

THE PARTIES' PROPOSALS FOR LOCAL TAX IN THE 2016 SCOTTISH PARLIAMENT ELECTION



Briefing No. 6

April 2016

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About this briefing

The next Scottish Government is likely to reform or replace the Council Tax which has been the system of domestic local taxation since 1993. This briefing explains the background to these proposals and outlines the proposals being brought forward by each of the main political parties. The parties' proposals are presented in order of their size in the 2011-16 Parliament. For completeness the proposals of RISE and UKIP are also outlined.

Summary

- The Council Tax was introduced in 1993 and is based on 1991 property values. It has been frozen since 2007.
- Previous Scottish governments have abandoned attempts at reforming it.
- It is widely recognised that the system needs reform and a cross party Commission concluded that a new system must include recurrent property tax, that it was desirable to widen the tax base to include income, and that land value taxes were "promising".
- The SNP favours reforming the Council Tax by increasing the tax on more expensive properties, but does not propose a revaluation. It also intends to reform the rebate system.
- Scottish Labour wish to replace the Council Tax following a revaluation with a flat rate tax per property combined with a property tax set at a proportion of property value, and with a maximum bill.
- The Scottish Conservatives, who did not participate in the Commission, support some changes to the top two Council Tax bands.
- The Scottish Liberal Democrats support a land value tax in the longer-term.
- The Scottish Greens favour a Residential Property Tax based on a percentage of property value paid for by the owners of properties, and leading to a land value tax in the longer-term.
- RISE support a progressive "Scottish Service Tax" based on income, but would also like to see it combined with a land value tax in the long term.
- UKIP wish to prevent councils from charging higher rates of Council Tax on empty properties.



Introduction

The Council Tax was introduced in 1993 to replace the highly unpopular Community Charge (Poll Tax). It is a hybrid property tax and service charge. Properties are placed in one of eight bands according to their 1991 value, but single person households receive a 25% reduction. A means-tested rebate system also operates. The system is widely recognised as being unfair, mainly because cheaper properties are taxed proportionately more than expensive ones.

Previous attempts at reforming or replacing the Council Tax have been unsuccessful. The Local Government Finance Review Committee's 2006 [report](#) recommended the replacement of the Council Tax by a tax based on a percentage value of properties, but was immediately rejected by the then Labour-LibDem Scottish Government. The minority SNP Government elected in 2007 wished to replace the Council Tax with an income tax, but did not have the support in Parliament. Instead it froze the Council Tax, which has been popular, but increasingly expensive.

In an attempt to create a consensus towards reforming the system of local tax, the Scottish Government established a cross-party [Commission on Local Tax Reform](#), which was chaired by the then Minister for Local Government and the President of Convention of Scottish Local Authorities (COSLA). All of the parties represented in the 2011-16 Holyrood Parliament, other than the Conservatives, were represented on the Commission. The Conservatives declined to participate and instead established an independent [Commission for Competitive and Fair Taxation](#).

The Commission on Local Tax Reform

The Commission on Local Tax Reform [reported](#) in December 2015, proposed that the freeze should cease and concluded that “the present Council Tax system must end.” A new system would likely to depend on more than one tax instrument in order to meet competing objectives of increased autonomy for local government, fairness for taxpayers and efficiency. It recognised that a new system would create winners and losers, and that transitional arrangements would be desirable. Indeed, it suggested that reform might be put forward as an on-going programme, with short-term measures distinguished from a longer-term vision.

The “predominant view” of the Commission was that any reform had to include a recurrent property tax alongside an improved rebate scheme to help people on low and precarious incomes. It considered a land value tax as being “promising”, but recognised that more work would need to be done to understand its impacts. The Commission also favoured extending the local tax base to include income. However, it seems that it is not yet feasible to collect income tax on a local authority basis and as an interim measure a share of receipts from the new Scottish Rate of Income Tax might be assigned to local authorities.

The Commission suggested that whilst “property, land and income are the three potential tax mechanisms that have the revenue raising capacity to match the present system”, other taxes (e.g. environmental, saes or tourist taxes) could be made available to local authorities. The Commission accepted that the political parties would attach different emphases to the approaches that it identified as being feasible, but “[t]here is now a real prospect of beginning a programme to make local taxation fairer...”

The Scottish National Party

As the Scottish Government, the [SNP's proposals](#) were announced on 2 March.

The SNP proposes to retain the Council Tax and continue to assess it on the basis of 1991 property values. However, it intends to reform it by increasing the so-called “band multipliers” on properties in the top four bands (representing roughly the top quarter of property values).

Table 1 The Council Tax and the SNP's proposed reforms

Band	% all dwellings	Value Range (1991 values)	Percentage of D (current system)	Percentage of D (proposed system)
A	21	Up to £27,000	67	67
B	24	£27,001-35,000	78	78
C	16	£35,001-45,000	89	89
D	13	£45,001-58,000	100	100
E	13	£58,001-80,000	122	131
F	7	£80,001-106,000	144	163
G	5	£106,001-212,000	167	196
H	1	£212,001 or more	200	245

Source: [SPTR Briefing No. 3](#); and Scottish Government

Whilst 26% of properties across Scotland as a whole would be taxed more heavily, the proportion varies greatly between local authorities. For example only 10% of properties in Eilean Siar, 15% in Dundee and 16% in Glasgow and are in the top four bands. In contrast 56% of properties in East Renfrewshire and 54% in East Dunbartonshire are in the top four bands. The proportions for Aberdeen and Edinburgh are 42% and 38% respectively (SPTR calculations based on [Scottish Government statistics](#): Number of chargeable dwellings at September 2015).

On average, the Scottish Government estimates that bills would rise by £105 per year for properties in Band E, £207 for Band F, £335 for Band G and £517 for Band H. It would increase revenue by £100 million per year, and is intended to be directed towards school education. However, in an attempt to address the problem of people on low incomes living in more expensive houses, the proposal includes some exemptions. People living in Band E-H properties would be able to claim exemption from the increases if their net income is below £25,000 and below the median for their household type. The Scottish Government estimates that 54,000 households would be protected in this way.

The proposal also includes an amendment to the current Council Tax reduction scheme (i.e. means-tested rebate). By increasing the child allowance within the scheme by 25%, the Scottish Government estimates that 77,000 households (containing almost 140,000 children) would benefit by an average of £173 per year.

The SNP proposes to end the Council Tax freeze in 2017/18, and thereafter to allow local authorities to increase the tax by a maximum of 3% per year. The Scottish Government estimates that this would raise an additional £70 million a year.

The SNP also intends to consult local authorities about assigning a fixed proportion of income tax receipts based on a needs-based formula to local authorities. The Scottish Government estimates that if one-quarter of income tax receipts were allocated in this way, then the size of the Government grant would be reduced to 25%. However, local authorities would have no direct control over assigned taxes, although there might be some interaction with the grant allocation.

Other reforms proposed include: permitting local authorities to remove the Council Tax discount on second homes and a consultation on enabling councils to levy a tax on vacant and derelict land in order to encourage its conversion into housing.

Scottish Labour

Scottish Labour's proposals for local tax reform were announced on 22 March. The following details are based on the [BBC news report](#) and Scottish Labour's [manifesto](#).

Scottish Labour proposes to replace the Council Tax with another form of property tax, following a revaluation.

The proposed scheme is itself simple. All properties would be subject to a flat-rate charge of £450 per year. Properties worth up to £180,000 would also be subject to a tax based on 0.35% of their value. Those worth more than £180,000 would be subject to a tax based on 0.35% of the first £180,000 and 0.9% on the proportion of the value over the threshold. A cap of £3,000 on the total bill would also apply. The party claims that 80% of households would be better off.

It is unclear how these rates would vary between local authorities, but we understand that local autonomy on rate-setting is what is being proposed.

The tax rates according to property value are shown in Table 2.

Table 2 Scottish Labour's Local Tax Proposals

Property Value (£)	Flat rate tax (£)	Property Tax (£)	Total Tax (£)	Total Tax as % Property Value
50,000	450	175	625	1.3
100,000	450	350	800	0.8
150,000	450	525	975	0.7
200,000	450	810	1,260	0.6
250,000	450	1,260	1,710	0.7
300,000	450	1,710	2,160	0.7
350,000	450	2,160	2,610	0.7
400,000	450	2,550	3,000	0.8
500,000	450	2,550	3,000	0.6
1,000,000	450	2,550	3,000	0.3
2,000,000	450	2,550	3,000	0.2

Source: SPTR calculations

The Scottish Labour Party proposes to end the Council Tax freeze, but limit annual increases to 3%.

The party's manifesto makes no reference to the rebate system, but states "All existing exemptions – including those for pensioners, single people and students – will remain." It is not absolutely clear what this means. Of these groups only households that are entirely made up of students are currently exempted. Single person households are entitled to a 25% discount. Pensioners are neither exempted nor receive any automatic discount.

Scottish Labour's manifesto also proposes to give local authorities powers to raise additional revenue through a tourist tax and a tax on "economically inactive land". It suggests that revenue from the Crown Estate would also be assigned to local authorities.

The Scottish Conservative and Unionist Party

The Scottish Conservatives established a Commission on Fair and Competitive Taxation. It was independent of the party, but its web site appears to have [disappeared](#). The following analysis is based on the short section on local taxation in the Scottish Conservative [manifesto](#).

This describes the Council Tax as "a remarkable success" on the basis that it is well understood and enjoys high collection rates. It accepts that reform is required after nine years of the freeze. It opposes the SNP's proposed increases in multipliers for Bands E and F, but supports (unspecified) increases for Bands G and H – in other words for the most expensive 6% of properties (see Table 1 above). It suggests that this would raise an additional £30 million per year.

It supports the ending of the freeze and would allow annual increases up to 3%.

In a paragraph that suggests that in view of the view of councils in the north east suggesting that the grant distribution mechanism is unfair “it is time for a thorough independent review of the funding mechanisms for local government.”

The Scottish Liberal Democrats

The Scottish Liberal Democrats provide a short section on local tax in their [manifesto](#).

The party has abandoned its long-standing support for a local income tax. It now favours a land value tax because it would not penalise people for improving their properties and would encourage derelict urban land to be brought back into use.

The party suggests that further work should be done on the proposal over the lifetime of the 2016-21 Parliament.

The manifesto contains no details of any reforms that might take place in the interim

The Scottish Greens

The Scottish Greens have outlined detailed policies for tax in [Fair funding for public services](#).

The party ultimately supports land value taxation (LVT) because it “captures the value created by the community in land values, incentivises productive land use, penalises land speculation and encourages the improvement and upgrading of property with no fiscal penalty.” However, it envisages LVT being phased in at local government discretion as part of a system of “split” property and land taxation, so it remains a longer-term goal.

In the interim, the Scottish Greens support a form of Residential Property Tax (RPT) based on the current value of the property, and subject to a £10,000 tax free allowance. The value would be reassessed annually, and liability would lie with the owner. This contrasts with the Council Tax under which the liability lies with the resident. Social or private landlords would be required to itemise all or part of the tax that it was passing on to tenants.

The Scottish Greens indicate that a RPT rate of 0.7% would be sufficient to raise the same revenue as the Council Tax, but seems to suggest that a 1% rate would be more likely. It suggests that most households would pay less than now, including all people living in Band A and B properties, and some of those living in Band C.

The party proposes a five year transition from Council Tax to the RPT. In the first year 80% of the tax would be based on the Council Tax and 20% on the RPT. The RPT would then increase and the Council Tax reduce by 20% a year until the transition was completed. However, older homeowners would be able to apply for deferral until their death or their property is sold; and eligible households would be able to continue to pay the Council Tax for a maximum of five years.

The following table indicates how the transition scheme would work.

Table 3 Scottish Greens' Residential Property Tax Transition Scheme

	Average Council Tax	Median property value	Year 1	Year 2	Year 3	Year 4	Year 5	% tax (CT)	% tax (RPT)
Band A	£766	£54,000	£701	£636	£570	£505	£440	1.42%	0.81%
Band B	£893	£89,000	£872	£852	£831	£811	£790	1.00%	0.89%
Band C	£1,021	£125,000	£1,047	£1,073	£1,098	£1,124	£1,150	0.82%	0.92%
Band D	£1,149	£160,000	£1,219	£1,289	£1,360	£1,430	£1,500	0.72%	0.94%
Band E	£1,404	£208,000	£1,519	£1,634	£1,750	£1,865	£1,980	0.68%	0.95%
Band F	£1,660	£278,000	£1,864	£2,068	£2,272	£2,476	£2,680	0.60%	0.96%
Band G	£1,915	£409,000	£2,330	£2,745	£3,160	£3,575	£3,990	0.47%	0.98%
Band H	£2,298	£795,000	£3,408	£4,519	£5,629	£6,740	£7,850	0.29%	0.99%

Source: Scottish Greens [Fair funding for public services](#)

The Scottish Greens would retain the Council Tax reduction scheme, as well as existing discounts for single occupants and exemptions for full-time students and carers. However, exemptions for second and long-term empty homes would be removed.

RISE: Scotland's Left Alliance

In its [manifesto](#) RISE indicates that it wishes to see the Council Tax replaced with an income tax, which it calls a "Scottish Service Tax" (SST). The SST is a progressive tax with the first £10,000 of income being exempt; £10,001-£30,000 taxed at 4.5%; £30,001-40,000 taxed at 15%; £40,001-50,000 taxed at 18%; £50,001-90,000 taxed at 21% and incomes over £90,000 taxed at 23%. RISE suggests that this would raise an additional £2.1 billion to combat "austerity cuts."

Longer-term RISE would also like to see a land value tax operate alongside the SST.

The UK Independence Party (UKIP)

UKIP's only proposal in its [manifesto](#) concerning the Council Tax is to remove local authorities' powers to charge a higher rate of Council Tax on unoccupied properties. The party believes that such a tax deters construction.

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