

The Commission on Local Tax Reform

Scottish Land & Estates is a membership organisation which uniquely represents the interests of both land managers and land-based businesses in rural Scotland. Our members are involved in their communities and have an interest in the way in which local taxes are raised and spent. They are significant contributors to the rural economy.

In addition to Council Tax, our members typically pay a swathe of other taxes, including income tax on profits (or corporation tax as appropriate) at up to 45%; PAYE and NIC on staff costs and on benefits in kind such as cars, medical insurance, accommodation, other perks; VAT on exempt property and private use of any expenses such as fuel at 20%; rates on farm commercial property; Capital Gains Tax on sales of assets; Inheritance Tax on non-relieved property; Land and Buildings Transaction Tax on purchases of property or leases; Insurance premium tax; Landfill tax; Road tax; Fishery Board assessments; Petroleum revenue tax on fuel purchased; other licencing board taxes and costs; and ATED on enveloped property.

We are an apolitical organisation and set out these examples simply to provide the context in which our members currently contribute to HMRC and Revenue Scotland and to recognise that any reform of local government finance requires to take full account of the wider tax take by Scottish and UK Government in challenging economic times for the rural sector generally. Reform of Council Tax needs to be carefully considered as it will have a major impact across Scotland, but especially in terms of matters such as rural employment and investment if unduly burdensome and onerous for property owners.

We welcome this opportunity to respond to the Commission's questions.

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?

Our main criteria for local taxation are that it ought to be certain and consistently applied; transparent and clearly understood; and that administration and operating costs should be kept at a minimum. We consider that Council Tax is relatively low cost for local authorities to administer with high collection rates and virtually no avoidance, with all sales being registered and available to the assessor and the asset obvious to all.

The current system has been in place for some time and there is an inherent risk with bringing in any new tax in place of Council Tax that it will be untested and present difficulties in introduction and collection. By and large there is a public acceptance of Council Tax, while there may be a less positive reaction for a successor or replacement tax.

In terms of "fairness", the rules are clear, not arbitrary, meaning expectations are reasonable. Generally Council Tax is stable and enforceable and meets many of the tenets which a tax should meet.

The main current issues with the Council Tax are that:-

- The appeals process can be difficult to understand and simplifying this procedure would be welcome, including a plain English guide. Appeals should be independent and there should be good interface with taxpayers.
- There are fewer comparable properties for valuation purposes when re-assessing in rural or less densely populated areas as opposed to urban housing estates.
- Basing the tax on 1991 sale levels is outdated and the absence of legislation for automatic revaluation politicises this issue.

We do not consider these insurmountable problems and review of the existing processes would be much preferable to establishing an entirely new tax, which would need to be fully assessed.

In terms of Council Tax banding, we are aware that only 1% of dwellings are currently in the highest band "H". We would recommend that in any reform, simplistic changes to bands are not made which simply penalise some, but without consequent advantage in overall tax return and potential serious detriment to investment in heritage properties and local investment more widely.

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?

The premise of the question is that alternatives to Council Tax will necessarily bring about improvements. In fact, Scottish Land & Estates believes that there could be serious detriment with some potential reforms which have been mooted.

As we indicated to the Land Reform Review Group we do not support Land Value Taxation, either as a replacement for or as an addition to Council Tax or Business Rates. Many land based business are already experiencing difficulties in this challenging economic climate, and any tax imposed on the value of the land could have negative implications for a number of industry sectors, including farming. Land Value Taxation, if an additional tax, could have the effect of driving weaker farmers out of business.

We are also opposed to a form of Local Income Taxation which would potentially pose a threat to inward investment in Scotland and prejudice Scotland's ability to attract major operations to Scotland, as a result of any income tax differential on higher paid staff. It would also be a tax on labour, and it should be noted that employment patterns can change swiftly which may consequently affect the strategic budgetary planning of local authorities. It would be highly volatile, for instance farm income dependent upon the weather, whereas Council's need a stable source of revenue. A tax on labour as opposed to property could also create an imbalance in the housing market affecting mobility and this would pose particular problems for

rural areas. Local Income Taxation, as with Land Value Taxation would also presumably result in administrative costs in terms of implementation and indeed Local Income Tax may require further amendment to the Scotland Bill. Generally, local income tax is likely to be disproportionately expensive to administer compared to a property tax and issues of taxpayer confidentiality are even greater.

LOCAL PRIORITIES

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

Our members regularly engage with their local authorities and local councillors. As an organisation we have been heavily involved in the work of the Community Empowerment Scotland Bill, which if successfully implemented may go some way to assist in changing the culture in local authorities to be more outward facing and better with their internal and external communication and community planning. Generally local authorities require to fully engage with the private, independent and third sectors as our members have been doing with local councils on issues such as allotment provision and providing amenity areas.

We are aware of an increase in participatory budgeting over recent years. We believe that permitting local communities to have a greater say on local budgets is beneficial, provided the process is equitable, transparent and properly accounted. It is vital that rural areas of urban authorities are not forgotten.

The Scottish Government Council Tax freeze while welcome for household budgets has reduced the discretion of local authorities, but that is for others to make comment.

In addition to the operation of local taxation, it is of course incumbent upon local authorities to properly budget and account for their spending of income.

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.

Scottish Land & Estates communicates electronically via an ENews Bulletin weekly with our membership and we would be happy to incorporate appropriate updates regarding the work of the Commission in reviewing local government taxation. We also have a quarterly printed magazine *Land Business* which is another source for communicating legislative, taxation and general policy matters to members. Regionally we have membership Committees which also meet quarterly and centrally a Legal and Taxation Group comprised largely of professional members.

We are also happy to participate in any relevant short-life working group or contribute to any workstreams flowing from your consultation. We would emphasise that while we are sceptical about reform or replacement of Council Tax wholesale, we are keen to participate in any developments and engage with the Commission as this is an important issue for our members.

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June 2015