Submission – Commission on Local Taxation

Contents

Section 1: Note from the Author

- The evidence provided below is designed to be a thumbnail analysis of some of the key issues concerning local taxation and some possible solutions to them.
- The evidence provided below is my own and in no way reflects the views of any employer, political party or public body.
- The following is not designed to be a comprehensive analysis of every facet of local taxation but merely an introduction as the overall issues concerning local taxation with some person reflections.
- The statistical evidence provided within this paper is all publically available primarily from Scottish Government sources, with the exception of 2014 property prices which have been purchased from the Registers of Scotland.
- Property prices from the entirety of Scotland have been extrapolated from this data and as a result a number of the estimations are open to challenge.
- The figures do, however, provide a level of support for the assertions made about the major issues concerning the current system of Council Tax and the overall need for reform.

Section 2: Context for Local Taxation

- According to the current Scottish Government budget estimates for 2015-2016, Council Tax will raise only 16.9% of the total £11.877 billion of Local Authority spending, with General Revenue Funding and Non-Domestic business Rates accounting for 59.1% and 24% respectively.[1]
- For years it has been noted both by COSLA[2], the current Scottish Government[3], and by various UK administrations at large[4], that local government funding in Scotland and throughout Britain compares poorly with other Europeans nations with regards the ratio to locally raised and nationally raised tax rates. The target of 50:50 locally to nationally raised taxes has been highlighted as an aspiration to be achieved. This will not be possible without a significant overhaul in the structure of local taxation in the UK.
- The Scottish Government, amongst others, have highlighted the Swedish model of tax collection as an exemplar which could be followed,[5] specifically in reference to their high rates of return. The fact that Sweden raises over 70% of its local government expenditure via locally raised taxes, accounting for over 16% of its total tax take, is often highlighted as a triumph for local authority autonomy. The structure places the local authority tax collectors ahead of the national authority revenue, meaning that money is hypothecated upwards rather than downwards, thus empowering local administrators to make responsible decisions over taxing and spending.
- For such a change to take place in Scotland, or indeed in the UK, there would need to be a sea-change in the relationship between local and national authorities as well as a significant shift in the manner in which local authorities are perceived by the public at large.
- The one, however, necessities the other; until local authorities have real autonomy over taxing and spending they will not be in a position to make decisions that are likely to engender public confidence in them increasing their tax raising powers, yet no significant increase in local authority tax-raising autonomy can be justified without such popular support.
- In recent years local councillors have had very little control over the manner in which they raise local funds, they have merely become administrators over how funds are spent, a task which is made more difficult by the so-called council tax freeze, resulting in many authorities struggling merely to provide their core public services at the lowest total cost and without any significant surplus for projects requiring specific long term investment.
- This has naturally had an impact in the public perception of just how democratic local authorities are and the extent to which elected local officials are sufficiently capable and equipped to making decisions for the benefit of their electorate. A problem which sat at the heart of the work of the Commission on Strengthening Local Democracy.[6]
- The Commission on Local Tax Reform has rejected such root and branch reform, somewhat understandably given the dual constraints of both maintaining a structure which does not encroach upon the reserved powers of Westminster one which does not result in localised

[1] http://www.gov.scot/Resource/0047/00477389.pdf
[2] http://www.scottish.parliament.uk/S4_PublicAuditCommittee/COSLA_TP.pdf
[3] http://www.gov.scot/resource/0043/00434977.pdf
[4] http://www.publications.parliament.uk/pa/cm200809/cmselect/cmcomloc/33/33i.pdf
[5] http://www.gov.scot/resource/0043/00434977.pdf
[6] http://www.localdemocracy.info/wp-content/uploads/2014/08/Final-Report-August-2014.pdf

VAT rates which could result in a direct or indirect or indirect effect on cross-border trade and thus violate EU legislation.[7]

- The Commission's decision to focus exclusively on Domestic Council Tax rather than Non-domestic Business Rates, has further limited the potential for radical root and branch reform.
- Whilst the inclusion of Non-domestic rates would have had a significant broadening effect on the overall work of the commission by restricting the commissions remit, the goal of a 50:50 relationship between locally raised and nationally raised taxes is unlikely to be achieved without its inclusion.
- Even if local authorities gain greater autonomy over the rate of any future domestic tax it is unlikely that they will be able to significantly raise the level of receipts beyond its current total of £1,941,000,000[8]. As a result local authorities will be capable of amending at most 20% of their income, and even substantially radical policies will have a limited impact on actual budgets as a result of such gearing.
- Given these constraints the scope of the Commission to reform the nature and system of local taxation is limited primarily to charges, taxes on income and taxes on property as opposed to taxes on consumption.
- Whilst the role of charges is not to be underestimated and indeed will naturally be increased in the absence of other areas of funding, it is primarily the relationship between property and income tax which resides at the heart of the debate over local taxation.
- Consequently the major policy options open towards the Commission are:

1. Reforming the current system based on notional 'property' values.
2. Introducing a system based on notional 'land' values, divorced from the rental values of the buildings on the land, otherwise known as a Land Value Tax (LVT).
3. Introducing a Local Income Tax (LIT) or amending the rates of the devolved Scottish Rate of Income Tax (SRIT) to replace Council Tax.
4. Reintroducing a flat service charge.
5. Some form of hybrid between all or some of the options above.

- Each of these systems is places an emphasis on a different principle of taxation; a flat charge priorities equality – an equal charge for an equal access to service, LIT priorities an individual's ability to pay over all other factors, LVT emphasises the relationship between the effect that local services and infrastructure improvements have on property prices and the consequential obligation that residents have to reimburse society.
- Much of following debate, particularly regarding property based taxation, is primarily concerned with the fairness of the tax system with regards owner-occupiers and those on long-term leases rather than those who rent accommodation on a short-term basis. This is largely because the key problem for property based taxes is their ability to trap individuals into making larger payments following revaluations, a problem which is less acute in the short-term rental market as consumers have the opportunity to move more easily to avoid their tax liability should the issue be of a burning concern.

[7] Lewis Abbott, 'British Democracy: Its Restoration and Extension', (Industrial Systems: Manchester), 2013, p. 2010
[8] http://www.gov.scot/Resource/0047/00472877.pdf

- With regard to option 4, such a policy option would be strongly reminiscent of the Community Charge introduced to Scotland in 1989 and commonly referred to as the 'Poll Tax'.
- The popular reaction in Scotland to this system was nothing short of revulsion given its highly regressive nature, charging all local residents equally regardless of their ability to pay.[9]
- Whilst there may be some merits in a service charge it is extremely unlikely that such a system could be reintroduced in its purest form and would most likely require tempering by elements of the other policy options.
- The following three chapters will be a brief analysis of the other three policy options, namely a reform to the current system of Council Tax, the introduction of a LVT and the introduction of a LIT, with the final chapter attempting to synthesis some of the principles of these taxes into one compromise option.
- In analysing the advantages and disadvantages of these options the focus will be on justifying the reforms in accordance with the fundamental principles of tax design as espoused by Adam Smith, referenced by the 2010 Mirrlees Review and highlighted as being necessary by the both Professor David Bell and the Commission as whole as part of its remit.[10]
- In practice this will require a tax which is as consistent and limited as possible and which closely reflects the individual's ability to pay in a manner not too removed from the purpose for which the tax is levied.[11]
- The following analysis will also have a prejudice in favour of greater rather than less local autonomy primarily for the reasons set out above, namely that without a significant devolution in the powers provided to local councillors their role is reduced to merely administering a reduced budget imposed from central government rather than making genuine political choices regarding the raising or lowering of taxes to pay for a higher or lower level of local government spend.
- To quote both the present and previous First Ministers, the reason that local authorities should be empowered to get their "*hands on the range of levers of power that allow* [them] *to grow* [their] *economy and allow* [them] *to tackle some of the deep-seated inequalities that exist*"[12] in their region because "*no one will do a better job of running* [a local authority in] *Scotland than the people who live and work in* [that local authority in] *Scotland*"[13].

[9] http://www.snp.org/media-centre/news/2015/feb/poll-tax-consigned-history-parliament-vote
[10] http://localtaxcommission.scot/wp-content/uploads/Fundamentals-of-tax-design.pdf
[11] http://www.ifs.org.uk/uploads/mirrleesreview/dimensions/ch1.pdf
[12] http://www.scotsman.com/news/politics/top-stories/nicola-sturgeon-accused-over-tartan-tax-1-3620524
[13] http://www.bbc.co.uk/news/uk-scotland-28649354

Section 3: Context of Council Tax Reduction

- Council Tax Reduction (CTR) was also introduced from 1 April 2013 to replace Council Tax Benefit (CTB), which has been abolished by the UK Government as part of its welfare reform programme.
- Responsibility for assisting those who need help to pay their Council Tax in Scotland now sits with the Scottish Government and Scottish Local Authorities. In line with this transfer of responsibility, and to fund the new arrangements, the UK Government has added the total amount of CTB payments in Scotland, less 10%, to the Scottish budget.
- The Scottish Government in conjunction with the Convention of Local Authorities in Scotland (COSLA) have chosen not to pass this 10% cut onto tax payers, but have opted to protect all those who previously received CTB but contributing additional funding which for the transitional year of 2013-2014 at a cost of approximately £40m.
- CTR works by comparing the amount of income a person has with the amount that a person needs to live on (their 'applicable amount'). If their income is less than the applicable amount, they may be entitled to a reduction of 100%.
- If their income is above the applicable amount, entitlement to CTR is reduced by 20p for every £1 of income above the applicable amount.
- There are three key elements needed to calculate how much Council Tax Reduction an applicant may be entitled to:

    1. Their total Council Tax due (net of the contributions others in the household might be expected to make – so called "non-dependant deductions");
    2. Their income and capital; and
    3. Their 'applicable amount', which is the sum representing the needs of the applicant and their family (which varies depending on whether the applicant is single or lives with dependents, whether they have children, a disability, caring commitments, etc).

- A rough calculation would therefore be the weekly eligible Council Tax minus any allowance/deduction for others in the household who should contribute towards that tax liability or "non-dependant deduction" minus 20% of [(income) minus (living expenses or "applicable amount")] equals weekly entitlement to Council Tax Reduction.
- This current system of Council Tax Reduction is a necessary safeguard for ensuring that those who are unable to afford their Council Tax bill are protected from paying disproportionately high bills, yet the proportionally higher rates for lower bands can cause potential problems.
- Individuals that are "passported" into CTR, by virtue of receiving other benefits including job-seekers allowance, are automatically protected from a high Council Tax bill. Individuals that do not automatically qualify, on the other hand, are required to make separate applications; a process that is not always completed.
- Of those that may qualify for CTR but do not make use of the facility, some find that they are incapable of paying their full bill and so do not make payment at all.
- This both reduces the Council's overall tax take and costs the Council in collection fees.
- The primary solution is to ensure that the system of CTR enrolment is as accessible and, in as many cases as possible, automatic, but a manageable level of Council Tax would encourage more individuals that might otherwise not pay to participate, as well as limiting the money the Central Government redistributes to Councils to fund CTR.
- The Scottish Government has also made clear its intention to continue to fund the 10% reduction in CTR funding passed on from Westminster via a combination of a £23 million

contribution from Holyrood with an expectation that local government will again contribute a further £17 million.

- It is worth noting at this junction that any devolution of tax raising powers would have a corresponding impact on CTR, should local authorities wish to raise, lower or indeed otherwise change their tax rate.
- Furthermore it is also acknowledging that the number of individuals claiming CTR differs depending on local authority.
- As demonstrated in the graph below for example Glasgow City receives approximately £72,927,000, via CTR which represents about 20% of Scotland's overall CTR bill despite representing only 11% of the total number of chargeable properties.
- A local income tax or a more progressive form of Council Tax could either reduce or indeed abolish the need for CTR, depending on its structuring, but the existence of some of CTR will be assumed for all the systems recommended below unless otherwise stated.

- The Council Tax Income per local authority in Scotland including the levels of Council Tax Reduction received for 2014:

Local Authority	Council Tax Income (excluding Council Tax Reduction)	Council Tax Reduction	Council Tax Income (including Council Tax Benefit)
Scotland	£1,947,014,000	£370,805,000	£2,317,819,000
Aberdeen City Council	£99,200,000	£10,492,000	£109,692,000
Aberdeenshire	£110,077,000	£8,171,000	£118,248,000
Angus	£40,204,000	£5,746,000	£45,950,000
Argyll & Bute	£41,248,000	£5,927,000	£47,175,000
Clackmannanshire	£17,415,000	£3,722,000	£21,137,000
Dumfries & Galloway	£53,869,000	£9,368,000	£63,237,000
Dundee City	£45,894,000	£13,242,000	£59,136,000
East Ayrshire	£39,070,000	£10,289,000	£49,359,000
East Dunbartonshire	£48,023,000	£4,831,000	£52,854,000
East Lothian	£40,758,000	£5,694,000	£46,452,000
East Renfrewshire	£40,353,000	£4,164,000	£44,517,000
Edinburgh, City of	£203,437,000	£28,657,000	£232,094,000
Eilean Siar	£8,786,000	£1,692,000	£10,478,000
Falkirk	£51,427,000	£8,982,000	£60,409,000
Fife	£129,630,000	£22,340,000	£151,970,000
Glasgow City	£179,079,000	£72,927,000	£252,006,000
Highland	£97,453,000	£13,288,000	£110,741,000
Inverclyde	£25,936,000	£7,217,000	£33,153,000
Midlothian	£32,468,000	£5,627,000	£38,095,000
Moray	£34,158,000	£4,121,000	£38,279,000
North Ayrshire	£46,011,000	£12,179,000	£58,190,000
North Lanarkshire	£98,016,000	£26,295,000	£124,311,000
Orkney Islands	£7,204,000	£880,000	£8,084,000
Perth & Kinross	£64,729,000	£7,101,000	£71,830,000
Renfrewshire	£62,758,000	£14,047,000	£76,805,000
Scottish Borders	£44,872,000	£5,945,000	£50,817,000
Shetland Islands	£8,111,000	£754,000	£8,865,000
South Ayrshire	£44,854,000	£9,089,000	£53,943,000
South Lanarkshire	£106,461,000	£22,818,000	£129,279,000
Stirling	£39,520,000	£4,834,000	£44,354,000
West Dunbartonshire	£27,912,000	£9,924,000	£37,836,000
West Lothian	£58,081,000	£10,442,000	£68,523,000

Section 4: Issues with, and recommendations for, a reformed Council Tax

- There are three major problems with the current system of Council Tax in Scotland:
  1. The regressive nature of the tax.
  2. The impact of a Council tax freeze.
  3. The lack of any up-dating in property values.
  Dealing with each in turn:

1. The regressive nature of the tax:

- Upon establishment in 1993, Council Tax was designed primarily to be a hybrid tax synthesising the flat-rate community charge with an element of gradation based on property values.
- The tax is levied on properties and is set at a different rate depending on which band the property falls into, between bands A-H. The fact that the tax is levied on occupiers rather than owners maintains the link between the actual resident and the services that this resident uses and which the tax is designed to fund.
- The tax itself does not identify each resident individually and is levied on each property under the assumption that there are two adult occupants, with a 25% reduction offered for single occupancy dwellings, but no additional charge for properties with 3 or more occupants.
- The bands were originally set by Westminster upon inception and have not been amended since despite the Scottish Government gaining control over the issue following the Scotland Act 1998. Nor has there been any amendment between the differential rates between the bands, which are currently based on a system of 9ths. Band A paying 6/9ths of the Band D rate and Band H paying 18/9ths as highlighted below:

Band	Value (£) (as at 1991)	Rate of Band D	Percentage of Band D	Number of Properties	Percentage of Properties	Average Bill
A	Up to 27,000	6/9	67%	511,399	21.06%	£769.83
B	27,001 - 35,000	7/9	78%	569,493	23.46%	£896.22
C	35,001 –45,000	8/9	89%	391,423	16.12%	£1,022.61
D	45,001 – 58,000	9/9	100%	321,376	13.24%	£1,149.00
E	58,001 – 80,000	11/9	122%	321,897	13.26%	£1,401.78
F	80,001 – 106,000	13/9	144%	182,545	7.52%	£1,654.56
G	106,001 – 212,000	15/9	167%	117,173	4.83%	£1,918.83
H	212,001 and over	18/9	200%	12,499	0.51%	£2,298.00

- Whilst the system of Council Tax reduction, discussed below, does redress to some extent the level of regression within the tax system, the system itself is still disproportionately advantageous to wealthier individuals. For example: For a household in band A with an income at the top of the fourth decile (approximately: £20,000 per annum) will pay a larger percentage of their wage in council tax (approximately 3-4%) than a household with a household in band H which would pay a lower percentage (approximately 2-3%) even if its occupants were only earning at the top of the seventh decile (approximately £70,000 per annum).

- In most circumstances Band F-H residents earn significantly more and therefore their council tax assumes an even lower percentage of their overall salary.
- In addition, whilst the existence of, and weighting between, the bands does temper the regressive nature of the tax far more successfully than the original community charge, as a mechanism the current property based tax also fails to distinguish between the size of a property and the ability of its occupants to pay.
- The so-called "asset-rich/cash-poor" problem is a significant one, particularly for pensioners that have no ability to increase their income to accommodate a rise in Council Tax.
- As such any rise in Council Tax can have the effect of placing pressure on the owner-occupiers of large properties to sell and move into smaller accommodation.
- From an economic point perspective such pressures are somewhat legitimate; a system which encourages downsizing from older individuals living in properties that are larger than they can now afford is potentially a useful tool to lubricate the housing market as it increase the supply of larger properties on the market suitable for young professionals and families.
- In practice, however, increased council tax bills do not encourage individuals to release the liquidity within their asset, particularly as in the vast majority of cases the family home is the primary investment of couple's lifetime. Couples that have paid a mortgage for the majority of their working lives are unlikely to be willing to move out as a result of council tax rises, and tax increases are more likely to cause 'economising' on fuel and food rather than precipitating a sale.
- Calculating the numbers of "asset-rich/cash-poor" households is a difficult task as it is naturally dependant on property size and circumstance; yet the relationship between property size and ability to pay, whilst not providing a direct correspondence, is not an entirely unsuitable method for assessing capacity to pay.
- Band H resident couples tend to have a weekly disposable income nearly 3 times higher than the mean household and throughout almost all age ranges the correlation between the size of a property owned and the level of weekly disposable income is strong.[14]
- It is also worth acknowledging that whilst single occupants of pensionable age within higher bands do pose a problem for any administration wishing to raise the rate of Council Tax, the scale of the problem is far less acute than that faced by single occupancy 16-34 year olds, often single parents, residing in band A-C accommodation.[15]
- This group is not only larger but also has a smaller level of weekly disposable income, and whilst their earning potential is higher than pensioner groups, the pressures of children and other outgoings can mean that a rise in Council Tax poses an even greater problem, and one which cannot be offset by the potential to downsize or indeed by relying on savings.
- As such it must be acknowledged that whilst the problem of the 'asset-rich/cash-poor' is real, any skewing of the system to accommodate their concerns could inadvertently benefit other higher band households that are perfectly capable of paying for a tax increase potentially at the expense of other residents of lower band households.[16]

[14] http://www2.warwick.ac.uk/fac/soc/ier/research/completed/ltwc/wp2.pdf
[15] Ibid
[16] http://www.jrf.org.uk/sites/files/jrf/1577-local-tax-benefits.pdf

2. The impact of the Council Tax Freeze:

- As highlighted above the impact of the Scottish Government's 'freeze' on any increase in Council tax since 2008 has been mixed.
- One the one hand it has resulted in lower Council tax bills for all Scottish households, including the very poorest.
- The SNP have naturally highlighted that cumulative savings of £495 for band D properties between 2011-2014 have benefited households throughout Scotland[17] and the IRRV has also highlighted that households in the bottom decile 'saved' £83 in 2014/2015 as a result of the freeze compared with if Council Tax had risen in line with the years prior to the freeze.
- When comparing the tax rate to property value or indeed average income it is natural that any flat freeze, particularly one lasting so long, will have a greater beneficial effect on households in the higher Council Tax Bands in absolute terms, as the cumulative Council tax increases that would have taken place a naturally higher for higher bands.[18]
- When represented in relative values, however, the 'savings' that have precipitated from the freeze represents a much greater percentage of the disposable income of poorer households, despite being less in real terms, than that of higher band households.[19]
- As a result the 'council tax freeze' as a policy has not only had a significant impact in unburdening residents from a rising tax liability, but it can also be argued to have had a disproportionately beneficial impact on Scotland's poorest households.
- Whilst such a policy is therefore understandably popular it is not sustainable as a long term solution neither in principle nor in practice.
- In practice, as highlighted above, Council Tax is playing an increasingly reduced role as a source of funding for local authorities, and the shortfall has been accounted for by increased Central Government funding.
- Whilst the Scottish Government has tried to offset this problem by measures such as tying supplementary funding to improved collections rates, the overall level of funding to local authorities fell by 8.5% between 2011 and 2014 to £10.3 billion. [20]
- With a reduced budget and significant financial disincentives to raise council tax, local authorities have been essentially left with the options of either increasing charges, for both public facilities and council tenant rents, or reducing spending on capital and revenue (ie. day-to-day running cost) spending, or indeed both measures.
- Given that local authorities are required to meet central government targets including those: established by the Scottish Housing Quality Standards, free personal care for older people, and reducing the number of pupils in each primary school class; this has resulted in a number of cuts to 'non-essential services' by local authorities.[21]

[17] http://www.snp.org/media-centre/news/2014/oct/council-tax-freeze-continues-help-families
[18] http://www.unison-scotland.org.uk/briefings/e-briefing_CouncilTaxFreeze_June2014.pdf
[19] http://localtaxcommission.scot/wp-content/uploads/Jim-McCafferty-April-2015.pdf
[20] http://www.audit-scotland.gov.uk/docs/local/2015/nr_150305_local_government_overview.pdf
[21] http://www.unison-scotland.org.uk/briefings/e-briefing_CouncilTaxFreeze_June2014.pdf

- These saving measures are set to continue into 2016/2017 and 2017/2018 with further budget constraints forecast and several local authorities, including Fife and Edinburgh City councils, projecting gaps in their funding for this period.[22]
- A continued Council Tax freeze into the next parliament will merely compound these problems and without a practical solution local funding, local authorities will reach a point of being unable to fund even their core functions.
- In addition it can also be argued on a point of fairness that the services which are receiving less local authority funding, which include local bus services, leisure centre charges and school meals, whilst not the reserve of any one section of society are predominantly used by poorer households.[23] As such there is an argument for claiming that any benefits that lower band households receive from the freeze in the form of lower council tax bills are undermined by increased prices for public services.
- A further principled reason for ending the Council Tax freeze is that the policy entrenches the power of central government over local authority autonomy.
- The fact that local authorities are only capable of amending the central band D rate, already provides a structurally limitation on the ability of local councillors to target any tax increases or decreases, as a rise in the central rate will have a corresponding impact on all other bands.
- The council tax freeze has, however, restricted local authorities from even being capable of making decisions in this small sphere of tax rate competency, and whilst councils still in theory do have the power to raise or lower band D central rates, they would be forced to reject the additional central revenue funding the Scottish Government have set aside to fund the freeze, and so are enormously disincentivised to do so.
- As highlighted above this restriction on any real decision-making power for local authorities impacts on their democratic legitimacy and also their potential to redistribute wealth and direct services effectively.

3. The lack of any up-dating in property values:

- As is highlighted above, a property's council tax liability is dependent on bands which are determined by 1991 valuations with no revaluation in the intervening period.
- As a consequence, a number of inequalities have developed between the Council Tax bills of some properties, particularly new builds and homes in improving areas.
- New build residences are assessed for council tax, normally before completion, but despite the fact that some materials and features, particularly those regarding energy saving, were not available in 1991, assessors must speculate as to what the 1991 valuation of the property would have been.
- Property assessment by its very nature involves some speculation, and the fact that the 1991 valuation figure need only be approximate to a band rather than an exact figure means that the system can continue to function. Nonetheless the more that technology develops and the larger the gap between revaluations, the more absurd it is that properties are still assessed for a nominal distant past value.

[22] http://www.audit-scotland.gov.uk/docs/local/2015/nr_150305_local_government_overview.pdf
[23] http://www.unison-scotland.org.uk/briefings/e-briefing_CouncilTaxFreeze_June2014.pdf

- This problem is further compounded by the fact that most properties, having been assessed for their 1991 value, have yet to be reassessed, despite the fact that extension work and developments within the area can have vastly improved the property's value.
- Technically renovations ought to result in a change in value, but given the fact that the banding system gives some leeway with regards the Council Tax bill, it is only major works which tend to result in any revaluation at all, and finding examples of properties that have been raised a council tax band are rare.
- This is arguably a suitable policy; a system which constantly raises the Council Tax bill of a resident as a result of improvements made to their own property ought to be avoided both on the principle of fairness and on the practical grounds that it discourages home improvements.
- Conversely it can equally be argued that the ability of a resident to fund such renovations may also be a useful indicator of their ability to pay for a corresponding tax increase and, provided residents are aware of this risk the renovations, increasing a property's council tax following renovations ought to become a more occurrence.
- A more pressing and related concern, however, is the fact that whilst all properties have benefitted not only from the substantial rise in house prices in the intervening period since 1991, the rate of increase has not been uniform and some properties, particularly those located near to major city renovation projects, have increased in value significantly.
- As a result new buildings in the area are often placed in a much higher Council Tax band than properties which have merely seen their value rise as a result of social factors over which they had little control.
- This is obviously lacking in basic fairness for the residents of new build properties, who may have properties of a similar size and with a similar access to local services than the residents of older properties, and although it can be argued that such residents ought to be aware of this disparity when they purchase or lease a property, the problem itself will only continue to become more acute the longer the period between revaluation.
- Equally, however, any revaluation could leave residents of properties in these areas subject to much higher Council Tax bills based purely on the improvements in their general location.
- Although this will leave owner-occupier residents with a more valuable asset, as highlighted above, often residents are not in a position to downsize to reduce their tax liability and any revaluation which placed even a moderate increase in householder bills is likely to be deeply unpopular.
- In summary, the problem is one of frequency; the longer the gap between any revaluation of property the greater the inequalities that build up between Council Tax bills and the more challenging it becomes to introduce another revaluation.
- Like the issue of the Council Tax freeze, however, the issue of revaluation is one which cannot be forestalled forever regardless of how popular forestalling the short term may be.

Recommendations for a Reformed Council Tax:

1. **The Scottish Parliament should legislate for 5 yearly Council Tax revaluations**.
    - As highlighted above the incentive for general revaluations of properties for Council Tax purposes is low as it can potentially cause increased bills for residents of properties that have increased in value as a result of external factors.
    - Yet without regular revaluations inequalities build up for new builds.

- In order to ensure that successive governments are not tempted into delaying an unpopular Council Tax revaluation, the issue should be put beyond their control via legislation.
- This should help to ensure that at least one aspect of the general problem of local government funding is not passed from government to government and problems are allowed to fester.
- Indeed a system of regular revaluations should also ensure both that any amendments in a property's band are small that residents are prepared for the potential for a property band change which should engender less public resistance.
- An initial revaluation would be an expensive undertaking; the process of property revaluations in Wales in 2004 was, however, estimated to cost £8 million[24], yet advancements in technology since 1991 and the introduction of improved modern methods of valuing properties, particularly the use of shared online information, have made such an undertaking an easier prospect.
- Whilst debates on the cost of revaluation are relevant, the process of revaluation is, however, one which ultimately cannot be avoided indefinitely. Questions over the short-term cost ought not, therefore, to be considered as strong arguments against revaluation in the long term.[25]

2. **Local Authorities should have far greater control over the size and number of Council Tax Bands, as well as the rate at which each band is taxed.**
   - Introducing such a measure would deal with the problems arising from the regressive nature of the tax, the impact of the Council Tax freeze, and the general issues of local democracy and accountability.
   - One of the primary justifications for a centrally rather than a locally run system of Council Tax is that it creates parity between tax payers in each local authority region, but even in principle it is clear that the priorities and requirements of Edinburgh and Glasgow City Councils are far removed from those of Highland and Island communities.
   - It is, therefore, justifiable to argue that these authorities require a greater level of autonomy in order to cater to their electorates.
   - In Glasgow, for example, over 70% of households are valued as being between Band A-C, whereas the figure for Edinburgh that figure is under 50%.
   - As such, all things being equal, Glasgow City Council have less of a tax base than Edinburgh from which to raise Council Tax in order to cover any increase in per capital spending.
   - Currently the only manner in which both local authorities can raise Council Tax receipts is via an increase in band D rates, which has a corresponding impact on all other bands. Yet if each authority had the capacity to raise the bands independently of each other they would have the capacity to make the tax less regressive.
   - Indeed should these authorities also have control over the property values that constitute each band, and indeed the number of bands themselves, then authorities would also be in a position to create a so-called "Mansion Tax" for high level

[24] http://www.assembly.wales/Committee%20Documents/LGPS(2)%2005-06%20Paper%204%20-%20Assembly%20Government%20Submission%20to%20the%20Lyons%20Inquiry%20(Annex%20B)%20(pdf,%2047kb)-15032006-23307/n0000000000000000000000000042136-English.pdf
[25] www.parliament.uk/briefing-papers/rp05-73.pdf

properties, the proceeds of which would be spend developing the local rather than the national economy.

- Such a move would empower local councils both to make real decisions not only over how revenue is spent, but also how it is raised and would allow councillors the discretion to increase the role that Council Tax plays.
- Such devolution of power would naturally have repercussions with regards to the distribution formula for local authority funding and it would be necessary for all authorities, the Scottish Government and COSLA to renegotiate how annual funding is allocated.
- Such negotiations go beyond the scope of this discussion but, as highlighted above, the principle of devolution will provide local authorities the competency and the tools to target tax rises and deal with an overly regressive system as well as limiting the power of central authorities to impose universal measures which may not suit all authorities.
- This measure could also improve local democracy as the ability to target tax rises will better councillors to make decisions over tax rises that they might otherwise be reluctant to make and they can indeed appeal to local voters on a platform or tax as well as service reform, which could in turn reengage the electorate in local elections and local issues.

Section 5: Issues with, and recommendations for, a reformed a Local Income Tax

- The potential advantages of a Local Income Tax include:
  1. It is progressive and reflects ability to pay.
  2. It could be easier to pay and less 'visible' to tax payers.
  3. It would overcome many of the issues concerning property based taxation.

- The potential disadvantages of a Local Income Tax include:
  4. **It may be difficult for the tax to be strictly speaking 'local'.**
  5. **It reduces revenue streams and may disproportionately favour unearned rather than earned income.**
  6. **Tax receipts are more volatile and less predictable than those based on property.**

Dealing with each in turn:

Advantages:

1. It is progressive and reflects ability to pay.

- As suggested above, one of the key concerns with the present system of Council Tax is that the coincidence between the price of a property and its occupier's ability to pay is not always precise.
- A Local Income Tax (LIT), in which an individual's income tax is increased by several pence in the pound and the resulting revenue is hypothecated to their local authority, would solve this issue.
- As with traditional Income Tax, there are number of different ways in which a Local Income Tax can be introduced:

  a. The Scottish Government could introduce a flat rate on all taxable income to cover the proceeds lost from abolishing Council Tax.
  b. Local councils could have the authority to set their own individual flat rate and receive only the corresponding equivalent revenue.
  c. Local councils could be empowered to increase the tax rate within the income bands thus making the tax even more progressive should authorities choose to levy an increased rate on the earners in the higher income tax bands.
  d. Local councils could collect all income tax locally setting their own tax rate, hypothecating to central government only a pre-established required figure.

- All these options, particularly d, would have a profound impact on the current system of income tax collection, as will be discussed below, but in each case the level of tax paid by a resident would directly correspond to their earnings and therefore ability to pay.
- Minimum wage earners could see a huge reduction in their council tax bill from nearly £800 down to potentially less than £100, and conversely those better able to pay could see an increase from approximately £2,000 to a figure that far better reflects their capacity to contribute.

- In addition, as suggested above, this system would eliminate the requirement for a system of CTR thus reducing bureaucracy, improving efficiency and ensuring that less individuals fall through the cracks.

2. It could be easier to pay and less 'visible' to tax payers.

- As suggested above, one of the simplest options for the collection of LIT is to adapt the current Income Tax collection system, by which over 80% employees have tax deduced at source via the Pay as you Earn (PAYE) system.
- Whilst this system is not unproblematic, as shall be discussed below, in principle a system which deducted local as well as national taxation at source would make the tax far easier to pay and far less difficult for individuals to administer.
- One of the primary concerns with any form of local taxation is that of collection rates, and whilst it is important to acknowledge that there is currently no real concern with Council tax collection rates which are above 95.5% is very high, they are not as high as the PAYE collection rate for earned income which is annually in excess of 98%.
- The introduction of LIT would, therefore, not only be likely to improve collection rates, but would also be less subject to a decline in collection rates that may occur with an unpopular change in the Council Tax collection system, as was apparent following the introduction of the Community Charge.
- As was highlighted by the 'Report on local taxation in Scotland by the Local Government Finance Review Committee' (hereafter the 'Burt Review'): the structure of Income Tax payment means that the receipts are high and by increasing a local income tax rate from 6.5% to 6.6% would it be akin to raising council tax by 1.5%.[26]
- There are naturally issues concerning collection rates for income earned outside of the PAYE system, particularly with regards to unearned pension and investment income as highlighted below, but for the majority of tax-payers a system which eliminated local taxation at source without the requirement for local residents to 'hand over a cheque', would be a popular development in local taxation; an area which has historically been divisive.

3. It would overcome many of the issues concerning property based taxation.

- Not only would an income based system better target those most capable of paying and be less visible to tax-payers than a property based system it would also require no property revaluations and reducing the inequalities in the system highlighted above.
- The Burt Review suggested in 2006 that by eliminating the requirement to maintain a "Council Tax Valuation List" the Scottish Assessors Association could make savings of £6.5 million from the £37 million annual budget and additional savings of £35.6 million as Councils would no longer have the burden of collection, although these figures would naturally depend on whether the rate was set locally or nationally.[27]
- As highlighted above, the political disincentive to revalue property for Council Tax purposes lies in the fact that a great number of owner-occupier residents consider the home to be their most significant life-time investment. If their property value rises prior to a revaluation but

[26] http://www.gov.scot/Resource/Doc/153766/0041377.pdf
[27] Ibid

then crashes significantly immediately afterwards, this could lead not only to the prospect of negative equity, but also to an unsustainably high local tax rate that will serve as a hindrance to any possible sale.

- Such a boom and bust in property prices between valuations was experienced in Northern Ireland between 2003 and 2015[28] and although the rise and fall in prices was relatively even, the impact of property values vis-à-vis "rates" was of serious concern to residents.
- The Scottish economy, like the rest of the UK's is closely related to the confidence that consumers have built upon rising property prices, and any measure which can help to allay the fears of property owners, whilst remaining consistent to the principles of fairness could be a positive step for local taxation .

Disadvantages:

- Many of the issues and concerns with any form of LIT were highlighted in the Burt Review and indeed the hybrid form of LIT posited based on the modelling research of the University of Stirling was designed to mitigate some of these concerns.[29]
- A more detailed analysis of these concerns can naturally be found within the Burt Review itself, but it is necessary to highlight some of the major issues so as to posit some solutions.
- Concerns over practical issues such as implementation cost, as highlighted by the Scottish Chamber of Commerce[30], although not unimportant, shall not be discussed primarily because implementation costs are firstly somewhat speculative, but also since such costs will be inherent in any new change from the system disproportionately benefitting recommendations that closely cohere with the status quo.
- Where any new system to be discarded purely on initial implementation costs alone this would significantly inhibit radical solutions.

4. It may be difficult for the tax to be strictly speaking 'local'.

- Of the four potential types of LIT listed above the final 3 (b-d) would provide local authorities with some discretion to amend local tax rates whereas the first option (a) would reserve the right to set an overall LIT for the Scottish Government alone, and even if Local Authorities were empowered to provide recommendations this would transform LIT into little more than an obligation to hypothecate a particular percentage of income tax revenue, and would no longer be 'local'.
- As suggested above, there are significant democratic advantages in local authorities playing a strong role in the setting and raising of local taxation and a system in which their power to establish rates was limited, or indeed perceived by the public to be limited would lose these advantages.
- What this difficulty highlights is that for LIT to be successful either the tax receipts must be raised locally, or if raised through the current PAYE system and then redistributed by HMRC, it must be obvious to tax-payers that there must be a clear link between what percentage of their income is being transferred for local authority spending.

[28] http://www.northernireland.gov.uk/news-dfp-05042012-non-domestic-property
[29] http://www.gov.scot/Resource/Doc/153766/0041377.pdf
[30] http://www.scottishchambers.org.uk/userfiles/file/Local%20Income%20Tax%20Response%20180708.pdf

- The technical difficulties of creating such a system were raised in the Layfield Committee Report in 1976 in which argued to create a system which could ensure that individuals paid a local and national tax rate would be beyond the technological capabilities then available.[31]
- For over 10 years it has been acknowledged that this technological barrier to LIT has been lifted.[32]
- Indeed 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.[33]
- Yet the devil of any reform is going to be in the detail of how the formula works and there are significant issues that would need to be addressed including: individuals that work in one local authority but live in another, individuals with second homes in other local authorities and the role of employers in administrating the new tax.[34]
- These issues are not insurmountable. A variety of European counties have implemented systems whereby employers register an employee's resident onto their tax-code and deduct any local tax rates accordingly, combined with a system whereby second home owners pay a secondary tax to the relevant local authority based on the relevant proportion of taxable income tax that could be raised from a market rent.[35]
- There would, however, have to be lengthy consultation about the exact mechanism for doing so, plus extensive training for employees about how to address the new system.
- In addition HMRC would have a vastly increased challenge of having to calculate and monitor possibly as many as 32 different tax codes for Scotland alone.[36]
- This could be circumvented by passing this issue of administration on to Revenue Scotland, but again this would require a lengthy reorganisation of taxation in Scotland and could be subject to a high level of inadvertent errors and fraud particularly during the implementation stage.
- Whilst the trade-off is not exact in broad terms it is not unreasonable to note that the greater the level of local autonomy the greater the complexity within the system that is required and the more costly implementation will be both financially and with regards the safe-guards against abuse.
- As previously stated, this is not to suggest that financial considerations should serve as a bar to bold reform, but merely to highlight that such reform comes with significant consequences.

5. It reduces revenue streams and may disproportionately favour unearned rather than earned income.

- One of the guiding principles of tax design is that the range of sources from which taxation is derived ought to be as varied as possible so that overall revenue is not unduly sensitive to one area of the market.[37]

[31] http://hansard.millbanksystems.com/lords/1976/may/19/the-layfield-report-1
[32] http://www.publications.parliament.uk/pa/cm200304/cmselect/cmodpm/402/40207.htm#note179
[33] http://www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/S4/SB_14-14.pdf
[34] http://www.publications.parliament.uk/pa/cm200304/cmselect/cmodpm/402/40207.htm#note179
[35] http://www.gov.scot/Resource/Doc/153766/0041377.pdf
[36] Ibid
[37] http://www.ifs.org.uk/docs/taxbydesign.pdf

- In the case of a property based form of Council Tax it is certainly not irrelevant to argue that whilst the tax itself is regressive, if the overall tax system is progressive, this regressive tax may have a place within it particularly if it guarantees a sustainable yield.[38]
- Indeed the heavy focus on taxing income, rather than property, may in fact be regressive if property is allowed to accumulate and be transferred between generations relatively untaxed.
- Whilst Capital Gains and Inheritance Tax ought to capture some of this income the fact that they are levied at different rates and have a high starting threshold means that it is possible that some individuals that realise their earnings via PAYE would pay a significantly greater level of local taxation than individuals that realise their wealth in other ways.
- The Burt Review, highlighted this problem of how to capture different forms of income within a LIT system and, as with the problem of 'localism' within taxation, suggested that greater administrative complexity would be required in order to ensure that investment as well as earned income could be captured.[39]
- Without careful management, however, it is highly possible that by placing a greater burden onto income those who realise their earnings outside of the PAYE system may see a reduction in their local tax liability whereas high earning individuals within the system would pay significantly more.
- This could potentially see highly-paid public sector workers, including doctors and headteachers, facing a larger tax bill to pay for a tax reduction for wealthy investors outside investors in Scottish property.
- In addition, one of the major advantages of a LIT is that it places a higher financial constraint on those currently earning based on the principle that they are most capable of paying whereas those that are retired and living off saved income are less in a position to increase their earning capacity.
- But it can be argued that by eliminating one of the few property taxes that exist in Scotland and taxing income even further it will make it harder for current earners to make the savings necessary to buy property whilst benefitting those that already in possession, thus potentially increasing inequalities between those that are fortunate enough to inherit property, and those that are not.
- Given the fact that Scotland has an aging population with an increasing number of individuals of pensionable age, it is legitimate also to question how increasing the burden on income as a tax source is sustainable with a possible decline in the number of citizens below pensionable age.[40]

6. Tax receipts are more volatile and less predictable than those based on property.

- One of the major barriers to any new tax is that it is likely to be misunderstood by tax-payers and indeed local councillors and tax-officials alike who are used to be a particularly style of taxation.
- One of the primary advantages of Council Tax and indeed the Council Tax freeze is the certainty that it provides with regards an individual household's bill and the revenue that Councillors can expect to again.

[38] Ibid
[39] http://www.gov.scot/Resource/Doc/153766/0041377.pdf
[40] http://www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/S4/SB_14-43.pdf

- Income Tax receipts on the other hand are subject to the cyclical nature of the economy and as such local authorities would be required to not only to estimate their likely annual receipts, but also to amend their spending plans accordingly when receipts do not match forecasts.
- Indeed the most significant impact that will initially need to be calculated would be the introduction of the new LIT itself.
- The Burt Review suggested that, depending on its structure and whether or not local authorities would have control over bands and rates, a LIT rate of between 5.5% and 7.5% would be required, which could potentially lead to the 'capital flight' of high earners reluctant to see such a steep increase in their Income Tax bill.[41]
- Any current calculation of how to cover the £1941 million cost of Council Tax[42] is naturally going to be subject to the behavioural responses of workers who will take into account their own marginal rates of income tax, including the impact that extra hours may have on their means tested benefits.[43]
- Figures from the Scottish Parliament Information Centre, however, do suggest that it would require an increase in the Scottish Rate of Income tax in the region of 5% to raise this extra £2 billion that would be needed.
- Whether businesses or individuals would be willing to bear such a rise is unclear and there would need to be a sustained programme of public awareness to explain the link between the fall in council tax and the rise in income tax. Failure to do so could again impact on receipts.

Recommendations for a Local Income Tax:

1. **The Scottish Government should conduct and publish research into the capabilities of Revenue Scotland or raising and administering LIT**.

- Although it is possible that HMRC could administer a LIT, this would require an overhaul of the current system of tax collection which would become increasingly difficult to balance against the priorities that the body has with regards the administering the tax for the other parts of UK.
- Given that Revenue Scotland is a new body, its organisational structures could be malleable enough to take on the task of administering all of Scotland's income taxes, possibly in collaboration with HMRC.
- This would provide far greater scope for local authorities to set and establish their own local rates and would provide the element of localism that a genuine form of LIT requires.
- Indeed established correctly it is possible that the issues concerning unearned and dividend income, as well as those regarding the relevant tax to pay on second homes could be resolved.
- In addition this would provide a platform for the kind of tax restructuring that took place in Sweden in the early 1990s. which drastically altered the power between local and national government to the extent that 85% of tax payers only paid a local income tax, albeit at a higher rate of 31%.[44]

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[41] http://www.gov.scot/Resource/Doc/153766/0041377.pdf

[42] http://www.gov.scot/Resource/0047/00472877.pdf

[43] http://www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/S4/SB_14-14.pdf

[44] Agell, J., Englund P., Sodersten, J, 'The Swedish Tax Reform: An Introduction', Swedish Economic Policy Review 2 (1995), pgs. 219–228

- This kind of restructuring would only possible, however, after lengthy research in conjunction with HMRC and Revenue Scotland, which the Scottish Government has so far failed to conduct.

Section 6: Issues with, and recommendations for, a Land Value Tax

- As with the previous sections this section does not purport to be an exhaustive list of the strengths and weakness of Land Value Tax (LVT). The subject is looked into in far more depth by both the Burt Review and in Andy Wightman's report on the subject for the Scottish Green Party.[45]
- It is worth noting, however, the many of the advantages and disadvantages highlighted above with regards property taxation in general hold true.
- Some of the major advantages that exist for LVT are with regards to its use as a replacement for non-domestic Business Rates which is beyond the scope of the Commission's review, some of these shall be touched on below although largely left aside.
- The major advantages of the system are therefore:

  1. It encourages the productive use of land.
  2. It reduces the requirement for CTR.
  3. It captures the unearned income generated by a rise in property values

- The disadvantages to the system are therefore:

  4. Land values are highly speculative.
  5. Not all land can be taxed in the same manner and the tax could disproportionately impact on poorer city dwellers.

Dealing with each in turn:

1. It encourages the productive use of land.

- In its purest form a Land Value Tax seeks to separate the value of a property into the value of the 'property' and the value of the 'site' on which it sits. The essential argument being that two properties of equal size will have the same value with regards their bricks and mortar but and difference in value will be dependent on the location.
- This 'site' value is the factor which tends to rise and which allows landowners to put up their rent prices, rather than any improvements that they as a landowner have made intrinsic to the property.
- These improvements, it is argued, are subject to improvements in the local community such as improved road and rail networks, better schools and hospitals and clean parks, streets and waterways, all of which are funded for by the local authority and society at large.
- As such even individuals that don't use these facilities benefit from them in the general rise in property prices that result from them, and they therefore have an obligation to repay society for that rise in their property's 'site value'.
- In theory, therefore, a landowner that wished to improve her property could do so without any impact on its site value and so would not be subject to any increased taxation.
- This benefit is not one which is immediately apparent within the current system where revaluations of property for Council Tax purposes are rare, but within a system of regular revaluations a site value rather than a pure property value system would prevent any potential

[45] http://www.andywightman.com/docs/LVTREPORT.pdf

homeowner or landlord from forestalling improvements until after valuation had taken place.[46]

2. It reduces the requirement for CTR.

- A further advantage of LVT is that, unlike a council tax which charges the resident of a property, LVT seeks to charge only owner-occupiers or landlords: The levy is set as a percentage of either the capital value of the land or the rental value of the land which is held to be simply the annualised capital value derived by multiplying the capital value by the prevailing discount rate.”[47]
- Naturally a landlord is likely to raise their rent to offset any losses that they may suffer as a result of their increased taxed burden.
- Thus private tenants will still pay for local services in the form of higher rents.
- This will, however, reduce the requirement for a separation between the CTR system and the Housing Benefit system, which could lead to greater streamlining and efficiency.

3. It captures the unearned income generated by a rise in property values

- The most significant argument in favour of LVT is that it is designed to capture of the increase in a property’s value that results from the work done by the local authority either by improving local amenities, upgrading transport links or attracting new businesses.
- It has already been highlighted above, and shall be further examine below, the importance of maintaining a broad range of sources for taxation and in comparison with other nations property in the UK remains and under taxed resource that can be the primary source of security for a debt fuelled economy.[48]
- Were there to be a greater level of taxation on land and site prices this would more accurately capture the wealth of external developers that purchase land and property within Scotland as a safe investment without substantially contributing to the real economy in the form of job creation or spending and often artificially raising property prices to the detriment of native tax-payers not yet on the property ladder.[49]

4. Land values are highly speculative.

- The process of evaluating a property for LVT, requires the separation of a property into its site and property values, and whilst in theory this is possible, in practice this will place a far greater deal of discretion into the hands of assessors than they currently already possess.
- Whilst the fixtures and chattels within a property can be evaluated for external to their site value for purposes including domestic insurance, when it comes to trying to define the percentage of a property’s value that is purely based on external factors it will be difficult to establish clear and universal principles.

[46] http://www.policyexchange.org.uk/images/publications/taxing%20issues.pdf
[47] http://www.andywightman.com/docs/LVTREPORT.pdf
[48] http://www.policyexchange.org.uk/images/publications/taxing%20issues.pdf
[49] http://www.andywightman.com/docs/LVTREPORT.pdf

- Properties rise in value due to natural inflation relative to other goods and wages, as well as developments in the local area and without regular revaluations this factor will become more significant to any LVT system.
- Furthermore assessors will naturally take into account the location and size of a property when providing a valuation, but it is the overall valuation figure that is justified by the actual sale prices, and not the individual factors within it.
- An assessor may consider the location to be the most significant factor to a high valuation price, but the purchaser may meet this price for other reasons such as the size of the kitchen. Whilst the overall property's value is undisputable, the land value would be subject to question.
- Without a very clear understanding of the system homeowners are unlikely to be clear about the reasoning behind their tax bill and assessors will need to be confident in their 'site value' estimate without having any manageable way of justifying this valuation.
- This problem is again not insurmountable and were assessors to make clear how they reached their 'site valuation' within any formal assessment, with reference to local features and services including schools and parks, this could improve public understanding of the concept of 'site value'.
- This would, however, lead to difficulties should local schools, hospitals or services close and yet property prices increase as residents would rightly demand that their 'site value' ought to have fallen and their tax on that value should therefore be reduced accordingly.

5. Not all land can be taxed in the same manner and the tax could disproportionately impact on poorer city dwellers.

- In addition to the obvious restrictions on land that exist between green and brown field sites, there are also a number of examples of properties and land areas that cannot be taxed at the same rate.
- Listed buildings and homes for example cannot make 'best use' of their land without heavy expenditure due to the restrictions on their planning permission.
- Nor could a universal LVT rate exist without having an enormous impact on the tax rate of city rather than country dwellings.
- The value of a small flat in a city centre can be similar to that of a larger property in the suburbs or in countryside. This is down in part to the convenience of not having to commute for business and leisure and may also reflect a higher desirability and greater market competition.
- These are, however, directly attributable to the 'site value' rather than the 'building value' and if the tax is only levied on this primary figure the difference between the tax rates of the two properties could be significant.
- For example: if both properties were worth £150,000, but the site value of the city flat was £100,000 and the site value of the countryside house was just £50,000, a 1% levy on the site value[50], as suggested by advocates, would result in a £500 annual difference.
- To some extent this is justified as the country dweller has clearly made "better" use of their less valuable land and it could be argued that city dwellers are being taxed on their convenience. A country dweller will need to pay for a car, or public transport, which would

[50] http://www.andywightman.com/docs/LVTREPORT.pdf

cost more than £500 annually and on which they will have to pay indirect taxes such as fuel duties.

- Yet in reality this trade-off is not likely to be so straightforward.
- Less fashionable areas of a city can often be transformed in a short space of time and can lead to properties become vastly more desirable and the site value of flat that had previously been relatively modestly valued can cause it to rise to a level that would make it difficult for its original tenants to pay the rent.
- Whilst local residents may benefit from their properties increased value, many will not be able to afford their local charges and so will be forced to sell to avoid being trapped paying the increased tax rate.
- This will not only require regular revaluations since tax-rates will be more sensitive to property and indeed land prices, but it could also lead to the local residents of a 'gentrified' area of a city being forced to leave.
- Pensioners living in cities would almost certainly have to reassess their living arrangements if there were to be a dramatic rise in local taxation as they would not have the capacity to increase their earnings to pay for the advantages that they enjoy.
- These criticisms can equally be laid at any form of property tax, but they would be more acute for city dwellers in a land value system, causing certain areas, and particularly those close to the city centre, to become the exclusive reserve of the wealthy at the expense of residents that may have lived within the community for generations.
- Such a shift in the make-up of a town or region would also naturally have an impact on social cohesion.
- One possible solution to this problem is to have LVT rates set locally so that local authorities in more affluent areas, where 'site values' are high can set a very low rate of LVT to offset this whilst still maintaining a high yield from their tax return. Conversely poorer regions would have to set a higher rate for LVT, but this could still be justified and manageable as the low site values would not make for an over burdensome tax.
- A localised system would, however, create problems for individuals living in more expensive properties with a high 'site value' possibly as a result of their proximity to a local facility, but located within a poorer local authority which has correspondingly higher LVT rates.

Recommendations:

1. **Any subsequent revaluation of property should include a separation of the 'site' and 'building' values.**

- As with any new system there will be 'winners' and 'losers' under and LVT system and as LIT protects pensioners but at the expensive of new earners, so LVT can potentially benefit residents in rural properties that have made significant home improvements, at the expense of poor and elderly city residents.
- The major problem with any implementation of an LVT system is that there is a lack of publically available evidence as to the exact 'site' values of properties in Scotland and a lack of understanding by the public and tax-payers at large about how the system works.
- To avoid being labelled a "garden tax" and to encourage LVT to be seriously considered there must be greater examination of what is actually meant by 'site' value and an attempt to have a

universal definition as well as method of calculation which can be equalised by different assessors to take into account different factors including the separation between urban, sub-urban and rural properties which will all have their site values calculated in different ways.

- If a definition and method can be finalised including ‘site’ and ‘building’ data onto property values, as well as council tax reports would help to develop professional and public awareness of the system so that LVT can be considered a relevant option for local taxation in the future.

Section 7: Outline of Data Used for Overall recommendations

- The system outline below is based on calculations which make a number of assumptions:

  1. The calculations of house prices in Scotland at based on figures obtained from sales figures from the Registers of Scotland. Only a full revaluation can provide accuracy as to the overall effect that the following changes would have, these figures do, however, provide a strong indication and are particularly useful in demonstrating the extent of the rise in property prices since 1991.
  2. All other figures are from the Scottish Government's Local Government Finance statistics published on the Scottish Government's website.[51]
  3. The estimations of the Council Tax receipts from each local authority take into account the various discounts, including for single occupancy, disabled reduction, second homes and empty properties, as well as the monthly council tax reduction figures for each local authority. These figures were obtained from freely available government figures, but the overall figures calculated correspond closely to those provided by the Government Revenue and Expenditure Scotland Figures[52], which indicates that they are quite accurate estimations.
  4. The number of these discount claimants there would be based on house-value has been assumed based on the corresponding numbers of benefit claimants in each of the current Council Tax bands per local authority. Naturally these assumptions would require a greater level of accuracy for full implementation, but such accuracy would only be possible with a full revaluation.
  5. Estimations about Council Tax Reduction per household are similarly assumed from the level of Council Tax Reduction applied for by each authority as there is no breakdown in the figures.

- These figures are replicated below:

A. The mean and approximate median prices of properties in Scotland based on 2013/2014 sales figures.
B. The projected percentage of the population within each property price band.
C. Number of chargeable dwellings per local authority in 2014
D. Disabled reduction per local authority in 2014
E. Single person discount per local authority in 2014
F. Second home discount per local authority in 2014
G. Empty house discount per local authority in 2014
H. Total Council Tax receipts per local authority in 2014 both including and excluding council tax reduction.

- Since the figures for other complete exceptions such as for students and the armed forces are already accounted for within the "chargeable dwellings" figures they are not included below.

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51 http://www.gov.scot/Topics/Statistics/Browse/Local-Government-Finance
52 http://www.scotland.gov.uk/Publications/2014/02/4500/2#table11

A. The mean and approximate median prices of properties in Scotland based on 2013/2014 sales figures.

- The Mean and Median House Prices for each region of Scotland, estimated from figures obtained from the Registers of Scotland.

Local Authority	Mean Value (2013)	Estimated Median Value (2013)
Scotland	**£158,280**	**£125,590**
Aberdeen City Council	£201,604	£173,677
Aberdeenshire	£216,805	£176,497
Angus	£145,669	£126,410
Argyll & Bute	£150,292	£126,350
Clackmannanshire	£123,645	£126,899
Dumfries & Galloway	£132,592	£125,240
Dundee City	£126,649	£126,352
East Ayrshire	£105,893	£73,165
East Dunbartonshire	£211,942	£174,318
East Lothian	£205,443	£173,421
East Renfrewshire	£217,559	£175,539
Edinburgh, City of	£222,346	£173,822
Eilean Siar	£100,724	£77,856
Falkirk	£121,516	£74,026
Fife	£133,176	£124,934
Glasgow City	£127,259	£74,508
Highland	£155,539	£125,957
Inverclyde	£118,922	£73,639
Midlothian	£177,929	£173,255
Moray	£143,307	£125,916
North Ayrshire	£106,209	£71,371
North Lanarkshire	£110,727	£74,486
Orkney Islands	£125,537	£127,105
Perth & Kinross	£178,706	£125,442
Renfrewshire	£116,396	£75,149
Scottish Borders	£163,337	£125,939
Shetland Islands	£127,609	£125,546
South Ayrshire	£149,218	£126,246
South Lanarkshire	£124,326	£75,455
Stirling	£176,360	£125,320
West Dunbartonshire	£110,733	£73,993
West Lothian	£140,356	£125,087

B. The projected percentage of the population within each property price band.

- The current value of Scottish homes ell, estimated from sales figures obtained from the Registers of Scotland.

Value of Homes	Percentage of population living in homes of this value	Percentage of the population living in properties
£35K and under	3.08%	3.08%
£35K - £50K	4.87%	7.95%
£50K - £100K	27.40%	35.35%
£100K - £150K	23.74%	59.09%
£150K - £200K	17.12%	76.21%
£200K - £250K	10.87%	87.08%
£250K - £300K	4.39%	91.47%
£300K - £350K	2.99%	94.46%
£350K - £500K	3.92%	98.38%
£500K - £750K	1.20%	99.58%
£750K - £1 Million	0.29%	99.88%
£1million - £2million	0.12%	100.00%
Over £2 Million	0.005%	100.00%

C. Number of chargeable dwellings per local authority in 2014

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
Valuation band ranges	**Under £27,000**	**£27,001 to £35,000**	**£35,001 to £45,000**	**£45,001 to £58,000**	**£58,001 to £80,000**	**£80,001 to £106,000**	**£106,001 to £212,000**	**Over £212,000**	
Ratio to band D	**6/9**	**7/9**	**8/9**	**1**	**11/9**	**13/9**	**15/9**	**18/9**	
Scotland	**511,399**	**569,493**	**391,423**	**321,376**	**321,897**	**182,545**	**117,173**	**12,499**	**2,427,805**
Aberdeen City	19,940	26,229	17,497	12,983	13,512	8,056	7,112	844	106,173
Aberdeenshire	19,589	15,488	13,676	16,758	20,505	15,157	9,387	547	111,107
Angus	14,475	12,286	6,840	8,110	7,203	2,884	1,576	149	53,523
Argyll & Bute	7,257	9,529	8,734	5,786	7,059	3,995	2,725	216	45,301
Clackmannanshire	6,089	7,028	1,925	2,464	3,094	1,824	827	39	23,290
Dumfries & Galloway	10,786	21,982	11,553	9,750	10,149	4,960	2,334	155	71,669
Dundee City	25,312	15,284	7,981	8,197	6,190	2,265	1,018	33	66,280
East Ayrshire	25,503	9,109	4,949	6,387	5,850	3,023	908	41	55,770
East Dunbartonshire	1,058	3,623	8,038	7,978	10,182	6,748	6,208	592	44,427
East Lothian	1,146	8,991	14,355	5,716	5,720	4,616	3,613	620	44,777
East Renfrewshire	1,233	4,986	3,934	6,273	7,954	5,888	6,042	681	36,991
Edinburgh, City of	20,069	43,272	40,466	34,690	36,258	22,709	19,995	3,686	221,145
Eilean Siar	4,456	3,616	2,701	1,686	1,138	171	32	3	13,803
Falkirk	21,450	18,770	6,368	8,427	8,309	4,996	2,404	61	70,785
Fife	38,947	46,551	21,218	19,261	21,792	12,420	6,003	405	166,597
Glasgow City	57,443	74,034	62,840	37,860	26,272	11,656	5,780	617	276,502
Highland	18,725	22,178	22,419	17,716	17,425	8,492	4,105	308	111,368
Inverclyde	18,042	5,600	3,396	3,230	3,375	1,844	1,385	208	37,080
Midlothian	988	12,055	10,295	4,736	4,274	2,754	1,806	162	37,070
Moray	11,310	10,072	6,265	5,755	5,387	1,959	588	51	41,387
North Ayrshire	21,153	17,771	6,625	6,557	8,619	3,635	1,135	49	65,544
North Lanarkshire	52,363	36,329	18,671	15,523	15,138	7,638	2,655	128	148,445
Orkney Islands	2,220	2,704	2,222	1,659	1,195	271	19	4	10,294
Perth & Kinross	8,475	14,147	11,202	10,121	11,080	7,025	5,571	637	68,258
Renfrewshire	12,333	24,362	13,969	11,201	10,080	5,634	3,288	200	81,067
Scottish Borders	15,713	12,245	6,614	5,641	6,155	4,451	4,108	443	55,370
Shetland Islands	2,863	1,763	2,649	1,717	1,307	252	56	0	10,607
South Ayrshire	7,010	12,208	8,537	8,115	9,333	4,745	2,931	283	53,162
South Lanarkshire	35,098	28,865	24,612	19,404	18,191	10,706	5,615	452	142,943
Stirling	5,440	8,133	4,004	4,287	5,936	4,961	4,847	657	38,265
West Dunbartonshire	7,786	16,291	7,300	5,686	4,230	1,589	684	63	43,629
West Lothian	17,127	23,992	9,568	7,702	8,985	5,221	2,416	165	75,176

D. Disabled reduction per local authority in 2014

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
SCOTLAND	**1,206**	**2,499**	**2,384**	**2,196**	**2,857**	**1,601**	**913**	**80**	**13,736**
Aberdeen City	5	28	39	29	35	28	42		206
Aberdeenshire	59	63	98	107	168	126	74		695
Angus	23	59	57	79	75	35	11		339
Argyll and Bute	15	53	53	51	71	36	18		297
Clackmannanshire	25	37	17	22	45	13	11		170
Dumfries and Galloway	54	173	79	97	123	63	26	0	615
Dundee City	26	61	67	65	78	19	7	0	323
East Ayrshire	94	86	39	47	82	35	12	0	395
East Dunbartonshire		17	62	41	83	55	48		306
East Lothian		25	77	46	40	28	28		244
East Renfrewshire	20	22	28	67	46	36	6	0	225
Edinburgh, City of	26	81	150	120	187	157	128	27	876
Eilean Siar	16	20	26	18		24		0	104
Falkirk	81	104	61	59	77	41	15	0	438
Fife	74	222	156	123	218	115	48		956
Glasgow City	59	182	273	221	193	83	49		1,060
Highland	45	111	144	119	177	90	45		731
Inverclyde	43	23	17	16	30	20	12		161
Midlothian		45	52	32	25	17	15	0	186
Moray	36	45	30	65	53		26	0	255
North Ayrshire	49	93	34	43	80	29	11		339
North Lanarkshire	130	173	144	125	163	81	38		854
Orkney Islands	6	17	22	19			16		80
Perth and Kinross	41	60	84	80	119	76	73	8	541
Renfrewshire	14	115	70	50	72	43	20	0	384
Scottish Borders	20	41	47	35	54	52	34		283
Shetland Islands	13		12		13		0	0	38
South Ayrshire	18	65	59	55	89	37	23		346
South Lanarkshire	114	181	204	193	218	123	63	7	1,103
Stirling	17	52	37	37	56	40	40		279
West Dunbartonshire	29	73	54	46	63	21	11		297
West Lothian	49	174	95	80	99	74	39	0	610

E. Single person discount per local authority in 2014

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
SCOTLAND	**299,450**	**264,611**	**154,620**	**102,567**	**78,818**	**34,098**	**17,574**	**1,362**	**953,100**
Aberdeen City	12,242	12,932	6,374	4,691	3,834	1,810	1,066	82	43,031
Aberdeenshire	10,326	6,251	4,626	4,596	4,127	2,120	986	45	33,077
Angus	8,926	4,636	2,341	2,164	1,436	377	191	16	20,087
Argyll and Bute	3,558	4,126	3,038	1,743	1,750	807	452	25	15,499
Clackmannanshire	3,390	2,999	802	722	705	279		117	9,014
Dumfries and Galloway	6,651	8,462	3,697	2,727	2,459	925	410	20	25,351
Dundee City	16,636	7,477	3,286	2,542	1,545	445	156	6	32,093
East Ayrshire	13,210	3,625	1,784	1,650	1,207	428	90	5	21,999
East Dunbartonshire	704	2,144	3,697	2,789	2,743	1,400	986	70	14,533
East Lothian	726	4,848	5,254	1,787	1,341	772	477	50	14,529
East Renfrewshire	804	2,482	1,643	2,395	2,108	1,208	1,059	69	11,768
Edinburgh, City of	12,746	24,562	18,813	13,684	11,457	6,047	3,832	477	91,618
Eilean Siar	2,085	1,366	833	364	205		23	0	4,876
Falkirk	12,562	6,932	2,596	2,506	1,694	671	242	13	27,216
Fife	23,803	19,058	7,936	5,813	4,813	2,006	864	45	64,338
Glasgow City	40,836	42,708	29,272	14,327	8,300	3,114	1,178	69	139,804
Highland	9,657	9,447	8,159	4,945	3,724	1,329	524	20	37,805
Inverclyde	9,151	2,688	1,244	1,022	841	351	204	19	15,520
Midlothian	578	5,640	3,479	1,294	868	360	195	12	11,848
Moray	5,937	3,935	1,984	1,537	1,055	264		83	14,795
North Ayrshire	12,047	7,301	2,576	2,018	1,977	592	170	6	26,687
North Lanarkshire	26,051	13,914	6,219	3,740	2,468	899	258	12	53,561
Orkney Islands	1,093	1,093	730	401	200		30	0	2,454
Perth and Kinross	5,185	6,632	4,302	3,300	2,775	1,281	781	66	24,322
Renfrewshire	8,475	13,293	5,874	3,809	2,366	969	433	31	35,250
Scottish Borders	9,100	4,464	2,125	1,560	1,515	875	579	51	11,169
Shetland Islands	1,133	679	946	352	186	22	8	0	2,193
South Ayrshire	3,959	5,268	3,478	2,760	2,690	1,031	499	23	19,708
South Lanarkshire	20,586	15,062	9,489	6,015	4,284	1,766	773	52	58,027
Stirling	2,973	3,603	1,741	1,648	1,748	1,031	663	54	13,461
West Dunbartonshire	4,640	7,466	2,727	1,676	804	223		80	17,616
West Lothian	9,696	9,518	3,555	1,990	1,593	650	220	15	27,237

<u>**F. Second home discount per local authority in 2014**</u>

<table>
<tr><th></th><th>Band A</th><th>Band B</th><th>Band C</th><th>Band D</th><th>Band E</th><th>Band F</th><th>Band G</th><th>Band H</th><th>Total</th></tr>
<tr><td>SCOTLAND</td><td>5,016</td><td>4,828</td><td>4,726</td><td>4,419</td><td>4,301</td><td>2,455</td><td>1,705</td><td>429</td><td>27,879</td></tr>
<tr><td>Aberdeen City</td><td>111</td><td>131</td><td>90</td><td>107</td><td>94</td><td>49</td><td colspan="2">33</td><td>615</td></tr>
<tr><td>Aberdeenshire</td><td>221</td><td>197</td><td>170</td><td>191</td><td>155</td><td>137</td><td>78</td><td>13</td><td>1,162</td></tr>
<tr><td>Angus</td><td>241</td><td>142</td><td>131</td><td>109</td><td>62</td><td>48</td><td>24</td><td>15</td><td>772</td></tr>
<tr><td>Argyll and Bute</td><td>823</td><td>556</td><td>533</td><td>483</td><td>497</td><td>248</td><td>197</td><td>42</td><td>3,379</td></tr>
<tr><td>Clackmannanshire</td><td>7</td><td>6</td><td>7</td><td>7</td><td colspan="4">5</td><td>32</td></tr>
<tr><td>Dumfries and Galloway</td><td>271</td><td>449</td><td>386</td><td>298</td><td>223</td><td>132</td><td>89</td><td>20</td><td>1,868</td></tr>
<tr><td>Dundee City</td><td>379</td><td>266</td><td>122</td><td>88</td><td>83</td><td>25</td><td colspan="2">13</td><td>976</td></tr>
<tr><td>East Ayrshire</td><td>44</td><td>22</td><td>20</td><td>19</td><td>17</td><td>9</td><td>5</td><td>0</td><td>136</td></tr>
<tr><td>East Dunbartonshire</td><td>5</td><td>22</td><td>33</td><td>32</td><td>37</td><td>40</td><td>23</td><td>6</td><td>198</td></tr>
<tr><td>East Lothian</td><td>14</td><td>47</td><td>97</td><td>115</td><td>90</td><td>90</td><td>73</td><td>24</td><td>550</td></tr>
<tr><td>East Renfrewshire</td><td>27</td><td>24</td><td>30</td><td>28</td><td>23</td><td>22</td><td>30</td><td>8</td><td>192</td></tr>
<tr><td>Edinburgh, City of</td><td>60</td><td>219</td><td>327</td><td>395</td><td>581</td><td>404</td><td>266</td><td>65</td><td>2,317</td></tr>
<tr><td>Eilean Siar</td><td>303</td><td>266</td><td>122</td><td>53</td><td>27</td><td colspan="3">5</td><td>776</td></tr>
<tr><td>Falkirk</td><td>156</td><td>125</td><td>52</td><td>52</td><td>41</td><td>12</td><td colspan="2">11</td><td>449</td></tr>
<tr><td>Fife</td><td>194</td><td>285</td><td>336</td><td>383</td><td>415</td><td>262</td><td>194</td><td>29</td><td>2,098</td></tr>
<tr><td>Glasgow City</td><td>52</td><td>142</td><td>155</td><td>149</td><td>159</td><td>107</td><td colspan="2">59</td><td>823</td></tr>
<tr><td>Highland</td><td>553</td><td>629</td><td>923</td><td>782</td><td>733</td><td>335</td><td>255</td><td>70</td><td>4,280</td></tr>
<tr><td>Inverclyde</td><td>74</td><td>29</td><td>20</td><td>27</td><td>26</td><td>13</td><td colspan="2">15</td><td>204</td></tr>
<tr><td>Midlothian</td><td colspan="2">10</td><td>10</td><td>8</td><td colspan="3">8</td><td>0</td><td>36</td></tr>
<tr><td>Moray</td><td>186</td><td>161</td><td>115</td><td>85</td><td>79</td><td>21</td><td>8</td><td>5</td><td>660</td></tr>
<tr><td>North Ayrshire</td><td>440</td><td>204</td><td>213</td><td>224</td><td>275</td><td>103</td><td colspan="2">33</td><td>1,492</td></tr>
<tr><td>North Lanarkshire</td><td>33</td><td>14</td><td>10</td><td>11</td><td>6</td><td colspan="2">6</td><td>0</td><td>80</td></tr>
<tr><td>Orkney Islands</td><td>145</td><td>95</td><td>66</td><td>40</td><td>26</td><td colspan="3">8</td><td>380</td></tr>
<tr><td>Perth and Kinross</td><td>67</td><td>130</td><td>192</td><td>290</td><td>218</td><td>139</td><td>123</td><td>65</td><td>1,224</td></tr>
<tr><td>Renfrewshire</td><td>105</td><td>144</td><td>80</td><td>70</td><td>46</td><td>21</td><td colspan="2">18</td><td>484</td></tr>
<tr><td>Scottish Borders</td><td>260</td><td>249</td><td>242</td><td>129</td><td>132</td><td>75</td><td>73</td><td>26</td><td>1,186</td></tr>
<tr><td>Shetland Islands</td><td>93</td><td>28</td><td>21</td><td>14</td><td colspan="3">8</td><td>0</td><td>164</td></tr>
<tr><td>South Ayrshire</td><td>38</td><td>70</td><td>72</td><td>85</td><td>97</td><td>66</td><td colspan="2">31</td><td>459</td></tr>
<tr><td>South Lanarkshire</td><td>33</td><td>20</td><td>20</td><td>12</td><td>10</td><td>13</td><td colspan="2">12</td><td>120</td></tr>
<tr><td>Stirling</td><td>22</td><td>48</td><td>61</td><td>85</td><td>92</td><td>50</td><td>44</td><td>10</td><td>412</td></tr>
<tr><td>West Dunbartonshire</td><td>7</td><td>28</td><td>12</td><td>16</td><td>9</td><td>5</td><td colspan="2">7</td><td>84</td></tr>
<tr><td>West Lothian</td><td>51</td><td>71</td><td>58</td><td>32</td><td>38</td><td>10</td><td colspan="2">11</td><td>271</td></tr>
</table>

G. Empty house discount per local authority in 2014

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
SCOTLAND	**9,632**	**7,536**	**4,945**	**3,597**	**3,099**	**1,487**	**947**	**214**	**31,457**
Aberdeen City	119	37	23	30	25	11	14	5	264
Aberdeenshire	507	355	321	303	276	130	112	8	2,012
Angus	347	162	90	54	34	17	22		726
Argyll and Bute	363	283	289	196	129	66	25	7	1,358
Clackmannanshire	54	100	40	31	36	22	11		294
Dumfries and Galloway	281	294	227	136	142	49	37		1,166
Dundee City	282	154	55	43	43	7	15		599
East Ayrshire	451	88	54	59	52	20	11		735
East Dunbartonshire	19		23	15	25	17	21		120
East Lothian	17	97	117	57	48	21	18	9	384
East Renfrewshire	8	11			9				28
Edinburgh, City of	100	435	386	302	303	129	94	21	1,770
Eilean Siar	92	87	42	23	15				259
Falkirk	281	184	72	65	58	20	13		693
Fife	1,500	1,136	655	511	575	332	177	45	4,931
Glasgow City	785	687	499	299	234	123	46	12	2,685
Highland	265	264	259	163	130	49	29		1,159
Inverclyde	381	71	28	21	28	20	17		566
Midlothian	35	132	108	59	37	16	13	6	406
Moray	289	264	155	95	74	17	12	5	911
North Ayrshire	578	309	183	145	131	47	19		1,412
North Lanarkshire	240	222	84	42	30	20	9	0	647
Orkney Islands	144	82	50	25	15				316
Perth and Kinross	276	366	277	300	179	115	91	27	1,631
Renfrewshire	459	382	153	75	58	24	13	8	1,172
Scottish Borders	623	314	168	121	87	54	46	8	1,421
Shetland Islands	233	66	63	40	23				425
South Ayrshire	89	146	98	64	55	35	17	5	509
South Lanarkshire	279	257	152	111	77	37	28		941
Stirling	60	136	107	124	96	52	43	15	633
West Dunbartonshire	251	195	35	19	19	11			530
West Lothian	242	209	129	65	68	24	17		754

H. Total Council Tax receipts per local authority in 2014 both including and excluding council tax reduction.

- The Council Tax Income per local authority in Scotland including the levels of Council Tax Benefit received.

Local Authority	Council Tax Income (excluding Council Tax Benefit)	Council Tax Benefit	Council Tax Income (including Council Tax Benefit)
Scotland	£1,947,014,000	£370,805,000	£2,317,819,000
Aberdeen City Council	£99,200,000	£10,492,000	£109,692,000
Aberdeenshire	£110,077,000	£8,171,000	£118,248,000
Angus	£40,204,000	£5,746,000	£45,950,000
Argyll & Bute	£41,248,000	£5,927,000	£47,175,000
Clackmannanshire	£17,415,000	£3,722,000	£21,137,000
Dumfries & Galloway	£53,869,000	£9,368,000	£63,237,000
Dundee City	£45,894,000	£13,242,000	£59,136,000
East Ayrshire	£39,070,000	£10,289,000	£49,359,000
East Dunbartonshire	£48,023,000	£4,831,000	£52,854,000
East Lothian	£40,758,000	£5,694,000	£46,452,000
East Renfrewshire	£40,353,000	£4,164,000	£44,517,000
Edinburgh, City of	£203,437,000	£28,657,000	£232,094,000
Eilean Siar	£8,786,000	£1,692,000	£10,478,000
Falkirk	£51,427,000	£8,982,000	£60,409,000
Fife	£129,630,000	£22,340,000	£151,970,000
Glasgow City	£179,079,000	£72,927,000	£252,006,000
Highland	£97,453,000	£13,288,000	£110,741,000
Inverclyde	£25,936,000	£7,217,000	£33,153,000
Midlothian	£32,468,000	£5,627,000	£38,095,000
Moray	£34,158,000	£4,121,000	£38,279,000
North Ayrshire	£46,011,000	£12,179,000	£58,190,000
North Lanarkshire	£98,016,000	£26,295,000	£124,311,000
Orkney Islands	£7,204,000	£880,000	£8,084,000
Perth & Kinross	£64,729,000	£7,101,000	£71,830,000
Renfrewshire	£62,758,000	£14,047,000	£76,805,000
Scottish Borders	£44,872,000	£5,945,000	£50,817,000
Shetland Islands	£8,111,000	£754,000	£8,865,000
South Ayrshire	£44,854,000	£9,089,000	£53,943,000
South Lanarkshire	£106,461,000	£22,818,000	£129,279,000
Stirling	£39,520,000	£4,834,000	£44,354,000
West Dunbartonshire	£27,912,000	£9,924,000	£37,836,000
West Lothian	£58,081,000	£10,442,000	£68,523,000

Section 8: Overall recommendations

- The following recommendations are based primarily on the recommendations of the Burt Review, particularly with regards taxing actual property prices, albeit with greater local autonomy and opportunities to tackle the regressive nature of the current tax.

- Such a new system would require the following:

  1) **A complete revaluation of all property in Scotland.**

  2) **Legislation should be put in place mandating total revaluations at least every 10 years.**

  3) **A replacement of the current band system of Council tax with a progressive system of banded rates, similar to that used within Income Tax and Land and Buildings Transactions tax. The power to control both the size of the band and the rates should be devolved to local authorities.**

- In addition the following safeguards may be advisable:

  4) **A mandatory nil-band rate for the first £35,000 of a property's value.**

  5) **Maintaining the current 25% single occupancy for a property's value below £300,000 (or at a locally approved level) but eliminating this discount for the value thereafter.**

  6) **Continuing to allow local authorities discretion over second home and empty property reductions.**

  7) **Replacing the current system of disabled reduction with an additional 15% discount (on top of any discounts a resident is already eligible for).**

  8) **Place a ceiling of £200,000 (or higher should a local authority choose) on the value of a property subject to the new council tax for basic rate income tax owner-occupiers. A further ceiling of £500,000 could be placed on the value of a property that higher, but not additional, rate tax payers would be required to pay.**

  9) **This final discount could be offset by an additional Capital Gains Tax upon the increased value of a property that has benefitted from a ceiling-ed Council tax for no more than the total of Council Tax reduction a resident has benefitted from over the last 25 years.**

1. A complete revaluation of all property in Scotland.

- As has been highlighted above, the key to any system which will allow for fairness in Council Tax is a revaluation which puts an end to the increasing number of distortions that have been created by basing the system on 1991 values.

- Whilst the initial costs, which have been discussed above, will require careful consideration the overall benefits of having system of local taxation which more accurately and fairly acknowledges the actual market value of a property outweigh the cost of a full revaluation. As was noted above, it is inconceivable that a further 25 years could pass without a revaluation of property and the timing will never be ideal.

- Indeed a revaluation that is both thorough and makes full use of modern technology could be the platform for a database of property values with full information which was not possible to obtain and record electronically in 1993, but which could be used to make future revaluations much simpler and more efficient.

- A general definition of 'site' and 'building' value ought to be established, as discussed above, the 'site' and 'building' of each property ought to be made public in order to improve public debate concerning the relevance or otherwise of LVT

2. Legislation should be put in place mandating total revaluations every 5 years.

- As has been highlighted above, one of the key problems with the current system of council tax is that there was no incentive for central government or for local authorities to conduct a full revaluation. Those disadvantaged by a revaluation would be likely to punish the councillors and politicians responsible at subsequent elections whereas the beneficiaries would not necessarily reward such a move at the ballot box.

- The system of rates and bands outlined above, which taxes residents on the value of their property rather than a flat fee based on band a property fits into, requires far more accurate property prices if it is to be implemented fairly.

- Since the council tax bill that a resident pays would be far more closely aligned to the property's value there would be a correspondingly greater need to ensure that the taxed value and the actual value of properties continued to reflect one another.

- Mandating total revaluations at least every 5 would ensure that these property values and tax values remain broadly similar.

- Furthermore if the process were mandatory local and national governments would be less likely to be held responsible for the rise, and thus the current political reticence to revalue would also be reduced.

- Naturally a property's value for council tax purposes would also need to be recalculated at the point of sale or transfer. This process will have to be carefully overseen and Assessors will be required to ensure that any transfers of a property for below its open market rate would have no impact on its value for Council Tax purposes.

- Conversely it would also be incumbent on Assessors to ensure that a property purchased on the open market would not be subject to a higher Council Tax valuation than the fee it was purchased for.

3. A progressive system of banded rates set by local authorities.

- The advantages and disadvantages of the current banding system in Council Tax are discussed above.

- One such disadvantage, however, is the lack of decision-making power that local authorities have over the distribution of taxation.

- Local authorities are only able to set the central band D rates whereas the central government control the size of each band and the percentage of the central band that all other bands pay.

- As a result no local authority is capable of making their council tax rate more or less progressive. They are only capable of raising or lowering all Council Tax bills rather than just some. Furthermore, as demonstrated above, any rise will disproportionately impact on those in the lowest value of property who will proportionally be paying more tax.

- This in turn encourages local councillors and decision-makers to be more cautious in their approach to taxation since, not being able to target tax rises, they cannot avoid raising the rate of tax for the very poorest.

- By providing local authorities with control over the rates at which each property is taxed at councils would no longer limited to making decisions about which services they could afford to provide but which be genuinely empowered as to the best manner in which to raise funds to do so.

- As a result councillors would have to make clear policy choices about both taxing and spending and would be held accountable accordingly by their electorate for the choices that they make.

- This in turn should encourage local residents to take a close interest in local authority affairs and hold councillors to account for decisions that they have decided to make rather than may have been imposed upon them by central government.

- A system of rates and bands would entail a property's tax rate being calculated based not on the overall value of the property, but on the amount of a property's value in each band.

- As such a property which had a value spanning more than one band would pay the full rate of tax within the lower band but only the different rate of tax for the level they were beyond the threshold into the next band.

Value of the property	0 - £100K	£100K - £200K	£200K - £300K	£300K - £500K	£500K- £2million
Tax levied on this proportion of a property's value	0.5%	1%	1.5%	2%	2.5%

- One example system could be with 5 bands as outlined above:

- Under this system a property valuing £90,000 since it fell entirely within the 0-£100,000 band, would be charged at a rate of 0.5%, leading to a tax bill of £450 per annum.
- A property worth £110,000 would pay at two different rates. The first £100,000 would be charged at the lower rate of 0.5%, leading to a charge of £500, whereas the next £10,000 would be charged at a rate of 1% leading to a charge of £100 and an overall bill of £600.
- A property worth £600,000 could expect a tax bill of £100,000 x 0.5% + £100,000 x 1% + £100,000 x 1.5% + £200,000 x 2% + £100,000 x 2.5% = £9,500 as an annual council tax bill.

- This final bill of £9,500 highlights the key problem with such a change to this system, namely the extent to which it would fundamentally change the nature of local taxation and significantly impact on individuals living in large properties that are not necessarily in a position to accept such an increase in Council tax.

- These issues concerning the disconnect between the value of a property and the ability of the occupant to pay will be addressed below.

- One major solution, however, would be to increase the number of bands that a local authority has discretion over from 5 to 13 as outlined below:

Value of the property	**Tax levied on this proportion of a property's value**
£35K and under	0.5%
£35K - £50K	0.5%
£50K - £100K	0.5%
£100K - £150K	1%
£150K - £200K	1%
£200K - £250K	1.5%
£250K - £300K	1.5%
£300K - £350K	2%
£350K - £500K	2%
£500K - £750K	2.5%
£750K - £1 Million	2.5%
£1million - £2million	2.5%
Over £2 Million	2.5%

- Whilst local authorities would not be required to use a different rate for each band such a system would allow decision-makers discretion over a greater number of bands allowing them to make more targeted decisions as to which properties ought to see a tax increases or decreases.

- This should, in turn, free Councillors from having to impose sweeping tax increases and make them more accountable for the tax and spend decisions that they make.

- The two key considerations, however, when developing such a system are to ensure that local councils are able to raise sufficient funds to provide for local services and that Council tax bills do not disproportionately impact on specific individuals.

- In principle the process of devolving the responsibility to local authorities should allow these authorities to make the policy choices that best reflect the local area, and that ultimately it is the choice of local residents that elect these councillors to choose candidates that best reflect their own personal preference.

- There are a number of different options that Local Authorities can choose to make but in essence the choice will be between either **replicate the regressive nature of current system** or **introduce a more progressive system.**

- Other systems including the introduction of a nil-rate band and the replacement for Land and Buildings Transaction Tax will be discussed below.

- The assumption made in all the systems below is that the target tax intake should replicate the intake of 2014, which for Scotland as a whole would be £2,317,819,000.

- It will be noted at this stage that these figure do take into account Council tax reduction, which is designed to top up the rate for those unable to pay. It is, however, appropriate to include this figure as it reflects what residents should pay. A new council tax system would also require a Council Tax reduction system, although were the system more progressive it would reduce the number of claimants as councils raise receipts from an increase in tax on those better able to pay.

- Figures for the current system of Council Tax are repeated below for comparison.

Band	Value (£) (as at 1991)	Rate of Band D	Percentage of Band D	Number of Properties	Percentage of Properties	Average Bill
A	Up to 27,000	6/9	67%	511,399	21.06%	£769.83
B	27,001 - 35,000	7/9	78%	569,493	23.46%	£896.22
C	35,001 –45,000	8/9	89%	391,423	16.12%	£1,022.61
D	45,001 – 58,000	9/9	100%	321,376	13.24%	£1,149.00
E	58,001 – 80,000	11/9	122%	321,897	13.26%	£1,401.78
F	80,001 – 106,000	13/9	144%	182,545	7.52%	£1,654.56
G	106,001 – 212,000	15/9	167%	117,173	4.83%	£1,918.83
H	212,001 and over	18/9	200%	12,499	0.51%	£2,298.00

i. Replicating the regressive nature of current system

- Designing a system which broadly replicated the current regressive nature of the tax system and raised a similar level of revenue would require tax rates for each band similar to those provided below.

- For sake of clarity an example value of property as well as the percentage of the population resident in such properties has been included so that it is easier to access the impact.

Potential figures for the whole of Scotland

Value of the property	Tax levied on this proportion of a property's value	Example value	Example Annual Bill	Percentage of the population paying an equivalent bill	Total Percentage of the population
0 - £35K	2.14%	£31,000	£663.40	3.08%	3.08%
£35K - £50K	0.3%	£45,000	£779.00	4.87%	7.95%
£50K - £100K	0.3%	£90,000	£914.00	27.40%	35.35%
£100K - £150K	0.7%	£125,000	£1,119.00	23.74%	59.09%
£150K - £200K	0.7%	£180,000	£1,504.00	17.12%	76.21%
£200K - £250K	0.7%	£225,000	£1,819.00	10.87%	87.08%
£250K - £300K	0.4%	£271,000	£2,078.00	4.39%	91.47%
£300K - £350K	0.4%	£349,000	£2,390.00	2.99%	94.46%
£350K - £500K	0.0001%	£400,000	£2,394.05	3.92%	98.38%
£500K - £750K	0.0001%	£600,000	£2,394.25	1.20%	99.58%
£750K - £1 Million	0.0001%	£800,000	£2,394.45	0.29%	99.88%
£1million - £2million	0.0001%	£1,200,000	£2,394.85	0.12%	99.995%
Over £2 Million	0.0001%	£2,100,000	£2,395.75	0.005%	100%

- A comparison with the current system of Council Tax outlined above it can be noted that the vast majority of properties would be likely to receive a very similar tax bill to their current bill and whilst there may be some differences for those that had previously been under or overvalued based on 1991 prices, overall the system would have a similar number of winners and losers.

- Such a system would be beneficial to councils such as Aberdeen and Edinburgh City councils as the increase in council tax for high value properties would be minimal and some might even pay less.

- A system of local rates setting would also allow local authority could choose to levy reduced rates from the rest of Scotland to ensure that less valuable properties pay less whilst still meeting their previous Council Tax receipts, which in the case of Aberdeen City and Edinburgh City were £109,692,000 and £232,094,000 respectively.

Potential figures for Aberdeen City

Value of the property	Tax levied on this proportion of a property's value	Example value	Example Annual Bill	Percentage of the population paying an equivalent bill	Total Percentage of the population
0 - £35K	2.12%	£31,000	£657.20	0.72%	0.72%
£35K - £50K	0.27%	£45,000	£769.00	1.30%	2.02%
£50K - £100K	0.27%	£90,000	£890.50	14.67%	16.69%
£100K - £150K	0.6%	£125,000	£1,067.50	24.80%	41.49%
£150K - £200K	0.6%	£180,000	£1,397.50	22.52%	64.01%
£200K - £250K	0.6%	£225,000	£1,667.50	13.42%	77.43%
£250K - £300K	0.4%	£271,000	£1,901.50	7.91%	85.35%
£300K - £350K	0.4%	£349,000	£2,213.50	4.88%	90.22%
£350K - £500K	0.0001%	£400,000	£2,217.55	6.61%	96.84%
£500K - £750K	0.0001%	£600,000	£2,217.75	2.29%	99.13%
£750K - £1 Million	0.0001%	£800,000	£2,217.95	0.61%	99.74%
£1million - £2million	0.0001%	£1,200,000	£2,218.35	0.22%	99.96%
Over £2 Million	0.0001%	£2,100,000	£2,219.25	0.04%	100.00%

- Such a system would still impact on homes worth over £300k who would have a council tax bill similar in size to properties several times their worth. This however would replicate the current system which does not distinguish between large and enormous homes. It would, however, recognise the greater proportion of individuals living in £100k – £250k homes in these areas than in the rest of the country and the Council could accordingly ensure that any changes or rises in council tax did not disproportionately impact on individuals within these values.

Potential figures for City of Edinburgh

Value of the property	Tax levied on this proportion of a property's value	Example value	Example Annual Bill	Percentage of the population paying an equivalent bill	Total Percentage of the population
0 - £35K	2.1%	£31,000	£651.00	0.65%	0.65%
£35K - £50K	0.27%	£45,000	£762.00	0.79%	1.45%
£50K - £100K	0.27%	£90,000	£883.50	13.99%	15.44%
£100K - £150K	0.6%	£125,000	£1,060.50	24.72%	40.16%
£150K - £200K	0.6%	£180,000	£1,390.50	18.80%	58.96%
£200K - £250K	0.6%	£225,000	£1,660.50	14.43%	73.38%
£250K - £300K	0.4%	£271,000	£1,894.50	7.18%	80.57%
£300K - £350K	0.4%	£349,000	£2,206.50	5.46%	86.03%
£350K - £500K	0.0001%	£400,000	£2,210.55	8.75%	94.78%
£500K - £750K	0.0001%	£600,000	£2,210.75	3.48%	98.27%
£750K - £1 Million	0.0001%	£800,000	£2,210.95	1.08%	99.35%
£1million - £2million	0.0001%	£1,200,000	£2,211.35	0.62%	99.97%
Over £2 Million	0.0001%	£2,100,000	£2,212.25	0.03%	100.00%

- Such rates would not, however, be viable for areas with less valuable properties such as Glasgow City which has a much higher proportion of properties worth between 0-£100k.

- As such Glasgow City would be left with the choice of either raising the rates within the lower bands, which would significantly impact on properties of minimal value, or significantly raise the rates within the higher bands. This would not impact a large number, but the rise in Council Tax would be significant.

- It is again worth acknowledging that a such a system would impose a similar tax burden on less valuable properties as the current system and would almost certainly therefore require a similar level of Council Tax Reduction, which in the case of Glasgow City is £72,927,000, which represents about 20% of Scotland’s overall Council Tax Reduction bill despite representing only 11% of the total number of chargeable properties.

Potential figures for Glasgow City – Raising the lower band rates

Value of the property	Tax levied on this proportion of a property's value	Example value	Example Annual Bill	Percentage of the population paying an equivalent bill	Total Percentage of the population
0 - £35K	2.5%	£31,000	£775.00	4.58%	4.58%
£35K - £50K	0.4%	£45,000	£915.00	7.67%	12.25%
£50K - £100K	0.4%	£90,000	£1,083.00	36.24%	48.49%
£100K - £150K	0.7%	£125,000	£1,295.00	24.74%	73.24%
£150K - £200K	0.7%	£180,000	£1,680.00	12.65%	85.88%
£200K - £250K	0.7%	£225,000	£1,995.00	7.11%	93.00%
£250K - £300K	0.7%	£271,000	£2,317.00	2.51%	95.50%
£300K - £350K	0.7%	£349,000	£2,863.00	1.81%	97.32%
£350K - £500K	0.0001%	£400,000	£2,870.05	1.79%	99.11%
£500K - £750K	0.0001%	£600,000	£2,870.25	0.68%	99.79%
£750K - £1 Million	0.0001%	£800,000	£2,870.45	0.17%	99.96%
£1million - £2million	0.0001%	£1,200,000	£2,870.85	0.04%	100.00%
Over £2 Million	0.0001%	£2,100,000	£2,871.75	0.00%	100.00%

When compared to the current council tax figures it is clear that this would be a significant increase for individuals previously in bands A and B who owned property which is now worth close to £100k

Current Council Tax figures for Glasgow

Band	Value (£) (as at 1991)	Rate of Band D	Percentage of Band D	Number of Properties	Percentage of Properties	Average Bill
A	Up to 27,000	6/9	67%	511,399	21.06%	£769.83
B	27,001 - 35,000	7/9	78%	569,493	23.46%	£896.22
C	35,001 –45,000	8/9	89%	391,423	16.12%	£1,022.61
D	45,001 – 58,000	9/9	100%	321,376	13.24%	£1,149.00
E	58,001 – 80,000	11/9	122%	321,897	13.26%	£1,401.78
F	80,001 – 106,000	13/9	144%	182,545	7.52%	£1,654.56
G	106,001 – 212,000	15/9	167%	117,173	4.83%	£1,918.83
H	212,001 and over	18/9	200%	12,499	0.51%	£2,298.00

Potential figures for Glasgow City – Raising the medium band rates

Value of the property	Tax levied on this proportion of a property's value	Example value	Example Annual Bill	Percentage of the population paying an equivalent bill	Total Percentage of the population
0 - £35K	2%	£31,000	£620.00	4.58%	4.58%
£35K - £50K	0.1%	£45,000	£710.00	7.67%	12.25%
£50K - £100K	0.4%	£90,000	£863.00	36.24%	48.49%
£100K - £150K	1.1%	£125,000	£1,175.00	24.74%	73.24%
£150K - £200K	1.1%	£180,000	£1,780.00	12.65%	85.88%
£200K - £250K	1.1%	£225,000	£2,275.00	7.11%	93.00%
£250K - £300K	1.1%	£271,000	£2,781.00	2.51%	95.50%
£300K - £350K	1.1%	£349,000	£3,639.00	1.81%	97.32%
£350K - £500K	0.0001%	£400,000	£3,650.05	1.79%	99.11%
£500K - £750K	0.0001%	£600,000	£3,650.25	0.68%	99.79%
£750K - £1 Million	0.0001%	£800,000	£3,650.45	0.17%	99.96%
£1million - £2million	0.0001%	£1,200,000	£3,650.85	0.04%	100.00%
Over £2 Million	0.0001%	£2,100,000	£3,651.75	0.00%	100.00%

- In order to reduce the level of tax on properties within less valuable properties it is possible to increase the tax base on properties from £100k upwards, but since these represent less than 30% of chargeable households a tax of 1.1% on the value from £100k to £350k would be required to offset this change.

- This would naturally see a rise in the Council tax of most individuals living in properties beyond the £100k mark in value and certainly for those with properties beyond £150k.

- Such a change may be justified given the fact that this represents the wealthier half of Glasgow City, yet the majority in such properties would not consider themselves to be wealthy and certainly would struggle with such an increased bill.

- A further possible solution could be to levy a high tax rate on the incredibly wealthy homes, and ensure that the tax levied rose proportionally on the value of a property rather than falling after the £350k mark.

- Such a system as demonstrated below would ensure that tax rises for properties up to £200k worth in value were not disproportionately taxed, but in order to fund such a move the tax rate on properties would quickly become punishingly high, although admittedly for a very small number of properties.

- A consequence of this almost certainly be a non-payment of Council tax from valuable property residents, a strong behavioural response by residents of valuable properties to move away from the city and a corresponding impact on property prices and ultimately consumer confidence.

Potential figures for Glasgow City – Raising the higher band rates

Value of the property	Tax levied on this proportion of a property's value	Example value	Example Annual Bill	Percentage of the population paying an equivalent bill	Total Percentage of the population
0 - £35K	2%	£31,000	£620.00	4.58%	4.58%
£35K - £50K	0.35%	£45,000	£735.00	7.67%	12.25%
£50K - £100K	0.4%	£90,000	£900.50	36.24%	48.49%
£100K - £150K	0.4%	£125,000	£1,030.00	24.74%	73.24%
£150K - £200K	0.4%	£180,000	£1,233.50	12.65%	85.88%
£200K - £250K	2%	£225,000	£1,807.50	7.11%	93.00%
£250K - £300K	2%	£271,000	£2,727.50	2.51%	95.50%
£300K - £350K	2%	£349,000	£4,287.50	1.81%	97.32%
£350K - £500K	2%	£400,000	£5,307.50	1.79%	99.11%
£500K - £750K	2%	£600,000	£9,307.50	0.68%	99.79%
£750K - £1 Million	2%	£800,000	£13,307.50	0.17%	99.96%
£1million - £2million	2%	£1,200,000	£21,307.50	0.04%	100.00%
Over £2 Million	2%	£2,100,000	£39,307.50	0.00%	100.00%

ii. Introduce a more progressive system of Council Tax

- The practical problems highlighted in the example of Glasgow City are at the heart of the theoretical debate on local taxation explored above.

- Although most acute in the case of Glasgow there is a tension between creating a progressive tax rate and ensuring that the rate both raises sufficient receipts and is not disproportionately burdensome on residents in valuable properties.

- A progressive system for the whole of Scotland would similarly require a very high tax rate for properties beyond £500k. The rise, however, would be proportionate to value and would therefore be justifiable.

- This would also end the somewhat perverse discount provided to the most valuable homes in band H which could be worth several times the value of band D properties and yet pay only half the rate.

Potential figures for the whole of Scotland

Value of the property	Tax levied on this proportion of a property's value	Example value	Example Annual Bill	Percentage of the population paying an equivalent bill	Total Percentage of the population
0 - £35K	0.67%	£31,000	£207.70	3.08%	3.08%
£35K - £50K	0.67%	£45,000	£301.50	4.87%	7.95%
£50K - £100K	0.67%	£90,000	£603.00	27.40%	35.35%
£100K - £150K	0.8%	£125,000	£870.00	23.74%	59.09%
£150K - £200K	0.8%	£180,000	£1,310.00	17.12%	76.21%
£200K - £250K	0.8%	£225,000	£1,670.00	10.87%	87.08%
£250K - £300K	0.8%	£271,000	£2,038.00	4.39%	91.47%
£300K - £350K	0.9%	£349,000	£2,711.00	2.99%	94.46%
£350K - £500K	0.9%	£400,000	£3,170.00	3.92%	98.38%
£500K - £750K	0.9%	£600,000	£4,520.00	1.20%	99.58%
£750K - £1 Million	0.9%	£800,000	£6,770.00	0.29%	99.88%
£1million - £2million	1%	£1,200,000	£10,570.00	0.12%	99.995%
Over £2 Million	1%	£2,100,000	£19,570.00	0.005%	100%

- Again following a progressive path would have more challenging implications for areas of comparatively low property values when compared to those of high value.

- Once again areas such as Aberdeen City and Edinburgh would be capable of reducing the burden of tax on residents in high value properties compared to the rest of Scotland.

- Aberdeen for example could potentially opt for a relatively flat system which would be a comparative haven for wealthier properties.

Potential figures for Aberdeen City

Value of the property	Tax levied on this proportion of a property's value	Example value	Example Annual Bill	Percentage of the population paying an equivalent bill	Total Percentage of the population
0 - £35K	0.6%	£31,000	£186.00	0.72%	0.72%
£35K - £50K	0.6%	£45,000	£270.00	1.30%	2.02%
£50K - £100K	0.6%	£90,000	£540.00	14.67%	16.69%
£100K - £150K	0.6%	£125,000	£750.00	24.80%	41.49%
£150K - £200K	0.6%	£180,000	£1,080.00	22.52%	64.01%
£200K - £250K	0.7%	£225,000	£1,375.00	13.42%	77.43%
£250K - £300K	0.7%	£271,000	£1,697.00	7.91%	85.35%
£300K - £350K	0.7%	£349,000	£2,243.00	4.88%	90.22%
£350K - £500K	0.7%	£400,000	£2,600.00	6.61%	96.84%
£500K - £750K	0.7%	£600,000	£4,000.00	2.29%	99.13%
£750K - £1 Million	0.7%	£800,000	£5,400.00	0.61%	99.74%
£1million - £2million	0.7%	£1,200,000	£8,200.00	0.22%	99.96%
Over £2 Million	0.7%	£2,100,000	£14,500.00	0.04%	100.00%

- Similarly Edinburgh could acknowledge the number of properties worth close to £250k within the area and by including a reduced rate with very few step increases.

Potential figures for City of Edinburgh

Value of the property	Tax levied on this proportion of a property's value	Example value	Example Annual Bill	Percentage of the population paying an equivalent bill	Total Percentage of the population
0 - £35K	0.5%	£31,000	£155.00	0.65%	0.65%
£35K - £50K	0.5%	£45,000	£225.00	0.79%	1.45%
£50K - £100K	0.5%	£90,000	£450.00	13.99%	15.44%
£100K - £150K	0.5%	£125,000	£625.00	24.72%	40.16%
£150K - £200K	0.5%	£180,000	£900.00	18.80%	58.96%
£200K - £250K	0.6%	£225,000	£1,150.00	14.43%	73.38%
£250K - £300K	0.7%	£271,000	£1,447.00	7.18%	80.57%
£300K - £350K	0.7%	£349,000	£1,993.00	5.46%	86.03%
£350K - £500K	0.7%	£400,000	£2,350.00	8.75%	94.78%
£500K - £750K	0.7%	£600,000	£3,750.00	3.48%	98.27%
£750K - £1 Million	0.7%	£800,000	£5,150.00	1.08%	99.35%
£1million - £2million	0.7%	£1,200,000	£7,950.00	0.62%	99.97%
Over £2 Million	0.7%	£2,100,000	£14,250.00	0.03%	100.00%

- Similarly Edinburgh could acknowledge the number of properties worth close to £250k within the area and by including a reduced rate with very few step increases.

- In the case of Glasgow City, however, the problem of a large number low value properties would require a much higher rate, which, in order to be progressive, would be passed on to higher value properties.

- This would again result in fewer individuals choosing to live in, or being able to pay the Council Tax of, properties beyond £150,00k in value.

Potential figures for Glasgow City

Value of the property	Tax levied on this proportion of a property's value	Example value	Example Annual Bill	Percentage of the population paying an equivalent bill	Total Percentage of the population
0 - £35K	0.925%	£31,000	£286.75	4.58%	4.58%
£35K - £50K	0.925%	£45,000	£416.25	7.67%	12.25%
£50K - £100K	0.925%	£90,000	£832.50	36.24%	48.49%
£100K - £150K	0.975%	£125,000	£1,168.75	24.74%	73.24%
£150K - £200K	0.975%	£180,000	£1,705.00	12.65%	85.88%
£200K - £250K	0.975%	£225,000	£2,143.75	7.11%	93.00%
£250K - £300K	0.975%	£271,000	£2,592.25	2.51%	95.50%
£300K - £350K	1%	£349,000	£3,365.00	1.81%	97.32%
£350K - £500K	1%	£400,000	£3,875.00	1.79%	99.11%
£500K - £750K	1%	£600,000	£5,875.00	0.68%	99.79%
£750K - £1 Million	1%	£800,000	£7,875.00	0.17%	99.96%
£1million - £2million	1.1%	£1,200,000	£12,075.00	0.04%	100.00%
Over £2 Million	1.1%	£2,100,000	£21,975.00	0.00%	100.00%

- The most significant point, however, is that these principles of balance fairness and a resident's ability to pay would be in the hands of local authorities and it would be within their discretion to select a rate which was most appropriate to the needs of their residence and their local budget.

- There are, however, a number of potential safeguards which could be introduced or mandated by central government to promote the system of fairness and ensure that local Councillors are not entirely unfettered in their scope to redesign local taxation.

- Such safeguards naturally undermine the principle of local government autonomy to a certain extent, but may be required so as to avoid central government bail-outs.

Possible Safeguards:

4. A mandatory nil-band rate for the first £35,000 of a property's value

- As highlighted above, one of the key advantages of a more progressive form of taxation would be the reduced burden on the CTR bill as it is disproportionately used to support lower rather than higher bands.

- The breakdown of households claiming CTR by band is provided below

Band	A	B	C	D	E	F	G	H	Total
Number of Claimants	222,490	173,840	83,630	34,740	17,060	7,494	3,983	1	543,240
Percentage of Band that claim	43.51%	30.53%	21.37%	10.81%	5.30%	4.11%	3.40%	0.01%	22.38%

- The introduction of a nil-rate band to a system of Council tax based on valuations, whereby no tax at all was levied on the first £35,000 of a property's value, would enormously reduce the burden on households currently in bands A and B, which would in turn reduce the level of CTR claimed and the amount of central government funding necessary.

- One obvious principled objection is that a nil-rate bank would lift a number of households entirely out of paying Council Tax altogether which undermines one of the original justifications for a local tax funding local services; namely that all those who have access to these services ought also to contribute to the tax pool.

- This objection is partially answered by the fact that properties worth less than £35,000 represent only a small fraction of the total number of chargeable properties, and indeed it is likely that a very high percentage of these properties are also entitled to CTR.

- As such if such households are currently not contributing in fact, then objecting to their not contributing in principle is a somewhat academic concern.

- Furthermore the principle would recognise that a correlation does exist between a residence size of property and their ability to pay and rather than subsiding a relative flat and regressive tax, individuals those less able to pay would pay less and those residing in houses of extreme low value can be exempt from contribution; a principle already recognised by CTR.

Potential figures for the whole of Scotland

Value of the property	Tax levied on this proportion of a property's value	Example value	Example Annual Bill	Percentage of the population paying an equivalent bill	Total Percentage of the population
0 - £35K	0.0%	£31,000	£0.00	3.08%	3.08%
£35K - £50K	0.9%	£45,000	£90.00	4.87%	7.95%
£50K - £100K	0.9%	£90,000	£495.00	27.40%	35.35%
£100K - £150K	0.9%	£125,000	£810.00	23.74%	59.09%
£150K - £200K	0.91%	£180,000	£1,308.00	17.12%	76.21%
£200K - £250K	0.92%	£225,000	£1,720.00	10.87%	87.08%
£250K - £300K	0.925%	£271,000	£2,144.25	4.39%	91.47%
£300K - £350K	0.93%	£349,000	£2,868.20	2.99%	94.46%
£350K - £500K	0.95%	£400,000	£3,352.50	3.92%	98.38%
£500K - £750K	0.975%	£600,000	£4,790.00	1.20%	99.58%
£750K - £1 Million	0.975%	£800,000	£7,227.50	0.29%	99.88%
£1million - £2million	0.975%	£1,200,000	£11,127.50	0.12%	99.995%
Over £2 Million	0.975%	£2,100,000	£19,902.50	0.005%	100%

- When compared to the previous progressive model of Council Tax such a system would provide decreased bills for properties worth approximately £200,000 or less, but with significant increases for properties worth more.

- As such the system would be more progressive although subject to the same issues as the similar progressive models highlighted above, namely the ability of residents in more valuable properties to pay, and the ability for local authorities in less affluent regions, such as Glasgow City, to raise sufficient Council Tax receipts following a large cut in the bills of the majority of their tax base.

- Whilst these issues are of course significant, these are two distinct advantages of such a nil-rate band.

- The first advantage is that a mandatory nil-rate band would make contributions more manageable for residents of smaller income houses. As has been described above a reduction in a Council Tax bill, even if individuals are capable of claiming Council Tax Reduction, will encourage full contributions and discourage non-compliance particularly from £0-£100,000 homes.

- The second advantage is that a “nil-rate band” could potentially be used as the mechanism via which other groups can be “rewarded” for certain types of behaviour.

- For example, local authorities could promote green targets by extending the nil-rate band from £35,000 to £40,000, £45,000 or £50,000 for homes which make green or energy saving improvements. Whilst such improvements normally result in reduced energy bills, a reduction in Council Tax could also be an added incentive for home owners.

- A similar scheme could also be introduced for first time buyers and or for young adults to encourage movement onto the housing market.

- Indeed should a local authority wish to raise funds, the nil-rate band could be removed or tapered off beyond a property’s £500,000 mark, replicating a similar elimination of this discretion in Income Tax.

- Such choices would be in the hands of local authorities and would further add to their decision-making autonomy, but a nil-rate band could provide a useful mechanism to provide such a discount to encourage socially useful behaviour.

5) Maintaining the current 25% single occupancy for a property’s value below £300,000 (or at a locally approved level) but eliminating this discount for the value thereafter.

- As the current figures for single occupancy show, over half of all band A and band B residences are in receipt of the single occupancy discount.

- As a result the discount is worth approximately £230,000,000 throughout Scotland making it second only to Council Tax Reduction as a Council Tax benefit.

- Any new Council Tax system would, therefore, require the addition of a 25% discount for such single occupancy residences.

- The advantage of a per percentage system, however, is that the inclusion of a 25% discount need not be extended to the entirety of a property’s value.

- The current blanket 25% discount for all single occupancy dwellings takes no account of the size of an individual’s property and as such disproportionately advantages those who have chosen to live in more expensive properties.

- Whilst a 25% discount is certainly appropriate for smaller residencies, it is more difficult to argue that larger and more expensive properties should be entitled to such a similar discount as the state is being asked almost directly to subsidise a resident's choice to live alone in a large property.

- There are of course many circumstances in which individuals can find themselves living in large properties as single occupants for purposes of Council Tax. Naturally individuals that have a large number of children are more likely to require more expensive properties, and similarly individuals that have become single occupants of a large home by virtue of death or divorce would be unnecessarily and inappropriately burdened if they were compelled to continue to pay a full rate of Council Tax based merely on the size of their property.

- Amending the system of Council Tax such that individuals pay only 75% of the value of their property up to £300,000 but the full amount beyond that point would be an appropriate balance between these two perspectives.

- Naturally safeguards could be put in place by which the 25% discount could be maintained for the full value of a property, even beyond £300,000, for a year following a change in circumstances, but in principle it seems apposite that the system whilst recognising the difficulties of paying for a full Council Tax bill as a single occupant, should not encourage occupation of large homes by those that are unable to afford it.

- Such a reduction would naturally disadvantage the single occupants of larger properties, but it would not be a drastic disadvantage.

- For example if all property were taxed at 1% of value, a property worth £400,000 which was subject to a single occupancy discount would pay a bill of £3,000 pounds annually. Whereas if the 25% single occupancy were eliminated beyond the £300,000 point the bill would change to £3,250 pounds.

- Such an increase, whilst not insubstantial, would be relatively small compared with the elimination of the full 25% discount which would lead to a bill of £4,000 and would be seemingly be an appropriate mechanism to maintain the principle that large home ownership or residency is ultimately the choice of a resident as are the costs that result from it.

- In addition the elimination of the discount may encourage occupants to move towards more appropriate sized properties for their means, benefitting the housing market.

6) Continuing to allow local authorities discretion over second home and empty property reductions.

- Currently local authorities have discretion over discounts concerning second homes, empty properties and those which are derelict or subject to long term refurbishment.

- In keeping with the principles of localism established within the system advocated above it would also seem appropriate to continue to allow local authorities to tailor their policies over such cases as befits their individual needs.

- Whilst 100% discounts for empty and derelict properties, for example, do not encourage landowners to seek tenants, forcing property developers to pay the full rate of Council Tax from the moment a property is habitable can also discourage development.

- It ought to be within a local authority's power to find the appropriate balance which suits the needs of the area.

- Similarly a 50% discount for second homes benefits only a small number of predominantly wealthy individuals in a position to own and /or use two properties. Yet the discount is also designed to support individuals that are required to move to other residences for the purposes of work, as well as those that invested in more modest holiday homes including caravans.

- Some local councils will naturally wish to continue to support their tourist industry and maintain a 50% support for second homes whereas others may wish to reduce the discretion beyond the value of £300,000, similar to the single occupancy reduction outlined above, to limit their support for larger second home properties.

- Such decisions ought, however, to be within the competency of the local authority both to encourage authorities to tailor their policies more closely to their individual needs and requirements, encourage efficiency and allow for responsible and accountable local decision-making.

7) Replacing the current system of disabled reduction with an additional 15%-20% discount (on top of any discounts a resident is already eligible for).

- Currently disabled occupants, as noted above, are able to apply for either disability reduction or for a full council tax exemption if they qualify as severely mental impaired.

- The current mechanism for disability reduction is that the residence of individuals that qualify is placed in the Council Tax band directly its natural valuation. For example a property ordinarily subject to a band E charge would only be charged at a band D rate if occupied by a resident that qualifies for disability reduction. Similarly an individual that qualifies for disability reduction living in a band D property would only be subject to band C rates, and so on.

- Qualifying individuals living in band A properties are placed in an -A band which is equivalent to 5/9ths of the central band D rate for the local authority. In the case of the Scottish average, since the average band D rate of Council Tax is £1,149.00, a disabled resident of a band A property would have a bill 5/9ths of the size: £638.34.

- As a result although a disabled reduction is worth a 1/9th (11.1%) discount in relation to the central rate bill the real terms percentage discount varies between bands. Band A receiving a 16.6% discount, band B - 14.2%, band C - 12.4%, band D - 11.1%, band E - 18.2%, band F – 15.4%, band G - 13.3% and band H -16.7%.

- Unlike single occupancy discount and Council Tax Reduction, the number of claimants for disabled reduction are not skewed towards the lower bands and are fairly evenly spread between all the bands between B-E with only a slight drop in the numbers of claimants in the higher bands F-H, which is to be expected given that they represent only approximately 10% of chargeable residences across Scotland. Although it is unclear why there are less disabled individuals within Band A than in other bands containing a similar number of properties it is worth noting that disabled individuals often require greater space within a property and better access to local amenities than able-bodied residents. As a result they are more likely to choose to live in properties of a higher value. Furthermore the addition of disabled access and custom built attachments to a property is also likely to increase its value and, at point of sale or transfer, place the property in a higher Council Tax band.

- Any system of Council Tax which moved away from banding would need to replace the disabled reduction with a new system, and could in the process make the discounts system, which currently favours disabled residents in band E over residents in band D.

- The inclusion of a 15% discount would slightly increase the percentage benefit of some residents (in bands B, C, D and G) but would decrease the percentage relief for others (in bands A, E, F and H).

- Given the fact that a shift in the nature of Council Tax would bring with it changes to individual bills a corresponding change in the level of discount would not necessarily be obvious, nonetheless it would be prudent to ensure that the overall level of discount for individuals in certain bands did not decrease following a change to the system.

- A flat 15% discount would in principle, however, provide a suitable and fair level of reduction for disabled occupants.

- In theory it could also be possible to empower local authorities to increase this discount to 20%, however, such a move would present councils with a difficult choice during more challenging financial times as reducing a disability benefit would both create hardships for those that may have come to depend on such a discount, and would be politically very difficult.

8) Place a ceiling of £200,000 (or higher should a local authority choose) on the value of a property subject to the new council tax for basic rate income tax owner-occupiers and a further ceiling of £500,000 on the value of a property that higher, but not additional, rate tax payers would be required to pay.

- One of the most significant challenges to the introduction of a percentage value system of Council Tax is that in order to be strictly progressive the level of tax on properties worth in excess of £200,000 would need to increase and beyond £350,000 the increase is likely to a be a near doubling or (for very valuable properties) trebling in their current bills.

- The justification for such an increase has been discussed above but, as was noted, this presents a significant difficulty for such high value property residents as the relationship between the value of a resident's property and their ability to pay is not direct.

- Indeed for most individuals that choose to own and live in more valuable properties this represents their most significant investment and expenditure.

- To impose a significant increase of Council Tax on individuals that have already stretched their finances to afford the mortgage or rent on their homes would make their continued residency untenable. Such the measure would cause those in high value rental accommodation to move and force many valuable home owners to place their property on the market and trap them in suddenly an unaffordable home until the point of sale.

- The detrimental knock-on effect of this on house prices and the wider economy is difficult to calculate precisely, but would be significant and ought not to be ignored.

- One mechanism which would maintain the link between capability to pay and the level of tax levied would be to introduce a ceiling level beyond which an individual at a basic rate or higher rate of tax would not be obliged to pay.

- Such a system would be difficult both theoretically and logistically. In theory such a system would encourage residents of more valuable homes to limit their income and reward residents of valuable homes that choose not to work. In practice it would also present local authorities with an additional administrative challenge to adequately assess the eligibility of claimants.

- There would also need to be a clear set of rules as to when and in what circumstances individuals would be eligible.

- For example a family living in a property worth in excess of £200,000 in which only one individual earns would be significantly punished if that individual was given a pay rise which placed them in the higher income tax bracket. Conversely a similar value of property resided in by two or more individuals all earning just below the higher rate of income tax, could continue to benefit from the advantage of a Council Tax discount, despite having a higher net level of income as a household.

- The level of the increase could also be sizeable. If a tax rate of approximately 1% of a property's value were levied on a house valued at £400,000, a resident that made the transition from basic rate to higher rate tax payer would suddenly see a doubling of their Council Tax bill from an already sizable £2,000 to £4,000.

- To a certain extent a large council tax could be considered a justifiable expense for an individual fortunate enough to reside in property which would be within the top 5% of property values in Scotland, nonetheless an individual earning £42,000 annually would be within the higher band income tax bracket and not eligible to a £2,000 discount.

- Such individuals would also not be eligible to apply for Council Tax Reduction since a successful application requires, subject to local authorities discretion over decisions, a low income and savings of less than £16,000 in most cases.

- Because of the obvious hardship it can cause, and the potential for individuals to use the system to lessen their tax burden this kind of a "step" increase from a £2,000 Council Tax bill to a £4,000 bill is generally disapproved of within tax theory and where possible theorists tend to prefer tapered systems whereby the extent of an individual's bill would rise in proportion to their income.

- A tapering system would, however, add an even further level of complication to the system and would more directly tie the tax to income rather than property price, which would, to a certain extent defeat the principle of choosing to tax property over income to raise local funds.

- This is not to suppose that a tapered system could not be administered since the equivalent Council Tax Reduction for individuals not earning a sufficient income to pay Council tax at all is also based on the principle of tapering.

- The difficulty lies, however, in balancing the principle of taxing based on house-prices and focusing on the ability of an individual to pay without unduly rewarding those in valuable homes that may choose to lower their income.

- This point can be clarified by a brief exploration a tapering system.

- The first point to be made is that a tapered system could not begin at the £200,000 mark of a property's value nor at the higher rate of income tax threshold for to do so would create further inequality.

- For example, again assuming a flat 1% of property value tax, residents earning less than £30,000 per annum living in a property worth £199,000 would have a council tax bill of £1,999 per annum, whereas residents earning £40,000 living in a property worth £500,000 or indeed £1 million, would still only have to pay £2,000 per annum.

- This problem exists wherever on the property or income scale one chooses to start tapering.

- As such it would be more appropriate from a point of fairness to institute a system whereby individuals earning less than the tax free allowance of £10,000 are exempt and that the percentage of an individual's property subject to Council Tax increases geometrically in line with their income.

- Under such a system an individual's Council Tax would still be calculated on the value of their property, but the "ceiling" on the value of the property would rise as income rises.

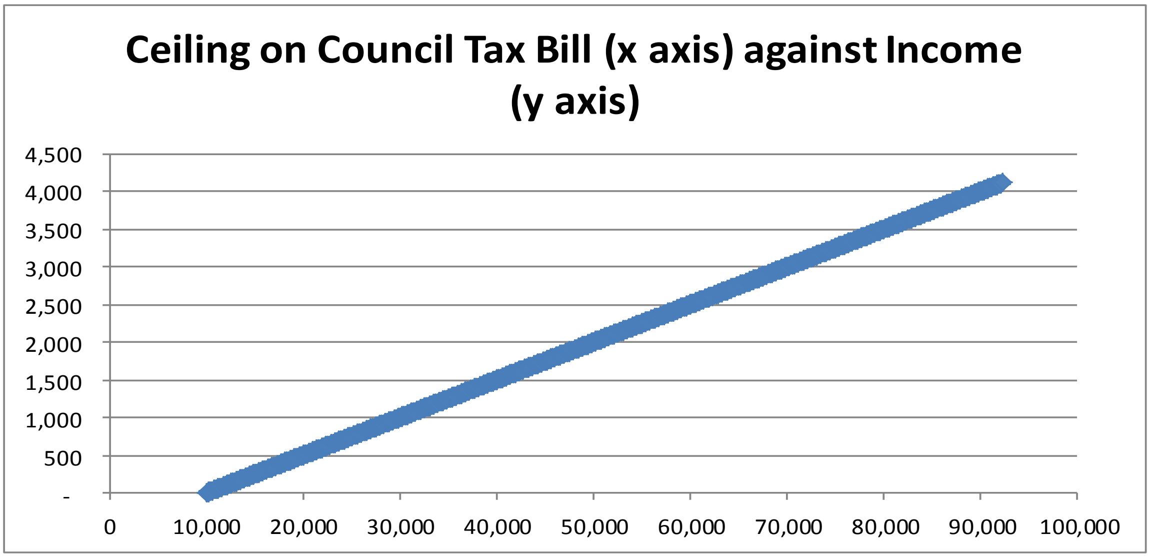
- Starting at just £250 worth of a property's value that is taxed when an individual begins to earn £10,000 the amount of a property that would become chargeable would increase by £250 with every £50 earned, equivalent to a £2.50 increase.

- As such an individual earning £20,000 per year would only pay for a maximum of £50,250 of their property's value and thus would have a maximum bill of £503.

- Other potential ceilings on Council Tax are provided below.

Total Income	Amount of a property's value that would be taxable	Total Ceiling bill annually	Maximum percentage of annual income paid
£10,000	£250	£2.50	0.025%
£15,000	£25,250	£252.50	1.683%
£20,000	£50,250	£502.50	2.513%
£30,000	£100,250	£1002.50	3.342%
£40,000	£150,250	£1,502.50	3.756%
£50,000	£200,250	£ 2,002.50	4.005%
£75,000	£325,250	£ 3,252.50	4.337%
£100,000	£450,250	£ 4,502.50	4.503%
£150,000	£700,250	£7,002.50	4.668%
£200,000	£950,250	£9,502.50	4.751%
£500,000	£2,450,250	£24,502.50	4.901%

- The payment graph for Council Tax would then be similar to the one below:



- It would need to be clarified how "income" was calculated. Were this to be the total income of the residents within the property then it could potentially abolish the need for the single occupancy discount, but this would again have an impact on marginal workers as an increase in the total income of the household could have a significant on their tax-liabilities.

- The most significant issue with such a system, notwithstanding the fact that it provides for a local income tax by the back door, is that it would be logistically very difficult to set-up and establish and it would be more difficult to regulate and control, thus defeating the very principle of a property based tax.

- Such a system would require a link between the PAYE system of taxation with an accurate evaluation of your primary residency's property price and whilst this not impossible it would make a clear case for the tax to be collected centrally and at source.

- A beneficially bi-product of this would be that the tax would become less noticeable to tax-payers as, like National Insurance Contribution, it would simply become a line of tax deduction on a payslip. As a result it is likely that participation levels would increase as the current tax gap between the taxes charged and the taxes raised for PAYE based taxes, such as Income Tax, is about 1% compared to the roughly 5% tax gap which Council Tax currently experiences.[53]

- Conversely it would reduce the power of the local tax raising authorities as their income would become dependent on the redistribution of taxes raised by the Inland Revenue and without a clear system for transferring information from the Inland Revenue, Employers and the Scottish Assessors Authority (SAA) there would be an enormous potential for individuals

[53] http://webarchive.nationalarchives.gov.uk/20121106034502/http://www.hmrc.gov.uk/stats/measuring-tax-gaps-2010.htm.pdf

to be mischarged for the Council Tax, particularly as the system would be required to calculate the Council Tax deductions taking into account the number of tax-payers in a particular residency, which would be made all the more complicated when individuals drop in and out of the work force, or cease to pay their Income Tax via the PAYE system.

- The alternative would be to extend the current self-declaration of Council Tax benefits.

- Such a system would, however, still require a great deal of logistical adaptation from the SAA and local authorities as there would undoubtedly be a large number of applications from residences for a discount based on income and processing each of these applications, as well as tracking any increase in residence income, would be extremely difficult.

- In addition the system would need to keep pace with inflation and would possible still disadvantage residences in cities, who may have a higher cost of living, than residences of smaller towns and villages.

- An additional problem with such a system which places a greater degree of significant on income, is the fluctuating nature of incomes would make predicting annual local tax receipts a more difficult process.

- Indeed based on the UK average income figures for household income per decile for 2013, which closely correspond to those for Scotland, would only raise approximately £1 billion if based on the ceiling figures suggested above.

- Whilst such a calculation is necessarily crude it does indicate both the complexities of any predictive calculations of local tax receipts and also the difficulties of making the system revenue neutral.

- In addition there would be significant difficulties in attempting to calculate

- In both cases significant advancements in data collection and storing would be a necessary prerequisite before significant steps could be taken towards an entirely integrated income and property based local tax.

- As such, maintaining a stepped system of Council Tax discount whereby household's with a combined income below the basic rate tax threshold pay for no more than £200,000 of the value of their home, and households earning less than the higher rate threshold pay for no more £500,000 of their property's value, would provide a simple discretion for asset rich cash poor individuals.

9) This final discount could be offset by an additional Capital Gains Tax upon the increased value of a property that has benefitted from a ceiling-ed Council tax for no more than the total of Council Tax reduction a resident has benefitted from over the last 25 years.

- The effect of such a discount would be hard to calculate as there is currently no available evidence which provides a clear crossover of the income of households and their relative values. Yet it is possible that rather than provide such a policy as a discretion that any shortfall in the tax owed by a household could be recovered at the point of transfer or sale in the form of an additional Capital Gains Tax upon the increased value of a property that has benefitted from the ceiling-ed Council Tax.

- For such a policy to work the discount would only be available to owner-occupiers, rather than tenants, and any shortfall in the levels of Council Tax paid due to the annual ceiling could be recovered by the local authority when the property is sold or transferred into the hands of a new owner.

- Naturally such a system would have to maintain good historical records, and could include a lapse period, of possibly 25 years, within which a shortfall could be collected.

- The tax itself could be based either on a simple calculation of what the total discount over the previous 25 years was worth, taking into account inflation but without including interest payments, or it could be a simple 5% charge on a property's value.

- The advantage here, however, is that once established it could provide a second revenue stream for individuals and would be a clear encouragement for property owners to continue to pay for their council tax rather than seeking for a discretion.

- The implication would be that Council Tax is tied closely to income and that although there is discretionary support for some asset rich cash poor individuals they are benefitting from their capital investment and at the point of sale the council would be in a position to take either a percentage of the sale value or the total of Council Tax discount.

- Such an opt in rather than an opt out system would be available to far less individuals than a complete tapering system and would be far less attractive. Yet it would provide a safety net for those genuinely no in a position to pay as a result of a property price increase and would protect pensioners that might otherwise be caught in the property trap.

- It would, however, expect that those who inherit from asset rich, but cash poor individuals would be expected to pay towards the state what the former individuals owed.

- This may in some cases require the sale of the asset, but such a sale would be entirely defensible primarily because in most cases of property inheritance the inheritors do go on to sell the property in any case, but secondly because the inheritor is still a net beneficiary and it is appropriate that they, who are in a position to do so as they are not already being displaced by the Council Tax fee, settle the former residents' debt to the local council before taking up the benefits that residing in that local council provides.