Submission to Scottish Local Tax Commission by Ed Randall (member of Professional Land Reform Group, which is affiliated to the Coalition for Economic Justice)

This submission is organised under three headings: Opportunity, Relevance and Need for Radicalism, and Response to the Commission's Questions and Objectives

OPPORTUNITY

The case for a radical recasting of taxation in Scotland has never been stronger and the environment (in Scotland) for planning and implementing change more favourable. And, because there is no real rival - in public policy terms - to making the most effective use of a government's ability to shape its own tax system, tax policy has become the fulcrum for real and lasting change in Scotland.

Tax reform can transform the relationship between elected representatives and citizens, central and local government, the public and the private sectors, and do more than anything else – which lies within the power of government - to ensure that sound foundations are laid for economic and social progress.

How a government raises the money it needs doesn't simply concern its ability to organise and pay for public services, it powerfully shapes the way in which the national economy works. When the Scottish Government invited a panel of experts to consider how it could use control over taxation to enhance the economic prospects of Scotland *the Fiscal Commission Working Group* responded by submitting a report entitled '*Principles for a Modern Efficient Tax System in an Independent Scotland*'. The principles agreed and set out in the report were the work of an outstanding panel of independent experts, including James Mirlees and Joseph Stiglitz. The Working Group's analysis and recommendations came with great authority and were presented with admirable clarity. They should be a great resource as well as a source of inspiration and encouragement to all those contributing to the work of *The Commission on Local Tax Reform*.

Because of the work of the *Fiscal Commission* - and the mandate given to the *Commission on Local Tax Reform* - Scotland now has a very special and quite possibly unrepeatable opportunity to reshape its tax system. The Commission can advocate tax reforms that not only help Scotland to raise public revenues more fairly and efficiently but - when it comes to improving the prospects of the Scottish economy - much more beneficially and productively.

While Scotland did not choose independence, in September 2014, it did signal - as it had before (and has done since - most strikingly at the 2015 General Election), a great determination to take and to exercise much greater control over its economy and national future. That determination clearly embraces, for the Scottish Government and the majority of Scots, what happens in both the public and the private spheres.

The Commission has a great responsibility to do everything within its power to ensure that Scotland makes the most of the opportunity that is now available to fashion a tax system that not only supports improvements in local government but also in the performance of the Scottish economy.

The desire for increased devolution and greater fiscal autonomy is likely to be frustrated if the local government tax reforms being considered by the Commission are viewed in isolation from tax policy generally and the prospects for the Scottish economy as a whole. The Commission on Local Tax Reform has an unprecedented opportunity to initiate a process of change in local taxation and local governance that has a major impact well beyond local government. That is because the choices made about how to meet and share the cost of providing local services more fairly will have a great impact on the fiscal environment for employment and business in Scotland. The tax reforms the Commission recommends can and should enable Scotland to strike out in a radical new direction with the national economy very much in mind.

That new direction requires a **tax shift**, one that is concerned not just with raising public revenues more efficiently and fairly but also minimising the adverse impact that taxes levied in Scotland have on economic opportunities and performance throughout Scotland.

The opportunity to undertake radical tax reform in Scotland is not just an opportunity for Scotland. UK tax policy has consistently favoured rent-seeking and rent-seekers over producers and investors. Scotland has the opportunity to provide practical and intellectual leadership for a process of tax reform that shifts the balance in tax policy so that the mix of taxes in Scotland does much more to encourage support those who are most likely to expand economic opportunities. It is for that reason that Scottish tax reform should be viewed as an opportunity to empower and inform both public and policy makers throughout the European Union; it can focus attention on what is possible both economically and politically when taxes on producers are reduced and those on rentiers are increased.

Because of the scale of the revenues needed to support local services local tax reform, in any part of the European Union, but most especially in smaller member states, isn't simply a matter of funding local services more equitably or efficiently, it is also an opportunity to rebalance economic rewards and incentives; an opportunity to shift taxes from those who labour and invest onto those with the largest unearned incomes and wealth derived solely from property ownership.

From this perspective the opportunity that Scottish policy makers and their advisers now have, to fashion and advance a clear rationale for tax reform, can be viewed as a great. It is a responsibility to formulate and implement changes to Scotland's taxes that can help to show what states, both large and small, can achieve by adopting tax reforms that combine the pursuit of equity with the promotion of economic opportunity.

RELEVANCE and NEED FOR RADICALISM

Leading voices, in the academy and well beyond, most especially in the independent and thoughtful press, could not be clearer. Whether it is in the pages of The Economist magazine of the Financial Times, or in reports that the Scottish Government itself has commissioned, the urgency and importance of tax reform has been explained and re-emphasised. In a leading article published in the Financial Times in April this year the FT argued that:

> “[The] UK's weak productivity invites a bolder response… Had Britain kept to its pre-crisis trend, output per worker would be 15 per cent higher than it is. Productivity matters more for the country's fiscal health than any of the parties' flimsy electoral vows… The last great step-change in UK productivity followed the radical deregulations of the 1980s, and took far more courage. Now that capital and labour are deregulated to a sensible degree, the challenge that remains is the dysfunctional market for land.
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> “Here, artificial scarcity acts as a tax on all enterprise, and drives up the price of a home (which indirectly raises wages). It also slows down the delivery of better infrastructure. To address this, measures would be needed: land value taxation, the greenbelt policy revisited, even more compulsory purchase of land. Delivering these would prove just as fraught as when David Lloyd George and Winston Churchill tried to take on landed interests a century ago. But decades of stagnant growth are a much worse prospect.”

The great challenges facing Scotland (and its partners in Europe and further afield) are challenges which tax reformers are particularly – perhaps uniquely - well placed to address.

Joseph Stiglitz has made the case for tax reform in his academic work and helped to make it in ‘Principles for a Modern Efficient Tax System in an Independent Scotland’, which he and his fellow *Working Party* members presented directly to the Scottish Government.

Without tax reform it will not be possible to:

(a) Combat mounting social and economic inequality;

(b) address ecological imperatives, especially climate change;

(c) make the most of deploying digital resources intelligently and effectively to levy and collect fairer taxes at the same time as making taxes more efficient and economically effective; and

(d) fashion a tax system that is equipped to promote sustainable economic development at the same time as it promotes national prosperity and economic opportunity.

The taxes and taxation policies Scotland has been bequeathed by central government in the United Kingdom are not fit for purposes. They are complicated, endlessly avoidable and regularly and routinely evaded by those with the greatest wealth and the highest incomes. As a result they are profoundly unfair and widely and entirely reasonably perceived as such.

Without radical reform the UK tax system - which entrenches and exacerbates inequalities, economic and social, and adds hugely to deadweight costs – will frustrate those parts of the Scottish economy that need to develop most rapidly if Scotland is to enjoy the fruits of its own labour and investment. The Commission has it within its power to make recommendations that substantially lessen the impact of UK taxes and the UK tax structure on the Scottish economy.

In a personal submission to the Commission Mark Wadsworth has outlined a plan for a **tax shift** that is available to the Scottish Government. It isn’t necessary to agree with every detail of Mark Wadsworth’s reform proposal in order to agree that the core features of his scheme, designed to radically reduce income tax in Scotland and shift taxation on earned incomes onto unearned location values, are economically and socially desirable, and practical as well as administratively manageable.

Mark Wadsworth's proposal (and the supporting analysis) represents just one example of a number of **tax shift** proposals that are now in the public domain and open to detailed examination and interrogation by the Commission.

One of the Commission's members, Andy Wightman, is the author/joint of a number of reports which broadly agree with Mark Wadsworth's calculations and analysis. Mark Wadsworth's submission and reports produced by others set out the scale of unearned location values, which attach to properties in Scotland and elsewhere in the United Kingdom. Mark Wadsworth, Andy Wightman, Ronan Lyons and others have also presented the methodologies that can be employed and developed to ascertain changes in location values. For this reason it is possible to assert with confidence that unearned increments to income and wealth dependent on location could easily and inexpensively be identified and utilised as the base for a charge or tax, which would make it possible to begin a long overdue process of rebalancing taxation in Scotland.

There is no good reason to doubt – as Mark Wadsworth and others have argued – that it would be relatively easy and inexpensive for tax authorities in Scotland (and elsewhere in the United Kingdom) to maintain and regularly update location value data and use it to set and collect a location benefit charge (LBC) or location value tax (LVT). The **tax shift** that Wadsworth and others have outlined would provide the means to replace or diminish economically damaging and inefficient forms of taxation with revenues, for local government in Scotland, that would not only share the costs of supporting local government more fairly but also make it possible to greatly reduce tax burdens on those who are or could be most economically active and productive.

The Commission should carefully consider Mark Wadsworth's proposals, give him the opportunity to respond to any criticisms and invite him to develop, with others where appropriate, his scheme for LVT.

RESPONSE TO COMMISSION'S QUESTIONS and OBJECTIVES

So turning to the questions the Commission itself has posed to any organisations or persons making / thinking of making a submission, and addressing them and as succinctly and directly as possible:

i. Is Scotland's current system of Council Tax fair and effective?

    It is unnecessary to rehash arguments and evidence of which the Commission is undoubtedly well aware. Suffice it to say that it is beyond dispute that the current Council Tax system is highly regressive and has become increasingly detached from property valuations. Given the failure to revalue residential property in the UK the continued use of valuations from 1991 is an affront to Scottish taxpayers (and to UK taxpayers in general) and should be a source of deep embarrassment to public policy makers and officials.

ii. Are there alternatives and what are the main features of arrangements that would deliver improvement?

There are alternatives and the most attractive alternative is to replace the current Council Tax system with a Location Benefit Charge (LBC). While others employ different language, and refer to LBC as a land or location value tax (LVT), it is not strictly speaking a tax but a charge based on the value of particular locations, occupied and owned for private residential and business use. LBC would reflect benefits and advantages that are created by the community as a whole or arise from the natural environment; in other words from attributes which private individuals and corporate entities cannot reasonably claim to be of their making.

Given the Commission's terms of reference it is important to acknowledge that the adoption of LVT/LBC, in place of Council Tax, would require the Commission and the Scottish Government to review and amend the Commission's current terms of reference; terms of reference which limit its work to an examination of alternatives to CT/domestic rating and call on it to put non-domestic/business rates to one side.

In order to deliver the economic and other benefits of an LBC alternative to the current domestic and business rating system it is necessary to bring the measurement of location values/benefits into a common scheme that simplifies tax/charge collection administration and that makes it possible harmonises the collection of revenues for local government across Scotland.

iii. How well are local priorities taken into account in current taxation/is there room for improvement?

Local priorities, not just in Scotland but across the UK, are not the principal driver of the current Council Tax system or the NNDR system. That is because UK tax policy treats local authorities as untrustworthy subordinates and elevates the decisions of the national Exchequer/central tax authority so that they are treated as paramount. This is rooted in a misguided and damaging approach to macroeconomic policy and an enduring attachment to political and administrative centralisation.

Any arrangements in which local government revenues are (a) more predictable and (b) no longer subject to the whims and edicts of central or national authorities, would be a considerable improvement on current arrangements from a democratic point of view.

In the course of time a local tax mechanism that was dependent on location values that truly reflected local decision making and priorities could reasonably be expected to considerably enhance and reward local elected bodies that made a success of managing and improving their local services and their local business environment.

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