

RESPONDENT INFORMATION

To help us make the most of your response, please tell us about yourself and how you want us to use the information you provide. There are some questions marked * and these must be answered by all respondents, unless you are directed past this question.

* I am responding as:		<input checked="" type="checkbox"/> An individual
		<input type="checkbox"/> An organisation/group
Name of Organisation (if appropriate)		
Forename		
Surname		
Address		
Postcode		
Telephone		
Email		
Do you consider yourself or your organisation as from or representing?		
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
a rural area	an urban area	an area with both urban and rural parts
		<input type="checkbox"/>
		don't know / not applicable
Would you be happy to be approached by the Commission for further discussion about your submission?		<input checked="" type="checkbox"/> Yes
		<input type="checkbox"/> No
If you are responding as an individual:		
* Do you agree to your response being made available to the public on the Commission's web site?		<input checked="" type="checkbox"/> Yes
		<input type="checkbox"/> No
* If you have agreed to your response being made available to the public, please tell us if we may also make your name and address available. (Please select one option only)		
<input type="checkbox"/>	Yes, make my response, name and address all available	
<input checked="" type="checkbox"/>	Yes, make my response available, but not my name and address	
<input type="checkbox"/>	Yes, make my response and name available, but not my address	
<i>If you are responding as an individual we would be grateful if you could provide some additional information at the end of this form. This is absolutely optional but will help us get an overall picture of the information we receive.</i>		
If you are responding as a group or organisation:		
* The name and address of your organisation will be made public on the Commission's web site. Are you content for your response to also be made available?		<input type="checkbox"/> Yes
		<input type="checkbox"/> No
Which of the following best describes your organisation? (Please select one option only)		
<input type="checkbox"/>	Community Group	<input type="checkbox"/> A business
<input type="checkbox"/>	Local Authority	<input type="checkbox"/> A government department or agency
<input type="checkbox"/>	Other public sector organisation	<input type="checkbox"/> A social enterprise
<input type="checkbox"/>	Third Sector organisation	<input type="checkbox"/> Other (please specify)
<input type="checkbox"/>	Professional body	
Short description of the main purpose of your organisation:		

Tell us what you think

We have not provided a long list of questions, but we do want to hear what you have to say about some themes. Please respond to as few or as many as you wish. If you would prefer to send us other information, please feel free to do so. However, it would be helpful to keep your response to no more than eight pages.

If you are able to, please provide evidence or examples in support of what you say. This will help us explore your ideas further.

1. 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 of the current system that you wish to see retained or changed?

You may wish to illustrate your answer with examples from your own experience.

I'd like to argue in favour of five ideas:

1) Retain the property/land basis of council tax

There have been suggestions that council tax should be replaced with a tax on incomes or on other forms of consumption. This would be economically harmful. The OECD [suggests](#) there is "a 'tax and economic growth' ranking order according to which corporate income taxes are the most harmful type of tax for economic growth, followed by personal income taxes and then consumption taxes, with recurrent taxes on immovable property being the least harmful. This reflects the different distortionary effects of different taxes. A growth-oriented tax reform would, therefore, shift part of the tax burden from income to consumption and/or residential property".

Taxes on wages reduce the incentive to work or to earn more and taxes on business investment reduce the incentive to invest in productivity growth, but taxes on land and (to a very large extent) property have no negative impact on the economy because the supply of these is (to a very large extent) fixed. And, as proponents of land value taxation point out, the value of real estate comes largely from the surrounding community and publicly funded investment, rather than the owner.

Domestic property is already advantaged over investment in businesses in that no capital gains tax is levied and because the imputed rent is not taxed whereas dividends are – despite investment in businesses being more sensitive to tax than the supply of land/housing. The IFS [Mirrlees Review](#) suggests that a tax system that tried to be non-distortionary would levy a VAT equivalent on homes of around 1% of value each year; as well as income tax and NICs on the imputed rent – meaning perhaps another 2% of value; in addition to taxing some capital gains; and perhaps even *in addition to* a land value tax. So, if anything, property taxes should be *higher* than they are at present. Any reduction in council tax would weight the tax system even further in favour of domestic property, further damaging growth and perhaps further increasing the volatility of both house prices and tax revenues.

The main other impact of reducing property taxation would be a huge windfall for current property owners as house prices and rents increased to match the fall in council tax. When rates were replaced with the poll tax, the IFS [estimates](#) "that the reform could have increased house prices by around 15 per cent and contributed substantially to house price inflation."

It would be very interesting to see a system of land value taxation introduced, or a two-tier system with one rate for residential buildings and a higher rate for the land it sits on (as is done in some US cities). But, as the IFS [says](#), "there is a strong case for taxing [residential] buildings as well as land. So there is obvious merit in avoiding the considerable additional complexity associated with valuing and taxing residential land and buildings separately."

2) Make council tax proportional to property value

However, council tax should be reformed with an explicit goal that tax should be proportional, as far as possible, to the value of the property. This should be the case whether the tax is based on the entire value or only the land, and whether banding is used or not. Anthony Atkinson ('Inequality', 2015) says the proportion (for the UK as a whole) would be around 0.5-0.6% of property value each year if revenue neutrality were the goal. At present, those in the lowest value housing pay a considerably higher rate than this, while those in the most expensive pay considerably less. As Paul Johnson [says](#), "We

wouldn't charge a lower rate of VAT on a Ferrari than on a Nissan." So why do we have a deliberately regressive tax for property?

Ireland has introduced a proportional system. The [Local Property Tax](#) is paid at 0.18% of value each year, but with properties worth less than €1m divided into 19 bands. The excess value above €1m is taxed at 0.25%, and this progressivity is another option to consider. Their system also allows for some local variation. Many (or even most) other Western European countries also have property taxes based on a proportion (0-1% per year) of property value – see the Netherlands and Norway for example. If they can manage it, why can't Scotland?

While I think it would be best to redesign the council tax system from scratch, a more limited reform would add some new bands (or the Irish system) at the top, but also crucially add new bands at the bottom to ensure council tax becomes less like a poll tax.

As well as a fair redistribution of tax burden, moving to a proportional tax would be expected to lead to a reduction in wealth inequality as property prices adjusted (as mentioned above).

3) Revalue regularly

Property values are now a quarter of a century out of date. This is particularly absurd for properties that didn't even exist in 1991.

We need to move to regular revaluations and this needs to somehow be insitutionalised and depoliticised, perhaps requiring an independent body and an inflexible schedule of revaluations. If full revaluations were not as often as annual, values should at least be uprated with regional property price changes each year.

Regular revaluations have the added bonuses of helping to dampen property price volatility, provide valuable information to homeowners (unlike the current 1991 values), and mean that property value uplift from government investment is better captured – while loss of value is better compensated.

4) Allow deferred payment or similar

There are concerns that property taxes are not linked to ability to pay. In part, this should be addressed by the Council Tax Reduction system and the broader tax and benefit system, and would nonetheless be helped by a more proportional council tax. But those who are "asset rich but cash poor", an alternative means of payment may be appropriate.

Those who are "asset rich but cash poor" are still "rich" – and it's those who are asset poor and cash poor (and particularly households with children) that we should be most concerned about. But given the lack of a well-functioning and popular equity release market, government could allow some sort of deferred council tax payment that would in effect provide a means of equity release.

5) Consider taxing owners rather than occupants

The Commission should consider levying the property tax on property owners rather than occupants. Please consider that the number of the former may be considerably smaller than the latter, with commensurate administrative savings for government (and the justice system). Tenants would also have their time saved and stress reduced - and such a system may be more popular. Economically, the incidence of the tax may be unchanged beyond the short-term.

This might necessitate or facilitate simplifying the system in other ways (that should be considered in any case): for example ending the single person's discount. The disadvantage that single persons face could better be reflected in the rest of the tax and benefit system, while encouraging the efficient allocation of scarce property.

Similarly, landlords (if not owner occupants) could be taxed on empty properties indifferently from if they were occupied. And the Commission could consider taking this further and taxing land with planning permission as if the homes were already built.

2. 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?

Do you have any examples of why this is the case?

Please provide your response here

3. 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?

Do you have any ideas or examples about how this could improve people's lives?

Please provide your response here

4. FURTHER INFORMATION

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

Please provide your response here

Thank you for your submission. If you have any queries about the Call for Evidence please contact us at: