

Scottish Action Against Council Tax (SAACT)

Response to the Commission on Local Tax Reform.

Introduction:

We believe that there are some pre-eminently important principles to be taken into account when considering new local taxation. This evidential submission explains those which SAACT has judged to be fundamental. It also explains why we consider some objections to our proposals to be essentially invalid.

In formulating its policy SAACT has considered some practicalities which we refer to in this submission, but has inevitably left many details of taxation implementation to those with expertise in the subject. In this regard mainly media inspired cynical barriers to implementation should be seen for what they are and not allowed to destructively affect sound principles of fairness.

By now it must surely be realised that the principle of fairness must be the overriding element of any new system and only in this way will it be enduring, unlike its various predecessors, which have been recognised by their characteristic unfairness – refer to comparison table on page 4.

Another desirable feature of a new system should be simplicity, both in concept and in practice. A caveat to this, however, must be where simplicity is allowed to take precedence over fairness.

The following short submission outlines our views on the subject. We would be happy to expand on any or all of these views.

Inviolable Principles of Fairness:

SAACT believes that the Council Tax is grossly unfair and we contend that the whole basis of this regressive tax is flawed. No amount of tinkering with the system, aimed at giving it a veneer of fairness can be justified. The Local Government Finance Review Committee (Burt Report, page 132) eventually came to this conclusion in 2006, after calling on the University of Stirling to carry out modelling work, which concluded that “introducing additional council tax bands has virtually no effect on the burden of council tax”. These results were consistent with the outcome of research by Heriot-Watt University for the Scottish Parliament's former Local Government Committee(2002). Burt also investigated the effect of increasing the multiplier, being the ratio of the maximum to the minimum band charges. Again, Burt concluded (page 137), “However, we are not persuaded that a revaluation on its own (or in combination with changes to the bands or multiplier) would overcome the shortcomings of the current system”.

Also, quoting the Burt Report (page 14) on Layfield (the extremely comprehensive review of local government 1976 report) “Layfield regarded Local Income Tax as the only serious candidate for a new source of local revenue”.

Our fundamental principles which we believe, **taken together**, should be adopted as the criteria on which the fairness of a replacement tax should be judged are:

1. Council Tax should be scrapped - in favour of a fair system.
2. The replacement tax must not be based on domestic property value, but should be levied on all residents who are able to pay – **people** and not property use council services.
3. The replacement tax must be based on ability to pay (from income) and should contain no regressive elements – regressive taxation fosters further inequality and hardship.
4. The replacement tax must not disadvantage those whose circumstances are such that they would qualify for Council Tax Benefit/Reduction under the present system.
5. The replacement tax should avoid the necessity for means-tested benefits.

Having studied possible alternatives to Council Tax for a number of years, SAACT has come to the conclusion, as did Layfield and the Scottish Government, that the fairest form of a revised system would be Local Income Tax (LIT). This is the only system yet considered by SAACT to be capable of satisfying our five principles of fairness outlined above. Like any new system, the practical implementation is not without some difficulties but, since it has fairness at its core, we consider that it is not beyond the wit of man or of the Commission or of HMRC to overcome sufficient of the difficulties to render it both fair and practical.

Possible Variations of LIT:

We interpret LIT as being practical in three possible variations.

1. Each local authority would set the taxation rate according to its own budgetary requirements.
2. The taxation rate would be set nationally and disbursed by the Scottish Government.
3. LIT could be included in the national income tax rate.

Each of these variations has its own pros and cons, the chief among them being:

Variation 1 – pros. Each local authority would have more responsibility for its own policies.
cons. This would greatly detract from simplicity of collection.

Variation 2 - pros. This variation would result in an acceptable simplicity of collection and administration.
cons. Each local authority might have a bit less responsibility for its policies than under Variation 1.

Variation 3 - pros. This has the greatest degree of simplicity since it would require the least amount of change to the established income taxation system.
cons. The established income tax system has such serious limitations for LIT. mainly in terms of tax free allowances and loopholes to effectively render it unacceptable from a fairness perspective.

In the last Scottish Parliament, the LibDems, who were nominally in favour, voted against LIT allegedly because they preferred Variation 1 (rate set locally) to Variation 2 (rate set nationally) which was on offer in a bill by the then SNP Government. As far as we know, however, they did not table an amendment to that effect as a constructive way of allowing a bill to be passed.

SAACT takes the view that compromises sometimes have to be made for practicality and that LIT should be considered as an evolving process with each step of the evolution increasing the fairness or practicality of the tax, always providing that any increase in practicality does not compromise fairness in any way.

A good example of this would be that Variation 1 should be considered seriously after adopting the much more simple approach of Variation 2, and that this should only be considered after the establishment of the new tax.

Additional SAACT Recommendations:

As has already been said, it is not the purpose of this submission to spell out local taxation methods in detail. Nevertheless there are some policy details fundamental to the fairness and cost and in the comparison table overleaf.

1. An initial identical LIT tax free allowance should be given to all and should not vary with personal variations of expenditure. This should be set high enough to free the lower paid and lower income groups from LIT liability. This is important in order to eliminate all tax avoidance/evasion from the local taxation.
2. An individual's income from savings, investments and sources other than their main source, can possibly be taken into account by a similar method to national income tax for state pensioners who also have employment retiral pensions i.e. by adjusting their tax free allowance.
3. HMRC, with their comprehensive knowledge of income tax systems, should be tasked with the creation and distribution of a new, efficient, digital system of collection. This should save vast amounts of money over the present inefficient council tax unfair assessment and collection system. In this regard, it would be beneficial to have HMRC develop and distribute the new system, free of charge to employers.

The above measures could relieve businesses from the burden and expense of additional bureaucracy, while greatly reducing local authority collection and administration costs.

Comparison of Alternative Local Taxes – when judged against Five Essential Attributes.

	Who is Assessed To Pay?	Fairness?	100% Collection Rate?	Cost of Collection?	Need For Means-Testing?
Domestic Rates	Only Householders	Regressive	NO	Expensive	YES
Community Charge	All Service Users	Regressive	NO	Expensive	Minimal
Council Tax	Only Householders	Regressive	NO	Expensive (costs 5p to collect £1 in tax) *	YES
Local Sales Tax	All Service Users	Regressive	YES	Minimal	NO
SSP's Scottish Service Tax (rate set Nationally)	All Service Users	Progressive	YES	Saving of 75% on Domestic Rates or Council Tax **	NO
Local Income Tax (rate set Locally or Nationally)	All Service Users	Progressive	YES	Least Expensive * (costs 1.41p to collect £1 in tax)	NO ***

* Source: 'A fairer Way' – Report by the Local Government Finance Review Committee (2006).

** Source: Abolition of Council Tax (Scotland) Bill proposed by the SSP (2004).

*** Means-Testing is already carried out by HMRC.