

## Briefing No. 2

### A BRIEF HISTORY OF LOCAL DOMESTIC TAXATION

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This briefing provides a short history of local domestic taxation in Scotland. It provides some context for the work of the Commission on Local Tax Reform.

#### Summary

- The traditional system of domestic rates operated until 1989.
- Rates were replaced by the Poll Tax (Community Charge) in 1989. The Poll Tax was a flat-rate service charge levied on each adult.
- The Council Tax replaced the Poll Tax in 1993. It is a hybrid property tax and service charge. It has been frozen since 2007 and is based on outdated property values.
- Each of the systems described has operated a rebate system to assist people on low incomes.

#### Introduction

The Commission on Local Tax Reform is the most recent attempt to resolve the issue of local government finance. Since the 19<sup>th</sup> century issues including the extent to which local services should be funded by central government, and the fairness of local taxes have been present.

#### Domestic rates

Although forms of property tax go back to the 16<sup>th</sup> century, the system of taxation based on rental value (the 'rates') was established in 1845. The first grants to local authorities from central government also emerged in the 19<sup>th</sup> century and these funded 10 per cent of revenue by 1880. A system of 'equalisation' between local authorities was established after 1929.

The costs of expanding public services were met increasingly from central government grants until the 1960s, when rates began to rise. The Allen Report of 1965 found that lower income households paid a higher proportion of their incomes in rates than better off ones. In response to this a system of means-tested rate rebates was introduced.

Upward pressures on the costs of service provision in the inflationary 1970s led central government to increase local authorities' dependence on grants still further. In 1976 the Layfield Committee recommended the extension of the local tax base to include incomes in order to reduce dependence on government grants.

However, in the 1980s, central controls over local authority expenditure were the preferred response to rises in rates.

#### Poll Tax (Community Charge)

The Poll Tax was introduced in Scotland in 1989. It was based on the principle of a service charge, with each adult being liable for the same amount. A means-tested rebate system operated, but everyone was liable to pay at least 20% of the standard charge.

The Poll Tax was intended to make an explicit link between voting, paying tax and receiving services. However, it was widely perceived to be unfair, and was subjected to a growing non-payment campaign.

### **Council Tax**

The Council Tax was introduced in April 1993, in response to the unpopularity of the Poll Tax. It is a hybrid property tax and charge for local services.

Properties are placed into one of eight bands, based on their 1991 value. The banding system is designed to ensure that the more expensive a property, the lower the proportion of its value is taxed. For example, a property in the middle Band D is likely to be worth at least twice as much as one in Band A, but is liable for only 1.5 times as much Council Tax. A property in the top Band H is likely to be worth at least five times as much as one in the middle Band D, but is liable for only twice as much tax.

Of the 2.4 million dwellings in Scotland, about 5% are exempted and 40% subject to a discount (mostly a 25% discount for single person occupancy). Average Council Tax bills are £988, and have been frozen since 2007. More than half a million households (533,980 in September 2014) receive a reduction in their Council Tax Bill under the Scottish Government's Council Tax Reduction scheme, at an annual cost of more than £350 million.

Scottish local authorities spend about £11.6 billion per year ('net revenue spending' 2012-13) on services. These services include education and social work. This averages £2,400 per person. The Council Tax raises £1.9 billion per year (2012-13).

### **Burt Report**

The Local Government Finance Review Committee was appointed by the last Labour-Liberal Democrat administration under the chairmanship of Sir Peter Burt. It reported in 2006 and recommended a form of property taxation. However, its findings were rejected by the then Scottish Government.

### **Local Income Tax**

The SNP was committed to introducing a form of income tax to replace the Council Tax in its 2007 manifesto. Its proposal to use the Scottish Government's tax varying powers meant that this would have in effect been a national tax. These plans failed to gain the support of the Liberal Democrats who preferred a local income tax, and were abandoned.

### **Conclusion**

The Commission on Local Tax Reform has been established due to the need to find a fair replacement for the Council Tax. The experience of the past quarter of a century suggests that it is imperative that it succeeds.

### **References**

Local Government Finance Review Committee (2006) [\*Report of the Local Government Finance Review Committee\*](#) (Burt Report), Edinburgh: LGFRC

Council Tax figures are from the Scottish Government:  
<http://www.gov.scot/Resource/0044/00444846.pdf> and  
<http://www.gov.scot/Resource/0046/00467191.pdf>