
Report To:	Policy & Resources Committee	Date:	2 February, 2016
Report By:	Chief Financial Officer	Report No:	FIN/10/16/AP/FB
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Subject:	Commission on Local Tax Reform		

1.0 PURPOSE

- 1.1 The purpose of this report is to update Committee following the publication on 14th December of the report from the Commission on Local Tax Reform.

2.0 SUMMARY

- 2.1 The Commission on Local Tax Reform was jointly chaired by the Scottish Government and Cosla with the remit to “identify and examine alternatives that would deliver a fairer system of local taxation to support the funding of services delivered by Local Government”. The Commission’s report was issued on 14th December 2015 and is available as a Background Paper.
- 2.2 The Council submitted a response to the Commission in June 2015 following approval of the response by the Policy & Resources Executive Sub-Committee.
- 2.3 Section 13 of the report lists the main conclusions and recommendations which are:
- The present Council Tax must end.
 - Local rate setting where ever possible should be an explicit feature of the reform.
 - There is not a single tax system that can deliver greater equity for taxpayers, autonomy for Local Government and be readily implementable and efficient.
 - A system which draws revenue from multiple sources would provide more options for delivering greater autonomy for Local Government.
 - As there will be “winners & losers” a transitional scheme is vital to allow taxpayers to adjust.
 - A new system will require a redistribution of Government Funds to protect those areas with a lower tax base.
- 2.4 As the Council’s submission was very much aligned to Cosla’s there is no surprise that the report comments on and tries to address the points made in the Council’s submission.

The report recognises the need to make the replacement Tax more progressive and that a review of reliefs and discounts is needed. It comments on the high collection rates currently achieved with Council Tax and recognises that Government Grant will need to be redistributed to ensure there are no unintended consequences of the change to a new tax system.

- 2.5 The report is now expected to be taken into account by the various political parties when developing future local taxation proposals as part of their 2016 Scottish Parliament election manifestos.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee note the contents of the recently published report from the Commission on Local Tax Reform and that the points raised by the Council in its submission have been taken into account.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 The Commission on Local Tax Reform was jointly chaired by the Scottish Government and Cosla with the remit to “identify and examine alternatives that would deliver a fairer system of local taxation to support the funding of services delivered by Local Government”.
- 4.2 The 96 page report is available on the Scottish Government website along with 2 very large appendices.

5.0 Reports Main Conclusions

- 5.1 The report focused on 3 main options for raising local tax, namely Property Tax, Land Value Tax and Local Income Tax. In addition other local taxes are discussed which supplement the main local tax could such as a “Tourist Tax” but the Report recognises that in themselves these other taxes will not raise enough money and the ability of individual Councils to generate income could vary considerably.
- 5.2 The report lists the main conclusions and recommendations which include:
 - The present Council Tax must end.
 - Local rate setting wherever possible should be an explicit feature of the reform.
 - There is not a single tax system that can deliver greater equity for taxpayers, autonomy for Local Government and be readily implementable and efficient.
 - A system which draws revenue from multiple sources would provide more options for delivering greater autonomy for Local Government.
 - As there will be “winners & losers” a transitional scheme is vital to allow taxpayers to adjust.
 - A new system will require a redistribution of Government Funds to protect those areas with a lower tax base.
 - The Council Tax freeze “cannot go on forever” and that “Broadening the tax base, deepening local democracy and improving local fiscal autonomy are, we hope, therefore inevitable outcomes”.

5.3 Property Tax

The Report recognises that the Property Tax option would be less disruptive to implement and the current version (Council Tax) currently has a high collection rate. However the Report is clear that if implemented, the new Property Tax needs to be much more progressive ie those in higher bands need to pay much more than those in lower bands. The example used is Band H charges going up 250% whilst Band A goes down 50%. Even on this basis, the report states that those in Band A houses are paying a higher proportion of their “wealth” than those in Band H.

The report rehearses the arguments of whether property values are a proxy for wealth and the issue of Pensioners in high banded properties is raised.

In addition, the report recommends that the relief system needs simplified and reviewed to increase reliefs for those on low incomes and that there is a need to increase CTR take up which it refers to as having a “low take up rate”.

5.4 Land Value Tax

From reading the report, it is clear this is the tax favoured by “academics and professionals” but one which there is little practical evidence of how it would work and the impact. It recommends that “more work is done over the next parliamentary term to assess general and targeted land value taxes” but agrees they could be introduced further down the line and any system designed around a reformed Property Tax should take the potential for Land Value Tax to be added at a later date into account.

5.5 Local Income Tax (LIT)

Not surprisingly much of the focus is on LIT as to many this is the “fairest” in terms of ability to pay. This is referred to as the “predominant view of the Commission”.

Thereafter the report goes into detail of all the difficulties implementation of LIT would present in terms of ensuring that non-earned income such as dividends/investment income is captured, how 32 Councils would administer different tax rates, the time required for legislative changes potentially in both the UK and Scottish Parliaments and the potential requirement for Local Income Tax returns which historically are expensive to administer and have lower collection rates..

One option floated is a “System of assigning a share of receipts from the Scottish Rate of Income Tax to each local authority” based on the addresses of those paying tax. This clearly does not allow Councils to set their own rate of tax and will effectively be Government Grant funding.

5.6 Other Issues

The report also rules out the ability of Councils to increase direct charging to raise the necessary levels of funding on the basis that this would involve charging considerable sums to many of those who are the most vulnerable

The report also recognises that the joint billing of Council Tax and Water Charges is confusing and needs reviewed along with the level of water reliefs for those less able to pay. This is an issue officers have been raising with the Scottish Government and Scottish Water for many years.

6.0 IMPLICATIONS

6.1 Finance

None at this point in time

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

6.2 Legal

None

6.3 Human Resources

The report recognises that there is a potentially significant impact on Council Tax staffing levels dependent on the option chosen.

6.4 Equalities

Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

6.5 Repopulation

No direct implications but any proposal needs to recognise the impact on Councils whose population is decreasing or growing more slowly than the rest of Scotland.

7.0 CONSULTATIONS

7.1 None

8.0 LIST OF BACKGROUND PAPERS

8.1 "Just Change : A new Approach to Local Taxation" by The Commission on Local Tax Reform