STUC Preliminary Submission to the Commission on Local Tax Reform

Introduction

1 The STUC welcomes this opportunity to provide preliminary written evidence to the Commission in advance of the roundtable session on 12 June. A further, more comprehensive written submission will be provided before the Commission's 22 June deadline.

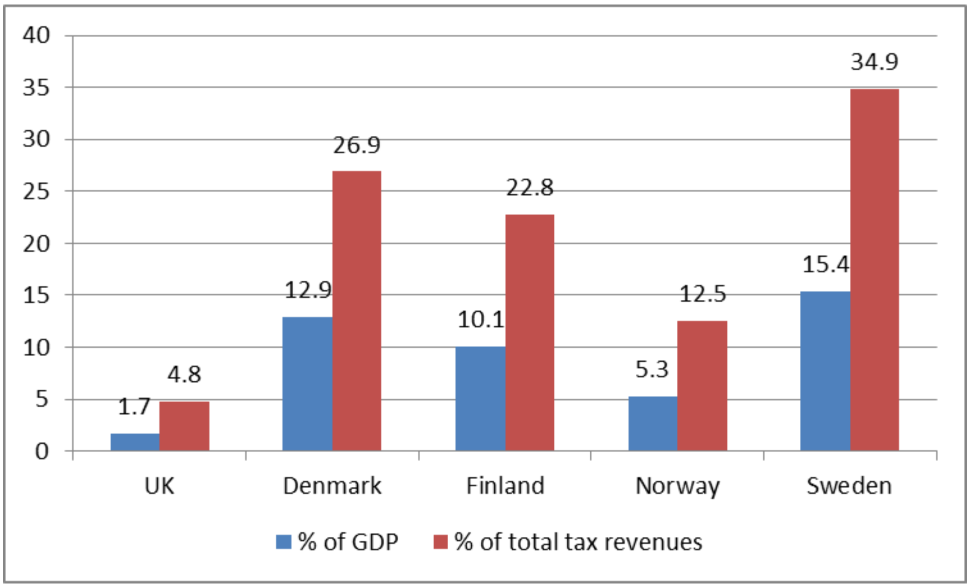
2 The STUC believes that the current situation – where the main instrument of local taxation enjoys little support in its current form and has been frozen for 7 years at a cumulative cost of £2.5bn – reflects very poorly on Scottish democracy.

3 The STUC agrees with the conclusions of the Commission for Strengthening Local Democracy:

> "*Across Scotland, just 18% of local income is currently raised through local taxation. Our view is that this is not a local, or a democratic basis for democracy and that, in line with elsewhere in Europe, local taxation should fund at least 50% of local income in the future. Our aim is not to promote more, or less, taxation and spending: it is simply to make sure that the decisions about these issues are made locally.*
>
> *"Real local financial powers would allow communities to reduce tax and spending if they wanted to, not just to raise it. That would be their choice where currently they have no choice at all. We also entirely accept that national grant support will always be necessary to equalise variable local tax bases, variable costs of providing services, and variable patterns of need and demand*".

4 The STUC also believes that the total tax revenues will need to increase over time if the profound economic, demographic and environmental challenges facing Scotland are to be met successfully. In this context, we note those countries – particularly the Nordic nations – more successful over time in collecting significantly higher total tax revenues as a proportion of GDP, collect a much higher proportion of this tax locally. In comparison Scotland and the UK are highly centralised tax jurisdictions:

Chart 1 Taxes received by local government

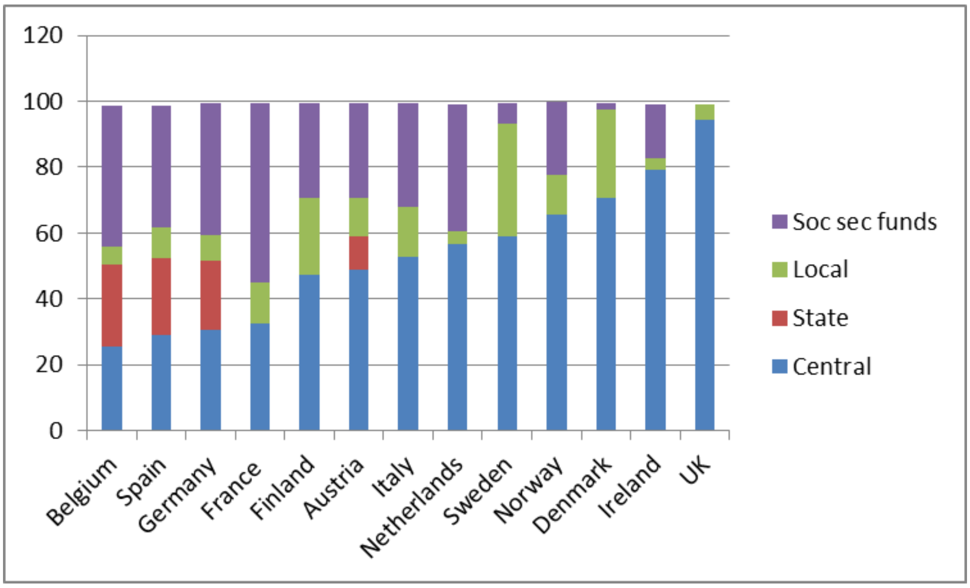


5 Eurostat, the official statistics agency of the European Union, recently published its latest annual analysis of tax collection by tier of Government. This provides further evidence to show just how centralised the UK is in terms of tax collection.

6 Across the EU-28 in 2012, tax revenues received by central government accounted for just over 50 % of total tax revenues. Social security funds accounted for 31 %. State government (only applicable for Belgium, Germany, Spain and Austria) accounted for around 7 % of all tax revenue and local government accounted for 11%.

7 In the United Kingdom 94 % total tax revenue is receivable by central government. In contrast, in Germany and Spain – both countries with a state government sub-sector – central government receives less than a third of total tax revenues. The figures for the Nordic nations are Denmark 71%; Norway 65%; Sweden 58% and Finland 46%.

Chart 2 Total tax revenues by central, state and local government and SSC funds



8 The link between higher total and local tax revenues and the strength of democracy (at all levels) is one the STUC would encourage the Commission to explore further. It seems reasonable to assume that the willingness of other populations to pay more tax, and to pay a much higher proportion of this tax to local government, must reflect at least in part a belief that local government functions well and delivers a decent return for the taxes it collects. Sustaining significantly higher total tax takes over the long-term is surely an indicator of greater democratic legitimacy.

Options for reform

9 The STUC's Policy Committee recently examined a number of options for reform of local taxation in Scotland. Learning from the analyses undertaken by the Burt Review and the Glasgow City Council Working Group, the Policy Committee based its assessment of the various options on the four following principles: fairness, efficiency, predictability and local accountability. The Committee found each option (Land Value Tax, a reformed Council Tax, Local income tax and a local property tax) had positive and negative features. A detailed summary of the Committee's analysis will be set out in detail in the full formal STUC submission to the Commission.

STUC position

10 The STUC believes that the Council Tax should be immediately reformed by increasing the number of bands and changing the multiplier between bands. Regular revaluations will be required to sustain credibility. The Scottish Parliament possesses the powers required to introduce this progressive reform.

11 The STUC is open minded about, and willing to explore, options for more radical reform with perhaps a greater role for land value and/or property taxes. This may involve an option such as that identified by Glasgow City Council of a Local Property/Land Value Tax hybrid. This could be extended to options where the LVT element is national and the Property Tax local but supplemented by new local sales, tourism and environmental taxes. In order to negate unintended consequences measures such as rent controls may have to be considered alongside LVT.

12 However, such changes are likely to be much longer term. Of the options listed above, the STUC believes that only the local property tax recommended by Burt - which retains the best features of Council Tax and could enhance progressivity through the use of actual property values – is feasible in the medium term.

13 The STUC believes that the Scottish Government should commission research into the impact of replacing business rates with an LVT system as recommended by the Mirrlees review.

STUC
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