

## **Written Evidence to Commission on Local Tax Reform**

Submission from Green Group of councillors in Edinburgh

### **Introduction**

The pressure on public finances both in Scotland and across the rest of the United Kingdom in the aftermath of the financial crisis is well documented. These financial constraints have been felt particularly keenly by local government. Currently local councils raise less than 25% of their own income, whereas elsewhere in Europe councils comparable to those in Scotland raise 50–60% of their own income<sup>1</sup>.

By 2015-16 the City Council's combined income from government grant and council tax has fallen by almost 20% in real terms since 2010-11.

Despite the best efforts of local authorities across Scotland, this has had a significant impact on the quality and provision of frontline services and infrastructure<sup>2</sup>. In order to effectively overcome these substantial challenges it is paramount that local authorities are able to improve their tax yields.

Doing so will allow local authorities to better fund local services and take the redistributive action necessary to make Scotland a more fair and equal society. The best way of achieving this outcome is to abolish the council tax and replace it with a new local tax that provides local government with autonomy, accountability and flexibility in its finances.

### **Current Council Tax Regime**

In our view any reform of local tax policy should begin with the complete abolition of the unpopular Council Tax.

The regressive nature of Council Tax means that it accounts for a larger proportion of household income for those on low and middle incomes than for those on high incomes. Furthermore Council Tax distorts markets by creating disincentives for home improvement and is based on outdated information as a result of bands last being valued in 1991.

---

<sup>1</sup> The Commission on Strengthening Local Democracy 2014

<sup>2</sup> BBC News, 12.02.15

## **A Different Approach**

We instead propose that domestic property be subject to taxation on the grounds that it is a form of consumption (of housing services) and that housing wealth is unearned income and not currently subject to capital gains tax.

Two influential studies into British tax reform, the Mirrlees Review and Burt Review, have argued in favour of housing being treated as a form of consumption when it comes to taxation.

*“in the UK context, council tax should be reformed so that it more closely resembles a genuine tax on the consumption value of housing.”* Mirrlees Review p.369<sup>3</sup>

*“Encouraging over-consumption of housing by leaving it as one of the few wholly untaxed items of consumption is probably not desirable”* Burt Review p.76<sup>4</sup>

Neglecting to tackle the problem of capital accumulation in the form of housing is dangerous. Economists such as Thomas Piketty argue that failure to tackle unearned wealth from housing is one of the driving forces behind widening inequality across the globe.

## **Land Value Tax**

The centrepiece of any plans to replace the Council Tax should involve the implementation of Land Value Taxation (LVT) as outlined in our report on the issue.<sup>5</sup>

We - like its fast growing number of supporters from across the political spectrum such as Common Weal, The Labour Land Campaign etc - see many economic benefits to LVT. For instance LVT brings stabilisation benefits by deterring speculative land holding, which can cause asset bubbles. In curbing such practices it is arguable that LVT will reduce urban sprawl and help regenerate our dilapidated and underused town centres. Furthermore under LVT only land value is subject to taxation, thus removing the disincentive for home improvement currently present under Council Tax.

---

<sup>3</sup> Mirrlees Review, *Tax by Design*, James Mirrlees, 2011.

<sup>4</sup> Burt Review, *A fairer way; report by the local government finance review committee*, 2006.

<sup>5</sup> <https://www.scottishgreens.org.uk/news/land-value-tax-research-values-scottish/>

Amongst its many economic benefits LVT would also be an effective tool in tackling inequality in our society by reducing the influence of unearned income from housing and creating a more equitable tax system.

We recognise that any reforms to local government taxation should fulfil the objective of being easily understood by the general public and call for the commission to ensure that any new tax is transparent and easily understood by the general public. While we believe there are many benefits to LVT, we accept that there are some conceptual difficulties in the minds of the public over LVT and other forms of new taxation.

### **Transition towards LVT**

As part of the transition towards LVT we believe that a new split value transitional Property Tax should be implemented.

The current system of Council Tax is based on property values however the new split value Property Tax we propose would differ in several ways. We favour the development of an ad valorem valuation of individual properties to underpin any new Property Tax with regular (at least 2 yearly) revaluations which are binding in statute. In implementing such changes the new Property Tax would overcome the problems of outdated valuations that have undermined the Council Tax. Furthermore these valuations should be split as to the land and improvements components (Denmark does this as do other European countries) and this information should be provided on bills. In this way, understanding can be improved in relation to property tax and, in future, legislation can be enacted to allow for the levying of a split tax.

One of the main arguments against a tax based on land value is that the 'asset rich, cash poor' such as pensioners are hit hardest. To address this issue of differing needs we would advocate:

A means of removing from the tax base as many properties and/or households who would otherwise be eligible for council tax reduction or other social security payments designed to mitigate their property tax liability. This would simplify administration and remove a source of worry and concern to many low income households.

A deferment scheme for owners of domestic property who are not in a position to pay an annual tax. This allows those individuals to charge their estate if they are unable to pay, safeguarding them from having to move against their will. The amount due will be paid when a house is sold or transferred. We believe that this deferment scheme is a reasonable means of tackling one of the perceived major barriers to adopting LVT.

In the event that a transitional Property Tax is implemented, it is also important that local authorities retain significant freedom and flexibility in their power to alter the parameters by which tax is collected (band, thresholds, rates etc).

### **Widening Local Taxation Powers**

In place of the Council Tax, local authorities should gain power over a new basket of taxes with the aim that they will provide up to 50% of their funding and allow them to raise appropriate local taxes within prescribed limits.

#### **1. NDR**

One area in which local authorities should gain new power is in retaining the proceeds of non-domestic rates.

#### **2. Visitor Levy**

Local authorities should gain the power to implement a visitor levy that could help authorities benefit financially from their investment in tourism and cultural events that attract visitors.

#### **3. Private Workplace Car Parking Levy**

Local authorities should be granted the power to create a levy on private workplace car parking for companies with 11 or more parking spaces, along the lines of the City of Nottingham's current scheme. Charging around £1.50 per space per working day will allow for revenue to invest in city-wide transport schemes, as well as reducing pressure on congestion and city space.

#### **4. Supermarket Levy**

Currently in Northern Ireland local authorities have the power to introduce a local levy of 8.5% of the rate on large retail outlets in their area with a rateable annual value not less than £500,000; with the proviso that the revenue from this levy be used to improve local communities in their areas by promoting local economic activity, local services and facilities, social and community wellbeing and environmental protection. We propose that this power also be devolved to Scottish local authorities.

#### **Summary**

It is clear that local government funding is in desperate need of reform. The current system based around block grants from central government supplemented by Council Tax is no longer fit for purpose. In our view the commission should recommend that local authorities gain the power to raise up to 50% of their funding from local sources. This revenue could be raised with a basket of local taxes that provide local authorities with autonomy, accountability and flexibility over their finances. It is our view that the centrepiece of these new local taxes would be the creation of a LVT. However we recognise the initial challenges of creating LVT. As a step in the direction of eventually implementing LVT, we recommend allowing local authorities to implement a split value Property Tax as detailed above.