

Local Tax Reform consultative session

Friday 26 February, 11.25 to 12.10, Music Hall in the Assembly Rooms

The Scottish Liberal Democrats' Policy Committee is running a consultative session at conference on local tax reform. The session will take place in the main auditorium on Friday morning and will help us take a very big decision.

The reason we are doing this

The Scottish Government and the local government association CoSLA set up a cross-party *Commission on Local Tax Reform*. It reported in December.

The *Commission* identified some broad alternatives to the present Council Tax. It also published a large amount of detailed data to give information on the options available.

It asked political parties to use the report to develop their local taxation policies.

The big questions are **do we want to move away from our current policy of replacing Council Tax with a Local Income Tax? And, if we do, what reforms should we propose?**

The *Commission on Local Tax Reform* report is at www.localtaxcommission.scot . If you intend to speak in the session you ought to have a look at this report prior to conference.

Please note that local business taxation was excluded from the remit of the *Commission*.

How the session will work

The session will be introduced briefly by Policy Committee. Members who want to make 3-minute contributions to support particular options should submit a speaker's card in the same way as for any other debate. After a period of discussion some indicative votes will be taken. These will firstly ask if we want to choose an income basis or a property/land basis for local taxation. Further votes will then be taken to find out the levels of support for the more detailed options.

The different options

The *Commission on Local Tax Reform* looked at four options for reform. They are summarised here, along with a variant that is explained below:

Option 1 – An updated and amended Council Tax with revised multipliers

For its first option the *Commission* worked out what would happen if Scottish properties were revalued at today's prices and the present Council Tax bands A-H were updated to keep the same number of properties in each band as now. They worked out that the median Band H home would be worth 15 times the median Band A home. So their first option is to keep Council Tax but make Band H homes pay 15 times more than Band A homes.

Pros: Easy to collect because houses are hard to hide; levied on the occupier so you don't have to trace the owner of the building; the council collects the tax and has an incentive to do it efficiently.

Cons: The system needs a very complicated and hard to access Council Tax Reduction scheme to protect people with low incomes from a bill that is unaffordable.

Option 2 – A property tax levied on house values, with a structure similar to income tax.

The idea of this is to put a valuation on every home and charge a percentage tax on different bands of the home's value. This percentage gets higher as the value goes up.

It would work like income tax. For example, a £150,000 home might pay nothing on the first £40k of value, 0.85% on the next £60k and finally 0.90% on the remaining £50k for a total bill of £960.

Pros: more linked to the value of the property than bands; has a structure like income tax, so people might understand it.

Cons: there would be a lot of valuation appeals because every change in value, no matter how small, changes the amount of tax you pay.

Option 3 – a variant of Option 2

This option was developed by the researcher Jhonti Bird, who was supported by the Joseph Rowntree Reform Trust to carry out this work. His report supporting the proposal is available at www.scotlibdems.org.uk/spring16_tax.

The proposal is broadly the same as the *Commission* Option 2 but with each home allocated to a valuation band rather than given an individual value. This cuts down the number of likely appeals.

Option 4 – land value tax

The idea of land value tax is to levy a charge on the value of the land rather than the property.

Pros: you can't hide the land; people aren't penalised for improving their homes to add to the value because the value of the land underneath it won't change; if it is extended to derelict sites it gives an incentive for the owner to make the land productive.

Cons: city centre land values are very high so it might drive poorer people out of cities; there won't be a full register of who owns what land in Scotland until 2024; if there is delay in implementation we will have to decide what to do about Council Tax in the meantime.

Option 5 – A Local Income Tax

Under this option a fixed percentage would be added to income tax in Scotland. It could either be done Scotland-wide or set differently by every local council. This is the main alternative to a land or property basis for local taxation.

The *Commission* worked out that a local income tax rate of 4.5p would raise the same amounts as now. This is higher than previously thought because the personal allowance has cut people's bills.

Pros: clearly linked to income and ability to pay; the PAYE system is very efficient at collecting tax; incomes are buoyant so the rate of tax does not need to be changed every year.

Cons: hard to apply to savings and dividend income; needs agreement from HMRC; doesn't take into account the number of dependents; graduates have to pay it on top of 20p income tax, 12% NI, and 9% student loans, giving them a marginal rate of tax of 45.5%; increasing the personal allowance cuts the amount of revenues generated; no ability to set a punitive council tax on empty homes.