

## Call for Written Evidence

### PAGE 2: RESPONDENT INFORMATION

<b>Q1: Please tell us a little about yourself</b>	
Name of Organisation (if appropriate)	School of Economic Science
Forename	Peter
Surname	Bowman
Title (e.g. Mr/Ms/Mrs/Miss/Dr)	Dr
Address 1:	11, Mandeville Place
City/Town:	London
Post Code:	W1U 3Aj
Email Address:	economics@fses.org
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<b>Q2: Would you be happy to be approached by the Commission for further discussion about your submission?</b>	Yes
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<b>Q3: Do you consider yourself or your organisation as from or representing?</b>	don't know / not applicable
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<b>Q4: I am responding as an:</b>	An organisation/group

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<b>Q5: You have indicated that you are responding as an individual. Do you agree to your response being made available to the public on the Commission's web site?</b>	<i>Respondent skipped this question</i>
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**Q6: 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.**

*Respondent skipped this question*

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**Q7: You have indicated that you are responding on behalf of an 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?**

Yes

**Q8: Which of the following best describes your organisation?**

Third Sector organisation

**Q9: Please provide a short description of the main purpose of your organisation.**

We are an educational charity registered in England & Wales and Scotland providing public courses in Economics with Justice and Practical Philosophy.

### PAGE 6: TELL US WHAT YOU THINK

**Q10: 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? Please illustrate your answer with any examples from your own experience.**

The current council tax system is a compromise arrangement designed to replace the poll tax. It is a hybrid containing elements of the old domestic rating system and also some elements of the poll tax. Rather than being based on sound economic principle that ensures public revenue is raised fairly and without distorting the economy, it is a political compromise.

Many economic and financial authorities are advocating a move towards more property-based taxation to ensure healthy enterprise and a more equitable distribution of the benefits. [IMF, OECD, Joseph Stiglitz, Economist, etc]. Such advice should help counter advocates for a move away from tax based on property towards income. Property-based taxation is particularly easy to administer, and accesses a different aspect of the economy to income, profit or expenditure bases of taxation.

The present system works to the extent that it is broadly acceptable to owners of mid-range properties. However, its unfairness is often cited, being felt in particular by the poorest; this is exacerbated when it is seen to fall too lightly on the richest in society. This unfairness is also felt by the asset-rich yet income-poor, especially since the large increases in property value in some localities. [Several submissions from individuals testify to this].

The vast majority of the poorest are renters rather than owners. When, in 2013, responsibility for Council Tax relief moved from national government to local authorities the situation became worse (See New Policy Institute Report) <http://counciltaxsupport.org/schemes/>

It makes no economic sense for those in receipt of benefits from the state to be expected to use those benefits to pay a property tax.

In respect of general taxation, two observations can be made. Domestic property is lightly taxed compared with business property; although this is probably a political expediency, by far the greatest national asset is domestic property and the potential for diverting more of the gains towards public revenue should not be ignored.

Wealth received from owning property is taxed lightly compared with wealth received through hard work; this distorts the economy and tends towards increasing inequity, and is the basis for the general encouragement for some shift in the taxation base from income to property.

In relation to local authority and the community it serves, the proportion of public expenditure derived from local taxation is low, leaving a dependency on central government for around half their revenue; this can compromise their independence and accountability. Perhaps of more significance, this leads to a sense of disconnection between what citizens pay in local taxation and what they receive in services.

We advocate retention of local taxation based on property, adapting the present system to address all of the above considerations. The main refinements are for a shift in valuation from property towards land value, for regular, preferably annual revaluations and for its incidence to fall on the owners of property rather than the occupiers.

**Q11: 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?**

Our main proposition for reform is a move towards a system targetting land rent rather than property rent. This is based on sound economic principle, fairness, and practicality.

We are reminded that all the land, the territory of Scotland, is a common inheritance of the Scottish people. Occupying any part of the land of Scotland is a unique privilege and as with any privilege there are

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corresponding obligations. One way to discharge the obligation for holding land in Scotland would be to pay an annual rent to the local authority proportional to the value of the land occupied. Ultimately, this is a sound economic as well as a moral principle.

Land value taxation targets economic rent, and as many of your submissions have stated, taxation of economic rent rather than distorting or inhibiting the economy, tends to encourage healthy and prosperous economic activity. This has been the common cry from Adam Smith to Joseph Stiglitz. The Mirlees Review, 2011 observed: "the economic case for a land value tax is simple, and almost undeniable." Hence we will focus on practicality and fairness.

Practicality has been addressed by several proponents, but can also be observed through examples from around the world.

An explanation of how a site value based system can work in practice has already been supplied in the recent report "Land Value taxation for Scotland" by Andy Wightman

<http://www.andywrightman.com/docs/LVTREPORT.pdf>.

This comprehensive proposal advocates replacing both business rates and council tax by a single land value tax. Unfortunately such a wide ranging reform may well go beyond the remit of the present commission. Nevertheless, even if reform was limited to domestic property what is proposed remains relevant and applicable.

Attention is also drawn to the pilot scheme carried out by Glasgow City Council in 2009

[http://www.andywrightman.com/docs/Glasgow\\_LVT.pdf](http://www.andywrightman.com/docs/Glasgow_LVT.pdf)

which dealt with many of the practical issues of the shift to a local tax system based on site values.

Other submissions have illustrated with present day examples such as Denmark and Pennsylvania in the US. These examples are particularly helpful in dealing with the issue of the valuation of sites as they show that although in Scotland this would be a novel aspect of the modified property tax in other regions of the world this is well established and there are working examples to draw on to establish a methodology.

The perception of fairness is a vital consideration, and unless addressed, political expediency becomes impossible.

An important conclusion from Wightman's "Land Value for Scotland" study is that a shift to a site value based system would mean that most people would be better off. This indicates how regressive the present system is. Of course it also means that some appear to be worse off, but it can be observed that many of these are currently benefitting most from the general community effort generating increasing land value.

Many submissions you have received express a sense the present system's unfairness. These are typically expressed on the lines of: "Council Tax and all property-based taxes are unfair, especially for those with high-value property but low income." At first sight, a property-based system of taxation may well appear to take no account of affordability. We consider two scenarios, one "widowed pensioner in a mansion" is much covered in other submissions, the other "heavily mortgaged" is not often mentioned.

The "asset-rich, income-poor" as exemplified by a widowed pensioner still living in an old £500K family home warrants some sensitivity. Most of the £500K represents the community's (market's) value for that location, the remainder for the building. The occupant's earnings over the years probably made little contribution to the present value. Hence although there is a requirement for some return to the community in the form of land-value based taxation, it would be inconsiderate to enforce the vacating of a home that had been established over the decades. Hence the policy of deferring payment until the property is sold as advocated by several submissions is strongly endorsed. Any such payment from the estate would lessen any inheritance tax due, but a recommendation for the long-term is to raise inheritance tax thresholds once land-value based taxation of residential property is established.

Although this situation needs to be dealt with sensitively it is possible that this particular situation is over-emphasised. In Northern Ireland for example a deferred payment scheme was introduced in April 2010 to address the issue of asset rich income poor pensioners but after two years only 21 pensioners had applied to use the scheme and so it was decided to close it down.

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The "heavily mortgaged" couple starting to establish their home is likely to be paying all they can afford, and hence may find paying domestic land-value tax an excessive burden. Simple consideration of this scenario reveals that they are already paying the economic rent of that site through their mortgage. The mortgage principle is in effect an advanced payment of the next 20 years or so of this rent. Hence we propose that appropriate reduction of the assessed land value for any outstanding mortgage is made. It would be better still if a suitable portion of the economic rent was paid by the mortgage provider, but this may be beyond the commission's remit.

The Mirlees 2011 extract referred to above can be quoted at slightly greater length: "The economic case for a land value tax is simple, and almost undeniable. Why, then, do we not have one already? Why, indeed, is the possibility of such a tax barely part of the mainstream political debate, with proponents considered marginal and unconventional? This is such a powerful idea, and one that has been so comprehensively ignored by governments, that the case for a thorough official effort to design a workable system seems to us to be overwhelming."

Attention could also be drawn to the recent Economist leader and feature article (Apr 4, 2015) which strongly advocated moves towards taxation on land value and then observed that perhaps the largest practical problem "... is by its very nature that it hits the well-connected rich hardest."

The Commission has a golden opportunity to take heed of the recommendation of so many authorities, and to do everything possible to encourage a move for Scotland to enjoy a fairer and more prosperous society.

**Q12: 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?**

Any move towards greater local retention of the domestic property tax receipts will help bond the community with the local government infrastructure. However, this is especially true where the tax is mainly based on land value rather than building value.

Expenditure that improves land value (local infrastructure, services etc) will, to the extent that the local community values it, be recovered through increases in land value.

A system of local taxation based on land values will also provide a natural system of compensation for developments that were perceived to have a negative impact. For example, if it was deemed in the public interest to build waste disposal unit, an incinerator, for example, in a particular location, those with properties close by the site may resist and may explicitly point out that the new plant will have a negative impact on the value of their property. With a system of local taxation based on regularly assessed land values any change that decreased land values would lead to property owners being automatically compensated by having to pay less in taxation.

**Q13: 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.**

*Respondent skipped this question*

**PAGE 7: Additional information if you are responding as an individual**

**Q14: This information is optional. Would you like to provide more information about yourself?**

Not applicable - I am responding on behalf of an organisation

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<b>Q15: Are you male or female?</b>	<i>Respondent skipped this question</i>
<b>Q16: What is your current age?</b>	<i>Respondent skipped this question</i>
<b>Q17: Do you have a physical or mental health condition or illness lasting or expected to last 12 months or more?</b>	<i>Respondent skipped this question</i>
<b>Q18: Which of the following best describes you?</b>	<i>Respondent skipped this question</i>
<b>Q19: What kind of household do you live in?</b>	<i>Respondent skipped this question</i>

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<b>Q20: What is your household's total income from all sources over the last 12 months?</b>	<i>Respondent skipped this question</i>
<b>Q21: Do you own your home, or rent it?</b>	<i>Respondent skipped this question</i>
<b>Q22: If you know it, please select your Council Tax band from the drop down menu below.</b>	<i>Respondent skipped this question</i>
<b>Q23: What is your ethnic group? Choose one section from A to F, then select one box which best describes your ethnic background or group</b>	<i>Respondent skipped this question</i>