond to local preferences.

Overall rating

Opinion among participants was very divided on this tax model. Some were in favour of the system because of its perceived simplicity, fairness and link to ability to pay. Others opposed it because it was: "open to abuse and tax avoidance" and because "administration could be costly".

Mixed Tax Systems and Other Considerations

The groups were given the opportunity to raise the issues they felt were relevant and also to consider how combining different tax systems might work. The themes raised were as follows.

Themes

The group discussed the issue of **water and sewerage** charges:

"Water charges are a problem now. People don't realise water and sewage costs are included in their council tax bill. It does say so on the bill, so should be obvious, but isn't clear enough."

"Sometimes there is a bigger bill despite the council tax freeze. This is because water charges sometimes increase and people are confused, so the council gets the blame for an unexpected big bill. This is bad for local accountability because councils get the blame but it's actually Scottish Water's fault. It was done for administrative ease but it has caused problems."

Some suggested that such problems could be solved by making water and sewerage bills payable through a local income tax and additional payments for such facilities could come directly from payslips, instead of through traditional council tax bill.

Water bills: Participants discussed water bills in a land tax system. Attendees thought that, as with the land tax system, people renting would not have to pay council tax as a separate bill because landlords and owners would be paying local tax instead. However, participants believed that tenants would still have to pay for water and sewerage and so would need a separate bill for this. If separate billing were introduced, participants worried that "meters for water could be installed in every home". One participant thought that meters "might encourage people to think about wastage", but in general the group did not support this idea.

Some participants suggested abolishing water charges (to address the issue of separate billing for tenants). Others suggested that water and sewerage charges should remain included in a local tax bill in order to "reduce confusion".

Participants understood that although it might be possible to change the administration of water charges but any change in the system would involve a discussion with Scottish Water, rather than local authorities.

Participants thought that **mixing** income tax and land value tax "would ensure people who live in precarious circumstances do not have to pay council tax they cannot afford". When the whole group were asked to highlight what one alternative local model they would select, participants warned of the "risk of putting all eggs in one basket":

"It is not good enough to replace the council tax with one model. There is a risk if we plump for just one because it could be unfair, or revenue could vary. Councils should spread the risk in order to raise same amount of money in as fair a way as possible."

There was particular concern over the “disproportionate impact of tax on people’s income” if a local income tax were introduced on its own, as it may only tax people based on their waged labour and lose other opportunities to raise income from other assets.

Participants also discussed **other local tax ideas**. These included:

- A local sales tax that would “divert VAT paid in the local area into the pot of local government revenue”.
- A “production or consumption tax” involving people paying for their use of services such as refuse collection, although only one attendee proposed and supported this.
- More specific local taxes could be introduced to “incentivise fuel efficient housing” and a “tax on waste”.

Additional Points for the Commission

Participants were invited to give additional individual and anonymous written comments at the start and end of the event. Here are the points and questions raised:

- "It is important that the tax collected locally will be used locally."
- "Keep local tax for local areas!"

Galashiels discussion summary

This workshop was held in Galashiels on 14th of September 2015. The views expressed here are those of participants, not the Democratic Society nor the Commission. The following people were present:

Commissioner: Cllr Catriona Bhatia
Secretariat: Robin Haynes, Adam Stewart and Ruth Wilson
Facilitators: Niamh Webster, Alistair Stoddart and Millicent Scott
Participants: 26 members of the public

Overview

There were 26 participants in total and given this number, inevitably each discussion yielded points of contention. This enabled the group as a whole to explore positives and negatives for each system. The crux of discussion and disagreement about the relative virtues of each system centred around the weighting given to personal circumstances (which some participants felt was best expressed through income tax) and stability of model (which some participants felt was best expressed through property value).

Key Points on each tax system

A tax based on **property** was broadly considered in a favourable light, but there was significant discussion about whether it could adequately take into account personal circumstances. Particular examples of groups who might struggle were discussed, for example, elderly people owning large homes but with little or no income, or those struggling to sell a second property. Opinion was divided over whether modifications to the tax could be introduced to make it fairer, or whether it was inherently unprogressive. It was generally agreed that the tax was dependent on re-valuation to be successful, and would also benefit from an increased number of bands, particularly if higher value properties were to be proportionately taxed.

The **land tax** was considered more difficult to understand and attendees believed that the general public would struggle. While some found it conceptually easy, most agreed that the detail of calculations involving the valuation of land would be difficult, and the potential dispute over values would lead to appeals and high costs of set-up. The issue of land use was raised, and a potential positive for directing building and preventing land banking was noted. The same concerns as for property-based taxation were raised around fairness, personal circumstances and ability to pay, but the benefits were generally considered to be fewer.

An **income-based** tax was considered a familiar principle and again received mixed views. The existing system, dependent on PAYE and HMRC was compared with the local based system under consideration and attendees speculated as to how the administration and process of collection would work: local tax offices, or via HMRC? The strength of the tax was its close relationship to personal circumstances through income, which for most people drives the ability to pay. In this respect, the tax was seen as ‘fair’. However, it was noted that not all income is easy to identify and tax evasion in the higher wealth brackets might be an issue. Local incomes might fluctuate significantly due to economic (or personal) circumstances; this fluidity might make revenue prediction difficult.

Mixed tax systems and other considerations were discussed. The option of mixing more than one system evoked debate: those in favour felt that the strengths of each could be combined – in particular, reducing land-banking whilst taking into account personal wealth through income, property and land would bring the best of all worlds. The opposing view was that more than one system would introduce layers of complexity that might, in turn, make tax avoidance easier. Other strategies for increasing local funding were explored, including a local sales tax and charging for local services (felt generally to be unfair). Rebates and reductions were considered to be a vital strategy for any tax system to ensure an equitable approach.

Tax Model 1: Tax based on Property

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

The vast majority of attendees found the concept of a local tax based on property easy to understand:

"Yes, property tax is an easy model to understand, and there is no need to elaborate on that, it is simple."

However, while the group noted the simplicity of the local property tax system they emphasised that on closer examination there were several fundamental problems that needed to be addressed.

Fairness

Participants had different opinions on the fairness of a local tax based on property.
Some felt that it was fair to have a local tax based on property value in principle or, as one attendee phrased it, "fair, up to a point". Discussion for these attendees focussed on what changes could be made to improve the system. There was broad agreement amongst the group that the current property tax system has insufficient levels of council tax bands:

"If a reformed local tax based on property is to be implemented there is a need for more tax bands. The present system places the highest band on properties of a relatively modest value of £450,000."

To address this limitation, the group suggested increasing the number of council tax bands, in particular introducing higher level thresholds to ensure those who live in multi-million pound homes pay a fair share of local tax.

Participants who considered property tax unfair explained that this was partially due to the valuations used to calculate the tax: these, they felt, were outdated, being based based on historic values. Accordingly, re-valuation was considered an important prerequisite for any local tax based on property.

A further point of inequity was proposed: the inability of property tax to take into account usage of local services:

"Use of local services is not necessarily dependent on house size. We all use bin collections, streetlights and so on. Perhaps local property tax should be spread by number of houses in a council area, divided by the cost of service delivery in that area?"

Many participants felt that a property tax model could fundamentally not take into account the number of income earners in each property, nor the owners' ability to pay. This last point was considered in more depth during the next discussion. On this basis, a local property tax presented "little scope to be a progressive tax".

Ability to pay

The majority of attendees felt that a local tax based on property did not take into account people's ability to pay. A minority felt that property tax partially took into consideration ability to pay if the value of property was linked to wealth; that is, people owning an expensive property were also likely to be wealthier people. However, attendees stressed that this assumption should be tested and there was a call for research into the link between wealth, income and value of property.

The group also debated the proposition that "living in a big house is a lifestyle choice". This discussion raised a number of questions about how peoples' attitude towards owning property changes through time, and the impact of culture:

"What if you cannot realistically afford to spend all your life in one big family home? Should it be normal to downsize? This is a serious problem that people face, but is this a collective responsibility we all have to think about?"

Following on from this line of enquiry, there was concern about older people who live in a large (and potentially valuable) house but do not have an income:

"It is immoral if people need to be forced to sell their house because they can't afford to pay tax on it. I wouldn't want to force people to move out of their home and local community because of council tax."

The main heart of the discussion then revolved around whether it was possible to reform property tax to make it fair and to take into account ability to pay – and, if so, what changes would be necessary? The changes took into account the previous discussion points and focussed on modifications to the system. The following practical recommendations were made:

- Take into account the number of "earners" in each property and calculate property tax based on banding of house and number of occupants earning a certain wage.
- Make allowances for people struggling to sell their homes. While the group disliked the idea of "holiday homes lying empty", and thought more should be done to encourage people to live in the area, they also recognised that people may own two properties because they are struggling to sell one, which is a particular problem in the Borders where properties taking a long time to sell.
- Protect older people living in larger family homes with no income – an example from Canada was cited to support how an adjustment to a tax system could support this:

> *"Council tax fees for those over 60 have the option to be deferred to their residual estate, with interest, and tax income can be borrowed against the future income gained when the payee passes away and the money owed is recalled from their residual estate by the local authority. This already works in Canada."*

Good tax for local government to change in response to local preferences

Attendees had mixed views on the ability of property tax to change in response to local preferences.

Some participants noted that local property tax allowed some "flexibility" for councils because it was "easy to collect" and "guaranteed a certain level of cash flow". Therefore, a property tax could potentially be changed in response to the needs of the local community.

However, many participants highlighted that the amount raised by Council Tax at the moment was only a small proportion of the funds required to make a difference to services in local areas. There were also comments around the high level of central control from national government, which restricts local councils' activity and scope to change tax income.

Finally, one participant noted that property tax might not provide councils with the ability to respond to local preferences because of political reasons: "it is such a visible tax there will be significant political inertia in increasing a local property tax".

Overall rating

Overall, participants were divided in their belief as to the viability of a local tax system based on property value. Some attendees rated the system highly due to: "high collection rate"; "ease of administration" and "inexpensive cost of administration". Others, however, felt that property tax was "not fair" as it was not sensitive to personal circumstances.

This fundamental divergence of opinion was summed up by one attendee who noted that a local property tax was:

"A good tax from the point of the collector, but not from the point of view of those paying the tax."

In conclusion, the majority of attendees were positive and felt that property tax was a reliable form of tax but that more should be done to ensure that "everyone pays something, but based on their ability to pay". This final caveat sums up the broad position: the tax system was acceptable subject to some modifications.

Tax Model 2: Tax based on Land

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

Only a minority of participants found land value tax easy to understand, noting that it was new, but not, in principle, complicated:

"There is difficulty when anything new is brought forward, but the proposal of land tax is not inherently complex."

"[it is] not beyond our wit in Scotland to take and use examples from various other cities around the world who have successfully implemented local land tax."

Others agreed that the basic concept was straightforward, but felt that the execution and mechanics of how it would work in practice were more difficult. They sought clarity on what criteria would be used for deciding the value of land and were particularly concerned that there were too many variables for determining how land should be used. There was also confusion over "shared land" and how land tax affects those living in rented property.

The majority of participants felt that a land value tax system was unnecessarily complicated and not accessible to most people.

Fairness

The majority of attendees felt that land value tax shared many of the same problems as property tax, primarily a lack of sensitivity to a person's ability to pay or use of local services:

"By using this system, tower block residents could pay next to nothing but use lots of services, while a single occupant in a house on a similar plot of land, would use a fraction of the services but pay a fortune in council tax."

One group noted that "you would need regular valuations to make land tax fair" but the resulting cost of administration and potential for dispute and appeals (if an individual disagreed with the valuation) would make the process significantly more expensive.

Others believed that land value tax had some unique advantages, namely the potential to prevent land banking and to encourage communities to use their land in positive ways.

Ability to pay

Participants all agreed that land tax took into consideration where people lived but did not take into account their ability to pay. Similar concerns to those discussed for the property tax were again raised:

"Land Tax does not take into consideration ability to pay because there could be many income earners living on the same area of land, while a neighbouring single pensioner pays the same amount of tax on a similarly valued piece of land."

Good tax for local government to change in response to local preferences

Many participants felt that land tax would not fulfil this criteria, especially if it only focused on domestic rates.

The discussion explored the logistics of administrative set up, raising concerns that this tax system could be "horrendously" costly and complex to establish. A further limitation was its propensity to introduce huge differentials in the amount of tax collected in each area, which in turn could place a burden on council's ability to run local services in those cases where a low revenue was returned.

One participant observed that land tax could easily be adjusted to take into account local preferences once a base line was set up. They extended this point to suggest that once a land value system is implemented, it would be relatively straightforward "to increase rates by 0.5% to ensure more spending on public services".

While the majority of participants thought it would be hard for councils to use land tax in a flexible manner, the group noted the potential to include non-domestic rates within a land value tax. There was a suggestion that councils could change rates of brown field sites in order to encourage building.

Overall rating

The majority of attendees did not think that land value tax would be a good local tax system. Many felt that it presented too many variables and unknowns, as well as "too much cost and bureaucracy":

"Land Value Tax would be too complicated at the outset and too difficult to update continually, as land ownership changes and improvements and maintenance happens too regularly."

Some attendees felt that there would inevitably be appeals from residents who disagreed about how their land has been valued and that the appeals process would undermine viability.

There was also a suggestion to increase the flexibility of land value tax by "pulling non-domestic rates into the local tax base" which would "increase long term social benefits for local communities".

Tax Model 3: Tax based on Income

The key themes that arose in the group discussion in relation to the questions were:

Ease of Understanding

The majority of attendees were in agreement that a local tax based on income was easy to understand. This was because it was seen to be a simple calculation based on how much a person earns, a process that was familiar to most attendees and one that is used globally:

"[it] has been seen to work in many systems around the world such as Quebec and Switzerland."

Fairness

Across the group, participants agreed that local income tax was "reasonably fair". This was because it encourages a contribution from all wage earners; the burden of tax would fall on all taxpayers and reflect how much people can afford to pay.

However, some attendees felt local authorities might face difficulties in those areas with a high proportion of residents who are low earners and therefore currently not eligible for income tax. It was suggested that these were likely to be the same places where people need more support from the council and too much reliance would be placed on the smaller proportion of high earners in the area.

Others noted that in the current system, not all income is declared and income tax only covers earned income through PAYE. Following on from this observation, the group raised concerns about income tax evasion and avoidance. The perception was that "the rich will dodge this type of local tax".

Some participants were also concerned about the possibility of differing rates in different areas. They referred to people doing the same job for the same pay, but paying different amounts of tax if they live in different councils' administration areas.

Despite the concerns noted above, many attendees found local income tax to be "fairer" than the first two options of property and land tax.

Ability to pay

Attendees were broadly in agreement about the capacity of local income tax to take into account people's ability to pay:

"[this tax] *justly reflects ability to pay but there are concerns that those who are most able to pay, may not pay the correct amount."*

In summary, attendees were clear that "yes, income tax does take into account ability to pay", but there must be "caveats" to highlight the problem of tax avoidance.

Good tax for local government to change in response to local preferences

The majority of attendees felt that local income tax would not support local government in responding to local preferences on the basis it would be too variable, unpredictable, too expensive to administer and too open to the risk of avoidance.

In particular, attendees felt that local income tax was too reliant on prosperity and so revenues would vary depending on the economy - fluctuations in the pattern of individuals' incomes would be hard for councils to cope with. The worst case scenario was that this unpredictability could even lead to "cash flow problems for councils, which may encourage councils to borrow or increase tax every year":

"A council needs to know what income it is going to receive or it will increase taxes and this might encourage more people to cheat and avoid tax."

A counter-argument was proposed by one attendee, who stated that the revenue being discussed makes up only a small proportion of tax income received by local authorities.

Participants also had concerns about the collection costs for a local income tax, stressing that costs of administration could be significant if HMRC was not involved and each local authority had to open their own individual tax office.

Despite these concerns, some participants believed that there was scope to scale up local income tax and revitalise local government – one prediction made was that the system could potentially lead to more council income being generated locally, as opposed to coming from central government.

Overall rating

Attendees had "mixed views" about their overall rating of local income tax. Some liked the system because, like property tax, it was easy to understand, but had the added benefit of being fairer and more sensitive to personal circumstances. A proportion of participants preferred this system to both land and property based taxes, believing it could form part of a "revamped council tax".

Others disagreed, partly because of the perceived associated risk of tax avoidance, potential variability in revenue, and the need to "have a good relationship with HMRC in order to avoid an expensive collection process".

One participant felt that the questions posed at the listening event were biased in favour of income tax because they felt considerable focus was given to fairness and ability to pay (criteria that associated more positively with income tax) and perhaps more consideration should be given to practical issues such as high collection rates and ease of administration, which local income tax did not provide.

Mixed Tax Systems and Other Considerations

The groups were given the opportunity to raise the issues they felt were relevant and also to consider how combining different tax systems might work. The themes raised were as follows:

Themes

Rebates and Reductions: The group began their discussion on optional features by focusing on "who should be exempt from paying local tax?" There was a strong feeling from the room that it is necessary to have a rebate system similar to the current local tax regime; this should allow those on low income to have a reduction in tax to make it more affordable:

"There will always be a need have rebate and reduction systems in place, if you don't you find a situation where people can't pay and then a lot of money would be spent chasing people."

Changing the reduction system to "make it fairer" by means testing the single occupancy discount was another point raised:

"It is possible to have someone on a high income to live on their own. I think some reductions should be related to income in order to make sure that those in need get correct discounts."

Mixing Systems & Suggestions for reforms: The participants discussed different ways the tax systems could be mixed to ensure the best system possible. Some attendees suggested that aspects of property and land tax should be combined with income tax in order "to solve the problem of land banking whilst still ensuring that the tax system was based on people's ability to pay".

However, others thought that mixing systems too much would not be a good idea:

"If we start to mix local tax systems it would be a glorious cock-up at the end of the day. The system is already over-complicated and any more complications would make local tax even easier to avoid."

Some attendees thought that "people dodging tax is a major problem, therefore we must have a simple system for collection. The existing system of property tax is good because it is so effective for collection". It was therefore suggested by some attendees that rather than mixing local taxes "the present system of property tax should be retained but tweaked in order to take into account those who are unable to pay".

Others suggested that "property tax should be coupled with something else to make it fairer, or it should be removed entirely".

More funding generated locally: Participants also thought that more funding for local services should be generated through local tax. They stressed that is was "not fair that so much money for local services comes from Central government". There was a call to "maximise local income generated locally." One participant felt that "in order to have increased accountability at a local level, we need to have local taxes making up the majority of the overall local tax take".

Increasing local charges is unfair: The group voiced concern about alternate ways of raising local income through applying or increasing charges for local services. One participant noted that “local authorities increasingly look to increase charges for services and this is an unfair way to pay for essential services. We must stop charging vulnerable people big parts of their income, in order for them to receive essential services”.

Local sales tax: Finally, participants suggested the introduction of a “local sales tax or extension of VAT” in order to increase local tax revenues. One participant noted that “everything in Europe has 3 taxes: country, state and local town”. It was argued that there would be “little bureaucracy in introducing a local sales tax because business owners would have the onus of responsibility and payment”.

The local sales tax was put forward as “another alternative model for local taxation”. Attendees concluded that the “Commission should look at all models available”, not necessarily just the three models presented at the listening event.

Additional Points for the Commission

Participants were invited to give additional individual and anonymous written comments at the start and end of the event. Here are the points and questions raised:

- "We must address the various systems allowing the wealthiest to escape paying various taxes. The onus must be taken off working class and those vulnerable to be paying into system, this is the way to reduce poverty and inequality. If a new system set up there must be assurance that there are no loopholes for those most wealthy."
- "I want transparency, integrity and us as a whole Scottish community. Enough is enough. Evidence is vibrant Scotland. Even council housing schemes. I often wonder what the tourists to this country see and feel about Scotland."
- "Wondering: Is there any evidence that limited control over local taxation rates/bonds has an impact on turnout – here or elsewhere?"
- "What is object of exercise - is it to raise more tax locally in total? If so should we not have a refund on national taxes- such as income tax?"
- "Inequality issues women! Tax every empty building (including private lets) for lack of use instead of bedroom tax on the poor. Balance housing issues."
- "Tax reform needs to address cuts to social care budgets. Need for reform clear and particularly stark in Edinburgh at this time of year with festival."
- "Affluence it brings compared to cuts in social care budgets. What about a tourist tax?"
- "Despite having access to health care and education, many disabled people still have to pay for basic things i.e. support to go to the toilet and other additional care needs."
- "Current freeze on council tax makes no sense in context of increasing care contributions in most local authorities which affect those with disabilities."
- "Council tax or hopefully local income tax must be related to income. This also an equality issue for women who have much lower pensions and wages than men and have much more difficulty in paying council tax than men."
- "Need to ensure fairness and avoid stigma."
- "That it may be a good idea to consider that local councils should transform their business model so that they manage services rather than provide them."
- "We must find a system that is fair in terms of peoples' ability to pay."
- "Women in particular are affected."
- "The fact that Scotland has the highest rates of Council Tax suggests something is very wrong."
- "Many people stating that the council tax freeze needs to be lifted and revenue generated to raise money for services, however must be done fairly."
- "Utilise empty buildings for communities. Women working alone after bringing up children and working all their lives!"
- "Collecting water and sewerage charges off people on benefits."
- "Check out private landlords!!!!!!"
- "Homeless hostels it's all a racket making money from misery and miserable circumstances."

REPORTS FROM OTHER WORKSHOP EVENTS HELD BY THE COMMISSION

COMMISSION ON LOCAL TAX REFORM
LISTENING EVENT

PRINCES TRUST, GLASGOW
IN ASSOCIATION WITH YOUNG SCOT

3 SEPTEMBER 2015

CASHCOG

EVENT REPORT

Thursday 3rd September 2015

The Prince's Trust, Glasgow

CONTENTS

INTRODUCTION

The Commission on Local Tax Reform is putting the evidence at the heart of its work, listening to as many views as possible about what local tax reform could mean and what it should look like.

A programme of conversations was held in communities in different parts of Scotland and with a range of networks about what might – and might not – be a fairer way of raising the £2 billion presently collected from Council Tax in Scotland, including an event and national survey with young people aged 15-25.

This provided an opportunity for young people to have a real say about the future of local taxation in Scotland as part of a wider conversation.

The Commission on Local Tax Reform approached Young Scot to deliver a National Survey for young people aged 11 to 25 and a youth-led one day Event for young people aged 15-25 held on the 3rd September 2015. All activity encouraged young people to explore the Council Tax system, their experiences and perceptions of local taxation and possible solutions to any barriers identified.

Young people from a range of socio-economic backgrounds and a varied knowledge base were invited to attend. We should not necessarily assume that those engaged are wholly representative of the broader demographic; however this piece of work has provided a 'snapshot' of insight into young people's attitudes and opinion of local taxation from across Scotland.

CO-DESIGN APPROACH

Young Scot plays a key role in supporting partners to engage and consult young people across Scotland, helping them to influence the design and delivery of policy and services. Our co-design service involves young people systematically co-creating, co-producing, co-designing and co-delivering solutions. Young people are involved much earlier in decision making processes through a highly participative approach, developing informed insights, ideas, recommendations and solutions for policy and practice.

We used this process during the one day event to enable the participants to take the lead.

Explore

Define by uncovering the issues through gathering insights and genuine experiences from/by young

Create

Generate ideas and co-produce solutions with/by young people.

Reflect

Consider the future impact and sustainability of the ideas produced.

Recommend

Produce influential ideas/solutions with young people.

Implement

Implementation of ideas/solutions with young people.

Through the co-design process, young people have ownership of what they have to say; relating their views and opinions on a particular subject or policy area to deliver ideas and solutions in a spirit of co-design and collaboration.

WORKSHOP EVENT

Thursday 3rd September – The Prince's Trust, Glasgow

When planning for the workshop, we wanted to ensure that the tasks were not overly prescriptive when exploring the topic of local taxation. This meant that the participants were not restricted to working to key themes but instead looked at the topic as a whole exploring perceptions and experiences, building up to developing solutions and ideas. We encouraged open visual and verbal exploration and ideation using dynamic tools such as experience mapping and identifying barriers and opportunities.

Young Scot recruited 20 young people from diverse backgrounds to ensure representation. Unfortunately due to several last minute cancellations, our participation totalled 16 young people from various training providers and activity agreement groups in the Glasgow area. All participants had varying levels of knowledge and expertise and were supported by accompanying workers.

Facebook Profiles

To begin with, we asked each of the young people to complete a personal persona in the form of a Facebook profile page in order to gather basic information about each of those involved in the day. These were then displayed in the space, to allow for conversation between participants and help them to begin to think visually.

Post-it Speed dating

To inspire conversation and movement around the space we broke the ice with 'Post-it Speed dating'. The participants were asked to write 3 questions on post-its, to be discussed and swapped with another participant that they hadn't come with, and to repeat the process 3 times over.

Brain Dump

These activities set the tone for the day and for the first exploratory exercise. We asked the participants to explore their initial thoughts, ideas, reactions and questions around taxation and specifically council tax in Scotland, in words and images on a large roll of paper laid out through the middle of the space.

The group were asked to consider broad ideas, expectation, perceptions, experiences and what they think of the current council tax system. Prompt words, images, phrases were used in a rolling presentation to inspire discussions and questions, while staff facilitated and recorded discussions along with members of the Commission, on hand to ask or answer any questions as appropriate.

The participants rapidly explored a diverse range of themes through this exercise. Some were fairly basic questions, "what is tax?", "why do we need tax?", and some points were more complex, “some people pay more but everyone gets to use the same service”, “people work hard for the money they earn, should everyone pay the same?”.

Particularly for those who did not currently pay council tax themselves, this provided an opportunity for them to develop their understanding through discussion with those who already had knowledge or experience.

The discussion got underway with the very basics of the topic, looking at what tax is, why we need a tax system and what the money raised is spent on; from housing and education to transport and social care; in very broad terms. This allowed us to understand the level of knowledge and expertise in the group. From the ‘what’, the group then discussed the ‘who’ of local taxation. With questions looking at the logistical side “who decides who pays council tax and how much they pay?” and “who chooses how it’s spent?” to who actually pays council tax, if they can afford to pay what they are being asked and if the rate should be the same for everyone. Some of the following questions came up as part of this discussion:

- *“Should council tax be the same for everyone?”*
- *“Is it per person or for the house?”*
- *“Do the homeless pay tax?”*
- *“What does poverty look like?”*
- *“What about people who don’t pay tax but use the service?”*

The group agreed that they thought the current system wasn’t fair for everyone, with an average rating of three out of ten on a scale of completely unfair to completely fair.

- *“It’s robbery. We work for our money, why should we give more to others?”*
- *“some people can afford it more than others – it’s not fair”*
- *“we pay tax but nothing gets fixed”*

Four Corners

The game ‘four corners’ was used to give fast facts to the group and inspire further discussion. The group were asked a series of questions to gauge their level of knowledge but also to help them understand the basics of local taxation in Scotland more thoroughly. Questions included some of the following:

- Per £1 of council tax collected, how many pence are spent on education, housing, social care, roads and transport?
- How much money is raised in council tax each year in Scotland?
- What percentage of households in Scotland are not entitled to any discount or reduction in council tax?

A breakdown of the answers was also provided for each group to make reference to in later activities.

Brick Wall - *Barriers and Opportunities*

Once the group had explored their initial perceptions of the topic and had a built up some capacity in order to understand the potential strengths and weakness of the current system, we could then start to identify the barriers and opportunities.

The participants were asked to ‘build a wall’ representing the barriers they feel are preventing them and other young people from effectively engaging with and understanding the current system. Each participant was prompted to consider what they feel are the main issues with the current system, either from their perceptions or any experiences of their own or that they had been party to. They did so by writing or drawing what they felt were barriers in the local taxation system on individual brick templates, building a ‘wall’ of potential issues to be faced, with further discussion to develop the ideas.

The barriers identified by the participants ranged from very simple issues, such as the word ‘tax’ itself and a lack of interest and apathy toward to topic of local taxation, “I just don’t care.

It’s everywhere and people just go along with it”, to a lack of understanding due to the complicated nature of tax, “there are so many kinds of tax it confuses me! There’s not enough information and I don’t know who to ask”.

The group felt there was a lack of education in schools around the topic of tax generally, with this a lack of understanding encouraging young people to do casual work instead. With perceived issues of an unfair system where “rich people get richer! The poor people get poorer!”, and a lack of understanding of where the money goes and to what end they are paying tax, “there are people living out on the streets and they can’t pay because they don’t get money”, there appeared to be very little appetite to engage with the system itself, “I don’t see the point in tax”.

Aside from perceptions about taxation within the group of participants, the general consensus was a disinterest in the system as it is or in creating a new system as they felt a lack of power in making lasting changes, “any solution we think of will never work because the government wouldn’t allow it”.

Some questions raised at this point included the following:

- *“If I pay tax for public transport to run, why do I still pay fares on the transport?”*
- *“Why do we pay road tax if there are still potholes in the road?”*
- *“If we pay tax for houses and education, why are there homeless people and people with no education?”*
- *“Why don’t people get to choose if they pay or not?”*
- *“Why do some people have to pay more tax than others?”*
- *“Does our tax pay politicians’ wages/expenses?”*

*Crack the Barriers - **Design and develop a solution***

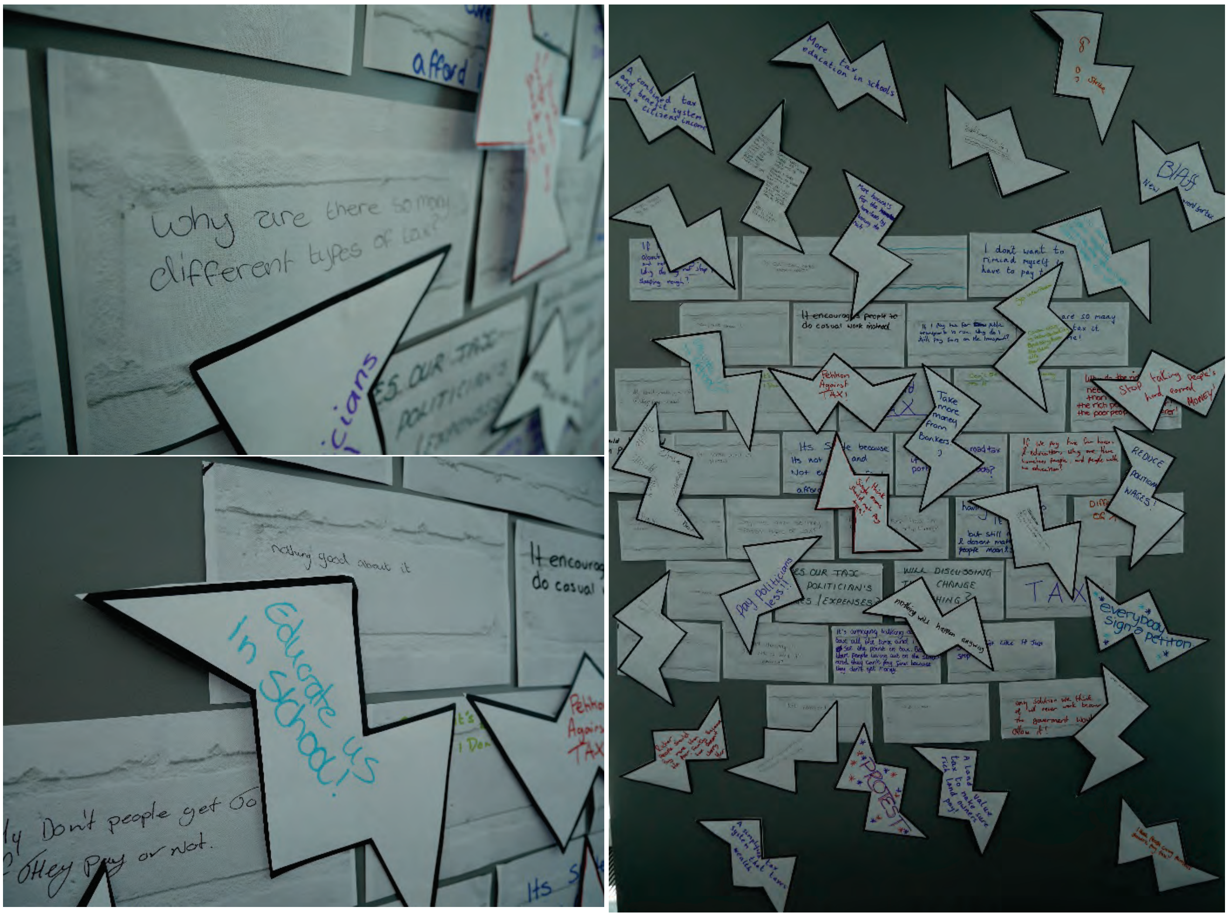
From the discussions, each participant was then asked to think about how to solve some of the issues and barriers identified, considering what potential changes could be made, from a young person’s perspective, that would not only make the system more effective but encourage young people to engage with the system. The solutions presented as the ‘cracks’ in the ‘wall’ of barriers to represent knocking the brick wall down.

Each of the solution ‘cracks’ were discussed as a full group with staff and the representatives from the Commission for Local Tax Reform to make sure the ideas being developed were well rounded, considering the barriers and were based on fact and the current system. This also provided the opportunity to answer any questions or prompt ideas.

The group agreed that young people need a better knowledge and understanding of taxation, whether that’s bringing tax education into schools, or being transparent and clear about how tax is disbursed, “show people where the money goes and is spent – e.g. before and after pictures of where the money is spent – like potholes in roads and after pictures of the road being fixed”. This would allow anyone, not only young people, to understand clearly what the need is and how their money is being used, inspiring trust and creating a willingness to engage with the system. This is especially vital if you’re giving over more choice to the individual, “people should choose whether they pay or not”, giving people clear information along with the responsibility to support the system.

When this responsibility is offered to the individual, the group felt that decision makers should be leading by example, engaging and trusting in the system as they would ask of the individual, “politicians should pay a fair amount and lead the way as it’s their idea to reduce or increase tax”, fostering trust in their decision making. Considering what is best for the local area the tax revenue will benefit was more important to the group than national spend, “why do our taxes go to England? They should be dealt with here.”

Making the system as simple and clear as possible would allow young people to engage with the system but also make recommendations on how improvements could be made. With a much simpler system, the group agreed, it would ensure fairer outcomes on a case by case basis, “a simplified tax system that taxes wealth and value to make sure rich land owners pay”, considering the individual’s needs and circumstances.



WORKSHOP CONCLUSIONS

Throughout all of the discussions during the course of the day the group agreed that their own knowledge and that of most young people is lacking when it comes to the tax systems. This lack of understand creates distrust and apathy towards the topic. There was a definite appetite to make the system as fair as possible for every individual, but in order to do so, there first needs to be transparency in the need and results of the current local taxation system.

In the current system the group agreed, from a young person's perspective, what they felt should be the top priorities for how Council Tax is spent, in order of importance:

1. **Education and Housing** – "you need education to help support you"
2. **Social Care** – "social care should be based on their own income"
3. **Transport**
4. **Planning and Economic Development**

WORKSHOP EVALUATION

Outwith the main activity, the group were informally asked some evaluation questions, several of which are detailed below.

Q1. What did you learn today?

- *"Everything. I didn't know anything about tax"*
- *"Council tax is paid every year"*
- *"I'm going to have to start paying council tax"*
- *"The amount of money spent on resources we need"*
- *"Understand why the council need money to spend on services"*

Q2. What would you do differently today?

- *"Don't talk about tax"*
- *"Survey on the streets and ask more direct questions to get more varied information"*
- *"Use more playdoh and fun materials"*
- *"Talk to homeless people, ask their opinion on the topic"*
- *"More wide discussion as a large group for debate and 1:1 feedback"*

Q3. Tell us about what you enjoyed today?

- *"The venue/location" (The Princes Trust)*
- *"Working in a group"*

Other comments made in reference to the day and the topic of local taxation included:

- *"I don't think it's important. Nothing's going to change"*
- *"Easier to identify problems than solutions"*
- *"If people don't understand how the money is being spent they don't trust it."*
- *"It's difficult to understand"*

NATIONAL SURVEY

Working with the Commission for Local Tax Reform, Young Scot devised a youth-friendly national survey to gauge the views and opinions of young people from across Scotland. The survey was hosted online for six weeks and shared through the Young Scot Platform (www.young.scot). The survey was also promoted through our Rewards platform.

The survey was open to young people aged 11 to 25. An incentive of 25 Young Scot Reward points was made available to young people who completed the survey.

RESPONDENTS

The number of survey responses totalled 76. This number is far less than the average responses Young Scot expect through surveys. We can assume this was due to a reduced engagement with the topic. Please note, this is not a statistically representative survey - it has been completed only by those who have chosen to answer the questions. It does, however, give a useful indication of young people's thoughts and perceptions.

CORE QUESTIONS

Participants were asked a series of questions in relation to council tax and their perceptions of the current system. We wanted to ensure the questions were relevant to ensure the responses were informed.

In the first 5 questions the respondents were asked to rate how far they agreed with each of the statements, from completely disagreeing, disagree a little, neither agree nor disagree to agree a little and completely agreeing.

Q1. It's important to find a fair way of paying for local public services liked roads and schools. (Completely disagree, disagree a little, neither agree nor disagree, agree a little, completely agree)

This question received 75 responses, 83% of which completely agreed or agreed a little with the statement, with only 4% of respondents completely disagreeing.

Q2. Young people have enough say about how local services are paid for in their communities. (Completely disagree, disagree a little, neither agree nor disagree, agree a little, completely agree)

This question also received 75 responses but 52% of the respondents completely disagreed or disagreed a little with the statement. 23% of the respondents either agreed a little or completely agreed with the statement.

Q3. The current tax system is easy to understand. (Completely disagree, disagree a little, neither agree nor disagree, agree a little, completely agree)

Out of 75 responses to this question, 37% completely disagreed or disagreed a little with the statement, although only 24% completely agreed or agreed a little that the current council tax system is easy to understand.

Q4. The current council tax system should be replaced with a different system of local taxation. (Completely disagree, disagree a little, neither agree nor disagree, agree a little, completely agree)

60% of the respondents to this question neither agreed nor disagreed that the current tax system should be replaced with a different system of local taxation, while only 24% agreed and 16% disagreed.

Q5. People should pay more in tax if they want to have better local services. (Completely disagree, disagree a little, neither agree nor disagree, agree a little, completely agree)

When asked if people should pay more tax if they want better local services, 38% either completely disagreed or disagreed a little with the statement, compared to 32% who agreed completely or a little.

Q6. Do you think the amount of local tax that people pay should be based on:

a. **The amount of money they earn**
b. **On the value of the house**
c. **On the value of the land**
d. **Other**

This question received 67 responses, out of which more than 85% thought that the amount of local tax that people pay should be based on the amount of money they earn. Only 12% of the respondents thought it should be based on the value of the house they live in. There were several other responses out with the main options, including:

- *It should be the same for everyone*
- *a combination of all three*
- *based on living standards and type of job*
- *a mixture of how much they earn and their records…much like a good driver getting lower insurance rates*

Q7. Any further comments or thoughts you would like to share with the Commission on Local Tax Reform?

14 of the respondents left further comments on the topic of local taxation, including:

- *the amount of people you have in your family should alter the amount of tax getting paid*
- *I think that we should review where tax goes and spend less on benefits and review our welfare system. We should spend more on education and up the minimum wage*
- *the higher the amount earned per household the higher the tax should be. But not a big rise. A proportional amount of tax.*

CONTACT

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WORKSHOP – COMMISSION ON LOCAL TAX REFORM: ALTERNATIVES TO COUNCIL TAX

DIVERSITY, CITIZENSHIP AND IDENTITY CONFERENCE
BEMIS, SWANSEA UNIVERSITY & GRAMNet

14TH SEPTEMBER 2015

Summary note of the workshop

Commissioners Present:	Councillor Susan Aitken
	Jim McCormick
Secretariat:	Neil Ferguson

Seven conference delegates attended the workshop.

Workshop Participative: Democracy, Property Tax, Land Value Tax and Local Income Tax

Introduction to Council Tax Workshop: Tanveer Parnez

<u>BEMIS</u>

Bemis is a national umbrella organisation which supports ethnic and cultural minority (ECM) communities and the individuals therein. This workshop has been developed to ensure that the ECM communities have platforms to communicate their opinions directly to policy makers to ensure that there is consultation prior to any major changes which directly impact on our way of life.

Often, policy makers and key stakeholders find it difficult to engage with the wider population and I wish to thank you on behalf of BEMIS for being here today and playing an active part within this consultation stage. At BEMIS we encourage all citizens to be heard, rather than, attempting to be the voice of our diverse communities, we encourage community to be heard rather than be the voice for and particularly in relation to Active Citizenship. Gain views on tax for Government and where your input is very valuable. Any input will be appreciated and a report will be gathered and submitted to Scottish Government.

<u>Introductory presentation</u>

Neil Ferguson thanked everyone for attending and explained that the purpose of the meeting was to consult and engage on alternatives to Council Tax. To set the context for the discussion, Neil presented a summary of how Council Tax operates at present and set out the work of the Commission on Local Tax Reform.

The cross-party Commission held its first meeting in February 2015. There are 13 Commissioners, including two co-chairs. The remit of the Commission is to identify and examine alternatives that would deliver a fairer system of local taxation to support the funding of services delivered by local government. The Commission has gathered evidence in a range of ways this workshop is an opportunity to hear views from people from ECM communities.

In the time available, Commissioners introduced two of the options being considered as alternatives to Council Tax in Scotland.

A Tax based on the Value of Property

Council Tax is an example of a property tax based on value of house. It would be possible to keep properties in Bands as previously described but change the tax so that the amount of Council Tax charged better reflects the value of the home you live in. Council Tax is not perceived as a progressive tax i.e. people in highest value properties pay proportionately less in tax compared to the value of the house they live in; those in the lowest value houses pay more proportionately more in tax compared to the value of their house. The tax structure could be changed to make the tax more progressive.

The workshop participants raised a number of issues about property taxes:

1. I am concerned that the tax applied to every house is unfair, for example, homes within the City Centre tend to pay more than those further away from the City Centre where house values are lower but may have larger properties.

   The group discussed how the value of properties can be determined by a range of factors. Size is one factor but not the only factor for higher value properties; the property value is also informed by the number and type of services that surround the property. This is likely to be higher in the City centre and therefore can affect the value of a flat (City Centre) relative to a house (urban/rural). Each Local Authority sets its own Council Tax and so someone in Glasgow will pay a different amount of tax from someone who resides in Renfrewshire. There are therefore local variations due to councils' ability to decide how much to charge.

2. There is not enough information available on Council Tax rates and how they are decided.

   The group discussed the need for better communications and how that might be achieved, for example online or a leaflet drop to all households. The workshop is one example of an attempt to building participation in these decisions. Politicians also have a role to ensure that the public is aware of how decisions are made.

3. To widen knowledge and understanding of the band system would require more resources than simply the value of the houses bands so that individuals are aware of what they are actually paying for, as high taxes may push individuals and families into poverty.

4. Valuations: There is a need to update the value of all properties from the 1991 levels. Property prices fluctuate so how frequently should revaluations take place?

5. There is a perception that valuations are higher for new build houses whilst the older houses (1991) are subject to less tax, causing unfairness for neighbours.

Local Income Tax

Councils could be tasked with collecting Local Income Tax councils required to provide services, by gathering a proportion of the income we earn. There have been proposals for a Local Income Tax in the past, but a move to such a system would be new in Scotland.

Unlike a tax based on property where the household pays the tax, each individual in the household would pay income tax if they have an income. Those who don't pay tax such as those on low incomes or unemployed people would not pay the tax. Those with the highest incomes would pay more. The tax could be collected by employers, based on the area that person lives in. People have raised some concerns to the Commission about Local Income Tax:

- It is more related to the ability to pay but wouldn't include certain forms of income, such as savings.
- It may be possible for some income to be 'hidden' to avoid tax.
- The tax may be vulnerable to sudden changes to the economy and income levels.

The workshop participants expressed a number of views related to local income tax:

1. It is a good method; however incomes can always be hidden to avoid tax. It is important that each individual pays their share of tax. Whether making lots or less they still have to pay. Other participants also voiced a concern that self-employed individuals can hide income.

2. Rich people don't tend to live in poor areas; they will always choose to reside in affluent areas. A mixture of both property tax and income tax systems is fairer.

3. Additional work might be needed to investigate potential methods of cross referencing systems with HMRC to work out if there is a discrepancy.

4. It might be worth offsetting tax refunds - for example a lot of people don't apply for tax refund offset against local liability.

5. Combining property and income may be difficult and we prefer to stick to property values to inform council tax.

<u>Summary of participants' views:</u>

- A tax based on an element of income and combined with property value would need to be made clear for people to understand.

- *'I feel it will confuse people if you combine the taxes.'*

- *'A neighbouring house may be for all purposes the same house but if only one person lives in one it would be measured the same as a neighbouring house who may house four earning adults.'*

- At present there is a 25% discount for single person households. However some people may have inherited a high value property from grandparents, for example, but could not afford the tax. If they have inherited the house, how would this work?

- *'We feel tax needs to be mandatory for everyone; an individual avoiding it imposes higher costs on those who do pay as the services need to be paid for. We feel that's not fair as we need to make sure that everyone who should be paying is.'*

- Some people live in low value houses but have high incomes. Perhaps we need to find a way that captures both factors in determining how much tax is to be paid.

COMMISSION ON LOCAL TAX REFORM
LISTENING EVENT

MARISCHAL COLLEGE, ABERDEEN
IN ASSOCIATION WITH ABERDEEN CITY COUNCIL

5 OCTOBER 2015

10 participants

Commissioner present: Marco Biagi MSP

In attendance: Neil Ferguson (Secretariat)

Views on the current system of Council Tax

1. Everyone has some form of income but not everyone pays.
2. The Council Tax freeze cannot continue.

Multipliers

3. Might be possible to amend the multipliers to make the system fairer – change the 2/3 multiplier to 1/3 for example, and add more bands at the top end of the scale.
4. To make a property tax fairer it was suggested that some form of assessment of household income was needed to take income into account. If the tax became unaffordable people could downsize. However it was noted that in rural areas and in Aberdeen too, downsizing was difficult due to the availability of appropriate houses. It was felt that in Aberdeen, there are too many luxury homes and not enough affordable housing.

Discounts

5. It can dis-incentivise the use of empty homes if no Council Tax is due on them.
6. Some pensioners receive no discount at all as it the outcome is dependent on their pension. Unfair to be taxed when the pension is already taxed and people have paid tax throughout their working lives. It is difficult for pensioners are their incomes are lower.
7. Disabled people also do not get any automatic exemption from Council Tax - they should be required to make a contribution rather than an exemption.
8. Council Tax Reduction (CTR) needs to be simplified. It is impossible to keep up with eligibility rules. Being in receipt of benefits should automatically trigger CTR.
9. The Group agreed that take-up was higher for single person's discount and student discount because they were not dependent on income. Older people find applying for a benefit that is income based is demeaning and insulting.
10. People from ethnic minorities and immigrants also find the system hard to negotiate due to language barriers. It would be better if they received help at the outset rather than having to reclaim any overpayments.
11. It is 'ludicrous' that proof of income is needed in the digital age; need systems to be joined-up. Needs a form that allows someone to give their permission to combine data systems.
12. It is difficult to conceive of a property tax that is reasonable, based only on house prices. Some recognition of income is needed.

Water and Sewerage Charges ('Water Charges')

13. If Council is changed to another form of tax, Scottish Water may have to collect the Water Charges – it is unlikely that the same high collection rate would then be achieved.
14. Clearer communications are required to avoid confusion among those who receive CTR but are still required to pay Water Charges.
15. Council Tax and Water Charges should work in the same system for administrative simplicity.

Views on Local Income Tax (LIT)

1. Some people have property in Aberdeen and pay Council Tax but earn their income elsewhere (e.g. overseas). LIT would mean they pay no local tax.

Collection of LIT

2. The group did not see an advantage in 32 local tax collection bodies administering LIT.
3. However a centrally collected LIT (whether HMRC or Scottish Government would not be 'local'). Paying local tax to Aberdeen Council feels local. Paying it to an agency based in Edinburgh or Glasgow no longer feels local. Perception is important.
4. HMRC should not collect local tax in Scotland as its powers of recovery of tax are too draconian – many people would end up bankrupt.

Setting tax rates and paying LIT

5. Councils could set the tax rates for their areas, but perhaps with restrictions in law (as there are with Council Tax) such as a choice of 4 rates, or limits to the rates set. A view was expressed that none of these options were favourable as Councils may overlook those at the lower end.
6. Should the tax be paid by all income earners or one bill per household?
7. Anyone seeking a discount has to declare an income so a local income tax should be possible to administer.
8. Concern was expressed about a race to the bottom as Councils compete with each other over rates. It was suggested that the least well-off would then pay a higher proportion of their income.
9. Fluctuating incomes / zero hours contracts would make LIT difficult for some people.

Sales Taxes

1. It was noted that the Commission has considered sales taxes but recognised the political and legal restrictions involved.
2. Challenges associated with internet shopping were also noted; local retailers could be disadvantaged.
3. It was also noted that VAT is a tax that bears no relation to the ability to pay.

Combinations of taxes

1. It was suggested that a combination of income tax and a property tax might work.
2. An example given of certain US states where the taxpayer declares their income and discounts are applied on that basis to a property tax, without the need for an application for CTR. Verification of income is needed. It was noted that some people have accountants who can minimise income.
3. It was noted that those in need of the most support are the ones who have the greatest difficulty in paying the tax.
4. It was noted that if the HMRC database of Scottish taxpayers could be obtained, it could be used to work out discounts in advance. It was suggested that such a database should be passed to Councils to do this. The electoral register is another option.

Views on Land Value Tax

1. If land gets planning permission for a new use, or neighbouring land gets planning permission for a new use, that could change the value immediately and dramatically. How does the tax apply?
2. Planning permission is a major determinant of land value.
3. Lots of land is owned and not used – the incentive to use it because of LVT was noted, especially to 'unlock' underused properties for example in city centres.
4. It was felt that LVT would not work because developers often build large houses on sites that are too small and intended for smaller houses.
5. LVT could force buyers to move out of city centres, which would push land values up in provincial areas, leaving city centre land all owned by institutions and corporates. This would be unfair to e.g. smaller businesses, community assets and community centres; exemptions would be needed for them to continue.
6. Agricultural land – too much bureaucracy to start taxing the land while farmers are in receipt of Single Farm Payments. But an exemption for agricultural land would include rough grazing for large estates.
7. There is a perception among the public that tax is paid on property, not land.

Other comments from participants:

1. Local democracy – Commission should bear in mind that any solution should seek to improve local democracy and voter turnout.
2. It would be a huge plus if Council Tax reform worked out.
3. Another system mirroring Council Tax will not work.
4. Doing nothing is not an option.
5. The Commission should identify what revenue each Council needs to fulfil its statutory duties. The rest of Council revenues would then be considered as discretionary spending.
6. Local tax should be administered locally.
7. It was suggested that Councils could retain and raise more Non Domestic Rates revenues to compensate for example, for pollution in particular areas.
8. In the context of prevention planning, those who need support e.g. people with mental health difficulties, should be identified and helped, before a debt problem is created.

The Likely Outcomes of a Statistical Revaluation of Council Tax Subjects in Scotland: Working Paper for the Commission on Local Tax Reform

Professor Chris Leishman, Heriot Watt University

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Report to the Commission on Local Tax Reform

Chris Leishman, Heriot-Watt University, Working Paper

November 2015

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1. Introduction – the scope of the research project

This report summarises the work undertaken as part of a short-life research project on behalf of the Commission on Local Tax Reform set up jointly by Scottish Government and COSLA. The project itself forms part of a wide-ranging evidence base explored and assembled by the Commission. This report is focused on a specific aspect of the evidence base – the likely outcomes of a revaluation of council tax subjects, together with revenue neutral re-banding. The report considers the revenue neutral tax rate that would be required by a flat rate property tax. Finally, it examines the likely distributional impacts of taxation reform.

This report contains no literature review, but leads straight into a summary of the research questions, aims and objectives that concerned the project. It outlines the methods used to answers those questions, and includes a detailed discussion of the results.

The report contains not conclusions or recommendations per se, but is designed to maximize the transparency of the work undertaken by Heriot-Watt University on behalf of the Commission, and to permit the work to be replicated by other / future researchers, research units and think tanks.

The over-arching research questions considered by the project were:

- Assuming that Scottish Government had current estimates of the value of all residential dwellings in Scotland, what property values would delineate between the eight council tax bands, A through H, assuming revenue neutrality (i.e. that the tax take would remain unchanged from its 2014 position).
- What flat rate of a hypothetical national (Scottish) property tax would deliver a revenue neutral alternative to the Council Tax?
- If residential dwellings were to be revalued, and new Council Tax band limits set to ensure revenue neutrality across Scotland, what are the likely distributional impacts between local authorities and people?

The next section now goes on to set out, in some detail, the methods designed to deliver on the over-arching research questions.

2. Methods and data sources

A sample of local authorities was chosen for the analysis. This sample based approach provided a compromise between the ideal (a statistical revaluation of Scotland in its entirety) and the time available for data matching and econometric estimation within the short life of the pilot project. Seven local authorities were chosen to be broadly representative of Scotland: Aberdeenshire, Argyll & Bute, Dumfries & Galloway, Dundee, Edinburgh, Fife and Inverclyde. In addition, data matching and econometric work was undertaken for Renfrewshire. This reflected some early difficulties in achieving a sufficiently high rate of matching Assessors', Energy Savings Trust and Registers of Scotland data in that local authority area, and thus provided the option of replacing Inverclyde with Renfrewshire in the sample of local authorities. Towards the end of the pilot project it was clear that the quality of data matching for Inverclyde had improved sufficiently to retain this local authority in the sample as originally intended.

3. Hedonic estimation results – the regulated mortgage survey

The regulated mortgage survey (RMS) dataset from the Council of Mortgage Lenders was used in a series of hedonic regressions with two underlying objectives: to produce a finely spatially grained (datazone) estimate of *ceterus paribus* variation in property value; and to allow estimation of change in value over the 2000-2014 study period. The first of these objectives can be simplified as an exercise to estimate the premia or discounts observable over space but allowing for variation in property attributes. The second objective is important because the exactly addressable Registers of Scotland (ROS) data were available only for the period 1990 through 2010[1]. Thus, the main hedonic modelling exercise described in the next section can only be used to predict property values to a 2010 base. To then convert these predicted values to a 2014 base, the coefficients derived from the RMS analysis are needed.

The RMS dataset included 77,753 observations across Scotland, in 8 main city regions and 6,334 datazones. In addition to using small area (census output area) census variables, the main predictors in the hedonic models included property type, number of rooms, and whether new-build or second-hand. The level of detail available in the RMS dataset is considerably lower than the analysis of EST / ROS data, described in the next section. The RMS models included 24 census derived variables measured at OA level and 9 property level variables from the RMS dataset.

For the sake of brevity, the full results of the RMS model estimations are not shown here (there are 8 separate estimations altogether). The 'xtmixed' Stata command was used to estimate multi-level equations in which a main hedonic equation for each city region also contains local authority and datazone specific intercept terms, i.e. random effects. This estimation approach makes it difficult to directly assess explanatory power, but it is worth noting that the adjusted R square obtained from a subsequent OLS regression of the multi-level in sample predicted values on the original observed transaction prices (all expressed in logs) was around 0.45. With such potentially high estimation errors, these models are almost certainly unsuitable for a direct application to statistical revaluation. However, this strand of the analysis does yield the two desired outcomes referred to above – a variable measuring price premia at datazone level, and a means of re-indexing predicted 2010 prices to a 2014 base.

4. Hedonic estimation results – Registers of Scotland and Energy Savings Trusts datasets

The 'datazone premium' variable discussed in the previous section is an output of the 2010-2014 analysis of the RMS dataset. Having saved that predicted random effect as a new variable, a small number of missing datazones were then imputed by calculating, for each missing datazone, the mean of surrounding / contiguous datazones. This approach ensured that the new variable contained no missing values. There are 6,505 datazones in Scotland. The 173 datazones with missing values are, by definition, areas with very low levels of property transactions – this is the

[1] Although Registers of Scotland provided data, on license, for the period 2010-2014, the hedonic analyses were based on data originally supplied by Registers of Scotland to the Land Value Information Unit, University of the West of Scotland, and made available on license to the research team.

principal reason for the failure of the hedonic estimations to deliver a predicted premium for those areas. The exercise reveals significant variation in prices (crudely controlled for property type and size) across Scotland as shown in figure 1 and 2.

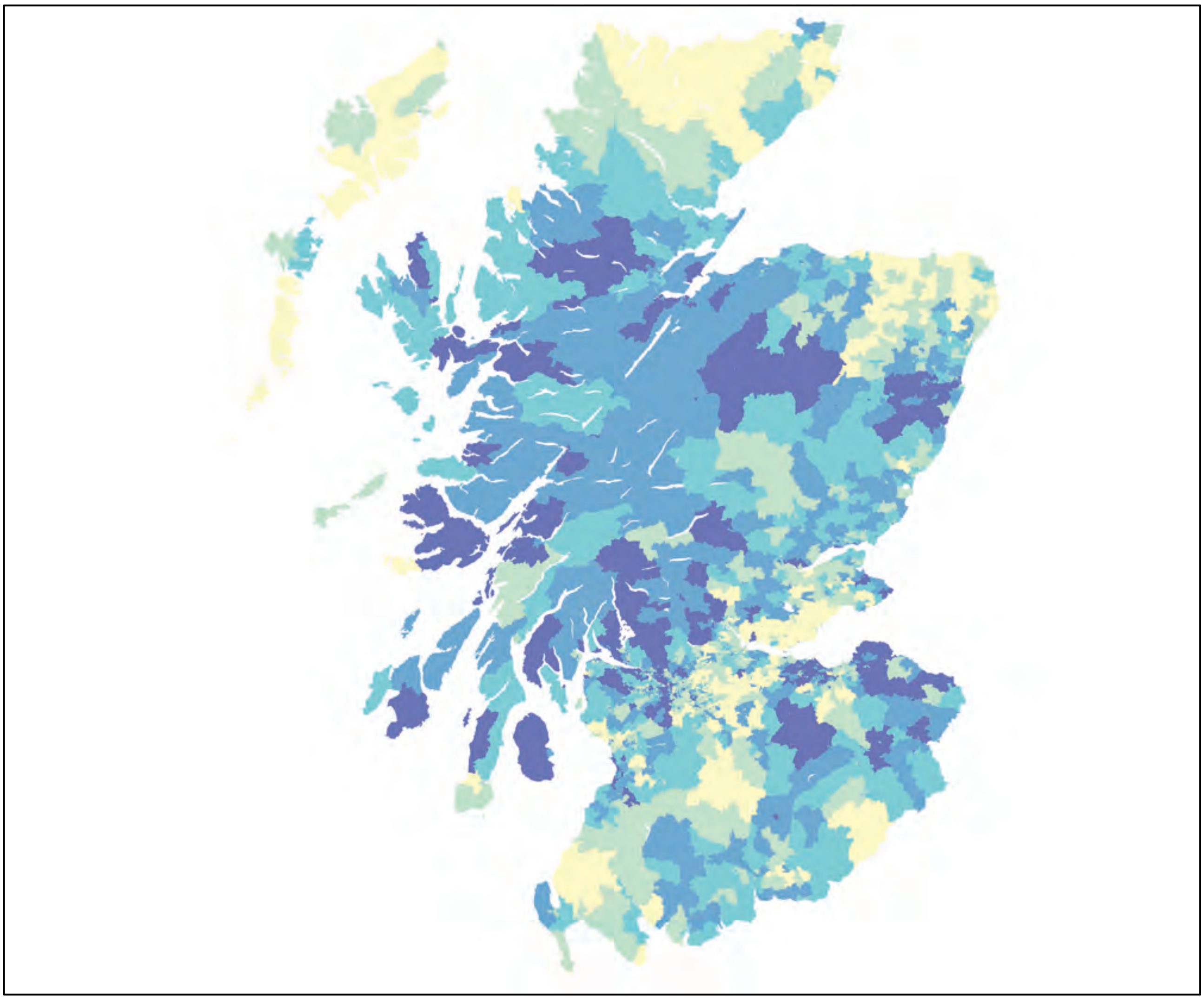


Figure 1 Mixed adjusted variation in property value in Scotland

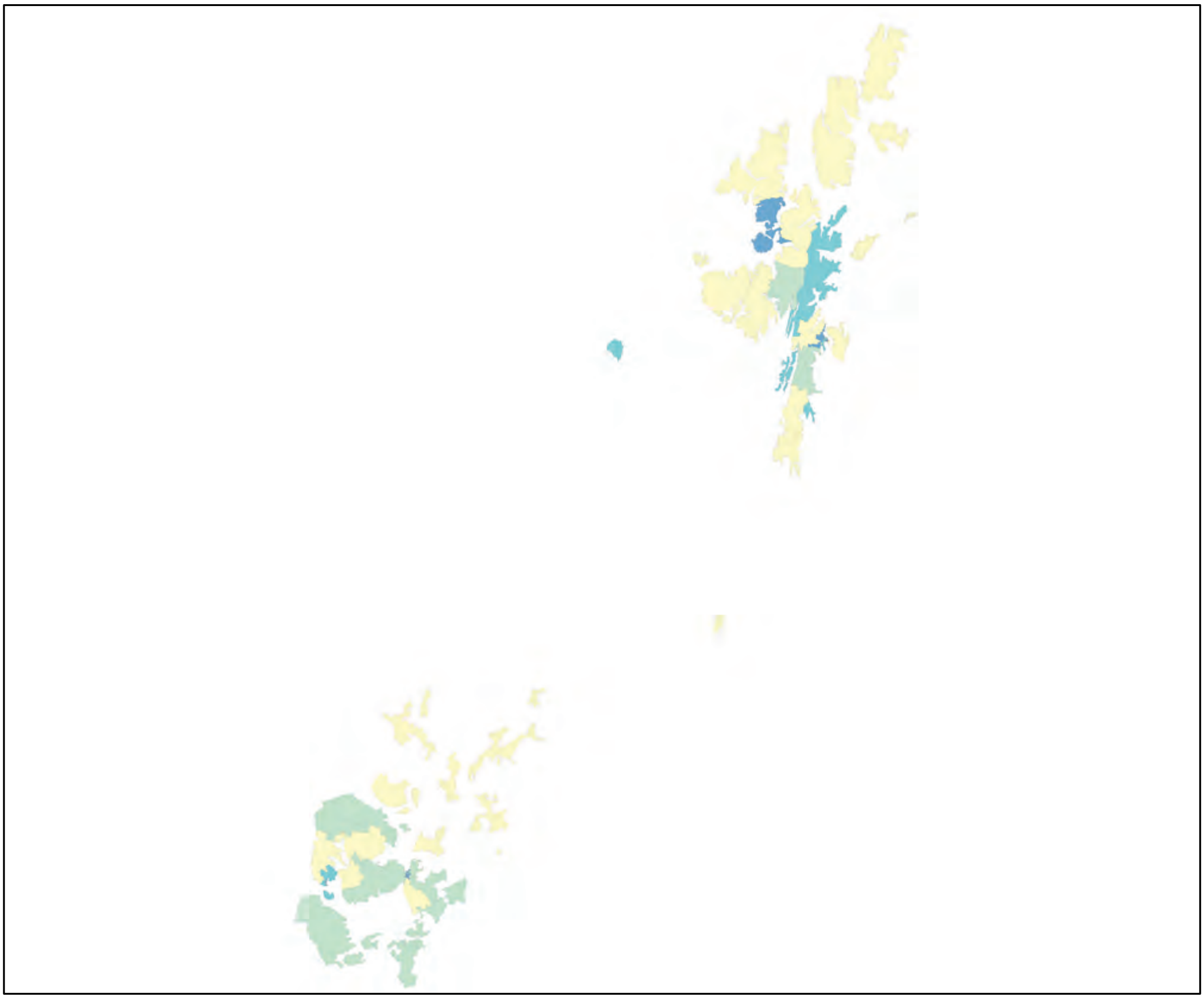


Figure 2 Mixed adjusted variation in property value in Orkney and Shetland

The use of a variable created through hedonic estimation as a predictor in subsequent hedonic estimations is justified on the grounds that the RMS and EST / ROS datasets are from entirely different sources, with fundamentally different property attribute variables. The latter has a much richer set, with the majority of variables in EST / ROS having been unavailable to the RMS analysis. Second, the two modelling approaches relate to different time periods (2010-2014 in the case of the RMS models, and 1990-2010 in the case of EST / ROS).

A single estimation was carried out for each of the eight local authorities referred to earlier, having first constructed a composite database drawing on EST, Scottish Assessors' and ROS datasets. Without going into excessive detail, it is worth noting that the EST dataset was taken as the base, or assumed to be an accurate snapshot of the population of all residential dwellings. From that dataset, we used the following predictors:

- Property age (6 age bands);
- Property type (5 types);
- Energy efficiency rating (a simplified set of 5 based on SAP ratings);
- Internal floor area.

From the Scottish Assessors data, we used:

- Number of habitable rooms;
- Square of the number of habitable rooms;
- A dummy variable denoting that 9 or more habitable rooms were present.

From OS MasterMap we derived the following:

- Presence, or not, of a garden;
- Floor area of garden associated with the dwelling.

We supplemented the variables above by using a small number of census output area variables from the 2011 census. These indicate the proportions of dwellings of a given property type and size in the output area. From ROS, we obtained information on the most recent transaction price for each dwelling, where available, and constructed a set of annual and quarterly time dummy variables. In addition, a number of laborious data cleaning and validation exercises were undertaken to compare and identify problems associated with the EST and Assessors' floor area variables, and their property type variables. These data cleaning operations resulted in some adjustment of floor area or property type values for a small number of properties, with these variables being changed where obviously wrong as revealed by cross checking, but before any econometric estimation had occurred.

The results of the hedonic estimations are voluminous, but are provided in full in table 1 in the interests of completeness.

Table 1 Selection of hedonic coefficients

Variable	Aberdeenshire	Argyll & Bute	Dumfries & Galloway	Dundee	Edinburgh	Fife	Inverclyde	Renfrewshire
Constant	11.341	10.744	10.766	11.112	11.443	11.026	11.124	11.151
Habitable rooms	0.156	0.202	0.141	0.276	0.119	0.214	0.12	0.184
Square of habitable rooms	-0.009	-0.015	-0.009	-0.023	-0.008	-0.016	-0.009	-0.013
Dummy: 9+ habitable rooms	0.594	0	0.721	0.475	0.527	0.612	0	1.004
Dummy: garden	-0.026	-0.038	0	0.041	-0.01	-0.051	0	-0.032
Garden	0	8.92E-05	0	5.94E-05	1.53E-05	0	5.13E-05	0

area								
Floor area	0.001	0.003	0.002	0.002	0.004	0.001	0.003	0.002
Square of floor area	0	-5.01E-06	-2.68E-06	-3.61E-06	-7.30E-06	0	-7.85E-06	-2.58E-06
Dummy: detached	0.325	0.389	0.344	0.238	0.254	0.32	0.314	0.295
Dummy: semi-detached	(ref)	(ref)	(ref)	(ref)	(ref)	(ref)	(ref)	(ref)
Dummy: terrace	0.011	-0.03	0	0	0.094	0.044	0	0
Dummy: flat	-0.15	-0.149	-0.118	-0.149	-0.15	-0.087	-0.168	-0.114
Dummy: flat in a block	-0.368	-0.157	-0.405	0	-0.162	-0.097	-0.162	0
Dummy: pre-1919	-0.062	0	-0.129	-0.134	-0.239	-0.061	0	-0.209
Dummy: 1919_49	-0.177	-0.07	-0.332	-0.254	-0.345	-0.2	-0.245	-0.371
Dummy: 1950_83	-0.108	-0.062	-0.251	-0.227	-0.364	-0.154	-0.241	-0.317
Dummy: 1984_91	-0.03	0.122	-0.125	-0.018	-0.226	-0.038	0	-0.148
Dummy: 1992_02	0	0.114	-0.059	0	-0.104	0.026	0	-0.121
Dummy: post 2002	(ref)	(ref)	(ref)	(ref)	(ref)	(ref)	(ref)	(ref)
sap a or b	(ref)	(ref)	(ref)	(ref)	(ref)	(ref)	(ref)	(ref)
sap_c	-0.127	-0.343	-0.055	-0.161	-0.078	-0.088	0	-0.111
sap_d	-0.111	-0.326	-0.056	-0.169	-0.073	-0.094	0	-0.124
sap_e	-0.145	-0.346	0	-0.147	-0.031	-0.058	0	-0.093
sap_fg	-0.195	-0.386	-0.084	-0.209	-0.043	-0.064	0	-0.136
Datazone premium	0.939	0.705	0.387	1.103	0.739	0.718	0.718	0.476
Census: OA % owned	0.007	0.011	0.01	0.007	0.006	0.007	0.009	0.01
Census: OA % priv.rented	0.004	0.006	0.008	0.007	0.005	0.008	0.003	0.005
Census: OA % detached	-0.003	-0.002	0	-0.001	0	-0.001	-0.002	-0.003
Census: OA % terrace	-0.003	0	-0.002	-0.001	-0.002	-0.001	0	-0.003
Census: OA % flat	0.001	0.002	0.001	0.001	0.002	-0.001	0.002	0
Census: OA % 2 or 3rooms	-0.006	-0.005	0	-0.009	-0.008	-0.003	-0.01	-0.006
Census: OA % 4 or 5 rooms	-0.002	-0.004	-0.003	-0.007	-0.005	-0.004	-0.008	-0.006
Census: OA % 6 or 7rooms	-0.005	-0.005	-0.005	-0.008	-0.006	-0.004	-0.009	-0.007
Census: OA % 8+ rooms	-0.006	-0.009	-0.008	-0.009	-0.006	-0.005	-0.01	-0.009
y1990	-1.501	-1.363	-1.289	-1.841	-1.507	-1.414	-1.324	-1.297

y1991	-1.38	-1.329	-1.204	-1.53	-1.39	-1.194	-1.272	-1.079
y1992	-1.482	-1.276	-1.13	-1.36	-1.347	-1.144	-1.217	-1.07
y1993	-1.278	-1.206	-1.135	-1.287	-1.272	-1.1	-1.139	-1.022
y1994	-1.192	-1.182	-1.095	-1.215	-1.196	-1.088	-1.181	-1.002
y1995	-1.211	-1.145	-1.072	-1.129	-1.178	-1.074	-1.139	-0.962
y1996	-1.149	-1.097	-1.04	-1.044	-1.131	-1	-1.053	-0.911
y1997	-1.154	-1.076	-1.012	-1.09	-1.071	-1.009	-1.096	-0.939
y1998	-1.101	-1.054	-0.981	-1.037	-0.971	-0.954	-1.012	-0.885
y1999	-1.06	-0.971	-0.953	-0.99	-0.867	-0.92	-0.962	-0.893
y2000	-1.076	-0.882	-1.045	-0.969	-0.791	-0.885	-0.921	-0.806
y2001	-1.067	-0.912	-0.937	-0.883	-0.689	-0.825	-0.824	-0.801
y2002	-0.981	-0.79	-0.9	-0.783	-0.511	-0.734	-0.725	-0.721
y2003	-0.86	-0.731	-0.735	-0.667	-0.363	-0.617	-0.61	-0.531
y2004	-0.693	-0.514	-0.438	-0.492	-0.208	-0.37	-0.348	-0.312
y2005	-0.53	-0.257	-0.297	-0.281	-0.143	-0.214	-0.165	-0.122
y2006	-0.347	-0.125	-0.11	-0.115	-0.039	-0.066	-0.09	0
y2007	-0.091	0	0.033	0.036	0.075	0.071	0.064	0.117
y2008	0	0	0	0.056	0.061	0.08	0.124	0.123
y2009	-0.064	0	0	0	-0.02	-0.019	0	0
qtr1	-0.097	-0.132	-0.086	-0.124	-0.089	-0.098	-0.133	-0.098
qtr2	-0.034	-0.042	0	-0.038	-0.027	-0.03	-0.033	-0.016
qtr4	0	0	0	0	-0.009	0	-0.03	0
Adjusted R Square	0.802	0.722	0.733	0.79	0.809	0.756	0.722	0.756
Observations	33397	9262	15834	31466	120370	71353	13215	36753

The full set of detailed results in table 1, is provided to demonstrate the model specifications, the explanatory power, and the variation in coefficients between local authority areas. The full range of detail will not be of interest to most readers, but it is worth noting some general points from the table:

The number of habitable rooms, and internal floor area, are significant and positive in all areas, meaning that property value rises in relation to these factors. The square of habitable rooms is significant and negative in all equations. This 'quadratic term' captures a non-linearity in the relationship between property size and value. Additional rooms add value, but at a diminishing rate. It also suggests that property value reaches a plateau with respect to size. Some more insight is obtained from the '9+rooms' variable. This is not significant in all areas, and where it is significant may be either positively or negatively signed. However, the coefficient obviously needs to be read in conjunction with the habitable rooms, floor area and squared rooms variables. To put this another way, how large a property must be before its value reaches a maximum varies from area to area, and the '9+rooms' variable helps to capture that spatial variation.

Many of the other coefficients are reassuringly unsurprising. The semi-detached property dummy is the reference category, so the other property type variables reveal typical percentage differences between a given property type compared to a semi-detached property, all other factors being held constant. The results show that detached properties are universally worth more than semi-detached (though the percentage premium varies by area), and that flats are universally worth much less (again, the discount varies by area). Terraces are worth the same in four of the local authorities, slightly less in one (Argyll & Bute), and slightly more in two other areas. However, the differences are generally very small.

The time dummy variables capture change in housing transaction prices over time, and require little discussion. Similarly, the census derived variables are generally helpful for capturing the impact of neighbourhood quality, density, accessibility, on property values, but the coefficients are not well suited to inferential discussion. The energy efficiency variables (those beginning “sap”) show that there is a positive relationship between property efficiency and value, and in the expected direction. Given that there may be some interaction between energy efficiency and property age (as well as type and size), care should be exercised in the interpretation of these coefficients. There is no evidence of multicollinearity in the results shown here, but correlation between property age, type and size is inevitable. Given the relatively small effects of the energy efficiency variables, further analysis would be required before concluding that there is indeed a robust, identifiable relationship between energy efficiency and property value.

5. Patterns of change in value and implications for the tax base

For the seven local authorities included in the sample, a new database was created by merging the composite EST / Assessors database with the coefficients obtained from the hedonic estimations. By multiplying out and adding the sums of property attributes and coefficients, predicted transaction prices were obtained for every property in the database (of course, the census / neighbourhood variables and their coefficients were also used in these calculations). This exercise revealed a predicted price in mid-2010 prices. Using the coefficients of time dummy variables from the RMS hedonic estimations, these mid-2010 prices were then re-indexed to mid-2014 values. The resulting database can be thought of as a statistically revalued residential stock database.

Table 2 provides a summary of the number of observations in the stock database, together with descriptive statistics for the 2014 values of all dwellings in the database. The analysis reveals substantial differences between the typical prices predicted for each of the local authorities, ranging from a median price of £71,000 in Inverclyde to £177,000 in Aberdeenshire. Dundee City also has a low median, and the City of Edinburgh is not far behind Aberdeenshire in terms of its median price. At the lower end of the price distribution, there is little between the predicted prices of any of the local authorities. At the upper end, the database is deliberately truncated at £2M. This is justified on the basis that valuation of properties valued above this is such a specialized function that we cannot reasonably expect a statistical model to cope well. By design, the models are ideal for predicting the value of typical properties across a broad spectrum of property types and sizes, but do not work well when confronted with rarely transacted property types, sizes or locations.

Table 2 Descriptive statistics for the statistically revalued database

Local authority	Minimum	Mean	Median	Maximum	Total N	Valid N
Aberdeenshire	37,030	203,730	177,227	1,998,286	111,270	111,270
Argyll & Bute	30,017	138,920	114,253	1,682,433	48,039	48,039
Dumfries & Galloway	26,466	121,500	101,455	1,449,891	69,330	69,330
Dundee City	32,329	107,174	82,806	633,265	73,986	73,986
Edinburgh, City of	41,335	206,150	168,860	1,481,333	240,980	240,980
Fife	27,683	123,683	94,683	1,889,048	174,441	174,441
Inverclyde	23,989	101,020	71,600	617,138	37,264	37,264

It is clear that the sample of local authorities reveals both substantial change in prices since 1991, and quite significant spatial change. However, it is not until we consider the new likely council tax band value limits (assuming revenue neutrality within the sample of 7 local authorities) that we are able to comment on the implications for the tax base, or council tax bills. The proportions of dwellings in each council tax band are shown in table 3. The 'new' council tax band limits were calculated so as to yield approximately the same proportion of dwellings each in band across the entire sample of 7 local authorities (e.g. 19.8% of properties in the database are in band A, so the 2014 value limit for this band was set to ensure that 19.8% properties end up in the new band A). Given the differential price movements suggested in table 2 this, by definition, means that properties are likely to have switched between council tax bands since 1991.

Table 3 Distribution of dwellings between 1991 council tax bands

Local authority	A	B	C	D	E	F	G	H
Aberdeenshire	18290	14421	12338	15068	18273	13489	8037	434
Argyll & Bute	7623	9935	9431	6025	7359	4090	2789	229
Dumfries & Galloway	10419	21965	11008	9076	9693	4609	2133	128
Dundee City	28232	16992	9050	8764	7082	2320	1043	34
Edinburgh, City of	22561	46536	43273	37226	39452	23916	20426	3673
Fife	40312	48184	22105	19969	22567	12847	6204	457
Inverclyde	18173	5490	3261	3138	3332	1810	1374	200
Total	145610	163523	110466	99266	107758	63081	42006	5155
Band % of total	19.8	22.2	15.0	13.5	14.6	8.6	5.7	0.7

Calculating the number of dwellings moving between bands is straightforward given that each record in the database notes the old council tax band, the predicted 2014 property value, and thence the predicted new council tax band that would apply following a revaluation and rebanding exercise. Table 4 summarises the result by counting the predicted numbers of properties moving up and down bands.

Table 4 Predicted number of properties moving bands

Local authority	Property moves up one CT band	Property moves up two CT bands	Property moves up three CT bands	Property moves down one CT band	Property moves down two CT bands	Property moves down three CT bands	Property stays in the same CT band	Total	SAA total
Aberdeenshire	28,481	7,821	2,354	14,108	3,016	448	39,756	95,984	115,291
Argyll & Bute	6,616	1,981	686	13,590	5,681	1,454	15,310	45,318	47,706
Dumfries & Galloway	7,445	1,929	706	23,840	7,268	1,615	24,448	67,251	74,199
Dundee City	12,585	1,127	237	16,507	3,680	880	38,224	73,240	73,706
Edinburgh, City of	76,804	18,865	3,210	31,378	5,693	757	97,252	233,959	241,825
Fife	20,314	3,161	857	53,703	13,383	2,567	76,246	170,231	173,433
Inverclyde	4,605	427	86	6,966	2,807	910	20,440	36,241	38,790

Aberdeenshire	29.67%	8.15%	2.45%	14.70%	3.14%	0.47%	41.42%
Argyll & Bute	14.60%	4.37%	1.51%	29.99%	12.54%	3.21%	33.78%
Dumfries & Galloway	11.07%	2.87%	1.05%	35.45%	10.81%	2.40%	36.35%
Dundee City	17.18%	1.54%	0.32%	22.54%	5.02%	1.20%	52.19%
Edinburgh, City of	32.83%	8.06%	1.37%	13.41%	2.43%	0.32%	41.57%
Fife	11.93%	1.86%	0.50%	31.55%	7.86%	1.51%	44.79%
Inverclyde	12.71%	1.18%	0.24%	19.22%	7.75%	2.51%	56.40%

As the analysis demonstrates, Aberdeenshire and the City of Edinburgh are predicted to see a significant number of properties (just under a third) moving up one band, and around 8% moving up 2 bands. But there are also properties moving down bands in these areas – around 14% moving down one band and 2 or 3% moving down two bands. So, it is important to note that there are likely to be both 'winners' and 'losers' even in areas that have seen a significant rise in values since the early 1990s. The areas with the highest proportion of winners are Dumfries & Galloway, Fife and Argyll & Bute (30-35% of occupiers moving down one band). There are also significant numbers (8-12%) moving down two bands. However, there are also dwellings moving up one or two bands (10-15% moving up one band and 8-12% moving up two bands). Dundee and Inverclyde, commented upon earlier as having the lowest median predicted 2014 prices, are the only areas with more than 50% of dwellings being predicted to remain in the same band. However, even in areas of substantial price growth (Aberdeenshire and Edinburgh), more than 40% of properties are predicted to remain in the same band.

Concerning the value of the tax base, and the effective tax rate needed to deliver revenue neutrality, we examined the 2014 total council tax take for the sample of 7 local authorities, which was approximately £714M. The total value of all residential dwellings in the sample, calculating by summing the predicted 2014 prices, is approximately £120.713Bn. Thus, the revenue neutral tax rate assuming a flat rate property tax would be approximately 0.591%.

6. Results of random cross-checking of valuation results

In order to provide some additional insights about the circumstances in which the statistical modelling performance becomes poor, two small samples of dwellings in Edinburgh and Argyll & Bute were identified, and professional assessments of value undertaken by the Scottish Assessors. The samples were designed in such a way so as to ensure that all property types were included, in addition to a variety of building vintages, sizes (total rooms and floor area) and current council tax band. The sample also included dwellings in census output areas with small, average, and larger concentrations of social and private rented housing. In addition, to make the manual or professional valuation tasks more manageable, the samples were spatially concentrated in one or two datazones in each of the case study local authorities.

Therefore, the samples of dwellings chosen for the cross-checking were far from representative, but were intended to contain such a diversity of dwelling attributes and value that there would be a good prospect of uncovering circumstances in which the statistical models do not work well, as well as a core of more common dwellings which, hopefully, the models cope with well. Table 5 summarises the differences between assessments of value provided by the statistical models, and those undertaken manually, by professionals working for Scottish Assessors.

Table 5 Summary of differences between statistical and professional assessments of value

Case study	*20% or less*	*30% or less*	*40% or less*	*over 40%*	*Total*
Argyll & Bute	29	15	14	21	79
Edinburgh	30	14	8	8	60
Total	59	29	22	29	139

We can see that half of the Edinburgh sample, but only around 3/8 of the Argyll & Bute sample have statistical valuations within 20% of those provided by Scottish Assessors. Although in Edinburgh the majority of the sample have statistical values within 30% of the assessed values, it is clear that the Argyll & Bute sample contains much greater variation. Around 25% of the sample have values that are 40% or more different. Tables 6 through 8 provide additional detail by breaking down the analysis by dwelling type and size.

The additional detail in table 6 suggests that detached and terraced properties may be more difficult to value statistically in Argyll & Bute, assuming that the professionally undertaken assessments are closer to true market values. Table 7 suggests that 2, 3 and 6 room dwellings are associated with higher valuation error. Meanwhile, table 8 indicates that the high errors are strongly associated with areas (census output areas) with low levels of social and private renting, i.e. areas dominated by owner occupation. This probably means either that there are errors in the measurement of property attributes, or that there are unmeasured / unobserved property attributes that are important partial determinants of value in Argyll & Bute.

Table 6 Valuation differences by property type

Property type	*20% or less*	*30% or less*	*40% or less*	*over 40%*	*Total*
Argyll	29	15	14	21	79
Detached	8	8	5	8	29
Flat	12	3	1	6	22
Other	1			1	2
Semi	4	2	2	1	9
Terrace	4	2	6	5	17
Edinburgh	30	14	8	8	60
Detached	2	2	1		5
Flat	16	6	4	6	32
Semi	3	3	3		9
Terrace	9	3		2	14
Total	59	29	22	29	139

Table 7 Valuation differences by dwelling size (habitable rooms)

Total rooms	*20% or less*	*30% or less*	*40% or less*	*over 40%*	*Total*
Argyll	29	15	14	21	79
1				1	1
2	5		2	5	12
3	3	3	3	6	15
4	7	2	3	1	13
5	7	4	2	3	16
6	4	1	3	5	13
7	3	5	1		9
Edinburgh	30	14	8	8	60
2	10	4	4	3	21
3	9	4		2	15
4	6	2	2	2	12
5	2	3			5
6	2	1	1	1	5
7	1		1		2
Total	59	29	22	29	139

Table 8 Valuation differences by tenure concentration

	20% or less	*30% or less*	*40% or less*	*over 40%*
Argyll				
high social renting				
low private renting	1			2
low social renting				
high private renting				1
low private renting	17	9	10	10
moderate private renting	7	3		4
moderate social renting				
low private renting	4	3	4	4
Edinburgh				
high social renting				
low private renting	4	1		
low social renting				
high private renting	2	2		
low private renting	13	9	6	3
moderate private renting	5	2	2	5
moderate social renting				
low private renting	6			

We can see from table 6 that the higher valuation errors in Edinburgh tend to be associated with flats, and from table 7 that the issue concerns the very smallest dwellings, with only two habitable rooms. Table 8 reveals a similar result to Argyll & Bute – that the higher valuation errors are generally found in areas with low social and private renting. This probably reinforces the idea that there are unmeasured dwelling attributes that are important contributory factors in determining property value. However, as figure 3 shows, there is a strong correlation, in general, between the valuations provided by the statistical models and the professionals. There are three notable outliers, of which two are statistical valuations considerably below the professionals', and the other is an over-valuation which, again, is so significant that it is suggestive of errors in variables in the statistical database rather than a systematic problem.

While it is important to remember that the statistical models are about 80% accurate at predicting within sample, the random cross-checking exercise does reveal a range of circumstances in which statistical revaluation can produce answers that are quite fundamentally different to those produced by professionals. The exercise is also suggestive that there are some measurement errors associated with the dwelling attribute data used in the modelling approach, and this becomes more apparent when we begin looking at small samples of data and individual dwellings in the database. Overall, the exercise has shown that there is a strong correlation between statistical and professional values, and that the statistical approach has not generated systematic error or under/over valuation.

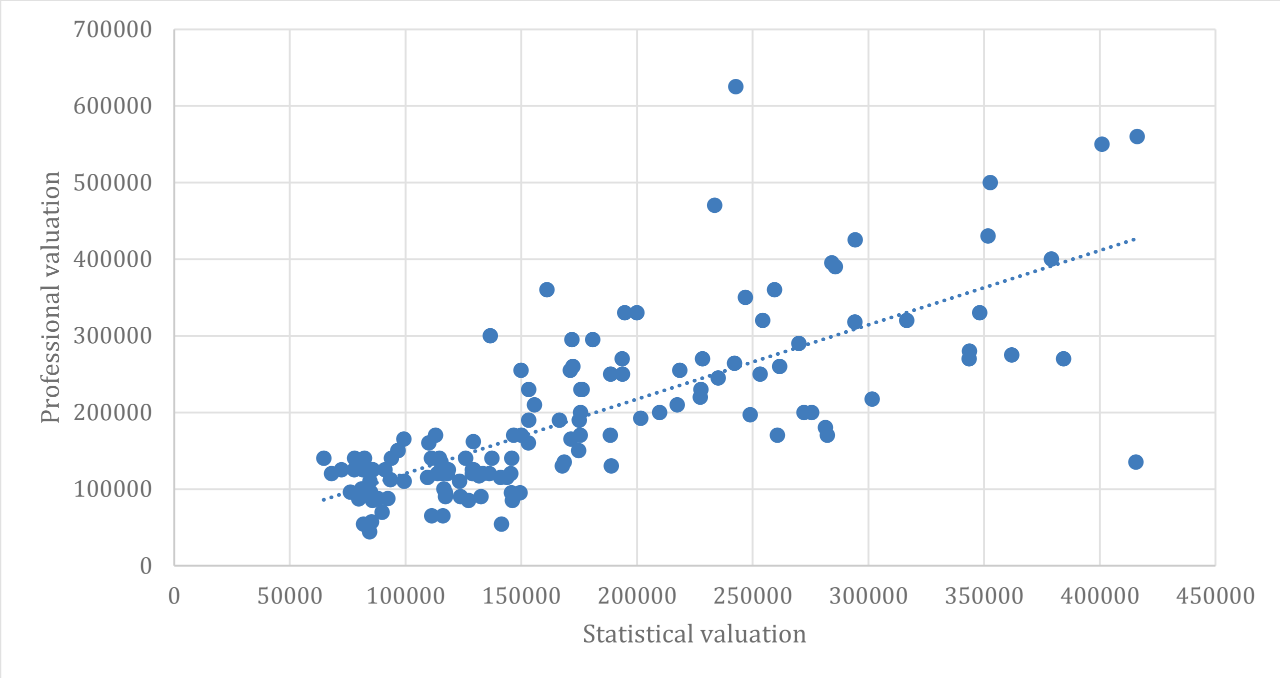


Figure 3 **Scatterplot of statistical and professional valuations in the random samples**

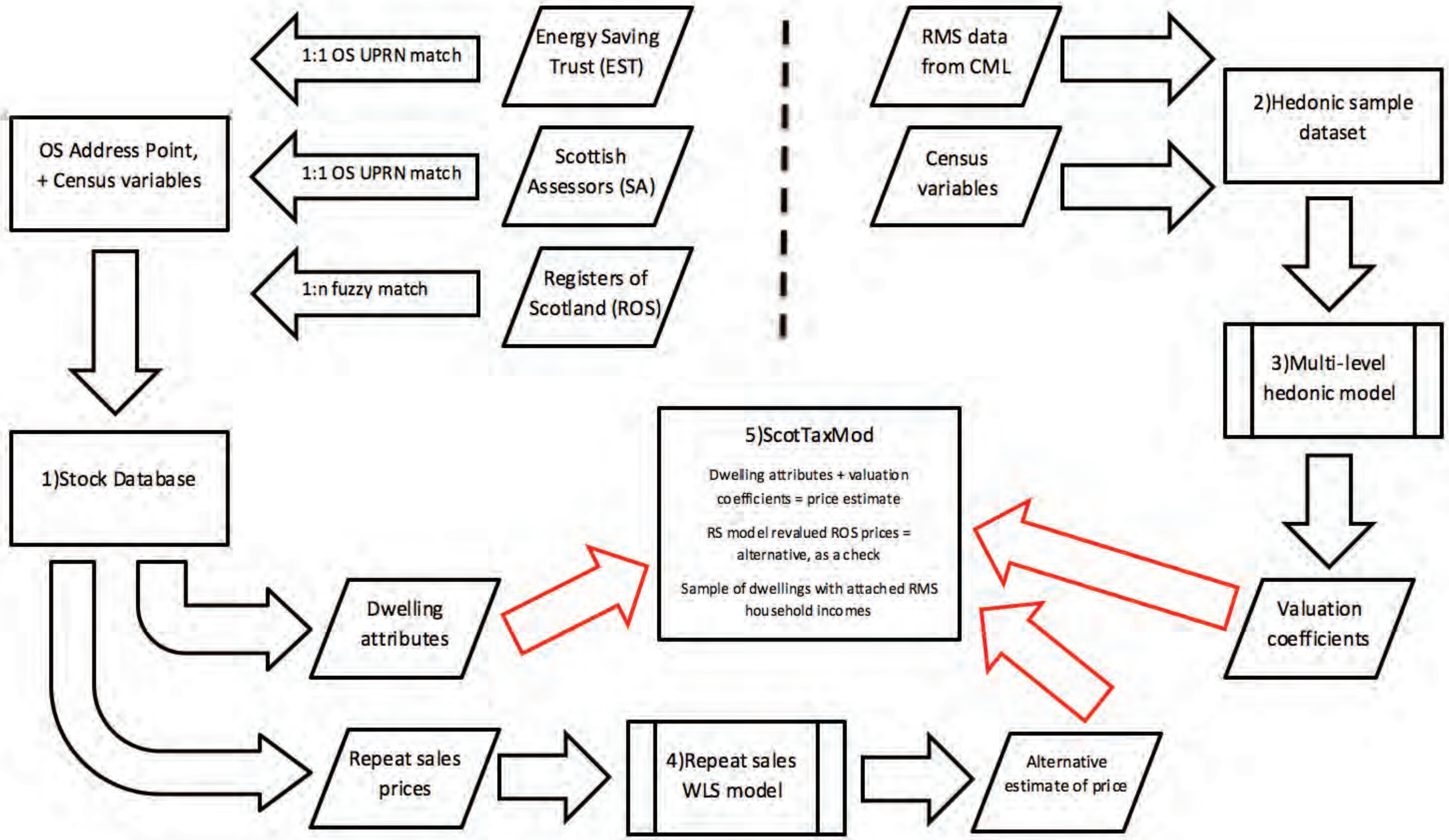
7. Summary, conclusions and suggested further directions

This working paper was written to provide a succinct account of the methodology used to carry out a statistical revaluation of residential dwellings in a sample of local authorities in Scotland. It details the datasets assembled, how new variables are created, and the specification of a number of hedonic (statistical or regression) models. The econometric estimation results are set out, and there should be sufficient detail to allow the work to be replicated by interested researchers in the future.

Carrying out a full revaluation of domestic property in Scotland would be an enormous undertaking, and a limited statistical exercise such as the one summarised here can do little more than provide broad conclusions about the patterns of change in value that would emerge following such a revaluation. However, the predictive performance of the models summarised here are encouragingly high (around 80% of transaction prices being predicted accurately within sample).

Yet, by the very nature of such models, the value or transaction price of rarely transacted and highly specialised dwellings are much more difficult to predict. This is demonstrated, in particular, in the analysis of samples of properties for which manual, professional assessments of value were produced. These samples were not designed to be representative, but to reveal the circumstances in which statistical revaluations might perform poorly. Perhaps the most important conclusion from that part of the work is that values vary more significantly for some property types (flats) and sizes (very small and large dwellings), and in areas dominated by owner occupied housing. The suggestion is that while a statistical approach might be satisfactory for the majority of dwellings, there will always be a need for professional valuation for a sub-set of the stock, and for careful cross checking of valuation results produced by different methods.

Annex A - Synopsis of Modelling Approach



The Opportunity for Land and Property Taxes in Scotland: Working Paper for the Commission on Local Tax Reform

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The Opportunity for Land & Property Taxes in Scotland

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Abstract

This paper lays out the efficiency advantages of land and property taxation over other tax instruments, but also discusses the political economy barriers to a large scale change in tax policy towards such taxes. Widespread dissatisfaction with the Council Tax and an apparent openness on the part of the Scottish Government to consider reform of local taxation, presents an opportunity for small steps in the direction of land and property taxes. We evaluate the impact, in terms of the rates required, the distributional changes induced, and the potential constituency that should be in favour, of a revenue neutral switch in taxes. This is conducted in a static, microsimulation framework, with no impacts upon house prices or upon economic activity, which is appropriate for such a small change. The conclusion reached is that such a change is progressive in that it narrows the net equivalised household income distribution, and that the property tax rate required for a revenue neutral change, approximately 0.7%, is such that there are more winners than losers.

Key words: Property tax, land value tax, council tax, optimal tax
JEL Classification: H21, H22, H23, H24, O18, Q15, R14, R21, R31, R51

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1. Introduction

The Council Tax was introduced throughout Great Britain[1] in 1993 to replace the Community Charge, also known as the Poll Tax, which had obtained a high degree of political unpopularity. The Council Tax is a charge on residential property, levied at the local authority level and based upon the valuation band the property was assigned to (in Scotland) as of 1st April 1991[2]. The Council Tax is levied upon the occupants of a property rather than the owners. Discounts and exemptions are available for empty properties, second homes and holiday homes, and for single occupancy. Council Tax Reduction is also available, and is paid to poor households[3] to help with their Council Tax bills.

The Council Tax has always been criticised for the relatively low spread of charges between the tax levied on the most and least valuable properties. In Comerford and Eiser (2014) it is shown that an increase in Council Tax rates is regressive in that a uniform rise in the average Band D rate set by local authorities (with corresponding impact upon the other bands) causes an increase in the GINI coefficient of net equivalised household income. This is because Council Tax payments are a larger proportion of household budgets for households in the lower and middle income deciles than they are for those in the upper deciles (even allowing for Council Tax Reduction). In addition to the regressive nature of the Council Tax, the use of 1991 valuations makes the levied charges increasingly arbitrary and unrelated to any rational basis for taxation. It is therefore no surprise that discussions and proposals to reform or replace the Council Tax are a feature of the political landscape.

In Scotland the moves to reform or replace the Council Tax have taken on a more concrete form with The Commission On Local Tax Reform[4] established jointly by the Scottish Government and the Convention of Scottish Local Authorities (COSLA). This body is surveying opinions and evidence on local taxation, which should inform future policy changes. This paper is a contribution to this debate. It in no way tries to be comprehensive on the subject of the philosophy around

[1] Northern Ireland retained the older domestic rates system.

[2] Newly constructed properties are also assigned a notional 1991 value.

[3] Council Tax Reduction is a passported benefit in that eligibility for DWP benefits triggers eligibility for Council Tax Reduction.

[4] http://localtaxcommission.scot/

local taxation and the (many and varied) structures that such consideration of the issues could imply. For example, the tax could be seen as: a charge for local services; part of redistributive fiscal policy because some level of redistribution is desireable; or as a fee for the monopoly use of a particular location. The level of decentralisation or cross-subsidy and risk-sharing are also an issue that has to be determined. Each rationale, and the particular level of government at which the tax is levied, would imply a particular tax structure. Instead, this paper focuses on the arguments for land and property taxation purely in terms of economic efficiency, and then further looks at the redistributive effect and the balance of winners versus losers from a policy change. The arguments from economic efficiency support the case for such a tax in principle, whilst the distibutional effect of the change is considered purely to assess the political feasibility of the implementation of such a policy.

The paper is structured as follows. Section 2 discusses the economic arguments in favour of land and property taxes in terms of their efficiency enhancing properties[5]. The distributional and political economy arguments are reviewed in Section 3. The considerations in this section moderate considerably the conclusion implied by Section 2 and make the case for a relatively revenue neutral implementation of a land or property tax as a replacement for the Council Tax - indeed moves to reform the Council Tax possibly present a one-time opportunity for the introduction of efficiency enhancing land or property taxes. Such a revenue neutral implementation also makes an analysis of the impact of this policy change easier since it can be legitimately conducted in a static (partial equilibrium) framework. Section 4 conducts these analyses, showing the rates that would be required in order to implement a revenue neutral policy change, and the consequent distributional impacts and political economy calculations. Section 5 concludes.

[5]Land and property taxes are, in the main, treated together. This is reasonable to the extent that a tax on property values is a tax on land values and vice versa, because the land value contributes to the property value. At times it is important to distinguish between taxes on land or property values, and this will be made clear at that time.

2. The Efficiency Impacts of Land & Property Taxes

A suite of policy interventions is efficiency enhancing if it raises the overall level of economic activity. There are two ways for policy to boost efficiency: by boosting static efficiency and by boosting dynamic efficiency. Static efficiency enhancement refers to using the current inputs to production in such a way as to produce more than under the previous policy regime, whereas dynamic efficiency enhancement refers to boosting the growth rate of productivity and boosting the future stock of inputs to production. This section considers the impact of land and property taxes upon these modes of economic efficiency relative to current policy in which there are some particular features of current taxes which are distortionary, and in which the major part of the tax burden is via labour taxes. If a suite of policy interventions is efficiency enhancing, then it can be expected to benefit average incomes. Naively then, we might expect the democratic process to prioritise efficiency enhancing proposals since, *ceteris paribus*, the average voter (if not the median) should benefit. We consider the distribution of winners and losers, and hence the likely political support for land and property taxes in Section 3.

The case for a shift towards property and land taxation being efficiency enhancing rests upon three main mechanisms which will be considered in turn: (1) the fixed (inelastic) supply of land means that its taxation is not distortionary, and these revenues could be used to reduce other distortionary taxes; (2) the impact of land and property as investment, consumption, and intermediate goods; and (3) the impact of home ownership upon labour mobility.

The fixed supply of land

Perhaps the most obvious difference between land as a factor of production as opposed to labour or capital is that land is simply there: if it is not used then the owner gets nothing, but the land is still there, albeit now unpaid. Labour on the other hand has other things to do (leisure), and capital (whether buildings, physical machinery, or human capital in the form of skills) degrades and depreciates if it is not given the incentive for its futher supply. Land taxes therefore do not affect the supply of land, and to the extent that demand is unaffected, land taxes upon land owners therefore do not affect the rental rates for land. They do of course affect who receives these rents, diverting some or all of the rents to the state. This therefore affects the private value of land and property, since these values are the capitalised value of future rents that accrue to the owners.

This stylised characterisation of land taxes must be qualified by noticing that the land supply is not perfectly inelastic; as well as the applicability of these arguments to property taxes in addition to land taxes.

The Invariance of Incidence proposition states that the legal incidence of tax liability[6] has no bearing upon the economic incidence[7]. Given a perfectly inelastic supply of land and property, the incidence of tax falls entirely upon the owners rather than upon those who rent their property, irrespective of whether the government charges tax to occupants or to owners. Relative to laissez-faire, levying land tax upon owners does not affect rent levels at all, whereas levying land tax upon renters lowers the rent by the level of the tax. The net of tax rent received by owners, and the gross of tax rent paid by renters is therefore independent of the legal incidence. The economic activity that is undertaken with land is undistorted by levying land taxes, compared with its use under a zero-tax laissez-faire scenario. Levying land taxes relative to no taxes causes large losses to land-owners, but the land continues to be used for the same economic activity, at an unchanged gross rental rate. The loss of spending power by the land owner is a gain in spending power by the government without any direct impact upon the supply of the factors of production. The level of economic activity is unchanged in the land tax scenario relative to the zero-tax laissez-faire scenario.

However, the legal incidence of land taxes falling upon occupants can lead to a system in which land is not supplied inelastically. If there is no occupant, then perhaps the government provides an exemption for this tax bill. This is in effect a description of the current system of land and property taxes. Under Council Tax and Non-Domestic Rates (business rates), second homes, under-occupied homes, unlet business premises, derelict commercially owned land, etc pay less tax than main homes or let premises. Therefore, in contrast to a properly implemented land tax being relatively non-distortionary, the current system of property taxation is distortionary in a way that is damaging to economic activity. There is effectively a tax subsidy to remove land from the market

[6] Who the government charges the tax to.

[7] Who ends up bearing responsibility for the tax in the taxed equilibrium relative to the laissez-faire equilibrium once prices have adjusted and markets have cleared.

i.e. the current system says to the owners of a valuable and potentially productive asset, that one of the most privately profitable uses of this asset might be to simply not use it. Given that society as a whole could be made better off if this asset was used in production, or if the empty house was used by someone who needed a house, this framework is clearly efficiency destroying. To be efficiency enhancing, a reformed property or land tax should not provide incentives to withdraw land from supply. This can be done by attaching the legal liability to pay the tax to the ownership of the land or property, and making the amount to pay depend upon its market value, with no exemptions for how it is to be used[8].

The clean results above about land taxes being non-distortionary do not apply to property taxes. To the extent that property values are reflective of buildings and structures, they are taxes on reproducible capital which *ceteris paribus* lower the rates of return available on these assets and so distort their supply. However, since land values make up a proportion of the total property value, a property tax is composed of a non-distortionary land tax combined with a distortionary capital tax, and so is not wholly distortionary. Also the current stock of property, like land, is (absent peverse incentives) fairly inelastically supplied and so its current supply is not distorted (static efficiency). The fact that property has low depreciation rates relative to other physical capital[9] further increases its "land-like" characteristics, although of course property is reproducible and so qualitatively differs from land. It seems from this point about distortions that any property tax is sub-optimal. However, in an optimal tax framework, many distortionary taxes will be used. Land tax, being entirely non-distortionary[10], should be used to its fullest extent, but the arguments presented so far do not say nothing about the extent to which taxes should be levied upon buildings and structures. Property taxes, which are composed of land taxes and taxes on buildings and structures, are not precluded by these arguments.

Taxes other than land taxes and lump sum taxes are distortionary, for example the combination of income tax, national insurance, and benefit withdrawal, on top of the extra costs incurred when working like commuting, child care, etc, may cause potential low earners not to seek employment

[8]Within the class of uses for which it is zoned and therefore upon which the market value is conditional.

[9]See e.g. http://www.bea.gov/national/FA2004/Tablecandtext.pdf

[10]In a static efficiency sense, we come to arguments later in this section which show that land taxes are not entirely non-distortionary with respect to dynamic efficiency.

because they are no better off with a job compared with no job. High marginal rates on high earners are also distortionary in that they can induce activities which have zero social value like tax avoidance and tax evasion. To the extent that a shift in the tax burden towards land is used to reduce distortionary taxes levied in situations like these, we could see an increase in the real effective labour supply and so an increase in economic output from an efficiency enhancing shift towards land taxes.

The examples discussed above are all cases in which land taxes can enhance static efficiency. The case for enhancing dynamic efficiency as much less easy to make on an *a priori* basis. This is because part of the current value of land and property is due to the discounted expected value of some potential high value future use. Current land and property owners may have no use for the land or property in the present, but they may be reluctant to sell to those who do value the land or property for its current highest value use, because they are holding on to realise a potential future higher value from a future higher value activity. Speculatively holding land or property in this manner is akin to buying a call option: the holder obtains the right to use this land or property for some future activity whilst paying today's price; if the future activity proves to be sufficiently valuable, then the option will be exercised. Land and property taxes effectively raise the premium rate for this option, making it more likely that the land or property is brought into current use rather than being held for potential future use. Clearly this may preclude some higher value future uses being realised. Therefore, whilst the case for land (and to a lesser extent, property) taxes promoting static efficiency can be argued on logical grounds, whether or not land and property taxes encourage dynamic efficiency is an empirical question.

Oates and Schwab (1997) examined Pittsburgh's experiment with land taxation in 1979-1980 and found increased building activity. Clearly this result is consistent with both enhanced static and dynamic efficiency in that more land is supplied (increase in static efficiency) which then leads to a higher capital stock after a period of time (possible increase in dynamic efficiency) - though it's impossible to determine whether this increased building activity resulted in the highest value of land use for the land that was brought into production. Banzhaf and Lavery (2010) studied a number of land taxes implemented in cities in Pennsylvania which both increased the supply of housing and increased density. Given the association between density and productivity in much of urban and spatial economics, associated with agglomeration economies, this is likely evidence of land taxes promoting economic growth (hence increasing dynamic efficiency) through a well known and understood channel.

It's not 100% accurate to say that no land is withdrawn from supply with high land taxes - it would certainly disincentivise land-owners from funding resource and mineral prospecting on their land which could be considered a form of "land creation" - see Gochenour and Caplan (2013). It also disincentivises land-owners from seeking land use re-designations (from agricultural use to residential use say), though it may encourage public bodies to proactively change land use designations in order to realise new revenue streams. And there are extreme hypothetical scenarios which can be constructed in which land taxes inhibit land creation e.g. land construction through building up from the sea-bed would be less profitable with land taxes and would open land taxes to the same critique as is usually levied at capital taxation. The point is though that these are second order effects and, to first order, land taxes can be considered as non-distortionary or at least much less distortionary than labour or capital taxation.

A further concern is the possibility that taxing land taxes the positive spillovers created by other private investment (your land value depends positively upon how attractive your neighbours' land is, and vice versa), and that land taxes may therefore reduce the supply of such investment[11]. Suppose two sites, $i \in \{A, B\}$, H_i is the value of development on site i in the absence of development on the other site, N_i is the additional value (spillover) of development on site i if the other site is developed[12], c_i is the cost of developing on site i, I_i is the initial (pre-development) value of site i, and L_i is the additional value of site i created by development on site j (spillover)[13]. We consider the situations in which there is no land tax (so the value of the land enters the developers' decision problem) and with full land taxes (the land tax is such that the developers have no interest in the land). The payoff matrices are shown in Table 1.

[11] See Adam Ozimek in http://www.forbes.com/sites/modeledbehavior/2015/03/29/the-problem-with-100-land-value-taxes/ "Real estate developers who move into neighborhoods with high vacancies, low demand, and high crime are often hoping that positive spillovers from their investment will spur additional investments from others, which will in turn make their investment more valuable."

[12] Neighbouring developments affect the best use, and hence the market value, of development on i.

[13] Example taken from

No Land Taxes

		Site B	
		No Build	Build
Site A	No Build	(I_A, I_B)	$(I_A + L_A, I_B + H_B - c_B)$
	Build	$(I_A + H_A - c_A, I_B + L_B)$	$(I_A + L_A + H_A + N_A - c_A, I_B + L_B + H_B + N_B - c_B)$

With Full Land Taxes

		Site B	
		No Build	Build
Site A	No Build	$(0, 0)$	$(0, H_B - c_B)$
	Build	$(H_A - c_A, 0)$	$(H_A + N_A - c_A, H_B + N_B - c_B)$

Table 1: Payoff matrices for development with spillovers

It is easily seen that the decisions facing the individual developers of A and B are independent of whether or not there are land taxes: in particular, the conditions for the (No Build, No Build) and (Build, Build) Nash Equilbria to exist are the same irrespective of whether or not there are land taxes[14]. However, the situation that should concern a potential land tax raising public authority is that in which $H_A + N_A - c_A < 0$ and $H_B + N_B - c_B < 0$ but $L_A + L_B + H_A + H_B + N_A + N_B - c_A - c_B > 0$ i.e. no private developer would develop either site in isolation, but if allowed to capture the increment in land values, a private developer would want to develop both sites as a single large development. Land taxes inhibit such development. This therefore is another area which modifies the policy conclusion that land taxes are entirely non-distortionary and should be levied to their fullest extent. However again, relative to the current staus quo this is also a second order issue.

Land & property as investment, consumption & intermediate goods

An efficiency promoting taxation system should not subsidise or tax one investment good relative to another: for example by subsidising investment in houses relative to shares, say. An efficiency promoting taxation system should not change the price of one consumption good relative to another, so as not to distort the choices made by investors or consumers: for example by charging

http://noahpinionblog.blogspot.ch/2015/03/a-misguided-attack-on-land-value-taxes.html.

[14](No Build, No Build) is a N.E. if $H_i < c_i, \forall i \in \{A, B\}$, and (Build, Build) is a N.E. if $H_i + N_i > c_i, \forall i \in \{A, B\}$.

VAT on many consumer goods, but not housing services. An efficiency promoting taxation system should not tax intermediate goods used in the production of other goods, because this distorts the choice of the combination of inputs that businesses choose in making production decisions.

The current system of property taxation in Scotland and in the UK more widely, subsidises home ownership relative to renting a home. There are various ways in which the system does this including a capital gains tax exemption on a main residence, and no liability to pay tax upon the income that one pays as rent from oneself as tenant, to oneself as owner. To see that these constitute a subsidy, consider the same property either owned by the occupants or rented to different occupants. It could be that ownership relative to renting just changed the timing of paying for the housing services that the property provides (e.g. perhaps ownership is more expensive initially but cheaper later on), in which case there is no subsidy. However, in reality, the government earns more if the property is rented out: receipts of capital gains tax when the non-occupying owner eventually sells; and income tax on some of the rental income that this owner receives whilst in receipt of these rents. A situation in which government income is higher when the property is rented out, can equivalently be viewed as a situation in which government expenditure is higher when the property is owner occupied i.e. the government is paying a subsidy to home owners.

This is a regressive subsidy as it is disproportionately paid to the wealthy who are more likely to own their property. But it also distorts the market by subsidising investment in housing relative to investment in other assets, and this damages efficiency. One way in which it might do this is by shifting the portfolio choices of individuals: for a given level of savings, in the absence of this subsidy, an investor might choose to rent their home and hold these savings in a diversified portfolio of assets; but when home ownership is subsidised, the savings are instead used as the down-payment to obtain a mortgage. This distortion in asset allocation decisions has two obvious costs.

The first is that investors are more likely to put themselves into a leveraged position by taking out a large debt that is fixed in nominal terms and secured against a volatile asset (the value of the property). The gross value of the debt is likely many times the net asset position (e.g. 20 times for a 95% mortgage). This has macroeconomic consequences by encouraging individuals to behave in a pro-cyclical manner i.e. it increases the correlation between individual behaviour (everyone experiences similar house price movements) such that everyone feels wealthier at the same time (when house prices rise but mortgage debt stays constant) or poorer at the same time (when house prices fall but mortgage debt stays constant). To the extent that consumer spending is related to net wealth, this means that economic activity becomes much more cyclical, with all the costs that come with boom and bust cycles. At the moment the government is subsidising home ownership and could therefore be seen as encouraging these cycles, many may feel that it should instead be taxing home ownership and discouraging these cycles. Similar dynamics pertain for land used for commercial purposes: the cyclical movement of real estate values affects business solvency, and business investment via its use as collateral, all of which adds to the pro-cyclical impact of land values.

The second cost is also related to risk and diversification, but at a less coordinated macroeconomic level. For many locations, especially those with weakly diversified local labour markets (or even a single large local employer), there may be strong correlations between local business activity levels and local house prices. The present value of future wages constitutes a large component of an individual's implicit net worth. An optimal portfolio choice for such an individual is to invest in assets which are not correlated with their future wages, so that when one asset performs badly, the other performs well to provide some compensation. If local business activity falls, perhaps leading to an unemployment event for this individual, then not only are their present value of lifetime earnings damaged, but they also experience strong negative effects from their exposure to local property values. Investing in local property is a particularly bad investment decision in the case of a weakly diversified local labour market. It can be argued that it is irresponsible for government policy to subsidise and encourage such sub-optimal portfolio choices[15].

It may also be the case that a policy framework which subsidies home ownership and hence shifts the composition of household savings towards land and property, crowds out the absolute level of investment in productive capacity for the economy. This need not be the case (when party

[15] A similar argument pertains against government subsidy of schemes which encourage investment in one's own employer's shares.

A buys land from party B, party B has to do something with the proceeds, perhaps starting a business or building a factory), but it could be the case if those in receipt of funds from the sale of land and property are disproportionately likely to consume rather than to invest. This could be the case if it were the old selling to the young and using the proceeds to fund consumption in retirement. This is the mechanism underlying the argument in Weale (2007) in which rising house prices reduces the need to save for retirement, which reduces overall savings, which lowers the rate of investment in productive capital. Deaton and Laroque (2001) show that this issue arises in a general overlapping generations macroeconomic model: the introduction of land crowds out productive capital formation.

The current tax framework in the UK distorts the consumption bundles that consumers choose by changing the prices of some goods relative to one another via the choice to levy VAT on some goods but not others. In particular, VAT is not charged on the flow of "housing services" that consumers purchase. This differential tax treatment of alternative consumer goods changes relative prices and distorts consumer demand in the direction of housing: house prices are "too high" as a result. To remove this distortion, an equivalent tax should be levied on housing services. This could be done in two ways: one is simply to levy VAT on the buildings component of the value of new-build houses[16], and the other is to levy a tax on the buildings element of the total property value at a rate which charges housing services at the approximate VAT rate[17][18].

Consumers and the household sector should pay some property tax then in addition to land taxes. However this does not apply to businesses. The conditions for production efficiency, see

[16] This method has the distributional (rather than efficiency) consequence of effectively giving a windfall to existing home owners who acquired their property pre-tax, and which would go onto the property market against new-build properties which would enter the market post-tax.

[17] The rental rate is around 4% - 5% (see http://www.ons.gov.uk/ons/rel/regional-analysis/housing-statistics-portal/housing-summary-measures/rft1.xls: for English & Welsh data, the arithmetic average across local authority districts in 2014 of 12 $\times$ median monthly private rent / median house price, is 4.1%. Therefore, if the property value was entirley due to the buildings and structures (zero land value) then the annual rate to be applied to the property value to be equivalent to a VAT rate of 20% is 0.8% - 1.0%. Note however that if the tax on housing services consumption is implemented in this way then, to prevent double taxation, it should really be possible to reclaim the VAT on expenditures on improvements, renovations and maintainance to their properties since the tax due on these will be paid in the property tax.

[18] Taxing the consumption of housing services via a property tax would be expected to lower house prices by eliminating the excess demand caused by the current VAT-induced distortions in consumption decisions. Adding VAT to new-build properties would also reduce demand, but would likely lead to increased prices because the bill for the present value of the flow of taxes on future consumption of housing services would effectively be incorporated into the purchase price.

Diamond and Mirrlees (1971), require that there be no taxes on intermediate goods[19]. Buildings and structures are an intermediate good into production for a business and should not be taxed. The land taxes reflects efficient, non-distortionary user-charges that businesses should pay for monopoly rights over the use of the land. However, an efficiency promoting tax structure would not tax the buildings and structures component of business premises. This is contrary to current practice: in Scotland business premises currently attract Non-Domestic Rates of 48% of "Rateable Value" (which is an estimate of the market rent at the last valuation date[20]). Since the rental amount will be based on both the land and the buildings that are being rented out, it is clear that the current system taxes intermediate goods. This is inefficient because it distorts the choice of the combination of inputs that businesses choose in making production decisions, and it is also double taxation, in that VAT is then levied upon the final goods output.

Labour mobility & Homeownership Rates

Low (and high) labour mobility is a self-sustaining equilibrium and can be thought of as a circular process: an agent has a potential move, a job offer in another location; if the economy is in a state of low labour mobility then it is likely that the number of potential homes near this new job are relatively low (low mobility means that their current occupants are also less likely to move); but this lack of availability means that the agent is less likely to take up this opportunity, rather they will stay where they are; and this decision to stay itself contributes to a lack of mobility. Low mobility means that people are less likely to do the jobs for which they are most suited because they are more constrained by location. To the extent that they are less productive in the jobs in which they are constrained to stay, this has an economic efficiency cost. A particularly egregious example of such an efficiency loss is where your present state is unemployment, and low mobility means you stay in a location where no jobs are available, see Blanchflower and Oswald (2013).

High levels of home ownership, and high land values, damage labour mobility. One way it does this is through differential land values. If the entire land value were taxed away, then a home of

[19] This principle is incorporated into the UK tax system to the extent that VAT paid by a business is reclaimable, and the only VAT that ends up being paid to the government is that paid by final consumers.

[20] Currently 1st April 2010. See https://www.mygov.scot/business-rates-guidance/how-your-rates-are-calculated

equivalent build specification and quality would cost approximately the same, independently of its location. This means that an agent with certain expectations and requirements based on their current home, when offered a better job in a new location (such that the new wage net of land tax is greater than the old wage net of land tax) need not mean much of a change in your housing costs: the sale of the current house should fund the purchase of a new house of approximately the same specification. Without the land component of the property price being taxed away however, property values in productive locations are likely much higher. If the better job offer is in a more productive location, then the sale of the current house does not fund the acquisition of a new house. Comparing like with like, the new wage net of what would have been taken in land tax is greater than the old wage net of what would have been taken in land tax, but this higher wage only allows the more expensive land to be purchased if there are no credit frictions and if capital markets work perfectly. This is not necessarily the case, and if it is not then agents face a trade-off: move to the better job but take an effective pay cut because they cannot replicate the current housing amenity they enjoy; or stay put. Many will stay put, labour mobility has been lowered by differential land values.

Home ownership also damages labour mobility via higher transaction costs. The costs of buying and selling a property (especially when including transactions taxes like the Land and Buildings Transaction Tax in Scotland), whether measured in monetary, time or stress terms, are greater than the costs of exiting and entering rental lease agreements. The benefits of moving therefore don't have to simply be greater than zero, they have to be bigger than some positive value that represents all the moving costs. This can be seen in commuting patterns: according to Oswald (1999), home owners commute more and further than renters, which as well as being a direct cost to the commuter, can also be associated with negative externalities like increased transport congestion and environmental pollution.

The combination of all these mechanisms means that we should expect to see a negative relationship between the level of homeownership and economic performance. Figure 1 shows that this is indeed the case: across countries, high home ownership is associated with poor macroeconomic performance - Spain and Italy have far higher levels of home-ownership than Switzerland or Ger-

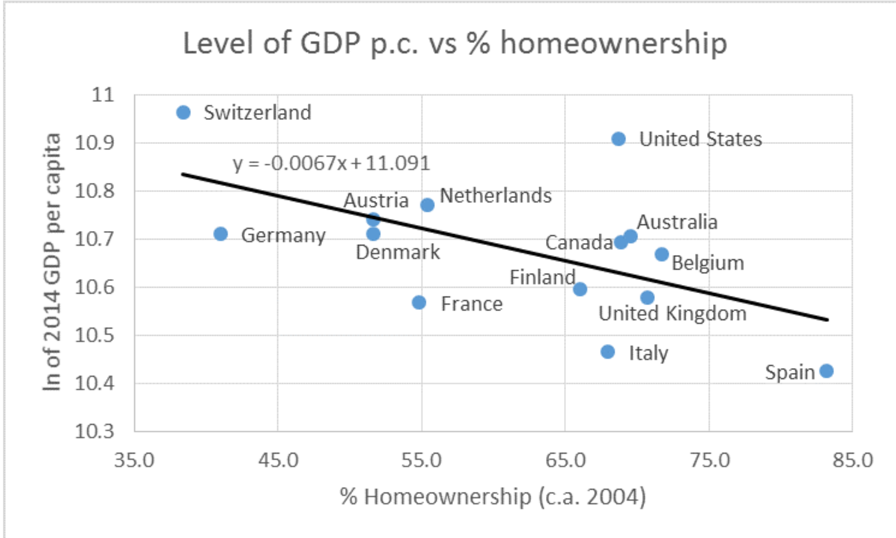

Figure 1: Scatterplot of ln GDP per capita from OECD, against rate of homeownership from Andrews and Sanchez (2011)

many - with a best fit elasticity that corresponds to a 1% higher rate of home-ownership being associated with a 0.67% lower rate of GDP per capita[21].

Policy Conclusions

This section presented arguments in favour of a shift towards land and property taxes. To promote efficiency, so that the costs of keeping land and property out of supply are high, the legal responsibility to pay these taxes should be upon the owner of the land and property. This would eliminate tax subsidies currently paid to unused land and property. Land taxes should ideally be at a level to tax away much of the private value of land since this is a fairly non-distortionary tax, though there are arguments that say that the entire private value of land should not be taxed away.

Tax subsidies that favour home-ownership, such as the asymmetric treatment of capital gains, and the asymmetric exclusion of rents from taxable income, should be eliminated. Business rates should not include taxes on buildings and structures which are an intermediate good into production, but residential property should attract some tax on the buildings and structures element of the total property value so as to eliminate the tax subsidy towards housing services implied in the

[21] It also seems to be associated with higher levels of inequality, see Appendix A.

current system which levies VAT on some other consumer goods. The tax treatment of land used for both commercial and residential prurposes should be equalised, but the buildings and structures element of the property tax on commercial and residential property should be different. The Land and Buildings Transactions Tax should be scrapped. Most of these policy conclusions are revenue raising[22] so the revenues could be used to reduce other distortionary taxes. Alternatively public spending could be raised if it is less than its socially optimal level. These conclusions are consistent many of the recommendations made in the volumous analysis undertaken in the Mirrlees Report (see Mirrlees et al. (2010) and Mirrlees et al. (2011)).

The proposal implied by this section can be approximated as: eliminate the Land & Buildings Transaction Tax; introduce Capital Gains Tax on primary dwellings; add imputed rent to taxable income; eliminate business rates on the buildings and structures component of commercial property value, but attach the liability to pay the remaining land tax component of business rates to the land owner and eliminate any and all exemptions; charge a land value tax to the land value associated with residential property at the same rate as in the business rates (currently 48% of rental value); charge a buildings tax to the building value associated with residential property at the same rate as VAT (20% of rental value); attach the liability to pay the combined (land and buildings) residential property tax to the property owner and eliminate any and all exemptions. This translates to an average total property tax to be applied to residential property values of approximately 1.2%[23].

[22] The exceptions are the elimination of the buildings and structures element of business rates (which had total revenues, much of which will be related to land, of $£1,927m$ in 2013-14) and the elimination of the Land and Buildings Transaction Tax (which replaces the Stamp Duty Land Tax which had revenues of $£385m$ in 2013-14) - see Government Expenditure & Revenues Scotland http://www.gov.scot/Publications/2015/03/1422.

[23] Assume rental rate of 4.5% (following Footnote 17), and land value proportion of total property value of 24% (from Wightman (2010)), then property tax rate of $4.5\% \times (48\% \times 24\% + 20\% \times (1 - 24.2\%)) = 1.2\%$ of the market value of the property. But this is the average tax: properties in areas with high land values would see a tax rate approaching the $4.5\% \times 48\% = 2.2\%$ rate implied by business rates, whereas properties in low land value areas would see a tax rate approaching the $4.5\% \times 20\% = 0.9\%$ implied by VAT.

3. The Distributional Effects and the Political Economy of Reform

The previous section argues that tax reform towards land and property taxes are efficiency enhancing. Therefore a revenue neutral shift in tax policy towards land and property taxes and away from other distortionary taxes should be a positive sum game, which should be supported by the median voter even if it was associated with no redistribution, because we would expect average incomes to be higher under this policy than under the status quo.

Recent figures released by Scottish Government and ONS have shown that the distribution of property wealth (GINI = 0.64[24]) is more unequal than the, already skewed, distribution of income (post tax and transfer GINI = 0.30[25]). Therefore, the median voter should support a revenue neutral shift in tax policy towards land and property taxes[26] and away from labour taxes even if it were associated with no efficiency gains. Given that such a policy is both efficiency enhancing and implements redistribution, it should garner high support.

In steady state, the only people who should prefer the status quo over an alternative with the burden of taxation shifted towards land, are children of the very wealthy for whom the inheritances of land and property outweigh any efficiency losses. But we cannot jump from one steady state to another, and the transition from the status quo to the proposed policy regime, mitigates against its implementation. In particular, a majority of the population[27] are from households who own their own home, and these households will be adversely affected if property values fall. They may benefit on net - in that the present value of their gains from higher future economic growth, from future business cycles that are less extreme, and from more affordable housing in the future, outweighs the losses from the fall in house prices - but the losses will be immediate and the benefits will accrue over time. We know from behavioural economics that such a pattern of immediate certain losses and future expected but uncertain gains is undervalued in reality relative to the value that a rational calculation would put upon it. There may also be adverse macro-economic consequences

[24] http://www.gov.scot/Publications/2015/03/2333

[25] http://www.gov.scot/Publications/2015/06/7453/23

[26] Or at least towards net wealth taxes: the property wealth GINI relates to the distribution of net wealth such as housing equity rather than gross value of housing that is owned.

[27] According to Eurostat data, see Figure 3 in Appendix A, the homeownership rate in the UK in 2013 was 64.6%.

if households see their gross asset position hit, without any relief on their mortgages. Funding mortgage relief would add a large cost to the implementation of a shift to land taxes, and may prevent this shift being used initially to reduce other taxes (instead the land tax revenue would be needed to repay the bonds that were issued to fund the mortgage relief).

Some parts of the proposal outlined in the previous section can be eliminated quickly on practical grounds: the Scottish Parliament, even under the powers proposed in the Smith Commission and Scotland Bill 2015-16, does not have power over Capital Gains Tax, or the power to change the definition of taxable income. The political economy of the change further mitigates against this proposal: although property ownership is concentrated in net value terms among the wealthy (with a GINI coefficient of 64%), home ownership itself is widespread, which makes the political economy of the implementation of a shift towards land and property taxes difficult.

What then is a practical proposal? The desire to reform the really-not-very-proportional-at-all council tax, provides an opportunity to implement a tax levied in proportion to property wealth which goes part of the way towards the previous proposal. Further aiding this change relative to the full proposal is the fact that it is easier to calculate rates to pay, and it is easier to explain to those being taxed the basis of the taxation, under a flat rate tax on property values. If implemented on a revenue neutral basis, such that the rate is set so that the revenues from the property tax are equal to the current council tax revenues, the political economy in favour of such a policy shift can be maintained. This is demonstrated in the next section.

4. Replacing the Council Tax in Scotland with a Property Tax

This section conducts a quantitative exercise examining the replacement of the Council Tax in Scotland with a Property Tax that is a flat rate applied to the property value. First of all we estimate the distribution of property values in Scotland from recent property transactions data. The distribution is examined at Postcode sector level, to see how property value apparently varies with median household incomes, local authority, and with the number of properties of each council tax bands that exist in that location. We then impute a property value onto a representative sample of Scottish households in which we can observe household income, local authority and self-reported council tax band. The replacement of the Council Tax with a tax applied to the property value can then be conducted, the distributional impact assessed, and crucially the number of winners from this policy change compared to the number of losers.

Registers of Scotland Transactions Data

We use a confidential dataset from the Registers of Scotland[28] obtained from the Commission on Local Tax Reform[29], of all house sales in Scotland with "Application Date" between 1st April 2010 and 31st March 2015. This data records the "Consideration price", "House Type" (unallocated, detached, semi-detached, terraced, and flats), and the postcode. There is not enough data within each postcode to make valid inferences of the contribution of each postcode to the sale prices. Instead postcodes are aggregated up to postcode sector level (e.g. G14 9 or EH4 7 etc) of which there are 875 in Scotland[30].

The first step is then to run a simple regression of log house sale values on postcode sectoral dummies, year of sale dummies, and house type dummies. This allows us to generate a variable, $AreaValue$, equal to the predicted value of the log of sale price for a detached house in 2010 in each postcode sector.

$$
\begin{aligned}
\ln Price_i &= \alpha_0 + \alpha_1 \times year2011_i + \alpha_2 \times year2012_i + \alpha_3 \times year2013_i + \alpha_4 \times year2014_i \\
&\quad + \alpha_5 \times flat_i + \alpha_6 \times semidetached_i + \alpha_7 \times terrace_i + \alpha_8 \times unallocated_i \\
&\quad + \beta_j \times PostcodeSector_{ji} + \epsilon_i, \quad j \in \{1, ..., 874\} \\
AreaValue_j &= \hat{\alpha}_0 + \hat{\beta}_j
\end{aligned}
$$

[28] https://www.ros.gov.uk/

[29] www.localtaxcommission.scot

[30] The number of observations (house sales) per postcode sector has mean 416, standard deviation 312, the minimum number of observations in a postcode sector is 1 (but there are also 4 postcode sectors which seem to have had no sales in these 5 years of data), and the maximum number of observations is 1953.

An obvious problem with inferring house values from this simple regression is that the impact of house type may differ in low and high value areas, and the impact of house price changes over time may differ in low and high value areas. To deal with this we drop the 874 postcode dummies and use the $AreaValue$ in a further estimation that allows for interactions between the $AreaValue$ and the other dummy variables.

$$\begin{aligned}
\ln Price_i \;=\;& \alpha_0 + \alpha_1 \times year2011_i + \alpha_2 \times year2012_i + \alpha_3 \times year2013_i + \alpha_4 \times year2014_i \\
&+ \alpha_5 \times flat_i + \alpha_6 \times semidetached_i + \alpha_7 \times terrace_i + \alpha_8 \times unallocated_i \\
&+ \alpha_9 \times AreaValue_i + \alpha_{10} \times val_2011_i + \alpha_{11} \times val_2012_i + \alpha_{12} \times val_2013_i \\
&+ \alpha_{13} \times val_2014_i + \alpha_{14} \times val_flat_i + \alpha_{15} \times val_semi_i + \alpha_{16} \times val_terr_i \\
&+ \alpha_{17} \times val_unal_i + \epsilon_i
\end{aligned}$$

The results are shown in Table 2. The inclusion of the interaction terms does improve the Adjusted R^2 slightly (but only from 0.4913 when interactions are not included to the 0.4939 in Table 2) and we can see that their estimated coefficients are all significant[31].

Scottish Neighbourhood Statistics Housing Stock Data

This gives a set of coefficients relating postcode sectors and house types to house prices. These can be applied to the data on the entire housing stock in Scotland to estimate the house value distribution. To do this we use data from Scottish Neighbourhood Statistics[32]. This has data on the number of houses of each type (unallocated, detached, semi-detached, terraced, and flats), and of each council tax band (A - H), by datazone. Datazones can also be aggregated up to Postcode sector level. The regression coefficients derived from the Registers of Scotland data are applied to the Scottish Neighbourhood Statistics data to create a house value distribution for the stock of housing in Scotland. The Scottish Neighbourhood Statistics data also directly gives us an estimate

[31] The 4 unobserved postcode sectors are just given the average coefficient of the observed postcode sectors in the same postcode district.

[32] http://www.sns.gov.uk/

ln Price	Coefficient	t-statistic
year2011	-0.17706	-2.19
year2012	-0.64732	-8.06
year2013	-1.10077	-14.30
year2014	-1.81418	-23.88
flat	-2.73132	-37.96
semidetached	-1.40220	-15.17
terrace	-3.16762	-37.42
unallocated	-0.02169	-0.13
AreaValue	0.80633	121.79
val_2011	0.01329	2.02
val_2012	0.04976	7.61
val_2013	0.08758	13.99
val_2014	0.14904	24.12
val_flat	0.15769	26.99
val_semi	0.07916	10.50
val_terr	0.20872	30.23
val_unal	-0.03716	-2.68
const	2.37997	29.24
No. Obs	397,300	
Adj R^2	0.4939	

Table 2: Registers of Scotland Data - Results of regression with interaction terms. val_'*' refers to the interaction of the dummy variable '*' with the AreaValue variable.

of the total council tax liability, shown in Table 3, which also shows that this estimate agrees well with the detailed Council Tax figures from the Scottish Government[33].

The main part of this exercise is to estimate the rate of Property Tax that must be charged in order to replicate the revenues currently obtained from the Council Tax, and to examine the distributional effect and political economy of eliminating the Council Tax and charging a Property Tax at this rate. For this, it is necessary to look at a representative sample of the Scottish population - we use the Understanding Society dataset[34] run through a microsimulation model of Scottish households built using the liam2 platform[35]. This model has been constructed to replicate the income tax, national insurance and Council Tax revenues from Government Expenditure &

[33]Scottish Local Government Financial Statistics 2013-14: http://www.gov.scot/Resource/0048/00481380.pdf, and Government Expenditure & Revenues Scotland http://www.gov.scot/Publications/2015/03/1422.

[34]https://www.understandingsociety.ac.uk/

[35]http://liam2.plan.be/pages/about.html. Scottish microsimulation model built in conjunction with colleagues David Bell & David Eiser at University of Stirling.

Data Source		No. Dwellings	Council Tax (£bn)
SLGFS 2013-14 (1)	Total Dwellings	2,540,330	
SNS 2013 (2)	Total Dwellings	2,532,119	2.782 (7)
SLGFS 2013-14 (1)	Chargeable Dwellings	2,427,805	2.534
SLGFS 2013-14 (1)	Council Tax Reduction (4)		0.351
SLGFS 2013-14 (1)	Dwellings Exempt (5)	112,525	0.249 (8)
SLGFS 2013-14 (1)	Partial Exemptions (6)		0.202 (9)
	Total Dwellings		2.782
	Council Tax Reduction		0.351
	Council Tax Exemptions		0.450 (10)
SLGFS 2013-14 (1)	Net Council Tax		1.981
GERS 2013-14 (3)	Net Council Tax		1.941

Table 3: Council Tax Data -
(1) Scottish Local Government Financial Statistics
(2) Scottish Neighbourhood Statistics
(3) Government Expenditure & Revenues Scotland
(4) The CRT is a subsidy paid to low income households
(5) 43,137 unoccupied exemptions (unoccupied and unfurnished (first 6 months), undergoing major repair, condemned/due for demolition, householder in care/hospital/prison) and 69,388 occupied exemptions (occupants are students, under 18s, or have severe mental impairments). The SLGFS figure for Total dwellings is the sum of chargeable dwellings and dwellings exempt.
(6) 953,612 properties eligible for 25% discount for single occupancy, 27,879 Second homes, 31,884 Long Term Empty (empty over 6 months) & 2,802 Occupied entirely by disregarded adults
(7) Calculation based on SNS data
(8) Difference between calc figure based on SNS, and SLGFS figure for chargeable dwellings
(9) Difference between SLGFS figure for chargeable dwellings and the sum of SLGFS figures for net council tax and CTR
(10) Sum of dwellings exempt and partial exemptions figures

Revenues Scotland[36] and it then agrees well with the net equivalised household income GINI coefficient reported by the Scottish Government[37]. To conduct our exercise, we need to add property tax calculations to this model.

The first problem in doing this is that property values are not given in the Understanding Society dataset. We do observe household income, Council Tax band, and (because we are using additional confidential information from Understanding Society) local authority. We also have information on whether the household owns or rents their home: 64% of Scottish households in the sample, containing 67% of the adult population, own their home - these figures seem reasonably

[36] http://www.gov.scot/Publications/2015/03/1422
[37] http://www.gov.scot/Publications/2015/06/7453/23

consistent with the 64.6% UK figure from Eurostat. We need to estimate the contribution that income, Council Tax band, and local authority makes to the property value of a household.

First of all we examine how the estimated total property value in each postcode sector in the Scottish Neighbourhood Statistics data, responds to the make up of the housing stock by Council Tax Band. The total property value at postcode sector level[38] is regressed on number of properties in each postcode sector in each council tax band. The results are shown in Table 4.

$$Total\_Property\_Value_i = \alpha_J \times No\_Band\_J_i + \epsilon_i \quad , \quad J \in \{A, ..., H\}$$

Total Property Value	Coefficient	t-statistic
Number in Band A	38,420	7.67
B	56,032	8.06
C	119,276	10.68
D	195,660	11.28
E	209,662	10.85
F	233,048	7.51
G	414,586	12.84
H	1,386,541	11.00
No.Obs	875	
R^2	96.4%	

Table 4: Coefficients can be interpreted as the incremental increase in total property value in a postcode sector as a new property of each band is added i.e. this is an estimate of the average value of property for each CT Band.

We also have median household incomes by postcode sector from the Scottish Neighbourhood Statistics data, and of course we know the local authority of each postcode sector. Therefore as a second stage, we use the results from Table 4 to generate a new predicted property value for each postcode sector, and we regress the log difference between this value and the actual total property value on local authority dummies and on the log deviation of the median income in each postcode sector from the Scottish average. The results of this are shown in Table 5.

[38] i.e. the empirical house price “data” - the inferred house values derived by imputing the sales data from ROS onto the SNS data.

$$\ln(\text{value\_difference}_i) = \alpha_0 \times income\_deviation_i + \alpha_j \times LADummy_{ji} + \epsilon_i \quad , \quad j \in \{1, ..., 32\}$$

Understanding Society Representative Sample of Households Data

We assign a house value to each household in the Understanding Society dataset by looking at their reported Council Tax band and assigning the value from Table 4, then adjusting this value by the percentages given in Table 5 based on their deviation of net household income[39] from the median, and based upon their local authority. This Implied Value, V_i, is further adjusted using parameters β and γ, to obtain Imputed House Value, H_i, which is distributed over the Understanding Society data such that it has the same mean ($M = £138,381$) and standard deviation ($\Sigma = £79,554$) as the house value distribution of the Scottish Neighbourhood Statistics data.

$$H_i = \beta V_i \exp\left(\gamma \ln\left(\frac{\beta V_i}{M}\right)\right)$$

The parameters required to match the mean and standard deviation from the Scottish Neighbourhood Statistics data, are $\beta = 0.966$ and $\gamma = -0.192$. The Scottish Neighbourhood Statistics data and the distribution of house prices imputed to the Understanding Society data are shown in Figure 2[40].

The total residential property value summed over the Understanding Society dataset for Scotland is $£305.3bn$. This compares with an estimate of total domestic property value of $£316.5bn$ in Wightman (2010)[41], and Net property Wealth in Scotland in 2010-12 from the ONS of $£227.5bn$[42]

[39]Not net equivalised household income - the assumption is that households spend some proportion of their net income on housing, so larger households which have lower equivalised income for same net income don't cut back in this regard.

[40]We fit a lognormal distribution to the empirical house price "data" (i.e. the inferred house values derived by combining the ROS regression coefficients from Table 2 with the SNS data on postcode sector and house type) by choosing the best fit lognormal parameters to minimise the sum of squared errors between the "actual" and modelled proportion of properties in £5000 bins. The derived parameters are $\mu = 11.69$, and $\sigma = 0.53$.

[41]Calculated as "median of each band at 1991 uprated using house price inflation to 2009 values"

[42]http://www.gov.scot/Publications/2015/03/2333

Total Property Value	Coefficient	t-statistic
income deviation	0.107	1.88
Aberdeen City	0.254	8.06
Aberdeenshire	0.188	6.76
Angus	0.061	1.65
Argyll & Bute	0.014	0.41
Clackmannanshire	-0.110	-1.90
Dumfries & Galloway	-0.039	-1.27
Dundee City	0.035	0.85
East Ayrshire	-0.178	-4.97
East Dumbartonshire	-0.110	-2.79
East Lothian	0.136	3.16
East Renfrewshire	-0.102	-2.06
Edinburgh City	0.207	9.35
Eilean Siar	-0.015	-0.24
Falkirk	-0.168	-4.31
Fife	-0.055	-2.14
Glasgow City	-0.201	-9.93
Highland	0.062	2.85
Inverclyde	-0.182	-3.72
Midlothian	0.138	3.03
Moray	0.144	3.43
North Ayrshire	-0.175	-5.09
North Lanarkshire	-0.223	-7.21
Orkney	0.125	1.19
Perth & Kinross	0.002	0.04
Renfrewshire	-0.205	-5.37
Scottish Borders	0.069	1.85
Shetland	-0.164	-1.27
South Ayrshire	-0.172	-3.64
South Lanarkshire	-0.201	-6.52
Stirling	-0.055	-1.12
West Dunbartonshire	-0.205	-4.18
West Lothian	0.007	0.14
No.Obs	875	
R^2	44.25%	

Table 5: Coefficient on income deviation is the elasticity of property value to the variation of income from median, and coefficients on local authorities can be interpreted as percentage change induced by being in each local authority.

(which if grossed up using UK figures for gross property values and aggregate mortgage debt yields a figure for Scotland of £292.6bn)[43]. This total property value immediately allows us to determine

[43] http://www.ons.gov.uk/ons/dcp171776_362811.pdf.

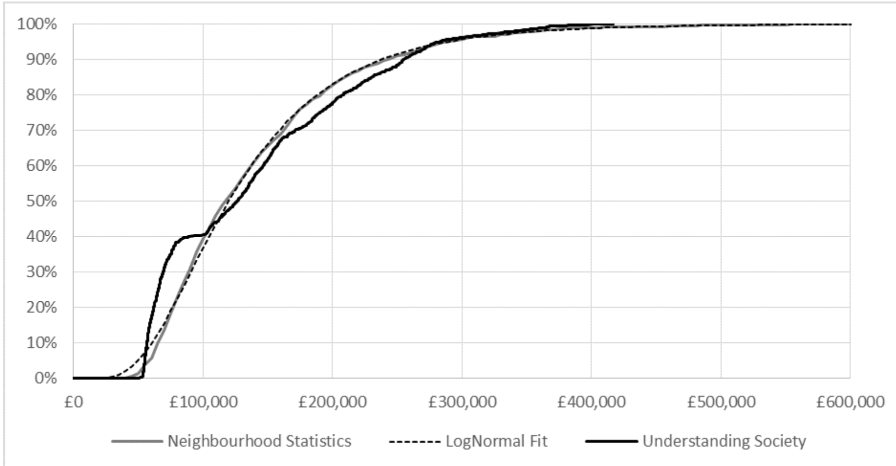

Figure 2: The SNS House Value distribution, the best fit lognormal cumulative density to this SNS distribution, and the House Value distribution imputed into the Understanding Society dataset.

Property Tax rates needed to replicate Council Tax revenues. The rate required to replicate the net council tax revenues in 2013-14 of £1.981bn is 0.65%[44], whilst the rate required to replicate the net revenues plus the expenditure on Council Tax Reduction of £2.332bn is 0.76%.

Two offsetting errors make these calculations reasonable. The first error is that the £305.3bn total property value is an underestimate of the total property value (and hence 0.65% is an over-estimate of the revenue neutral property tax rate) as there are many fewer households implied by the Understanding Society dataset (2.2m) than there are properties implied by the Scottish Neighbourhoods Statistics dataset (2.5m)[45]. Offsetting this is fact that there is no guarantee that the houses that have been bought and sold over the past five years are representative of the whole housing stock. In particular the methodology adopted will be assigning values from private transactions onto the stock of social housing, so overvaluing this stock, and undervaluing the revenue neutral rate. Detailed work to value the stock of property in 8 local authorities in Scotland was conducted in Leishman (2015). This found that the rate required for a revenue neutral property tax that replaced the council tax is 0.59%. Repeating the calculation above that produced 0.65% for the whole of Scotland, for only these 8 local authorities produces a revenue neutral rate of 0.60%[46]. Therefore we can have some confidence that the results are in the correct region, and

[44] Appendix B analyses the impact of this by local authority.

[45] The total property value applying the coefficients from Table 2 directly to the Scottish Neighbourhood Statistics housing stock data is £352bn.

[46] See Appendix B.

if anything they very slightly undervalue the stock of housing, so overvalue the rate which must be charged to households. The methodology also implicitly assigns the taxes that should be paid from vacant properties, to the households in the sample. The political economy calculations that follow therefore are a conservative basis for assessing the constituency that should be in favour of this change.

Microsimulation Results

With house values added to the Understanding Society data, the microsimulation model can evaluate a Property Tax. We subtract the council tax liability and add the property tax liability and look at the distributional impact (what is the impact on the net equivalised household income GINI, and 90:10 ratio), and at the percentage of the adult population who come from households that benefit from this change (i.e. see a gain in net equivalised household income) and so can be expected to vote for this policy to be implemented. The results are shown in Table 6.

	Result 1 Straight Switch	Result 2 Accounting for Rented Properties	Result 3 Property Tax Benefit
Prop Tax Rate	0.65%	0.65%	0.71%
ΔNet Revenue $\pounds m$	0	0	0
ΔHousehold Net Income $\pounds m$	0	-80	-40
Property Tax Benefit $\pounds m$	0	0	200
ΔGINI	-0.0	-0.0	-0.2
$\Delta 90:10$ ratio	+0.03	+0.03	-0.03
% vote FOR policy	58%	65%	68%

Table 6: Results of imputing property taxes and eliminating Council Taxes

Result 1 shows that charging a property tax rate of 0.65% on the value of property on all properties will replicate the revenues of the current council tax net of exemptions and council tax benefit. The effects upon inequality are small: despite the property tax being a more progressive tax than the Council Tax because of the spead of property values; there are many cases in which the property tax bill is greater than the net council tax bill, especially for low income households in receipt of the council tax reduction. This means that the effect on the GINI coefficient, whilst there is a very small reduction in inequality, is zero to the accuracy that we quote. The effect on the

90:10 ratio also reflects this: despite the small fall in inequality across the net equivalised household income distribution, the ratio of net equivalised household income at the 90-th percentile to that at the 10-th percentile widens because some low income households have seen their local tax bills increase. The policy is popular however with 58% of the voting population from households which see an increase in their net household income.

There is a conceptual problem with Result 1 in terms of its treatment of households who rent their home. As discussed in Section 2, with inelastic supply, the incidence of property taxes falls entirely upon landlords. This means that the rental rates observed in the data are an estimate of the laissez faire rental rates less the net council tax liabilities. When the policy change is implemented, the tenant loses the liability to pay their net council tax, and the landlord gains the liability to pay the property tax. We would therefore expect rents to rise by the net council tax liability. Result 2 implements this. The 36% of households (with 33% of the electorate) who rent their home see no change in their net household income relative to the Base council tax result (though we claim that they support the policy change because of its wider benefits[47]). To the extent that rented properties are less valuable on average than the owner-occupied stock, landlords benefit from the previous net council taxes (whose economic incidence fell on the landlords) being greater than the new property tax (whose economic incidence also falls on landlords). Landlords implicitly benefit by £80m when comparing Result 2 to Result 1 and so total household income is actually lower in Result 2 than in the base Council Tax result and in Result 1[48]. Despite this, the policy is even more popular than in Result 1, with 48% of the electorate from owner-occupied housing, representing 32% of the total electorate, supporting it, for a total constituency in favour of 65%. Result 2 attracts more support than Result 1 because those renting households who have a property that

[47]As discussed in the Conclusions, the policy change is associated with several medium term changes which benefit renting households: the reduction in demand (caused by e.g. the removal of the Single Person Discount in the Council Tax framework which currently provides an incentive to underuse property), and increase in supply (caused by e.g. the elimination of tax relief on rental voids, second homes, and vacant properties), should lower rental rates; and increased levels of economic activity imply higher incomes for these renting households. Another reason for claiming that these households support the change is the fact that the supply of property is not perfectly inelastic, but the change from Council Tax to Property Tax should make it more so. This means that more of the incidence of the Council Tax falls on renters than does the incidence of the Property Tax, and so net incomes for renting households should be slightly higher as supply moves from "pretty inelastic" to "very inelastic".

[48]For a fair comparison, this £80m should really be redistributed to households - but it is not clear how to do this. Simply lowering the rate would implicity redistribute in propertion to property wealth i.e. many households in the middle of the distribution would be given extra income when in fact it should only be those households who own buy-to-let property or shares in housing companies that should benefit.

attracts a property tax liability greater than their net council tax liability now also support the policy change.

There remain many low income households who lose out from this change though. It is perfectly feasible to maintain a system of benefits to low income households in conjunction with a property tax[49]. Result 3 pays homeowners the minimum of the previous entitlement to Council Tax Reduction and the new Property Tax liability[50]. Property Tax rates have to go up to 0.71% to pay for this benefit[51]. This Property Tax Benefit is much lower, at approximately $£200m$, than the $£351m$ Council Tax Reduction, because it is not paid to tenants and it is reduced for those claimants with a property tax liability less than their council tax liability. Maintaining the low income benefits associated with the council tax in conjunction with the property tax, highlights the property tax's progressivity. The GINI coefficient falls in Result 3 relative to the Base Council Tax result, by 0.2 - in the context of the analysis of Comerford and Eiser (2014), this is a substantial decrease in inequality for a revenue neutral tax change: equivalent to that which was found to be induced by raising the upper rate of income tax by 3%[52]. The 90:10 ratio also falls. With low income owner-occupied households now behind the policy change, support rises to 68%, including now a majority of adults from home-owning households.

As can be seen from these results, a revenue neutral policy change from council tax to a property tax, likely makes the majority of the population better off and so can be expected to gain support.

[49]Though it should be designed carefully so as not to incentivise consumption of housing over other goods by changing relative prices and so replicating some of the flaws of the current system. In particular, minimally-distortonary low income benefits should be financially means-tested lump sum benefits, with the recipients free to spend the proceeds however they choose. This is not the scheme modelled here - which looks distortionary and sub-optimal, but is merely used to illustrate the progressivity of the property tax on a more equal footing with the Council Tax.

[50]We maintain the assumption from Result 2 that renting households see no change in their net income. Note that the Invariance of Incidence proposition and the inelastic supply of property implies that Council Tax Reduction to renting households is purely a subsidy to owners.

[51]Which reduces the landlord gain from net council tax liability ¿ property tax liability for rented properties to $£40m$.

[52]See Comerford and Eiser (2014), Table 3: with "Behavioural Effect", a 1p rise in the Upper Rate lowers the GINI coefficient by 0.068.

5. Conclusion

This paper has outlined the arguments in favour of land and property taxes in terms of their ability to promote economic activity and growth. A distributional analysis is then conducted to show that a revenue neutral replacement of the council tax with such an efficiency enhancing property tax, which requires an annual tax rate of approximately 0.7% of the market value of the property, is a progressive, inequality reducing policy, that passes the political economy test of creating more winners than it does losers. This is therefore a rare opportunity, in the face of widespread homeownership which mitigates against this policy, to make such a change.

In the medium term, such a policy change will have effects that go beyond the static analysis conducted here. In particular, we can expect effects upon house prices, economic activity, and homeownership rates. Since the policy is revenue neutral, no aggregate change in the tax on residential property is implied. But the policy does come with distributional changes in where this tax burden falls: with gains to occupied and fully-used property because more of the tax burden falls upon vacant and under-used property; and gains to households in low value property and consequently a greater burden upon high value property.

At the margin, the policy change is likely to be associated with falls in house prices. However, the reveneue neutral implementation of the policy means that this is likely to be a small effect. Rosenthal (1999) estimated that the removal of the old rates system in the UK, and its replacement with the Poll Tax (a lump sum tax), may have increased house prices by around 15%. The policy proposed here on the other hand, is to replace one property tax with another in a revenue neutral manner, which should not be accompanied by house price impacts. However, to the extent that the proposed property tax is a "better" (and more transparent) tax on property, and removes a tax that was becoming increasingly arbitrary, we can expect house price falls at the aggregate level. The demand reducing (removal of incentives to under-use property) and supply increasing (increased costs not not supplying) properties of the property tax also contribute to rent and house price falls[53]. So long as the policy passes the political economy test, these rent and price falls are

[53] Reduced demand and increased supply means we expect that rent falls in the medium term: this helps justify the support assumed (Table 6, Results 2 & 3) from the renting population, who are unaffected by the policy in the static analysis.

again a feature and not a bug, and will increase average well-being (though obviously they are a cost for some households because they change wealth endowments).

And the policy does pass the political economy test. It would not cause all property values to fall, at least in the short-run: currently a particular property attracts council tax and its value would only fall in the short-run if the property tax charge were higher than the council tax charge. The political economy calculation conducted in Section 4 is valid therefore: sufficient properties are associated with tax cuts that we would not expect to see immediate house price falls at the lower end of the market - these property owners can genuinely expect to benefit from the tax change[54] and so should rationally support the replacement of the council tax with a property tax.

Further mitigating any house price falls is the higher levels of economic activity that the increased supply of land and property should bring. This should increase incomes[55] and hence demand for housing, which provides support to house prices. In the long run, although we can say that housing should make up a lower proportion of aggregate wealth, we are unable to say whether the absolute value of the housing stock will be lower or higher, as it depends upon these growth effects.

Despite this policy more effectively taxing the consumption of housing services, and so reducing the distortions that currently push up demand for housing, it is not the case that this policy will necessarily be accompanied by a fall in the homeownership ratio. This policy does nothing to mitigate the subsidies that are given to owner-occupiers rather than buy-to-letters or property companies[56]. And this policy may even increases costs for buy-to-letters and property companies whilst not increasing costs for owner-occupiers, because rented properties are more likely to suffer vacancies, and so attract tax relief under council tax but not under property tax. Some of the the owners of currently rented properties may therefore choose to sell and shift their portfolio to other assets (and as discussed, shifting the composition of investment away from the secondary housing market is a feature, not a bug, of such a policy). However, if these sellers sell to previously renting

[54]Though their house price growth in future may be muted by the "adverse" supply and demand dynamics induced.

[55]Increased incomes helps justify the support assumed (Table 6, Results 2 & 3) from the renting population, who are unaffected by the policy in the static analysis.

[56]Eliminating these subsidies requires levying Capital Gains Tax on primary residences, and adding imputed rents to taxable income.

households, then the policy could even be associated with an increase in homeownership rates.

The introduction of such a property tax in place of the council tax, given a fixed rate for the property tax, gives homeowners a stake in lower property values via their desire for lower tax bills[57]. This may, at the margin, reduce the constituency that resists further land and property taxes, and so ease the political economy constraints for future moves in the direction of the full policy proposal implied by Section 2 with consequent future efficiency gains and growth effects.

[57] And makes the property tax an automatic stabiliser and so an instrument of countercyclical policy.

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A. Appendix: More Home-ownership Graphs

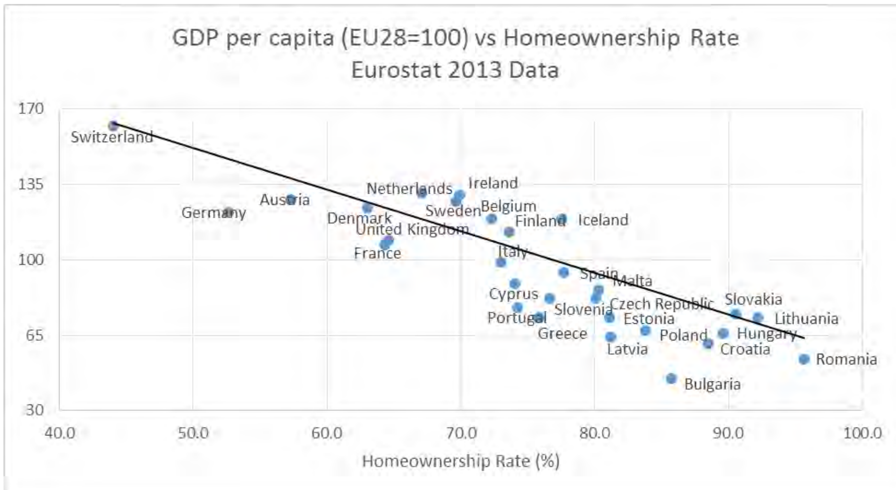

Figure 3: Scatterplot of GDP per capita, against rate of homeownership from Eurostat. Though this has more up to date data, it was not used in main text because of the suspicion that the negative relationship is driven by high homeownership in former communist eastern Europe.

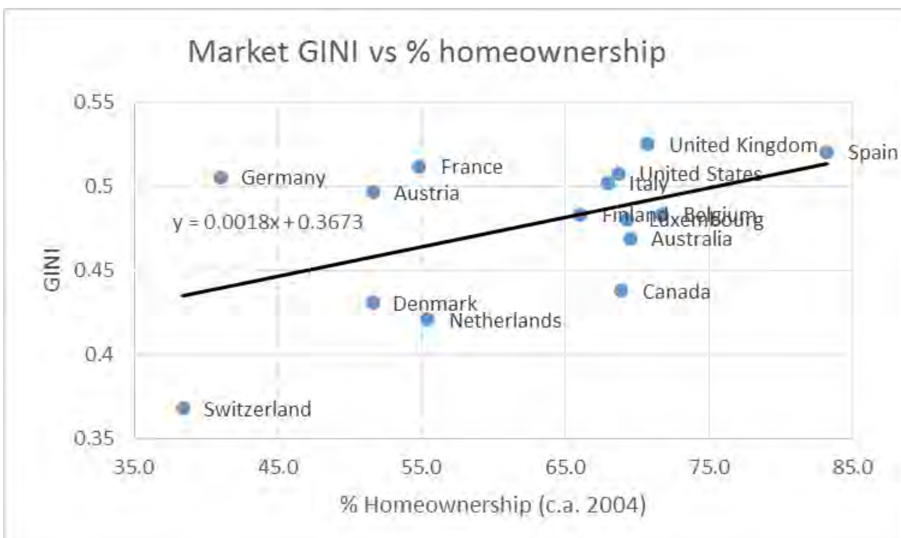

Figure 4: Scatterplot of Market GINI coefficient from OECD, against rate of homeownership from Andrews and Sanchez (2011)

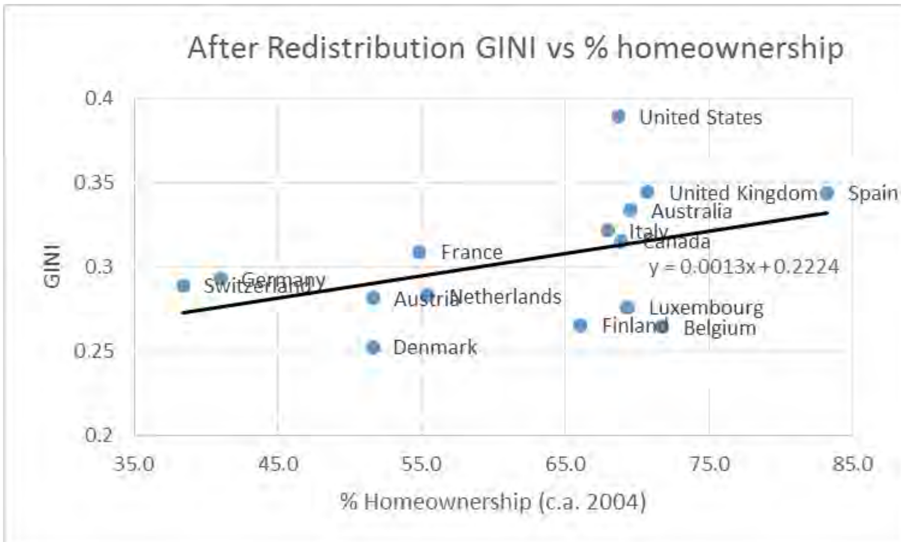

Figure 5: Scatterplot of After Tax & Transfers GINI coefficient from OECD, against rate of homeownership from Andrews and Sanchez (2011)

B. Appendix: Impact across Local Authorities

The Scottish Local Government Financial Statistics 2013-14 report[58] provides net Council Tax income by local authority. We can use the Scottish Neighbourhood Statistics data to split the property tax revenues, obtained through the revenue neutral rate of 0.65%, by local authority. Table 7 shows the impact of the tax change across local authority areas.

Table 7 shows that a property tax set at a uniform rate across Scotland, whilst being revenue neutral relative to the council tax across Scotland, causes large changes in local authority revenues from these taxes. Residents of areas where properties are valued more (less) highly than the current council tax would imply, find themselves over (under) funded relative to the council tax. To avoid providing incentives for local authorities with valuable (cheaper) housing stock to put rates down (up), the grant funding element of local authority finance would have to be altered along with this tax change. This is consistent with current practice in which a mechanism is in place to equalise out changes in the tax base[59].

Table 8 restricts this local authority view to only those 8 local authorities considered by Leishman (2015) and shows that the revenue neutral rate only considering these local authorities is

[58] http://www.gov.scot/Resource/0048/00481380.pdf

[59] Annex B of http://www.gov.scot/Topics/Government/local-government/17999/11203/LocalGovernmentFinance states that assumed council tax is part of the funding that is taken into account when allocating grant funding.

Local Authority	Council Tax ($£m$)	Property Tax ($£m$) at 0.65%	Tax Change
Aberdeen City	102.7	133.1	30%
Aberdeenshire	113.3	118.4	4%
Angus	41.4	54.9	33%
Argyll & Bute	42.1	43.5	3%
Clackmannanshire	18.1	23.4	29%
Dumfries & Galloway	54.8	58.7	7%
Dundee City	46.5	38.3	-18%
East Ayrshire	39.6	35.7	-10%
East Dumbartonshire	47.1	56.1	19%
East Lothian	41.6	54.3	31%
East Renfrewshire	40.9	53.2	30%
Edinburgh City	208.1	295.1	42%
Eilean Siar	9.1	8.5	-6%
Falkirk	51.9	50.9	-2%
Fife	131.3	116.4	-11%
Glasgow City	182.1	173.7	-5%
Highland	99.1	99.0	-0%
Inverclyde	26.5	22.7	-14%
Midlothian	33.4	34.4	3%
Moray	34.5	32.9	-5%
North Ayrshire	45.8	35.7	-22%
North Lanarkshire	97.8	72.2	-26%
Orkney Islands	7.6	7.9	4%
Perth & Kinross	67.1	60.0	-11%
Renfrewshire	63.5	45.7	-28%
Scottish Borders	45.2	38.9	-14%
Shetland Islands	8.3	6.5	-22%
South Ayrshire	45.3	33.7	-25%
South Lanarkshire	108.3	89.7	-17%
Stirling	40.1	28.3	-29%
West Dumbartonshire	29.4	22.2	-24%
West Lothian	58.3	36.7	-37%

Table 7: Estimated impact upon Local Authorities

0.60%.

Local Authority	Council Tax (£m)	Property Tax (£m) at 0.60%
Aberdeenshire	113.3	109.9
Argyll & Bute	42.1	40.4
Dumfries & Galloway	54.8	54.5
Dundee City	46.5	35.6
Edinburgh City	208.1	274.1
Fife	131.3	108.1
Inverclyde	26.5	21.1
Renfrewshire	63.5	42.4

Table 8: Estimated impact upon 8 Local Authorities

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