

# **Scottish Socialist Party Submission to the Local Tax Commission 2015**

## **1 INTRODUCTION**

The Scottish Socialist Party welcomes the Scottish Parliament's call for evidence on improved ways to fund Local Government in Scotland. We welcome the implicit acknowledgement that replacing the council tax is long overdue and we offer this submission to the debate on that basis.

Since our inception in 1998 the SSP has recognised the inherent unfairness and iniquity of the Council tax as a system of funding local government. We believe it is fundamentally flawed because it bears no relation to a person's ability to pay. And, as this enquiry will be aware, we first presented our own Bill to abolish the Council tax and replace it with an income based alternative back in 1999. As far as we are concerned the case for abolition is stronger now than ever.

## **2 THE COUNCIL TAX**

There are two critical failings of the Council Tax which in our view necessitate its replacement.

### *2.1 Regressive taxation*

The first betrays its origins as a replacement for the notorious Poll Tax. Under the Council Tax the poorest shoulder a much heavier burden than the richest. Whilst the gap between the highest earning 10% of the population and the lowest earning 10% has widened greatly in recent years to a ratio of around 15:1 in the UK; the council tax differential remain fixed at around 3:1. This means, even with different council tax bandings, the percentage of income paid in by the richest, is but a fraction of the percentage paid by the poorest. It has been calculated, for example, that whilst the Council tax claims 5.2% of total income for the poorest 20%, the richest 20% pay a mere 1.7% of their income. This imbalance highlights the regressive character of the system and means .for example that there are many senior citizens in Scotland paying one quarter of their entire income on this one single bill.

In 2005, the Citizen's Advice Bureau published statistics that 25% of all debt related cases they assisted with involved Council Tax Debt, rising to nearly 33% by 2009. That Scottish Debt law makes provision for Poll Tax and Council Tax debts to be collected up to 21 years after the debt was incurred means that the backlog of Council Tax debt caused by this imbalance will only continue to add up, causing serious long-term consequences for the many low income individuals and families for whom Council Tax bills are simply so high as to be unaffordable.

Any replacement must address this issue and therefore be based on the principles of progressive taxation and the ability to pay.

### *2.2 Funding Gap*

The second failing is that the council tax does not raise the funds necessary to finance the provision of essential local services. Indeed the bulk of the money needed to fund local government still comes from central Government grants and therefore via general taxation.

### *2.3 The Council Tax Freeze*

The Council Tax freeze introduced by the current Scottish Government in 2007 offers no mitigation of these effects. It simply 'freezes' or sustains the present situation with its fundamental iniquity and unfairness rather than alleviate or eradicate it. It also worsens the dependency of local government on its Holyrood central funding.

The Freeze has exacerbated the funding shortage of Local Authorities, leading many to introduce charges to use basic council services. Such a move is problematic as it is typically the same low-income households who make greater use of such services, who now pay more for basic services. For example, between 2007 and 2013, Argyll and Bute council increased School Meal charges from £1.50 to £2.10, an effective rise of £200 a year for a family with two children.

### *2.4 What a replacement needs*

The SSP believes that there exists a clear model with which to replace the Council Tax that will address both of these issues, giving the people of Scotland a progressive, income based local tax that can effectively fund vital local services. This is the Scottish Service Tax.

### **3 A SCOTTISH SERVICE TAX**

The SSP believes the Council Tax should be replaced with a progressive income based alternative that shifts the obligation for payment onto the shoulders of those most able to fund vital local services. This we have called the Scottish Service Tax.

In 2003 the Scottish Socialist Party commissioned the eminent economists Mike Danson and Geoff Whittam to look at local government funding in Scotland. Their comprehensive report argued that the ability to replace the Council Tax under the provisions of devolution had created the scope for a major redistribution of wealth, and a key step towards the fairer society the people of Scotland wish to see.

SSP MSPs presented the Scottish Service Tax to Holyrood in 2004. The Labour-Liberal Democrats coalition voted down the bill in 2006 in favour of retaining the council tax.

The represented a missed opportunity for Holyrood to break new ground across the UK and substantially improve the lives of working class families across Scotland. Undeterred the SSP has continued to advocate the introduction of the Scottish Service Tax. We believe this Commission gives Holyrood another opportunity to replace the Council Tax with a better, fairer system of funding local services.

## **4 PROVISIONS OF SSP'S INCOME BASED ALTERNATIVE TO THE COUNCIL TAX**

### *4.1 The Scottish Service Tax – core provisions*

The provisions of the Scottish Service Tax are both simple and effective. Unlike the Council Tax, the Scottish Service Tax is progressive. The bill is based upon ability to pay, and taxes incomes through six bandings which apply a higher rate as incomes rise. These bandings are carefully calibrated across income ranges at a fair and balanced rate.

The tax bandings may obviously be altered by Parliament as it sees fit but we propose the following rates:

- The first £0-£10,000 would go tax free
- Income between £10,000 and £30,000 would be taxed at 4.5 per cent
- Income between £30,000 and £40,000 would be taxed at 15 per cent
- Income between £40,000 and £50,000 would be taxed at 18 per cent
- Income between £50,000 and £90,000 would be taxed at 21 per cent
- Income above £90,000 would be taxed at 23 per cent

For an example, on an income of £14,000 a year, the first £10,000 is under Band 1, so you would pay no tax on that. The following £4000 would be taxed at 4.5 per cent, under band 2, giving you a total bill of £180 each year under this example. This is substantially less than they pay currently even on a Band A property.

For another example, on an income of £25'000 a year, the first £10'000 would be under Band 1, so you would pay no tax on that. The following £15'000 would be under Band 2, giving you a total bill of £675 each year. Again this bill is around a third of what might be expected under current council tax rates.

However higher earners would be expected to pay more reflecting their ability to carry a bigger share of the burden. Someone earning, say, £100'000 a year would receive a bill for £14'900 [being the first £10'000 tax free, the next £20'000 at 4.5%, the next £10'000 at 15%, the next £10'000 at 18%, the next £40'000 at 21% and the last £10'000 at 23%].

### *4.2 Progressive taxation as Redistribution of Wealth*

This model overtly redistributes wealth by shifting the tax obligation to match ability to pay. Under these provisions approximately 77% of households in Scotland would find their local

tax bills fall. The Scottish Service Tax model is demonstrably more effective at moving the burden of payment onto the shoulders of the better off than the alternatives.

## 5 COMPARISON TO OTHER PROPOSED MODELS

The Scottish Service Tax model is effective at redistributing wealth, and also in solving the local funding gap, but how does it compare to other models?

### 5.1 *The Flat Rate Income Tax*

Proposals for a flat rate income tax, for example as proposed by the SNP in the past, are clearly not as effective in shifting the burden of payment onto the broadest shoulder. They fall between two stools, as it were, having either a rate that is punishingly high on low income households, or is set too low to raise the necessary funds.

### 5.2 *32 Different Local Income tax Rates*

The Liberal Democrats have argued against a single income tax rate in favour of each one of Scotland's 32 local authorities setting their own tax bands.

Whilst this has the advantage of holding each local authority accountable for its own spending and its own income levels, it has the disadvantage of unnecessary complexity and confusion. This would also risk causing councils outside of major urban centres to attempt to undercut the tax rates of major cities, effectively giving commuter belts the power to turn themselves into Tax Havens. Better by far not to leave people penalised for where in the country they live.

### 5.3 *A Land Value Tax*

The Greens for example, have argued for a land value tax. This is also lacking when it comes to an effectively redistributive method of local taxation however. Whilst it may, for example, encourage greater payment from large rural landholdings, it bears no serious relation to your ability to pay.

Under most Land Value Tax proposals, high income commuter-belt dwellers may see large reductions in their bills but working class families find themselves effectively priced out of all but the least desirable areas of the country.

The primary argument used in favour of the Land Value Tax is often that land cannot be concealed, and Tax evasion should logically therefore be low as a result, but there are some questions to be raised over this. Andrew Edwards, a former Deputy Secretary at the Treasury was quoted in 2001 as saying that "*because the British government has no*

*accurate record of who owns what land in the UK, it can't determine who should be paying taxes and how much".* Whilst this is not an insurmountable problem, it does challenge the idea that the Land value tax is the solution to attempts to avoid taxation.

Even beyond this, there is the question of how value rates would be set: not all council areas have the same total land value, and nor does this correspond neatly to the required levels of funding per council.

Whilst there certainly are attractions to be found within in the Land Value Tax concept, it is not suitable as the primary tax model for local government.

#### *5.4 Simply adding more Council Tax bands*

The Labour Party has advocated taking the existing council tax, and simply adding more bands to widen the tax differential upwards from 3:1. Whilst this proposal would make the council tax work more effectively, and in a less regressive manner, it still does not anchor tax to ability to pay.

#### *5.5 Summary of Comparisons*

The Scottish Service Tax is not just one of the clearest and most effective proposals for the task, but one that is fundamentally designed to redistribute wealth in favour of Scotland's working class and low paid majority.

## **6. ADMINISTRATIVE AND COLLECTION ARRANGEMENTS**

### *6.1 Collection*

How would this money be collected? Under our proposals the tax would be collected centrally, and redistributed to Scottish Local Authorities as appropriate. Holyrood already has the power to access government infrastructure to collect income tax. It would require little or no additional bureaucracy or cost to collect the Scottish Service Tax.

### *6.2 Increased revenue*

The Scottish Service Tax could also bridge the funding gap for local authorities. For the financial year 2002-2003 it was calculated that the Scottish Service Tax would have raised a total of £2.022billion, some £269million more than the Council Tax. In intervening years the rapid rise of the highest wages at above the rate of inflation has continued to widen the inequality gap between rich and poor and has meant that the total income tax potential for the very richest has also been rising. The effect of this is that for the tax year 2012-2013 the Scottish Service Tax held the potential to raise an estimated £4.1Billion.

## **7. AVOIDING INCOME TAX AVOIDANCE**

Critics of the Scottish Service Tax have argued that the wealthiest in our society will avoid paying it, hide their true income, or even leave Scotland altogether in a bid to escape their obligation.

There can be no doubt that Scotland is being denied fiscal income through the use of various tax loopholes. However the PCS Union has shown not only the extent of the problem, but also how to retrieve the funds the public purse is being denied. A report commissioned by the PCS in 2010 demonstrated that Tax Evasion and Tax Avoidance levels in the UK are both currently high (an estimated £25billion avoided, and a further £70billion evaded) because the elements of HMRC assigned to prevent such practice are both understaffed and under resourced following an intensive period of office closures and job losses. The report concluded the key to addressing the immense amount of lost tax revenue must be to not just replace the lost jobs, but to actively increase the numbers of tax inspectors working to tackle both tax avoidance and tax evasion.

In accordance with this report the Scottish Socialist Party believes that a two-fold approach is necessary. Firstly, there is demonstrable need to substantially increase the number of Tax Inspectors working to avoid loss of revenue. Secondly there is a need to close down the legal loopholes that many chartered accountants proactively make use of to help their clients dodge tax, or conceal taxable income. By closing down these legal loopholes, and greatly empowering HMRC in accordance with the PCS report, it would not only be possible to retrieve tax revenue already being lost, but to ensure there is no chance of Scottish Service Tax money being avoided.

## **8. CONCLUSION**

The Scottish Socialist Party favours a fair and progressive tax policy and believes that the Scottish Service Tax model outlined is, for the reasons discussed above, a far better model than the Council Tax.

We believe it is clear and cost effective and would if implemented redistribute wealth, ensuring that bills are based on ability to pay, and address the current shortfall caused by the Council Tax, removing the need for cuts or degradation of public services. It would also ensure that all local authorities have the resources they need, and ensure that housing market fluctuations could not adversely impact council funding.

We therefore commend the Scottish Service Tax proposal to the Local Tax Commission.

**Calum Martin,**

**on behalf of the Scottish Socialist Party**

**21<sup>st</sup> June 2015**