

RESPONDENT INFORMATION

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

* I am responding as:	<input checked="" type="checkbox"/> An individual <input type="checkbox"/> An organisation/group
Name of Organisation (if appropriate)	<i>I-SPHERE, Heriot-Watt University</i>
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Email	
Do you consider yourself or your organisation as from or representing?	
<input type="checkbox"/> a rural area	<input type="checkbox"/> an urban area
<input type="checkbox"/> an area with both urban and rural parts	<input checked="" type="checkbox"/> don't know / not applicable
Would you be happy to be approached by the Commission for further discussion about your submission?	
	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
If you are responding as an individual:	
* Do you agree to your response being made available to the public on the Commission's web site?	
	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
* If you have agreed to your response being made available to the public, please tell us if we may also make your name and address available. (Please select one option only)	
<input checked="" type="checkbox"/>	Yes, make my response, name and address all available
<input type="checkbox"/>	Yes, make my response available, but not my name and address
<input type="checkbox"/>	Yes, make my response and name available, but not my address
<i>If you are responding as an individual we would be grateful if you could provide some additional information at the end of this form. This is absolutely optional but will help us get an overall picture of the information we receive.</i>	
If you are responding as a group or organisation:	
* The name and address of your organisation will be made public on the Commission's web site. Are you content for your response to also be made available?	
	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Which of the following best describes your organisation? (Please select one option only)	
<input type="checkbox"/>	Community Group
<input type="checkbox"/>	Local Authority
<input type="checkbox"/>	Other public sector organisation
<input type="checkbox"/>	Third Sector organisation
<input type="checkbox"/>	Professional body
<input type="checkbox"/>	A business
<input type="checkbox"/>	A government department or agency
<input type="checkbox"/>	A social enterprise
<input checked="" type="checkbox"/>	Other (please specify) <i>University</i>
Short description of the main purpose of your organisation:	
<i>I am responding in a professional capacity as an academic. My response is not made on behalf of the university as an organisation. But neither is it made in my own interest. Your form does not allow for this distinction. I would describe the submission as being in "an individual but professional capacity."</i>	

Tell us what you think

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

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

1. SCOTLAND'S CURRENT SYSTEM OF COUNCIL TAX

To what extent does the current system of council tax deliver a fair and effective system of local taxation in Scotland? Are there any features of the current system that you wish to see retained or changed?

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

The Council Tax system was devised as replacement to the highly unpopular 'poll tax'.

It is a hybrid property tax and service charge. The service charge element helps to explain features such as the single person discount and the original reduction for second homes. It is designed to be regressive, both between local authority areas and between properties within the same local authority area. This feature arises from the design of the banding system, which suppresses the liability of more expensive properties. It also suppresses the value of the tax base in high value areas relative to low value areas. These regressive nature of these features can be reduced but not removed by reforming the system. In other words, it is inherently unfair.

The system has been relatively efficient in terms of revenue collection, which reflects the property element within the tax, i.e. it is easier to tax unmovable objects than highly mobile factors. However, its credibility has been much reduced by the failure to revalue property since its introduction.

Its efficiency as a local tax has been undermined by the council tax freeze.

The system is sufficiently poorly designed and discredited to merit its replacement.

2. REFORM OF LOCAL TAXATION

Are there alternatives to the current system of council tax that you think would help to reform local taxation in Scotland? What are the main features of these, and why do you think they would deliver improvement?

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

Property ought to play a central role in the tax base, it forms a suitable basis for local government taxation, and it would be economically disadvantageous to abandon the taxation of property in favour of taxing productive activities, e.g. by shifting to local income tax. (The case against local income tax is even stronger in Scotland than in the rest of the UK, because it is the principal means available to the Scottish Parliament to raise additional revenue. So in Scotland, a shift to local income tax could not be balanced by a reduction in national income tax and increase in other taxes such as VAT, corporation tax, NICs etc.)

I have been involved with debates over property tax for some years. I was Academic Advisor to a Joseph Rowntree Foundation Housing Market Taskforce and authored its report (<http://www.jrf.org.uk/sites/files/jrf/housing-markets-volatility-full.pdf>) that mooted a form of national property value taxation, and was co-author of a subsequent report that modelled the effects of such a tax in England (<http://www.jrf.org.uk/sites/files/jrf/Full-report-council-tax.pdf>). These enterprises led to discussions and meetings with politicians from a variety of parties, and also experience of how the press can mis-represent the effects of property taxation. I have also been struck by the sections of the Burt and Lyons reports that deal with public opinion. Both suggest that a central consideration of fairness in the public's mind is the ability to pay a tax out of current income. I also have a further concern, which is that much discussion about property taxes is conducted as if everyone is a home owner, when, in reality, many people who pay council tax and would pay a property tax are in fact tenants.

The experiences I have described have led me to believe that it is both practically necessary and ethically desirable to take account of people's current incomes when taxing property values. Indeed the abandoned revaluation in England and the

rejection of the Burt review in Scotland lead me to believe that the common perception that it is unfair to tax people who have low current incomes on the full value of their property is the principal impediment to reforming the council tax. Of course, rebate systems were developed for the rates and council tax systems. However, they suffer from being corrective additions to the system – suggesting that the tax itself is unfair. Rebates also have incomplete rates of take-up, and the savings limits lead to many low income pensioners being left unaided. Moreover, being additions to the system means that they can be removed: the UK Government ended the Council Tax Rebate, making it the responsibility of local authorities in England and of the Scottish Government.

A further point worth making in terms of rebates is that they are mechanisms intended to prevent residual incomes (i.e. incomes after council tax has been paid) falling below subsistence levels. Tax is therefore insensitive to income across most of the income spectrum.

The deferment of property tax is often suggested as providing an adequate response to the issue of the 'asset rich but income poor' – the idea being that an elderly person may remain living in their home until they die, at which point the deferred tax is collected from their estate. Such a system is not a practical response to younger people who have low incomes and, crucially, could not apply to people who rent properties. For social tenants living in larger properties, with little prospect of moving to a smaller social rented property, a property tax insensitive to income could come to be regarded as being another 'bedroom tax'.

I have therefore suggested that we explore the idea of a hybrid property and income tax, which is intended to retain property value as the core part of the tax, but to tackle the issue of fairness in terms of income, by embedding an income test into the tax.

In broad terms, the starting point of such a scheme would be either the capital value or market rental value of the property. I would prefer the market rental value because renters might justly question why they should be taxed on the basis of an asset they do not own. Rather, a tax on rental value would represent a tax on housing consumption – and there can be no dispute that owners and tenants alike consume housing. The term 'housing services tax' was used in the Mirelees review. It has the advantage that it can be applied across tenures.

The market rental value of a property would represent a sum that is liable to taxation. However the proportion of the sum that is actually taxed would be adjusted according to current income. This would mean that for a given income, tax liability would rise with property value. Conversely, for a given property value, the amount of tax paid would rise with income. If someone has a low income, they might pay no local tax at all. Second or holiday homes might be taxed on the basis of a fixed percentage of their rental or capital value without reference to owners' incomes.

3. LOCAL PRIORITIES

How well do you think that communities' local priorities are accounted for in the way that local taxation operates at the moment? If there is room for improvement, how should things change?

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

The ability of local communities to express their expenditure priorities is severely limited by the operation of the Council Tax. The relatively small proportion of services funded by the tax is one problem. The Council Tax freeze is another. A third problem, unrelated to the design of the tax, is the fact that Scottish local authorities are so large, and outside the main cities may evoke little sense of identity.

It would be desirable to fund a higher proportion of local services out of local taxation. However, there is merit in distinguishing between services that are delivered largely to uniform national standards by local authorities and services where genuinely local variation occurs. There is a case for funding uniform services directly by central government, leaving local tax to fund a much higher proportion of services that may vary as a result of local preference.

There is also a case for restoring control over non-domestic rates to local authorities.

4. FURTHER INFORMATION

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

I am convenor of Scottish Property Tax Reform, which is a network of interested individuals and organisations who believe that a well-designed system of property taxation can and should play an important role in public finance, the economy and a fair society. We seek to stimulate the debate through the publication of blogs and briefings. We do not, however, seek to promote a particular model of property taxation, and this representation is not made on behalf of the network. We would be pleased to assist the Commission in 'keeping the conversation going'. Further details can be found on our website: http://scottishpropertytaxreform.org/?page_id=47

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

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