

ERS Submission to the Commission on Local Taxation

There is a lot to be said about tax, but we must leave most of that to others. The Electoral Reform Society (ERS) has a limited remit to discuss the detail of tax systems, important as they are. We would like the commission to think about tax beyond just a means of raising money to pay for things the state might do. We would encourage you to think of it broadly, as a powerful tool that has the ability to impact upon activity and behaviour that might make our localities more or less democratic or politically equal. The ERS is interested in making democracy work better. Democracy should be about equalising power amongst citizens. This is often termed political equality, the more political equality we have, the better a democracy we are. Pursuing this goal is often about political structures and constitutional arrangements but it also concerns many other processes and functions of the state. The state can really only legitimately act if it does so in the public interest. This is the consent granted by the people. How and why we are taxed is arguably the most fundamental of those actions. It is perhaps why the slogan 'no taxation without representation' is so resonant. While we don't expect outright public support for taxation the public should have a high level of confidence in the system if it is to maintain democratic legitimacy. They must be confident that it is done in their interests and the interests of their community. That confidence, we suggest, is best arrived at by fulfilling some key principles.

Tax must be fair

Levels of tax should equate to ability to pay. Ability to pay is a consequence of culmination of wealth or otherwise through exploitation of natural and state resources and inherited wealth or attributes. It can only be fair that those who have benefitted most contribute more.

Tax must have a balancing effect

Our current economic system drives inequality.¹ This not only causes all sorts of social problems and anxieties, but also undermines democracy as it has an impact on political equality. Wealth and status confer power through a range of mechanisms. Ideally this would be transformed so that the economic forces that create inequality are redirected. Such a transformation relies on a range of policy changes as well as a different tax system to incentivise positive activities i.e. productive and/or pro social activity, and discourages rent seeking unproductive economic activity and/or anti-social activity. It may be that some productive activity and pro social activity also drives inequality, although this is contested, in which case another function of taxation should be redistribution.

Tax must be Transparent & Accountable

The tax system should be simple and easily understood. Opaque and complicated mechanisms mean that people find it difficult to follow the logic in the system and distrust it. People need to know and understand

- Who is setting the tax and deciding how it is spent
- why taxes are being raised and the argument for that particular form
- what is the mechanism for calculating who pays what
- Local Connection - How the revenue raised in a place is spent effectively for the benefit of that community

The Current System of Local Taxation

The Council Tax judged by these principles is not a good tax. While it is ostensibly an asset tax/property tax, its link to outdated valuations obscures this. It has been proven to have little

impact on speculation and asset bubbles and it is hard to think of any sort of productive activity it encourages. Council tax raises only a very small part of the local authority spend and local councillors have little power to vary it meaning there is very limited transparency and accountability.

The Link between Taxation and Democracy

All of the elements above demonstrate the interdependency between good taxation and good democracy. If we allow citizens' ideas and concerns to feed into the design of a tax system then both policy makers and citizens will understand each other's concerns more fully. The tax system will better meet the needs of the public and the public will be less resistant to reform and payment of tax. There is evidence from studies of participative budgeting and from other innovations in devolved decision making that tax collection improves when citizens have more involvement in their localities governance.ⁱⁱ This is perhaps the best metric of a population's confidence in any system of taxation.

Conclusion

Therefore, whilst ERS would not make any specific recommendations as to the method of local taxation we would suggest that **the Commission seek to undertake wide participatory discussion with citizens as part of the process of consultation**. Ideally this should include evidence sessions and deliberative discussions between citizens. We would highlight the recent Irish Constitutional Convention as an example of this sort of process.

We would also suggest **a substantial public information programme** be included as part of any new taxation system in order that citizens are fully informed as to the reasons for reform, the mechanics of the new system, and the services their taxes are funding.

ⁱ Piketty T, Capital in the 21st Century , Harvard University Press , Harvard 2014

ⁱⁱ <http://publications.iadb.org/bitstream/handle/11319/6699/Does-Participatory-Budgeting-Improve-Decentralized-Public-Service-Delivery.pdf?sequence=1>