A call for evidence on The Council Tax (Substitution of Proportion) (Scotland) Order 2016

General Features

01 November 2016

The CIOT and LITRG made a joint submission in response to a call for evidence issued by the Local Government and Communities Committee of the Scottish Parliament. The Committee issued the call for evidence to assist their consideration of the draft Scottish statutory instrument, The Council Tax (Substitution of Proportion) (Scotland) Order 2016.

The Scottish Government intends to implement council tax reform through The Council Tax (Substitution of Proportion) (Scotland) Order 2016, which it laid in the Scottish Parliament in early September. The Local Government and Communities Committee published a call for written evidence to assist its consideration of this draft Scottish statutory instrument (SSI) (tinyurl.com/gqaytzn) and sought views on the proposed changes.

Council tax is used to provide some of the funding to local authorities. It was introduced in 1993, and there have been no significant changes to the tax since. The main area of reform proposed by the Scottish Government is to increase the ratios of the upper bands (E-H) relative to Band D. Bills for Band E would increase by 7.5%, Band F by 12.5%, Band G by 17.5% and Band H by 22.5%. No additional bands would be added and the ratios for Bands A-D would be unchanged. The Scottish Government has also confirmed that it does not plan to hold a revaluation, so council tax will remain based on values of property in 1991.

Both the CIOT and LITRG responded to the Commission on Local Tax Reform’s work in 2015, and therefore decided to make a joint submission to the committee on the

draft SSI.

We note that the proposals to reform council tax aim to make the system ‘fairer’, but that what is fair is subjective. If fairness can be viewed as chiming to an extent with being proportionate to the ability to pay or progressive, the proposals can be said to improve fairness slightly, although we would still describe council tax as broadly regressive. It should be noted that, to a greater or lesser extent, council tax aligns with the Adam Smith principles of certainty and efficiency. It is equality where there is least alignment. In addition, the tax does not align particularly well with the principle of convenience.

Council tax takes property values as its basis and is chargeable on the occupier. It therefore takes into account only one measure of ability to pay. By itself, even with the proposed reforms, it remains a regressive tax. It is perhaps better to look at the tax system as a whole when considering the principle of being proportionate to the ability to pay rather than taking each tax individually. The fully holistic approach would look at the tax system and the welfare system as a whole.

Because of the failure to update property values the tax will still not reflect actual property values and not be any fairer in this regard.

As the response points out, one route to fairness is the system of reliefs and exemptions, such as council tax reduction. The proposed changes to this aim to ensure that the tax takes account of both property value and income, thus better reflecting ability to pay. However, for the relief to meet its objective, it is essential that take-up is high. So we call for a communications strategy to ensure that taxpayers are aware of the changes and their eligibility for reliefs. It is also important that the process for claiming reliefs is as easy as possible.
In addition, we call for careful consideration of the interactions of the changes to council tax reduction with tax credits, universal credit and other welfare benefits to prevent problems such as claimants being exposed to extremely high marginal deduction rates.

The SSI is subject to the affirmative procedure. This gave the committee only 40 days to report on whether to recommend that the Scottish Parliament approves the SSI. It could not recommend that the SSI be changed. Although the proposed changes make a start, as set out in this submission, we think more could be done to reform council tax. We call on the Scottish Government not to rule out future

changes.

The joint CIOT and LITRG response is available on the CIOT website and the LITRG website.