UNISON Scotland

Response to the Call for Written Evidence from the Commission on Local Tax Reform

The UNISON Scotland Submission to the Commission for Local Tax Reform

June 2015

Introduction

UNISON is the largest trade union in Scottish local government. Our members deliver local services and also have a wider citizenship interest in how services are provided and paid for.

The funding of local government has been a difficult issue for political parties. At best proposals have been sticking plaster solutions because change is viewed as being politically challenging. However, we simply cannot go on as we are with short-term fixes that damage services and undermine local democratic accountability.

The council tax freeze was supposed to be a temporary measure until a new tax was introduced. We have now been through an economic recession and 8 years of budget cuts but are no nearer a fair tax for local government. There needs to be an agreement that this Commission leads to action. We cannot afford to see another report end up like "A Fairer Way: Report by the Local Government Finance Committee 2007" sitting on shelves gathering dust. We need to develop a new consensus that provides a long-term solution.

Submission

UNISON believes that taxation is the fairest way to fund local services. That does not mean that we believe the current tax system couldn't be fairer. In particular, we would like to see super rich companies and individuals pay their fair share. This means changing tax rates, closing down loopholes and tackling tax avoidance measures, because everyone in Scotland benefits from the existence of high quality public services. Delivering services costs money, so it is vital that services are properly funded and that everyone pays a fair share towards those costs. Businesses benefit too, that's why they too must bear a share of the costs.

In order to ensure that we all pay a fair proportion, all forms of wealth need to be taxed. Currently the system taxes wages more highly than other forms of wealth leaving ordinary workers bearing an unfair burden.

Property is a significant form of wealth and must be taxed in order to reduce inequality. The well-off already own bigger and more houses than the rest of us. If this form of wealth is untaxed it becomes an even more attractive form of investment. This means that more people buy houses, not as a place to live but as an investment. This will add to our already dire housing shortages, increasing prices for both renters and ordinary buyers. Unlike wages properties can be passed on to relatives, further maintaining and increasing inequality for future generations. VAT has no regard to your income at all. Changing the tax system to target all wealth is a fair and effective route to pay for public services, reduce inequality and boost the economy by giving disposable income to ordinary workers.

While changing the whole tax system is not currently within the competence of the Scottish Parliament, the tax used to fund local government always has been and the recent changes to the benefits system and the devolution of extra powers mean that the parliament also has power over what used to be council tax benefit. If the council tax freeze lasts until the next election it will have cost £2.5billion. The freeze is underfunded: £70million across 32 authorities per year. Councils are only able to access their share of this money if they agree to freeze the council tax, maintain teacher numbers in line with pupil numbers and until recently maintain an artificial police officer target.

The commitment to this spend is limiting the options for local government to respond to budget cuts. Councils are facing increased demands for services caused by the economic crisis and demographic changes, and extra costs such as rising fuel costs (until very recently). Charges are being introduced and increased which hits the lowest paid most while the freeze benefits the wealthiest most. Cuts to services are also impacting heavily on those who rely on these services. UNISON's FOI[1][2]s on charges and a recent Audit Scotland[3] report show these costs are mounting up for ordinary service users while wages for workers are static.

UNISON principles for local authority funding

These are the principles that UNISON bases it current policy position on:

- Local authorities raise and control revenue.

Local authorities have their own democratic mandate but increasingly their ability to respond to local demands is hampered by their lack of control over the level of funding available to them. Local authorities need to be able to have the ability to control the levels of their own budgets. Currently about 85% of local authority funding is determined centrally.

- Business rates returned to local authority control

Councils should be able to set their own business rates, this will allow them to raise money to pay for services and devise their own criteria to support the type of businesses they want to encourage.

- A property tax is the best fit for local government

A property tax is the best fit for local government as it is clearly linked to the authority. It cannot be moved or hidden making it cheap and easy for the local authority to administer.

- Grant support allocated with minimum ring fencing,

Local authorities are well placed to make decisions about local priorities because councillors are directly accountable to local people for the decisions they make. Central government funding should acknowledge that and funds should be minimally ring-fenced.

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[1]UNISON e-brief Council tax freeze 2013 http://www.unison-scotland.org.uk/briefings/e-briefing_CouncilTaxFreeze_May2013.pdf
[2]UNISON e-brief Council Tax freeze 2014 http://www.unison-scotland.org.uk/briefings/e-briefing_CouncilTaxFreeze_June2014.pdf
[3] Audit Scotland Charging for Services 2013 http://www.audit-scotland.gov.uk/docs/local/2013/nr_131031_hcw_charging_services.pdf

- Taxation should be broadly progressive

Progressive taxes attempt to reduce the tax incidence of people with a lower ability-to-pay. It doesn't mean every tax has to be progressive, but overall, those on higher incomes should pay more.

Current options under discussion in Scotland

There are four main options:

- Ongoing council tax freeze
- Local income tax
- Land value tax
- Fairer property tax

In 2007 the Burt Review covered all of this in detail, but the main recommendation was shelved because it was so close to an election. Sadly, 8 years on we are still waiting for a new fairer tax. This cannot go on. The underfunded council tax freeze on top of cuts to budgets is having a severe impact on services provision. It benefits the better off disproportionately. It does nothing to tackle the problems with the tax and the property values that the charges are based on are over 20 years old. We must find a solution. The problems are not technical they are political. It's time for some "grown up" decisions to be taken across all political parties.

The Burt Report[4] weighed up the various options then recommended taxing the capital value of property taxes. The submission to the Burt review from professionals working in tax and valuation, like RICS and IRRV, are particularly useful for understanding why Burt rejected land value and local income taxes.

How should local government raise money?

In order to make a decision on the best way for local authorities to raise taxation we first need to understand what the problems are with the current council tax system. We should also remember that the council tax has traditionally raised only around 20% of council income. That proportion has been declining since the council tax freeze and most income comes from government grants. Charges for services have also been increasing and now constitute half the income raised by the council tax[5]. Charges are much less fair than taxation.

The council tax is a hybrid property and income tax where a tax is levied on property values and council tax benefit is used to evaluate an income and occupancy based level of support. A key issue with the council tax has been that the benefit system did not work properly particularly for those on low pay. Many who were entitled to the benefit also did not claim it leaving many struggling to meet their bills. The council tax was a quick

[4] Local Government Finance Review (B**urt Review)**
http://www.gov.scot/Resource/Doc/153766/0041377.pdf
[5] Audit Scotland Charging for Services page 8 http://www.audit-scotland.gov.uk/docs/local/2013/nr_131031_hcw_charging_services.pdf

political fix introduced to get the government out of a hole created by the reaction to its Community Charge (Poll Tax). It was specifically designed to ensure that the wealthiest did not pay "too much" tax. That's why the ratio between the bands is small and the top band so wide. The council tax was introduced with substantial subsidies from central government. As these were withdrawn bills increased to avoid service cuts. These initial big rises are what anti-tax campaigners have been very effective in highlighting.

Current charges are based on 1991 property values; this means that the tax is increasingly out of touch with real property values. Those with the most valuable properties are increasingly facing bills that are substantially below the rates that they should be paying. Even before the current government freeze politicians were "afraid" to revaluate. Although revaluation could have led to new more appropriate bands and reduced bills for many of the least wealthy, the fear was that the losers would be a lot more vociferous than the winners. So revaluation was avoided and avoided and avoided.

There are two problems with the current council tax banding system. Even when it was introduced, there were too few bands and the multipliers between the bands did not take account of the disparities in wealth - so the resident in a £400K house only pays 3 times the bill of a resident in a £40k house. The top band contains houses from £212,000 upwards: a huge range of property values all with the same charge. Revaluation without re-banding would also put some ordinary family homes into the top band. This is why the Mansion Tax gained some support. There are approximately 900[6] properties in Scotland in a Mansion Tax range, so there is not quite the same opportunity to raise money via the tax in Scotland as for example in London. It would be possible though to avoid the need for a separate tax via a new property tax which takes account of very high value houses. This would also avoid the need for a separate collection process.

A clear issue with the council tax is that, unlike most of our taxes, individuals receive an actual bill. This makes it much more visible than for example VAT. This tax bears no relation at all to the wealth of those who pay it. It has risen by 33% since 1991. Yet seldom receives the amount of attention that council tax attracts. While those who pay by direct debit do get a range of payment date/regularity options those who do not must pay by the first of the month. It is more likely that it is those on lower incomes who don't use direct debit, given its obvious advantages. This means those who have the most difficulty paying also have least flexibility to meet their obligations. Some progress has been made through access to payment via local retailers for those without bank accounts/access to online payments. There are still real barriers for those on low incomes to actually make the payments beyond having the cash to meet the bill. At a minimum it should be easy, flexible and cheap for those who want to pay their taxes to do so.

In 2007 the SNP came into government promising a local income tax to replace the council tax. The freeze was to be a temporary measure until the new tax could be introduced. Following a critical response to the consultation on the local income tax,

[6] http://www.telegraph.co.uk/news/general-election-2015/11510055/Labours-1-billion-Scottish-promise-funded-by-south-east-mansion-tax.html

including UNISON's response[7], no further proposals were published and the freeze remains in place.

A replacement for the council tax is essential but further consideration should also be given to returning business rates to local control and introducing other forms of local taxation that could provide some additional funding at the margins, such as a bed tax or other-anti pollution taxes.

Local Income Tax

As stated above, wages in Britain are already highly taxed in comparison to other forms of wealth and for those on average and low incomes they make up the vast majority, if not all of their wealth. A household's overall financial security also depends not just on actual earnings but also the number of people reliant on those earnings, so a one earner household of four with a £40k income paying rent can be less well-off than a single householder on £15k who owns their home outright. As the cost of living increases and with wages largely frozen, particularly for public sector workers, an extra tax on ordinary workers' wages is not the fairest way to raise income for local government. Only 60% of people pay income tax so getting rid of a property tax for local authorities will leave 40% of people not contributing. Like the poll tax, all workers in a household will pay a local income tax leaving some households like adults sharing and families with older children still living at home (because of high rents/house prices) paying a lot more than their current council tax bill.

Property is a major form of wealth and it very unevenly distributed within the UK. Not taxing this form of wealth will directly increase inequality through not taxing that wealth and it will make property an increasingly attractive investment. We already have a housing crisis; encouraging investment in property will only make this worse. Second (and multiple) home ownership reduces supply further increasing prices and rents for those who just want somewhere to live. Property speculators can, and do leave properties empty, while waiting to cash in on a price rise; this means homes aren't even available for rent. Rural areas, which also suffer from high prices due to second home owners, also have a problem homes are empty for much of their year out with holidays and weekends meaning that shops and schools are no longer viable.

There are also a host of practical reasons why a local income tax (LIT) is not the best tax for local services, not least that it would have to be collected nationally then redistributed back to councils. This requires major adjustments to the central IT system and to those of payrolls across the UK as many workers living in Scotland work for UK firms. Even within Scotland many people don't live and work in the same local authority area. This means there is also scope for the better off to avoid that tax as it will be more difficult to check that everyone living within an authority is paying LIT. Allocating tax from wages to the right authority will be more complex and therefore costly. In order to raise equivalent income, the LIT would need to be at a rate which makes those on low and average incomes pay more than council tax per household. The Scottish Government proposed a rate of 3% but over 6% would be required to match council tax income.

[7] UNISON response http://www.unison-scotland.org.uk/response/localtaxresponse.pdf

Submissions from organisations like Carers Scotland indicated that it would leave many carers worse off due to their allowances.

Advantages of a property tax

Any strategy to reduce wealth inequality needs to include taxing property. For local government a property tax's advantages are practical - it's easy and cheap to collect. Property is easy to find and value. It can't be hidden or moved abroad, nor does it appear suddenly as changes to existing and new buildings require agreement with local authority planning departments. The yield from a property tax is stable and enables the kind of long-term planning which local government needs to be able to do.

Land Value Tax

Campaigns for a land value tax (LVT) have been growing. LVT is most often proposed to replace both business rates and the council tax. The tax has an immediate surface appeal - tax the rich. The Burt Report and the Mirrlees Review both found that there are good reasons that this is a seldom-used tax despite over 150 years of campaigning. The Mirrlees Review was set up to review the UK tax system and propose ways to make it much less complex while maintaining the same level of revenue. Pro-land value tax groups often quote it as being in favour of LVT. What it does say is that it is worthy of further study if its practical difficulties could be overcome.

"there is a strong case for levying a land value tax, which is a tax on pure rent- if the practical difficulty of valuing land separately, from the buildings on it can be overcome"[8]

Mirrlees also says that even if the practical valuation issues could be overcome, it is not a suitable replacement for the council tax, but a possible option to replace business rates. This is because of the costs and complexities around collecting the tax. Mirrlees also proposes an end to all VAT exemptions: not exactly a progressive proposal.

Land value tax is a tax levied on the owners of land based on the value of the land excluding any property/fixtures on the land. One of the key issues with this tax is working out the value of land itself in order to then work out the level of tax due. Land is rarely sold without anything on it nor are buildings sold without the land underneath. There is therefore very little real data to base valuations on. This means that any bills will essentially be based on an estimated value. This could lead many to challenge the bills leading to a complex and costly appeals process. A report done for the Green Party[9] is proposing that this can be overcome by allowing land owners to set the value of their land while giving local authorities the right to compulsorily buy land at this value. UNISON campaigns against tax evasion and avoidance and this proposal seems open to abuse.

[8] Tax by design The Mirlees Review Conclusions and Recommendations for Reform page 6 http://www.ifs.org.uk/publications/mirrleesreview/

[9]A Land Value Tax for Scotland page 18 http://www.andywightman.com/docs/LVTREPORT.pdf

Land value tax does have very enthusiastic supporters but it is not widely used as a substantial part of the tax take internationally. As Burt states

"we understand that more than 700 cities worldwide apply a land value tax ....However it appears that the proportion of revenue coming from land taxes in Denmark, Australia and New Zealand has declined over the course of the twentieth century" [10].

There are practical barriers to LVT as a replacement for the council tax. It's not just the value of the land that is difficult to work out. In order to send out bills and ensure they are paid you need to know exactly who owns all the land, where the borders are and where to send the bill to. The Scottish Government is working on a register of landowners but has a timescale of ten years to complete this work. We cannot wait another ten years for a new tax.

Even once we have established a workable register, individuals and/or offshore companies hiding in tax havens can own land. A land value tax will make this more attractive. These are hard enough for a central tax body to find and get money out of – so certainly too costly for local authorities. Landowners will be able to pass the cost on to tenants in higher rent charges. Housing Associations and local authorities that still have social housing will also face the charge and may also raise rents to cover the cost. The costs involved in billing and tackling avoidance mean that even if land values can be measured and a workable land ownership register set up and maintained the costs of collecting the tax and dealing with aggressive tax avoidance schemes make it a poor fit for a local tax. These are the reasons why Mirrlees recommends that a LVT is worthy of further investigation as a replacement only for business rates.

Land value is not easy to measure or widely understood. Most people do have a general understanding of property values in the area they live and this means that bills based on the value of your own property are easy to understand. This will not be the same for land values. There are also concerns as to whether it will be widely perceived as fair if two plots of land with very different properties on them would have the same charge: for example two plots of land one with a one bedroom cottage and one with a mansion. It is important that taxes are easy to understand and are perceived as fair by those who pay them.

A Glasgow City Council pilot indicated that while flat owners could be better off, those with houses and gardens may not as you have more tax payers on the same size of land plot. This could mean more winners than losers in a city like Glasgow, but a different mix in the suburbs like East Renfrewshire. It should also be noted that the Glasgow pilot was a purely paper exercise, no actual bills were sent out so it was not possible to test bill payers attitudes to the tax.

This review needs to come up with a lasting system. Ireland also abolished rates in the 1980s and since then have had four different property taxes, each bringing protests from different groups of payers. Local government needs to be able to raise taxes and plan for

[10] Burt Review Local Government Finance Review page 116
http://www.gov.scot/Resource/Doc/153766/0041377.pdf

the future. The new tax needs to be easily understood and perceived as fair otherwise we will be looking at a replacement again soon.

In the UK, local authorities have control over much less of their funding than in other European countries. Local taxes should support local accountability. Local government should raise money from those people who live and work in their area, who use the services they provide. Wealthy landowners become the major contributors to local finance under LVT and may exert pressure on authorities to cut back services, particularly if they do not even live in the area, do not use any services and therefore perceive no advantage from funding them. Even if the practical difficulties over LVT could be overcome, the Mirrlees and Burt Reviews both concluded that LVT is not really a tax suitable to local government. A new fairer property tax alongside more local control and reform of business rates could though provide many of the strengths of LVT round land-banking, encouraging use/sale of empty properties and land and ensuring the wealthy pay their fair share of taxes

LVT may be a more appropriate national tax than a Mansion Tax for Scotland's specific needs round land ownership.

Local Property Tax

UNISON believes that local government needs to be able to raise a substantial amount of its own money. It is clear that taxing property is the best fit for local government. What we need is a fair, cost effective, practical way to do that. Now that changes to the benefits system and devolution of further powers in this area have taken place, with more to come, the Scottish Government has the power to change both the tax itself and any benefits to be paid to protect those on low incomes.

The Burt Review found that using actual property values rather than banding was more progressive because it would get rid of the 'cliff edge' where those on either side of a band with a small difference in property values have very different bills. On the other hand banding could reduce appeals. In 2007 he recommended it be set at 1% for same yield as the Council Tax and while this would have created one-third losers, half would be gainers.

UNISON believes that it is possible to introduce a fair property tax for local government. Any future bills must based on up to date property valuations so regular revaluation would have to be set in stone to prevent the current situation building up again.

The new tax would need to have effective mechanisms to protect those on low incomes. Exempting properties below a certain value is one possible way to do this as is the introduction of an appropriate benefit to ensure local authorities still received funding but still protects those on lower wages/benefits. This should be constructed in a way that avoids the current issues with the council tax benefit which does not adequately protect low paid workers.

Discounts should be wealth based, the current single person discount merits further investigation. The new tax should not be a services charge but a wealth tax. Single person households are now the most common household type making up 35% of all households[11] in Scotland. They are not the exception.

Pensioners with high value properties and low incomes should also be allowed to defer payments, leaving a bill to be paid which would then come out of their estate. Given the timescales involved and to ensure that it was not cheaper to defer than to pay, interest should be charged on the outstanding amount. Other options include giving the local authority a proportion of the house value. These options mean people can pay their fair share of taxes but do not end up in financial difficulty because their wealth is tied up in a home they do not want or are not able to move from. Because of the small number involved local authorities can easily plan round deferred payments.

The new tax must become much easier to physically pay particularly for those on low incomes and/or without bank accounts. Suggestions include weekly/fortnightly/monthly payments for those not on direct debit and working with credit unions and banks to give people on lower incomes better access to paying by direct debit.

Second homes should not be discounted. A property tax is as stated above a wealth tax not a service charge. Second home ownership creates many problems: housing shortages, higher house prices and small communities struggle to be viable when homes are empty for much of the time.

Political considerations

In the end it has not been practical difficulties that have led to the current position. The Burt Review has already had an in depth look at the issues. The Scottish Government undertook a consultation: A fairer Local Tax for Scotland. There seems to be widespread general agreement on the technical details and practicalities of a fairer local tax. The real issues are political. No one party wants to be responsible for a new tax. No one wants to pay higher bills, wages are frozen and other costs are rising. Those who get higher bills will campaign loudly against them, winners will quietly carry on. We cannot continue like this.

Conclusion

UNISON members are taxpayers, service users and many are also local government employees who need taxation to provide adequate funding to support fair wages for the work they do. While reform is challenging, political difficulty is not a reason for avoiding a solution that pays for services and strengthens local democratic accountability. High quality services are an essential part of building a fairer Scotland. These cost money to deliver. The fairest way to fund services is via taxation. The Scottish Government needs to take action quickly to deliver a fairer tax for local government.

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[11] Scottish Census 2011 http://www.scotlandscensus.gov.uk/housing-and-accommodation

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