



**Glasgow City Council**

**Council**

**Report by Bailie Jean McFadden**

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**Local Taxation Working Group: overall findings**

**Purpose of report:**

To summarise the overall findings of the Local Taxation Working Group ('the working group'). This overview report draws on the findings of the reports previously considered by the working group on individual local taxation models and has been prepared using the scope, approach and assessment criteria previously agreed by the working group.

**Recommendations:**

It is recommended that Council notes the content of the report and makes representation to the Scottish Government on the recommendations at paragraph 1.4 in the report.

Ward No(s):

Citywide:

Local member(s) advised: Yes  No  Consulted: Yes  No

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## 1. Executive summary

- 1.1 On 26 June 2008, the Council approved the creation of a working group to consider issues with the existing arrangements for local taxation and investigate possible alternatives from the City of Glasgow's perspective. The local taxation working group has since met five times to consider various options for reform. This report provides a summary of the working group's findings.
- 1.2 The working group has confirmed that a number of significant concerns exist with current local taxation arrangements and that the *status quo* is therefore not an option.
- 1.3 There is ongoing debate around the Scottish Government's fiscal powers. The working group feels that this debate should be extended to local government. The first decision that would have to be taken at national and devolved level is whether to replace local government with local administration, or to give greater fiscal powers to locally elected authorities. The working group believes that the public desire a democratically accountable local authority and therefore local fiscal reform is required.
- 1.4 The working group identified four overarching criteria with which to assess models for local taxation: fairness, efficiency, predictability and local democratic accountability. Using these criteria, the working group has identified a number of recommendations for reform. It is recommended that the Council makes representation to the Scottish Parliament on these as summarised in the table below.

| Recommendation                                | Comment   |
|---|---|
| <b>Immediate reform of council tax</b>        | <ul style="list-style-type: none"><li>• Undertake a revaluation of domestic properties.<sup>1</sup></li><li>• Increase council tax benefit take-up.</li><li>• Consider other reforms to increase fairness and ability to pay.</li></ul>   |
| <b>Long term move to LPT / LVT hybrid tax</b> | <ul style="list-style-type: none"><li>• Start planning for replacement of council tax with a local property tax, incorporating powers to introduce gradually land value tax elements.</li></ul>   |
| <b>Water charging</b>                         | <ul style="list-style-type: none"><li>• Reduce water charge burden on low income households through access to greater rebates / benefits.</li><li>• Address administration and collection issues that significantly impact local authorities.</li><li>• Revise statutory orders to enable up to date rateable values to be used for all non-domestic property water charges.</li><li>• Consider longer term replacement of direct water charging for domestic properties.</li></ul> |
| <b>Expand local government fiscal powers</b>  | <ul style="list-style-type: none"><li>• Address gearing issue by reducing dependence on central government funding.</li><li>• Broaden local tax base through local charging schemes, such as tourist taxes and charges linked with the environment agenda.</li></ul>  |

<sup>1</sup> The cost and upheaval arising from council tax revaluation may not be appropriate depending on the timescale of any move to a LPT / LVT model.

## 2. Background

- 2.1 On 26 June 2008, the Council approved the creation of a working group to consider issues with the existing arrangements for local taxation and investigate possible alternatives. This decision was taken following approval of the Council's response to the Scottish Governments consultation on local income tax proposals.
- 2.2 The working group approved the scope of the review of local taxation models to be undertaken on 21 August 2008, including the approach to the review, an agreed set of evaluation criteria and an outline timetable and agenda. A copy of the agreed approach and evaluation criteria is provided in appendix 1 and the working group's membership is listed at appendix 4.
- 2.3 The Local Taxation Working Group has met five times since then and considered officer reports on the following local taxation models:
  - existing local tax arrangements;
  - reformed council tax;
  - nationally-set local income tax;
  - locally-set local income tax;
  - land value tax;
  - local property tax based on capital values; and
  - other methods of raising revenues at a local level.
- 2.4 The working group has also heard evidence and opinions from a number of external specialists, including:
  - Sir Peter Burt, Chair of the Local Government Finance Review Committee 2006;
  - Professor Roger Sandilands, University of Strathclyde;
  - Angela Scott, CIPFA;
  - Hilary Kelly, Institute of Rating Revenues and Valuation; and
  - Professor David Bell, Stirling University.

The working group is grateful to these specialists for their time and their views have been taken into account by the working group in forming its conclusions. The working group also heard presentations from Councillor Dr Christopher Mason and Councillor David Meikle. Due consideration was also given to other studies into local taxation, including the *Burt Report*<sup>2</sup> and the *Lyons Inquiry into Local Government*<sup>3</sup>.

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<sup>2</sup> Local Government Finance Review Committee *A Fairer Way* 2006

<sup>3</sup> Sir Michael Lyons *The Lyons Inquiry into Local Government* 2007

2.5 This overview report provides a summary of the findings from individual reports on local taxation models previously agreed by the working group. Each individual report was prepared by officers and presented to the working group for discussion. Council members on the working group were then given the opportunity to request clarification and changes to these reports. There were few significant changes to reports and the final reports, which are available in the Members' library, were approved by working group members.

2.6 The working group has identified the following key issues that exist with current systems of local taxation:

*Table 1: Concerns with existing local taxation arrangements*

| Issue                                 | Concerns   |
|---------------------------------------|--|
| <b>Ability to pay</b>                 | <p>Many poorer households pay disproportionately more in council tax than those with higher income and wealth, often caused by eligible households not claiming council tax benefit.</p> <p>Council tax is based on 1991 property values and this has led to current bandings often having little correlation to current values.</p> |
| <b>Water charging</b>                 | <p>The system for water charging is often misunderstood and is the cause of many low-income households struggling to pay their 'joint' council tax and water bill.</p> <p>The arrangements for collection, administration and payment of water charges to Scottish Water also have an adverse financial impact on the Council</p>    |
| <b>Macro-economic and behavioural</b> | <p>There was a consensus within the working group that the wider socio-economic impact of local taxation should be considered as part of any reform agenda. The current arrangements for council tax and non-domestic rates do not, for example, promote efficient use of derelict land.</p>   |

2.7 The working group assessed each option for reform against key criteria, derived from these core concerns. A copy of the agreed approach and evaluation criteria is provided in appendix 1 and summaries of each alternative model of taxation are given in appendices 2a-e. Individual options for local taxation are summarised in this report and more detail is available within the individual reports that have been considered by the working group during the course of its work.

### 3. Key issues

3.1 This section provides an overview of how each model of taxation scores against the key issues and evaluation criteria<sup>4</sup>. Again, this assessment was undertaken with specific application to the City of Glasgow. Reference should also be made to appendices 2a-e, which provide more detail in support of these scores. We have considered water charging issues separately in section 5 and water issues have therefore not been taken into account in assessing these scores.

Table 2: Local taxation models 'balanced scorecard'

| Balanced score (1-5) |           |              |                |             |           |           |                             |
|----------------------|-----------|--------------|----------------|-------------|-----------|-----------|-----------------------------|
| Issue                | CTX       | Reformed CTX | LIT – national | LIT – local | LVT       | LPT       | Hybrid LPT/LVT <sup>5</sup> |
| Fairness             | 2         | 3            | 4              | 4           | 4         | 4         | 4                           |
| Efficiency           | 4         | 4            | 2              | 2           | 5         | 5         | 5                           |
| Predictability       | 4         | 4            | 2              | 2           | 3         | 3         | 3                           |
| Local accountability | 3         | 3            | 1              | 4           | 3         | 3         | 3                           |
| <b>Total</b>         | <b>13</b> | <b>14</b>    | <b>9</b>       | <b>12</b>   | <b>15</b> | <b>15</b> | <b>15</b>                   |

Key: CTX council tax LVT land value tax  
LPT local property tax LIT local income tax

#### Fairness

3.2 Council tax is regarded as the least fair tax due to the issues identified with benefit take-up and the absence of recent revaluations. The other tax models score well against this criteria primarily as they could potentially address the ability to pay issue and assume (for property / land taxes) regular revaluation. A reformed council tax fairs less well since it would retain the banding system, which immediately distorts the correlation with ability to pay, especially in properties close to the arbitrary banding values.

#### Efficiency

3.3 Tax models were assessed under this principle as to how efficient they would be to administer and collect, and also how favourable the unintended / wider impact of the tax would be on socio-economic factors. Therefore all the property / land based taxes score well since expertise, systems and controls are already in place and there is a strong view that property and / or land should be retained in the overall basket of taxes. Council tax and reformed council tax is slightly marked down since it does not carry the potential favourable socio-economic factors as LPT or LVT.

<sup>4</sup> Refer to appendix 1.

<sup>5</sup> After hearing from external experts and considering local tax models in other countries, the working group agreed to expand its scope to include consideration of a LPT / LVT hybrid option.

- 3.4 Both models of LIT score poorly against this principle since they would potentially be costly to collect and could result in negative external outcomes (for example, tax avoidance activities and the impact on employers and the wider Scottish economy).

#### *Predictability*

- 3.5 Council tax and a reformed council tax would clearly be the most predictable due to the experience the Council has with regard to levels of revenue. All property / land based models would be relatively predictable over time since property values are likely to vary less than earned income, for example. Furthermore, valuation changes could be anticipated and managed according to the revaluation policy.
- 3.6 LIT models would be much less predictable and dependent on robust information from external agencies, such as HMRC. There are concerns that HMRC would only be able to provide information on earned income attributable to specific UK regions based on data up to 2 years old. It can be argued that earned income is a closer proxy to broader economic conditions but in that sense, local authorities would be less able to manage revenues, especially where the levy rate was set nationally.

#### *Local accountability*

- 3.7 Factors impacting these scores include the ability of the tax models to address the gearing issue, broaden the local government tax base and the inherent fiscal power attributed to local authorities. Clearly, a nationally set LIT scores very poorly against this criteria since local authorities would neither set the rate nor be responsible for collection. All other models, including a locally set LIT, score relatively well since local authorities could set their own tax rates. Equally, all options have been marked down for not directly addressing the current gearing issue.
- 3.8 The working group also considered other local revenue-raising schemes, including
- local sales tax;
  - local tourist tax;
  - local environmental tax; and
  - rateable values local property tax.

Whilst these are not necessarily local taxes, they warrant consideration since they could potentially contribute to locally raised funds. In most cases, these options would not be appropriate as a full replacement for existing arrangements but they could help address the 'gearing issue' as supplementary taxes. The working group's conclusions on these supplementary taxes are set out in table 3:

Table 3: Supplementary taxes – conclusions

| Tax                          | Conclusion   |
|------------------------------|--|
| <b>Local sales tax</b>       | There are insufficient arguments to support the introduction of a local sales tax. Glasgow in theory loses some of the beneficial outcomes the Council creates through developing a vibrant commercial centre. However, this issue would perhaps best be addressed through reform of the NDR redistribution methodology. |
| <b>Local tourist tax</b>     | There seems to be consensus that a local tourist tax is worth considering. However, this would have to be down to local discretion and subject to detailed business planning to ensure that any levy was not counter productive (for example by significantly reducing visitor numbers).                                 |
| <b>Local environment tax</b> | Local environmental taxes and charges clearly hold potential benefits as part of the environment agenda. However, care should be taken to ensure that reliance is not placed on sources of revenue that may not be recurring or stable in the medium / long term.  |

The working group also considered a reversion to a rateable values property tax for completeness. This was dismissed on the grounds that it would not address concerns identified with council tax and would likely add to confusion for tax payers.

3.9 Following a presentation by Councillor Dr Christopher Mason, the working group agreed that issues surrounding local taxation should form part of a wider debate on fiscal powers at both the devolved and local level. Currently, local government effectively has no fiscal authority (primarily due to the concordat and council tax ‘freeze’, coupled with the ‘gearing effect’). The working group is of a view that, in Scotland, we should work towards a system that would give local government fiscal powers commensurate with its responsibilities. It therefore makes sense to consider local fiscal autonomy within the context of the fiscal powers of the Scottish Government. This is currently under consideration through the Commission on Scottish Devolution (‘the Calman Commission’).

#### *Risk assessment*

3.10 Within each report considered by the working group, tax models have been subject to a high level risk assessment. This has identified a number of significant issues that should be considered in assessing each tax model.

3.11 Council tax should be discounted: the status quo is not regarded as an option due to the significant concerns identified. Failure to address these concerns could have negative outcomes for Glasgow and may result in collection difficulties. A reformed council tax and LPT are regarded as low risk since they do not require a change in the tax base and would use existing systems. Conversely, LIT and LVT options are higher risk due to the significant changes required. A LVT / LPT hybrid tax avoids the change risks associated with LVT whilst enabling the tax regime to move eventually towards capturing the key benefits of LVT.



## 4. Evaluation of options

4.1 In this section we provide a high level summary of the findings of the working group against each of the models for local taxation considered. Further detail on each taxation model can be found in the individual reports considered by the working group.

### *Reformed council tax*

4.2 The council tax is a property tax levied on the capital value of domestic property as at 1991. Each property was attributed to one of eight valuation bands. Each band has a weighting, which determines the relative amount of tax levied by the local authority on properties within each band. There are various discounts and exemptions available, as well as a means tested council tax benefit system. The council tax is therefore essentially a hybrid tax with elements of personal, property and income related components (50% property and 50% personal / income related).

4.3 In theory it is possible to address all the key concerns with the existing local taxation arrangements through co-ordinated and targeted reform of the council tax. However, this would require strong partnership working and effective consultation between all interested national and local parties.

4.4 There would also be a significant risk that all these strands of reform would not result in a fully satisfactory tax regime. Therefore reforms to the council tax should only be considered as a short term solution to some of the more pressing concerns. Table 4 summarises the key strands of reform that should be considered.

*Table 4: Reformed council tax – key reforms*

| <b>Reform</b>   | <b>Comment</b>   |
|---|--|
| <b>Revaluation &amp; re-banding</b>                                   | Would increase the credibility of the tax and, where possible, address elements of 'unfairness' at the bottom and top of the banding scale. However, any kind of banding immediately distorts a tax regime and builds-in levels of unfairness, regardless of frequency of revaluation. |
| <b>Reform of existing benefits, rebates, discounts and exemptions</b> | Should be implemented with a view to increasing take-up and ensuring that low income households do not pay any greater proportion of their annual income on local taxation and water charges than wealthier households.  |
| <b>Comprehensive reform of the water charging system</b>              | This is explored further in section 5 and would be a crucial aspect of any reformed council tax.   |
| <b>Other reforms</b>  | Consideration of targeted 'safety net' initiatives, including deferred payment schemes, 12 month payment cycles and 'circuit-breaker rebates' (to assist cash-poor, asset rich households such as pensioners).   |
| <b>Public education</b>   | Continued public education and awareness initiatives on the nature and purpose of local government funding.  |

- 4.5 Many of these reforms move a reformed council tax closer to a local property tax as envisaged by the Burt Report. The Burt and Lyons reports also challenge the retention of council tax bands and instead propose a discrete charge based on capital values. This is explored further in 4.21, below.

*LIT nationally set*

- 4.6 The working group considered a nationally set local income tax ('LIT') to be that outlined in the Scottish Governments 2008 consultation. The consultation proposed a replacement of the existing council tax with a nationally set 3% LIT, to be raised on earned income only, at basic and higher income brackets. The tax would be collected centrally by HMRC using existing HMRC income tax rules and regulations.

- 4.7 The Council approved a detailed response to the Scottish Government's consultation on LIT. Whilst reference was made to that response, a separate report was prepared for the working group assessing LIT against the specific agreed working group criteria for consistency. Additional information on the Scottish Government's LIT proposals that came to light between July and November 2008 were also reflected in this fresh assessment of LIT.

- 4.8 A nationally set LIT could address a number of concerns that exist with the current council tax arrangements. A nationally set LIT would:

- be more reflective of ability to pay, without any requirement for the existing benefits and rebates systems;
- avoid any need to revalue or subjectively band property; and
- likely be more buoyant than a property-based tax.

- 4.9 However, a nationally set LIT would give rise to the following key concerns:

- the proposals do not tax interest and dividend income and to do so may prove difficult. This would lead to potential tax avoidance and an inherent unfairness;
- a LIT only applicable in Scotland would be difficult to administer and costly to collect. Robust and up to date information on the residency of all workers would be required from employers. This may be a particular problem in Glasgow where there are many mobile and transient workers. There would also be scope for deliberate tax avoidance. Overall it is likely that collection rates would be less than the existing council tax;
- the scale of change would likely result in significant macro-economic repercussions that have not yet been fully explored (for example, the impact on employers, the housing market and sustainability issues);
- there would be significant and costly upheaval across local and central government, in turn impacting employers and the business community. This kind of reform could not be phased in, adding to the immediate operational risk;

- a nationally set LIT can be argued to remove completely any fiscal local accountability to tax payers, significantly changing the relationship between local government, the electorate and the Scottish Government. The ‘gearing’ issue could also become much more acute with local authorities unable to self-fund local initiatives and local cost pressures;
  - LIT would remove property from the Scottish basket of taxes, replacing it with further reliance on earnings as a source for public finance; and
  - there are potentially a number of significant legal obstacles to implementation that would have to be resolved (for example, EU legislation, charters of local and self government, and the legal competency of the Scottish Parliament to levy a nationally set tax on earnings at both basic and higher income tax rates).
- 4.10 There are therefore a number of concerns with a nationally set LIT. These concerns are reflected in many responses to the Scottish Government’s consultation document<sup>6</sup> submitted by a number of other interested organisations and the Burt and (to some extent) Lyons reports.
- 4.11 Whilst there may be ways to address many of the key concerns identified above, this would require significant parallel reform and legislation, which increases strategic and operational risks associated with changes to the local taxation system of this magnitude. The conclusions reached in the Council’s response to the Scottish Government’s local income tax consultation are therefore still valid.

*LIT locally set*

- 4.12 A locally set LIT would work in the same way as a nationally set local income tax, except that the rate would be set by local government. The impact, benefits and concerns with a locally set LIT are therefore broadly similar. A locally set LIT would:
- be more reflective of ability to pay, without any requirement for the existing benefits and rebates systems;
  - avoid any need to revalue or subjectively band property; and
  - likely be more buoyant than a property-based tax.
- 4.13 However, a locally set LIT would give rise to the following key concerns:
- it would still be difficult to tax efficiently interest and dividend income, leading to potential tax avoidance and an inherent unfairness;

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<sup>6</sup> Scottish Government *A Fairer Local Tax for Scotland - Analysis of Consultation Responses* November 2008

- a LIT only applicable in Scotland would be difficult to administer and costly to collect. Robust and up to date information on the residency of all workers would be required from employers. This may be a particular problem in Glasgow where there are many mobile and transient workers. There would also be scope for deliberate tax avoidance. Overall it is likely that collection rates would be less than the existing council tax;
- the scale of change would likely result in significant macro-economic repercussions that have not yet been fully explored (for example, the impact on employers, the housing market and sustainability issues);
- there would be significant and costly upheaval across local and central government, in turn impacting employers and the business community. This kind of reform could not be phased in, adding to the immediate operational risk; and
- LIT would remove property from the Scottish basket of taxes, replacing it with further reliance on earnings as a source for public finance.

4.14 The key differences under a locally set LIT compared to a nationally set LIT would be as follows:

- local variability would maintain local democratic accountability with local authorities accountable to local tax payers for local taxation rates;
- this would in turn increase the administrative burden on local authorities, employers and HMRC (as the collection authority). That is, individual data on earnings and place of primary residence would have to be obtained and kept up to date at local authority level; and
- concerns over the Scottish Government's legal competence to raise a nationally set LIT would not be an issue under a locally set model (locally variable LIT would clearly be regarded as a local tax and therefore within the powers of the Scotland Act). Similarly, a locally set LIT would not be at risk of contravening EU self-government legislation or charters.

However, the powers of HMRC to collect a local tax, and the legal requirement on companies based outside Scotland to share employee data would remain as concerns.

4.15 A locally set LIT could therefore address some of the concerns identified with the existing council tax. However, there are some key concerns with a locally set LIT, primarily relating to administration and collection issues, change-risks and the difficulty in taxing invested wealth.

### *Land value tax*

- 4.16 There are a number of approaches to land value tax ('LVT') but the basic premise is to tax land owners using a set poundage, as applied to an assessed land value. The land valuation would, in turn, be based on the market value at optimum current permitted use, according to existing planning permissions. For domestic property, this would be its permitted residential use. LVT could be set locally or nationally, and replace a large number of existing taxes or just be used as a supplementary tax.
- 4.17 LVT is supported by a number of economists and policy and pressure groups, who refer to persuasive theoretical and macro-economic benefits of LVT. However, the absence of LVT experience within the UK means that it is particularly difficult to assess the practicalities of LVT and to pinpoint the exact LVT scheme that should be considered and assessed.
- 4.18 Nevertheless, Council officers have considered the practical implications of LVT in principle and no insurmountable issues have been identified. There are, however, a number of unknowns and potential difficulties that would have to be properly considered before LVT could fully replace any existing tax system.
- 4.19 With a view to obtaining more reliable and local evidence on LVT, the working group approved a pilot study of the potential impact of LVT on a designated area of Glasgow, with a view to exploring further the practical implications of LVT. The scope of this pilot was later expanded to include consideration of a local property tax and a hybrid LVT / LPT tax. The findings of the pilot study are summarised at 4.36.
- 4.20 LVT potentially holds a number of key benefits:
- LVT would be arguably more progressive than the existing council tax;
  - existing systems, controls and valuation expertise could be translated for use in a LVT regime, reducing the operational burden of change on the Council;
  - LVT brings numerous macro-economic and behavioural benefits, whilst supporting the environment agenda;
  - regular land revaluations would be relatively easy to carry out, contributing to the fairness of the tax further;
  - LVT is relatively buoyant whilst retaining the balance of stability and predictability; and
  - from a sustainability perspective, LVT has a constant tax base, incentives to best-use available land and helps prevent urban sprawl and land banking. Public investment could also be essentially locally-funded over time.
- 4.21 A wholesale change to LVT would, however, be high risk if it were not phased in and preceded by detailed testing and further in depth pilot studies. Furthermore, depending on the nature of the LVT introduced, additional parallel reform may be required to address concerns with existing taxation arrangements, including:

- water charging issues (the ability of low income households to pay and local authority collection arrangements – see section 5); and
- take up of council tax benefit (which would have to be addressed in any LVT rebate scheme).

4.22 The following specific additional issues were noted by the working group during discussions:

- there are different approaches to setting a value for land (for example an annual rental value, or a market value for permitted use). This kind of decision would have to be taken based on detailed financial modelling;
- whilst there is debate as to the ability of land owners to simply pass on LVT charges in rents, the working group agreed that consideration would have to be given to protecting tenants;
- consideration would also have to be given to the impact on Registered Social Landlords. For example, GHA would have to include a LVT element in rents and this in turn would see a corresponding increase in claims for housing benefit, which is ultimately funded by the DWP<sup>7</sup>;
- experience in developing city centre land that has fragmented ownership suggests there may be real difficulty in identifying land owners for LVT purposes;
- LVT may be difficult to explain to taxpayers so there would have to be effective public liaison and education to ensure support for LVT; and
- the treatment of agricultural land would have to be considered as part of a wider discussion on the possible replacement of NNDR (and the subsequent impact on businesses).

None of the concerns identified with LVT are deemed insurmountable but they would have to be considered and resolved in adopting any form of LVT.

4.23 From a local democratic accountability perspective, the impact of LVT would depend on the nature of reform. For example, a nationally set LVT would remove local accountability, whilst at the same time potentially falling foul of legal objections. However, a locally set LVT would likely require central government equalisation, with a risk that favourable macro-economic benefits of LVT are distorted and the continuation of existing gearing issues.

4.24 LVT should therefore not be discounted as an option for local taxation reform: it potentially holds many benefits and addresses many existing concerns with the council tax. Whilst there are a number of concerns with LVT, these often arise from the ambiguous and unfamiliar nature of the tax, coupled with the absence of UK empirical evidence and practical understanding. This therefore implies a need for further detailed pilot studies and longer lead-in times prior to implementation.

4.25 A series of detailed national pilot studies, with potential localised targeted LVT on derelict land, would be a sensible way forward.

<sup>7</sup> It is reasonable to suggest that this would equate to the decline in council tax benefit no longer claimed.

The Glasgow pilot commissioned by the working group has been a valuable exercise in identifying indicative issues for Glasgow and has helped progress the LVT debate. The working group appreciates the work undertaken by the City Assessor's team in completing the pilot study within very demanding timeframes.

#### *Local property tax*

- 4.26 The working group took a local property tax ('LPT') to be that outlined in the Burt report, which recommends a LPT be introduced, based on the capital value of individual properties and payable by households occupying properties (whether as owner-occupiers or as tenants) and by owners of second homes and unoccupied properties
- 4.27 LPT tax carries many of the benefits that a reformed council tax and LVT imply, insofar as removing bands and regular revaluations can increase fairness and credibility. The main difference to LVT is that LPT taxation continues to tax the resident in a property rather than land owner, and includes tax on property and development, by virtue of the valuation methodology.
- 4.28 LPT formed part of the recommendations in the Burt report and is supported by a number of practitioner bodies. Given this would be a continuation of tax on property, a LPT tax would be relatively easy to plan for and implement: existing systems, controls and valuation expertise could be translated for use in a LPT regime, reducing the operational burden of change on the Council. This is supported by the findings of the City Assessor's pilot study summarised at 4.36.
- 4.29 There are a number of other key benefits with LPT:
- regular land revaluations would be relatively easy to carry out, contributing to the fairness of the tax further;
  - local tax payers are likely to find a discrete capital value easier to understand as a basis for their tax liability, rather than an arbitrary band or a land value;
  - it is relatively buoyant whilst retaining the balance of stability and predictability; and
  - from a sustainability perspective, there would be a relatively constant tax base, and provides incentives to best-use available property.
- 4.30 However, as with LVT, additional parallel reform would likely be required to address concerns with existing taxation arrangements, including water charging issues and take up of rebates / benefits. The only other significant concern with LPT is that it perhaps does not capture any of the macro-economic benefits identified with LVT.



- 4.31 From a local democratic accountability perspective, LPT would maintain existing levels of accountability within local authorities. However, additional tax raising powers would be required (for example on derelict land or through supplementary taxes) to increase local fiscal autonomy and in turn address the existing gearing issue.
- 4.32 LPT as outlined in the Burt report is therefore worthy of consideration. It would help address a number of existing concerns with the council tax and, coupled with water and benefit reform, could see the development of an effective local tax regime. It should, however, be noted that there is a wider debate to be had: for example, the potential macro-economic and socio-economic impact of differing land or property-based taxes.

#### *LVT / LPT hybrid tax*

- 4.33 The working group heard various discussions around both land value and local property taxation. With reference to schemes in Pittsburgh Pennsylvania and other cities, the working group agreed to expand its remit to include consideration of a LVT / LPT hybrid option.
- 4.34 It is possible to create a hybrid LVT / LPT. This essentially assesses land and improvement values with a view to capturing the benefits of LVT within a LPT context. The key benefits would be those identified with LVT, including macro-economic benefits, whilst retaining LPT benefits. As such, it would be lower risk than LVT: there would not be as significant change-risks and any immediate macro-economic 'shocks' would be dampened by including a property element to the tax assessment.
- 4.35 The key benefit of a hybrid approach is that it enables the tax authority to gradually introduce or increase the tax rate on land and reduce the rate on improvements. This would enable LVT elements to be phased in, help prevent the change-risk factors associated with LVT and enable local government to fine-tune the local economy over time.
- 4.36 A LVT / LPT hybrid tax is perhaps the option that best captures the benefits of LVT and LPT. Whilst relatively easy to implement and administer (as with LPT), the inclusion of LVT elements should theoretically bring macro-economic benefits, as illustrated in the Pittsburgh example.
- 4.37 The City Assessor's pilot study considered a hybrid tax option and the findings are summarised in 4.36, below.

#### *Council pilot study: LVT, LPT and hybrid option*

- 4.38 During the working group's consideration of LVT and LPT options it was agreed that a pilot study should be conducted into the possible implications of these options for Glasgow. The scope was later expanded to include a LVT / LPT hybrid option. The focus of the review was to:
- confirm how such tax models might work in practice;



- consider the potential impact on Glasgow households and the Council; and
- identify any practical or technical issues that would have to be considered.

4.39 The pilot study looked at ward 18 (East Centre) to try and capture as many different property and land types as possible. The ward includes a mix of residential, commercial and industrial units, as well as vacant and derelict land. And covers around 5% of Glasgow homes. Assuming the same amount of revenue is to be raised as under the council tax, the City Assessor estimated a tax rate of around 1p for a LPT and 3p for LVT<sup>8</sup>. Detailed findings are provided in appendix 3.

4.40 The key findings of the pilot study are summarised in table 5, below.

*Table 5: LPT / LVT pilot study - key findings*

| #  | Key finding  |
|----|--|
| 1. | LPT would be relatively straightforward to implement using recent property transactions (the pilot study used 2007-08 data).   |
| 2. | LVT would be more challenging to implement (primarily due to less available data on land sales) but with clarity on the method of valuation to be used <sup>9</sup> , LVT would be possible to implement with sufficient lead in time.   |
| 3. | A hybrid option would not pose any insurmountable problems. The nature of the hybrid model to be used would largely be a political decision based on what the tax is meant to achieve.   |
| 4. | Consideration was given to industrial, retail and commercial units. Again, no insurmountable issues were identified. However, consideration would have to be given to assessing LPT and LVT values for units that occupy a site within a larger residential site (a shop on the ground floor of a tenement building, for example). |
| 5. | Any LVT element would require considerable liaison between the Council's planning officers and the City Assessor. In turn, planning decisions would have to be closely linked to the city's development and regeneration priorities.   |
| 6. | Applying a LVT to derelict or vacant land would clearly encourage development.   |
| 7. | As expected, the possible charge per household is estimated to change under both LVT and LPT. The main factor behind these changes, which are illustrated in appendix 3, is believed to be the absence of council tax revaluation since 1991. <sup>10</sup>  |
| 8. | Once the initial LPT / LVT database is set up it would be relatively straightforward to maintain and undertake revaluations.   |
| 9. | LVT in particular can be difficult to understand and explain. Whilst much of this is due to the different approaches to LVT available, the pilot study confirmed that it would be challenging to explain LVT to the general public.  |

<sup>8</sup> These residential rates have been calculated based on Ward 18 data only. In implementing a LPT or LVT, the rate would vary depending on data on a Glasgow-wide, or indeed Scotland-wide basis.

<sup>9</sup> It would potentially be possible to influence a land owner's LVT liability by either introducing different tax rates, or through varying the taxable value.

<sup>10</sup> Per section 74 of the Local Govt Finance Act 1992, which sets out the amounts payable for each Band.

### *Non-domestic rates reform*

4.41 Whilst the working group has not considered non-domestic rates in isolation, issues have been identified as part of reports on domestic taxation models. The main concern centres on the fact that Glasgow makes a net contribution to the NDR pool of around £70 million per annum. Essentially, a significant amount of any benefits to the local business economy deriving from Council regeneration investment is passed onto the NDR pool.

4.42 There are a number of options to address this issue:

- review the national redistribution methodology;
- create greater local autonomy in raising non-domestic taxes (for example through expanding existing BID schemes, or implementing local supplementary taxes – refer to 2.2 above); or
- replace NDR under a LVT or hybrid LVT / LPT tax system (indeed, a true LVT would have to apply to non-domestic properties since it would be raised on land).

4.43 Therefore reform of NDR depends on the nature of reform of domestic local taxes and should be considered in that context.

## 5. Water charging

- 5.1 It was noted during discussions at the working group that issues surrounding water charging have been relevant in considerations of all local tax models and should therefore be de-coupled from the debate and subject to a separate analysis. This is consistent with the views of Sir Peter Burt, who noted that water charging issues should be addressed prior to any wider reform of local taxation in Scotland. Once water charging reform has been removed from the debate, it is then much easier to evaluate different forms of local taxation. A separate water charging report was therefore prepared for the working group focussing on the particular issues in Glasgow.
- 5.2 Table 6 summarises the key concerns with existing water charging arrangements.

Table 6: Water charging – key concerns

| Issue  | Concerns   |
|--|--|
| <b>Council bears disproportionate cost of collection</b> | <p>Scottish local authorities collect water and waste water charges on behalf of Scottish Water in return for a contribution towards the cost of collection. Whilst water charges are not a tax, they do form part of the council tax collection regime. It is the Council's experience that the cost of collection exceeds the contribution from Scottish Water.</p> <p>Furthermore, proportionately more water charge debt is more than one year old (79%) compared to council tax debt (74%), indicating that water charge debt is somewhat more difficult (and therefore costly) to collect than council tax debt.</p> |
| <b>Ability to pay</b>                                    | <p>There is a core of Glasgow residents who do not pay their annual council tax liability and waste water charge in the given year. A significant proportion of this debt relates to water charges, proportionately more than council tax elements of household debt. One reason for this is perhaps due to the absence of sufficient benefits or rebates for water charges.</p>   |
| <b>Income support deductions are inadequate</b>          | <p>If a debtor is on full income support, then the Council is able to receive deductions from income support payments from the DWP. However, this statutory amount is not sufficient to meet the in-year water charge and consequently households on income support (and therefore full council tax benefit) often find their water charge debt steadily increasing over time.</p>   |

| Issue  | Concerns  |
|--|---|
| <b>Allocation of amounts collected</b>             | <p>Water charges are paid over to Scottish Water according to a 70:30 statutory formula at a global level, with Scottish Water receiving 30% of all council tax and water charges collected by the Council.</p> <p>Glasgow is particularly disadvantaged by this formula due to the high number of households whose only liability is water charges (that is, council tax is fully rebated). This is also the case for those who do not pay, or pay less than their ongoing liability (often the case via income support payments). If every single payment was analysed and allocated to the two separate elements making up the account balance, the Council would pay a lesser proportion of cash collected to Scottish Water. Previous estimates show this is at least £1m per year. In effect, the Council pays more to Scottish Water than has been collected by the Council for water charges.</p> |
| <b>Public understanding / local accountability</b> | <p>The arrangements for water charging and collection are often not fully understood by council tax payers, who end up holding local authorities to account for this element of their local taxation bill. From an accountability perspective, existing water charging arrangements are therefore not satisfactory.</p>   |
| <b>Non-domestic water charging</b>                 | <p>Only new non-domestic properties will have an up to date rateable value (existing properties use a 1995 rateable value on direction from the Water Commission). However, the Council's Assessor updates the rateable value for non-domestic properties every five years for NDR purposes. This therefore means that existing non-domestic properties will always pay water charges based on 1995 rateable values, whereas new properties will have an up to date value applied. Scottish Water has advised us that it would require a new Direction to change the rateable value used.</p>   |

- 5.3 There are therefore a number of significant concerns relating to existing water charging arrangements and there is a consensus amongst working group members about the need to address these issues. The working group therefore recommends that the Council makes representations to the Scottish Parliament to reform water charging in Scotland; the specific recommendations are set out below.
- 5.4 Interim measures that would help address immediate concerns with water charging include:
- creation of a water charge 'circuit-breaker' or 'allowance' below which no household in Scotland is billed directly for water or waste water. This should be set at a level so as to catch as many low-income households as possible; or
  - aligning water rebates to council tax rebates, ensuring that households in receipt of council tax benefit automatically receive rebate to their water bills.
- 5.5 There should also be a wholesale review of existing mechanisms for aligning cash collected from households by local authorities to water and council tax elements, along with a review of the contribution Scottish Water makes to local authorities for administration and collection costs.

- 5.6 Consideration should be given to ceasing direct water charging for domestic properties entirely and instead funding Scottish Water from central government funds. This would be a long term solution and could be achieved through the Scottish Variable Rate, which would be easy to administer and low-cost, whilst resolving all the issues identified in this paper. This solution has the added benefit of avoiding the need for a costly means-tested water rebates system. The Council may find it appropriate to raise this issue with the Scottish Government, Cosla, HMRC and Scottish Water.
- 5.7 It is recommended that non-domestic properties continue to be charged directly for water and waste water under existing arrangements. However, it makes sense for rateable values, which are used to calculate the water charges for almost all non-domestic properties to some extent, to be updated as and when a statutory revaluation is undertaken.

## 6. Conclusions

- 6.1 The working group has confirmed that a number of significant concerns exist with current local taxation arrangements and that the *status quo* is therefore not an option.
- 6.2 ~~Currently, there is a~~~~Presently there is a~~ democratic system of local government, where Councils in Scotland currently hold no substantive fiscal power. A fundamental question that has to be addressed~~The first decision that would have to be taken~~ at national and devolved levels is whether to replace local government with local administration, or to give greater fiscal powers to locally elected authorities. The working group believes that the public desire a democratically accountable local authority and therefore local fiscal reform is required. There is ongoing debate around the Scottish Government's fiscal powers. The working group therefore feels that this debate should be extended to local government.
- 6.3 The working group has concluded that council tax in its current form and local income tax, whether set nationally or locally, are not to be recommended.
- 6.4 The working group has identified two strands for reform: immediate steps and longer term solutions. Short term efforts should be focussed on reforming the council tax wherever possible. Options for short term reform are summarised in table 7. A longer term, more permanent solution would be best served by pursuing a local property tax as envisaged by the Burt report, with a built-in mechanism to enable land value tax elements to be phased in with the ultimate goal of creating a LPT / LVT hybrid tax. ~~However, this would require significant lead in time and therefore short term efforts should be focussed on reforming the council tax wherever possible. Options for short term reform are summarised in table 7.~~

Table 7: Reformed council tax – recommendations

| Reform  | Comment   |
|---|---|
| <b>Revaluation</b>  | <p>There should be a Scottish council tax revaluation. It is likely that this would lead to significant changes in council tax liabilities for some households. However, transitional arrangements would help phase-in any significant increases. A robust appeals process would also help to ensure buy-in from local taxpayers.<sup>11_1</sup></p> <p>Whilst it is true that any kind of banding immediately distorts a tax regime and builds-in levels of unfairness, this issue would be best resolved through the introduction of a local property tax as recommended at 6.4.</p>  |
| <b>Reform of existing benefits, rebates, discounts and exemptions</b> | <p>There are various ways in which council tax benefit take-up could be increased and these should be explored at a national level. For example:</p> <ul style="list-style-type: none"> <li>• savings limits on benefit assessments could be increased;</li> <li>• the application process could be simplified and, in some cases, even automated;</li> <li>• the term ‘benefits’ can discourage potential claimants from applying and should therefore be re-branded as a ‘rebate’; and</li> <li>• central government funding could be introduced where local authorities have significant student populations, to reflect the discounts awarded.</li> </ul> |
| <b>Other reforms</b>  | <p>Consideration of targeted ‘safety net’ initiatives, including deferred payment schemes and 12 month payment cycles. Central government could also create a ‘circuit-breaker rebate’ whereby any household that pays more than a set proportion of their annual income in property tax receives a rebate.</p>   |
| <b>Public education</b>   | <p>Continued public education and awareness initiatives on the nature and purpose of local government funding.</p>  |

- 6.5 Another immediate step, which would have a very beneficial impact, would be to reform water charging arrangements. The creation of a water charge ‘circuit-breaker’ or ‘allowance’ below which no household in Scotland is billed directly for water or waste water would help low income households. Alternatively water rebates could be aligned to council tax rebates, ensuring that households in receipt of council tax benefit automatically receive rebate to their water bills.
- 6.6 There should also be a wholesale review of existing mechanisms for aligning cash collected from households by local authorities to water and council tax elements, along with a review of the contribution Scottish Water makes to local authorities for administration and collection costs. Consideration should be given to ceasing direct water charging for domestic properties entirely and instead funding Scottish Water from central government funds. This would be a long term solution and could be achieved through the Scottish Variable Rate, which would be easy to administer and low-cost,

<sup>11\_1</sup> The cost and upheaval arising from council tax revaluation may not be appropriate depending on the timescale of any move to a LPT / LVT model.

whilst resolving all the water charging issues identified by the working group.

- 6.7 Water charging for non-domestic properties appear to be less problematic but the working group is concerned by the fact that new non-domestic considerations are charged based on up to date rateable values, where existing properties use 1995 valuation date, despite up to date valuations being available.
- 6.8 The remit of the working group was to identify a local taxation model that would best meet the needs of Glasgow City Council and it is within that scope that the working group has delivered its findings.
- 6.9 Local accountability was agreed as a key principle under which each of the local taxes was reviewed. Although the Council has the power to set its own Council Tax this represents only 15.5% of Glasgow's budget in 2009-10. In addition, this power has been diluted by the introduction in 2008-09 of additional central government funding for Councils who freeze their Council Tax, thereby making even a modest increase untenable. This was recognised by the working group as not being a desirable, or sustainable, situation. The working group recognised that for local government to be truly effective, then greater local fiscal powers are required. To achieve this, it is agreed that more local revenue-raising powers are necessary, through direct taxation as outlined throughout this paper, supplemented by other local charges (such as tourist taxes or environmental charging schemes). There is no reason why local government should be funded by one predominant tax base.
- 6.10 Local accountability was agreed as a key principle under which each of the local taxes was reviewed. Although the Council has the power to set its own Council Tax this represents only 15.5% of Glasgow's budget in 2009-10. In addition, this power has been diluted by the introduction in 2008-09 of additional central government funding for Councils who freeze their Council Tax, thereby making even a modest increase untenable. This was recognised by the working group as not being a desirable, or sustainable, situation. The working group recognised that for local government to be truly effective, greater local fiscal powers are required. To achieve this, it is agreed that more local revenue-raising powers are necessary, through direct taxation as outlined in this paper, supplemented by other local charges (such as tourist taxes or environmental charging schemes). There is no reason why local government should be funded by one predominant tax base.
- 6.11 However, the remit of the working group was to identify a local taxation model that would best meet the needs of Glasgow City Council and it is within that scope that the working group has delivered its findings.



## Recommendations

7.1 The working group has identified a number of recommendations for reform. It is recommended that the Council makes representation to the Scottish Parliament on these as summarised in the table below.

*Table 8: Summary of recommendations*

| Recommendation                                | Comment  |
|---|--|
| <b>Immediate reform of council tax</b>        | <ul style="list-style-type: none"> <li>• Undertake a council tax revaluation.<sup>12</sup></li> <li>• Increase council tax benefit take-up.</li> <li>• Consider other reforms to increase fairness and ability to pay.</li> </ul>  |
| <b>Long term move to LPT / LVT hybrid tax</b> | <ul style="list-style-type: none"> <li>• Start planning for replacement of council tax with a local property tax, incorporating powers to introduce gradually land value tax elements.</li> </ul>  |
| <b>Water charging</b>                         | <ul style="list-style-type: none"> <li>• Reduce water charge burden on low income households through access to greater rebates / benefits.</li> <li>• Address administration and collection issues that significantly impact local authorities.</li> <li>• Revise statutory orders to enable up to date rateable values to be used for all non-domestic property water charges.</li> <li>• Consider longer term replacement of direct water charging for domestic properties.</li> </ul> |
| <b>Expand local government fiscal powers</b>  | <ul style="list-style-type: none"> <li>• Review the extent of local authority fiscal powers as part of the wider debate on Scottish Parliament's fiscal powers.</li> <li>• Address gearing issue by reducing dependence on central government funding.</li> <li>• Broaden local tax base through local charging schemes, such as tourist taxes and charges linked with the environment agenda.</li> </ul>  |

<sup>12</sup> The cost and upheaval arising from council tax revaluation may not be appropriate depending on the timescale of any move to a LPT / LVT model.

## **Appendix 1: Local Taxation Working Group scope & approach**

### **1. Scope**

1.1 It is proposed that the working group consider and assess the following local taxation models:

- a) Existing council tax arrangements;
- b) Reformed council tax;
- c) Local income tax (nationally set);
- d) Local income tax (locally set);
- e) Land value tax;
- f) Local property tax (based on capital values); and
- g) Other models (for example sales tax, tourist tax, rateable values property tax etc).

### **2. Approach**

2.1 It is proposed that the working group should meet roughly six-weekly to consider each option. A paper will be prepared assessing each taxation model and focussing on the potential impact on Glasgow households and the City Council.

2.2 Each taxation model under consideration will be evaluated against the following criteria:

| <b>Principle</b>                | <b>Criteria</b>   |
|---------------------------------|---|
| Fairness                        | <ul style="list-style-type: none"> <li>• Reflects ability to pay and should be progressive (or at least proportionate) with a view to lessening the burden on poor households.</li> <li>• Includes consideration of wealth <i>and</i> income.</li> </ul>  |
| Efficiency                      | <ul style="list-style-type: none"> <li>• Raises the same overall revenue as existing council tax arrangements.</li> <li>• Prevents unintended / adverse socio-economic impact and negative externalities.</li> <li>• Minimises tax avoidance and cost of collection.</li> <li>• Easy to understand and administer, and is transparent.</li> </ul> |
| Predictability                  | <ul style="list-style-type: none"> <li>• Reflects economic trends and is relatively buoyant.</li> <li>• Balances this with certainty, predictability and stability.</li> </ul>  |
| Local democratic accountability | <ul style="list-style-type: none"> <li>• Set, collected and administered locally.</li> <li>• Maintains or enhances local accountability.</li> </ul>   |

2.3 In keeping with the Council's response to the local income tax consultation, there will be an assumption that existing levels of council tax benefit revenue will continue to be received. Throughout the review, consideration will also be given to general issues regarding the balance of funding and potential equalisation issues.

2.4 A shortlist is provided at appendix 1 showing potential external experts that the working group may wish to invite to give evidence on the various options being considered.

### 3. Timetable

3.1 A suggested timetable of meetings is provided below (exact dates to be confirmed). It is proposed that the Local Taxation Working Group should meet on a six-weekly basis in order to give Council officers sufficient time to prepare relevant papers.

| #  | Meeting             | Agenda  |
|----|---------------------|---|
| 1. | Late August 2008    | <ul style="list-style-type: none"> <li>Scoping &amp; planning</li> </ul>  |
| 2. | Early October 2008  | <ul style="list-style-type: none"> <li>Council tax – current issues and concerns</li> <li>Reformed council tax</li> </ul>     |
| 3. | Early December 2008 | <ul style="list-style-type: none"> <li>Nationally set local income tax</li> <li>Locally set local income tax</li> </ul>       |
| 4. | Early January 2009  | <ul style="list-style-type: none"> <li>Local property tax – land value</li> <li>Local property tax – capital value</li> </ul> |
| 5. | Mid February 2009   | <ul style="list-style-type: none"> <li>Other taxation models</li> <li>Overview / conclusions</li> </ul>                       |
| 6. | April 2009          | <ul style="list-style-type: none"> <li>Finalise Council report <sup>13</sup></li> </ul>                                       |

3.2 Council officers will prepare a report during March 2009 for presentation to a final meeting of the Working Group in April 2009. Thereafter this will be reported to Council.<sup>5</sup>

<sup>13</sup> As outlined in this summary report, the working group decided to request a pilot exercise be undertaken on LVT, LPT and a hybrid tax. In order to allow sufficient time for this to be completed and presented to the working group, the deadline for finalising this summary report was extended slightly.

<sup>5</sup>

***Appendix 2a: Appraisal of existing council tax issues against possible reformed council tax***

Appendix 2a provides an overview of the benefits and concerns identified with the existing council tax regime, according to the agreed set of criteria and principles, and suggests how aspects of reform could impact these issues.

*Impact of council tax reform on existing benefits and concerns - revised*

| Criteria / Principle | Existing council tax benefits  | Existing council tax concerns   | Potential council tax reform and related impact  |
|----------------------|--|---|--|
| Fairness             | <ul style="list-style-type: none"> <li>• Visible and transparent</li> <li>• Benefits system provides a certain element of means-testing</li> <li>• Property is one indicator of wealth and much of the country's wealth is stored in property</li> <li>• Discounts and exemptions adjust for income-earning capacity of household</li> <li>• Income tax already contributes significantly to local government finance</li> <li>• Difficult to evade payment</li> </ul> | <ul style="list-style-type: none"> <li>• Does not always reflect the ability to pay and is not progressive</li> <li>• Current valuations often bear little resemblance to current values</li> <li>• Banding system effectively caps the maximum any household will pay</li> <li>• Households on full council tax benefit are still required to pay a water charge and often struggle to do so</li> <li>• Property-wealth does not necessarily reflect ability to pay an annual cash levy</li> </ul> | <p><b>Revaluation &amp; re-banding</b></p> <ul style="list-style-type: none"> <li>• Could restore credibility to the banding system and, to some extent, reduce some regressive aspects of the council tax. Revaluation would have to be a statutory requirement and be built into legislation to prevent any political agenda influencing the timing and of revaluations.</li> <li>• There seems to be a consensus between Burt, the IRRV and CIPFA that revaluation should be implemented along with a discrete capital values property tax, instead of banding. However, this would not have a significant impact on the 'ability to pay' issue for Glasgow where there are relatively few high value properties to reduce the burden on poorer households. The capital values option will be the subject of a specific report to the working group at a later date.</li> <li>• It is likely that revaluation would impact the structure of local government funding across Scotland. For example, Glasgow would possibly see a relative increase in the number of band D properties with a subsequent increase in expected council tax revenues. However, this would potentially then be offset by a decrease in the central government grant settlement. Therefore, some households in Glasgow could see their council tax bills increasing but the net revenue available to the Council would remain the same.</li> </ul> <p><b>Council tax benefit / water charging reform</b></p> <ul style="list-style-type: none"> <li>• Would be the primary tool to increase the fairness of the council tax. There are many options for reform but increasing benefit take-up and expanding the rebate provided for water charges could address many aspects of the 'fairness' issue.</li> <li>• The IRRV have identified a number of options for benefit / rebate reform, in addition to those summarised by Burt and Lyons. For example, IRRV suggest that the single person discount should be scrapped and replaced with a more targeted, means-tested relief. This would also encourage more efficient and sustainable use of</li> </ul> |

| Criteria / Principle | Existing council tax benefits   | Existing council tax concerns   | Potential council tax reform and related impact   |
|----------------------|---|---|---|
| Efficiency           | <ul style="list-style-type: none"> <li>• Systems and controls in place to effectively administer tax and benefits</li> <li>• Relatively high collection rates and low cost of collection</li> <li>• Currently yield is adequate to support required revenue</li> <li>• Few adverse behavioural effects and encourages property owners to make economic use of their assets</li> </ul> | <ul style="list-style-type: none"> <li>• Eligible households do not always apply for benefit, exemptions or discounts</li> <li>• Tax payers with more than £16,000 in savings are excluded from benefit</li> <li>• Existing arrangements whereby local authorities collect water charges on behalf of Scottish Water are not satisfactory (see 4.10 in previous report)</li> <li>• NNDR valuations are not consistently applied and the system of reliefs and exemptions often has adverse impacts</li> </ul> | <ul style="list-style-type: none"> <li>• As noted above, various options available to try and increase take-up of benefit, exemptions and discounts.</li> <li>• Reform of benefits system should include simplification of application process and efforts to data match with other agencies with a view to awarding automatic benefit entitlement. IRRV support increased data-sharing across agencies for this purpose.</li> <li>• Wholesale reform of water charging arrangements based on English / Welsh or new Northern Ireland system would likely address most of the efficiency issues identified, whilst at the same time improving credibility of council tax.</li> <li>• Removing water collection from Glasgow would bring no adverse repercussions. However, if water charging was to continue then there would be questions as to the ability of Scottish Water to administer the collection and their legal status to do so.</li> <li>• Operationally should be relatively straightforward to use most recent valuation non-domestic property data in charging for water for businesses. Would require co-ordination with Scottish Government and Scottish Water but would address inconsistency issue.</li> <li>• CIPFA identify sustainability as a factor that should be considered<sup>14</sup>. For example, the ageing population will likely result in greater pressure on taxation of earned income, suggesting the retention of a property-based tax is desirable. It can also be argued that property taxes can encourage efficient and sustainable use of land and buildings.</li> <li>• Significant changes to benefits, rebates and water charging would likely require legislation at UK and / or Scottish Parliament.</li> </ul> |

| Criteria / Principle            | Existing council tax benefits   | Existing council tax concerns   | Potential council tax reform and related impact  |
|---------------------------------|---|---|--|
| Predictability                  | <ul style="list-style-type: none"> <li>• Tax base is relatively stable year on year and the tax yield can be predicted reasonably accurately</li> <li>• Retains an element of buoyancy (at least over the medium and longer term)</li> <li>• Cash flows can be managed relatively easily</li> <li>• Enables Glasgow to be subsidised through central government or DWP funding to reflect socio-economic factors</li> <li>• Projections indicate a 11% increase in taxable domestic properties by 2016</li> </ul> | <ul style="list-style-type: none"> <li>• Glasgow's unique socio-economic situation means collecting council tax is challenging</li> </ul>   | <ul style="list-style-type: none"> <li>• Collection problems mainly relate to households that do not receive adequate benefit or water rebate. Reform of the benefit system, coupled with additional rebate for water charges, could effectively by-pass a significant proportion of households from which the Council struggles to collect council tax and water charges.</li> <li>• This would likely see Glasgow's collection rates increase to be more comparable with the Scottish average (which already has a relatively good collection rate compared to other forms of local taxation).</li> <li>• CIPFA have noted that certainty over revenues is critical to effective financial planning. There is currently a three-year focus on revenue planning within local government but CIPFA's view is that financial planning should be even longer term and that a reformed property tax would be well suited to achieving this, given the relatively greater predictability associated with such a tax base.</li> <li>• However, it could be argued that the recent contraction of the mortgage and property market has tarnished the perception that property is a predictable and stable proxy to wealth. This recent downturn would suggest any reformed council tax would have to be subject to regular revaluation and local authorities would have to be able to adjust tax rates to reflect the local and national economies.</li> </ul> |
| Local democratic accountability | <ul style="list-style-type: none"> <li>• Relatively transparent enabling the electorate to hold members to account</li> <li>• Clearly identifiable as a local tax</li> </ul>  | <ul style="list-style-type: none"> <li>• The 'gearing' effect and the water charge issue impacts on the true level of local accountability</li> <li>• There is a need for additional flexibility in relation to the system of business taxation.</li> </ul> | <ul style="list-style-type: none"> <li>• There is disagreement as to whether existing 'gearing' is desirable or not. Regardless, reform of the benefits system and water charging arrangements would help reduce gearing for Glasgow by increasing revenues from local taxation. The IRRV has noted that, in their view, gearing should be reduced.</li> <li>• Supplementary business taxation schemes could enable the Council to further its urban regeneration programme whilst at the same time increasing transparency and links with the business community.</li> </ul>  |

Source: *Local taxation working group reformed council tax paper, appendix 2 041108.*



## Appendix 2b: Appraisal of existing council tax benefits and concerns against nationally set LIT

Appendix 2b provides an overview of the benefits and concerns previously identified with the existing council tax regime, according to the agreed set of criteria and principles, and suggests how a nationally set LIT could impact these issues.

*Impact of nationally set LIT on existing benefits and concerns associated with the council tax*

| Criteria / Principle | Existing council tax benefits  | Existing council tax concerns   | Potential reform and related impact of nationally set LIT   |
|----------------------|--|---|---|
| Fairness             | <ul style="list-style-type: none"> <li>Visible and transparent</li> <li>Benefits system provides a certain element of means-testing</li> <li>Property is one indicator of wealth and much of the country's wealth is stored in property</li> <li>Discounts and exemptions adjust for income-earning capacity of household</li> <li>Income tax already contributes significantly to local government finance</li> <li>Difficult to evade payment</li> </ul> | <ul style="list-style-type: none"> <li>Does not always reflect the ability to pay and is not progressive</li> <li>Current valuations often bear little resemblance to current values</li> <li>Banding system effectively caps the maximum any household will pay</li> <li>Households on full council tax benefit are still required to pay a water charge and often struggle to do so</li> <li>Property-wealth does not necessarily reflect ability to pay an annual cash levy</li> </ul> | <ul style="list-style-type: none"> <li>LIT would be proportionate to income and therefore ensure that an individual's tax liability corresponds to ability to pay, insofar as earned income corresponds to ability to pay.</li> <li>No requirement for property valuation or banding, removing requirement for regular revaluations and capping through bands.</li> <li>Crucially, a nationally set LIT would not address the significant issues that exist in relation to water charging. Many households would continue to struggle to pay their water charge liability. Any LIT would therefore have to be legislated for in conjunction with water charging reform. Reference should be made to the <i>Reformed council tax</i> paper (4 November 2008) for water charge issues and options for reform.</li> <li>There would also be scope for tax avoidance and a significant element of personal and national wealth would no longer be subject to taxation, with subsequent adverse behavioural impacts. The Scottish Government has announced it is looking at the potential impact on students from poorer backgrounds.</li> </ul> |
| Efficiency           | <ul style="list-style-type: none"> <li>Systems and controls in place to effectively administer tax and benefits</li> <li>Relatively high collection rates and low cost of collection</li> <li>Currently yield is adequate to</li> </ul>  | <ul style="list-style-type: none"> <li>Eligible households do not always apply for benefit, exemptions or discounts</li> <li>Tax payers with more than £16,000 in savings are excluded from</li> </ul>  | <ul style="list-style-type: none"> <li>No requirement for benefits / rebates system and therefore avoids issue of poor take-up. However, there may still be requirement for water rebating system and housing benefit administration would have to continue. There may also be requirements to monitor student status of</li> </ul>   |

| Criteria / Principle | Existing council tax benefits   | Existing council tax concerns   | Potential reform and related impact of nationally set LIT  |
|----------------------|---|---|--|
|                      | <p>support required revenue</p> <ul style="list-style-type: none"> <li>Few adverse behavioural effects and encourages property owners to make economic use of their assets</li> </ul> | <p>benefit</p> <ul style="list-style-type: none"> <li>Existing arrangements whereby local authorities collect water charges on behalf of Scottish Water are not satisfactory (see 4.10 in previous report)</li> <li>NNDR valuations are not consistently applied and the system of reliefs and exemptions often has adverse impacts.</li> </ul> | <p>individuals should they be exempt from LIT.</p> <ul style="list-style-type: none"> <li>LIT is naturally means-tested, relating to earned income. However, as noted above, there is scope for avoidance and other forms of wealth will not be taxed.</li> <li>Any failure to supplement LIT legislation with water reform would mean the existing significant concerns relating to administration and collection would remain.</li> <li>LIT could have a significant impact on employers in terms of administration and collection. In turn, this could affect businesses' decisions to locate in Scotland. There is also a risk that a LIT would result in disincentive to work in Scotland.</li> <li>The systems and controls in place to administer, collect and monitor a LIT are not in place and would require significant change management and investment by employers, local and central government, and HMRC. There are therefore a number of operational and strategic risks associated with such a significant shift.</li> <li>LIT would be a tax on individuals. The only prior experience of local taxation on individuals (the Community Charge) resulted in significant collection problems.</li> <li>CIPFA have noted that a LIT would not fulfil the criteria of a sustainable tax: the working age population is expected to decline in the medium / long term and there would potentially be less incentive to maximise efficient use of land and property.</li> <li>To maintain taxation on second homes would require either voluntary information from owners or continuation of property registers.</li> </ul> |

| Criteria / Principle | Existing council tax benefits   | Existing council tax concerns   | Potential reform and related impact of nationally set LIT   |
|----------------------|---|---|---|
| Predictability       | <ul style="list-style-type: none"> <li>• Tax base is relatively stable year on year and the tax yield can be predicted reasonably accurately</li> <li>• Retains an element of buoyancy (at least over the medium and longer term)</li> <li>• Cash flows can be managed relatively easily</li> <li>• Enables Glasgow to be subsidised through central government or DWP funding to reflect socio-economic factors</li> <li>• Projections indicate a 11% increase in taxable domestic properties by 2016</li> </ul> | <ul style="list-style-type: none"> <li>• Glasgow's unique socio-economic situation means collecting council tax is challenging</li> </ul> | <ul style="list-style-type: none"> <li>• LIT would avoid the collection problems that Glasgow currently faces in relation to poorer households. However, the current difficulty of taxing a relatively transient population would continue to be a problem in collecting a LIT, whichever organisation was responsible for collection. Collection of water charges from poorer households would also continue to pose a problem.</li> <li>• LIT would be relatively buoyant but, in turn, may prove unpredictable in terms of yield and cash flow. The Scottish Government has confirmed that local authorities would have the same overall level of funding made available under the LIT and this would therefore only be an issue for central government to address.</li> <li>• The issue of DWP / central government subsidy for council tax benefit is one for the Scottish and UK Governments to resolve.</li> <li>• There is a risk that relative revenues from a LIT decline compared to any property based tax on the assumption that the working age population continues to decline, whilst numbers of taxable domestic properties increase.</li> </ul> |

| Criteria / Principle            | Existing council tax benefits  | Existing council tax concerns   | Potential reform and related impact of nationally set LIT  |
|---------------------------------|--|---|--|
| Local democratic accountability | <ul style="list-style-type: none"> <li>• Relatively transparent enabling the electorate to hold members to account</li> <li>• Clearly identifiable as a local tax</li> </ul> | <ul style="list-style-type: none"> <li>• The 'gearing' effect and the water charge issue impacts on the true level of local accountability</li> <li>• There is a need for additional flexibility in relation to the system of business taxation.</li> </ul> | <ul style="list-style-type: none"> <li>• Local democratic accountability could be retained through robust performance measurement. However, a LIT is inconsistent with concept of decentralised fiscal policy and many commentators believe fiscal accountability is key to local democratic accountability. CIPFA have compared the proposed arrangements to the NHS whereby local government is financially accountable to the Scottish Government, rather than a local taxpayer.</li> <li>• A nationally set LIT is not identifiable as a local tax and would, in practice, result in near 100% of local government expenditure being funded by central government.</li> <li>• As noted above, LIT reform in isolation would not address water charging issues and the lack of accountability within water charging.</li> </ul> |

Source: Local taxation working group 'Existing council tax arrangements' paper, section 4

## Appendix 2c: Appraisal of existing council tax benefits and concerns against locally set LIT

Appendix 2c provides an overview of the benefits and concerns previously identified with the existing council tax regime, according to the agreed set of criteria and principles, and suggests how a locally set LIT could impact these issues. It should be noted that, in most cases, the potential impact of such reform is similar to that achieved by a nationally set LIT, with the exception of the local accountability and administration / cost of collection issues.

### Impact of locally set LIT on existing benefits and concerns associated with the council tax

| Criteria / Principle | Existing council tax benefits  | Existing council tax concerns   | Potential reform and related impact of locally set LIT  |
|----------------------|--|---|---|
| Fairness             | <ul style="list-style-type: none"> <li>Visible and transparent</li> <li>Benefits system provides a certain element of means-testing</li> <li>Property is one indicator of wealth and much of the country's wealth is stored in property</li> <li>Discounts and exemptions adjust for income-earning capacity of household</li> <li>Income tax already contributes significantly to local government finance</li> <li>Difficult to evade payment</li> </ul> | <ul style="list-style-type: none"> <li>Does not always reflect the ability to pay and is not progressive</li> <li>Current valuations often bear little resemblance to current values</li> <li>Banding system effectively caps the maximum any household will pay</li> <li>Households on full council tax benefit are still required to pay a water charge and often struggle to do so</li> <li>Property-wealth does not necessarily reflect ability to pay an annual cash levy</li> </ul> | <ul style="list-style-type: none"> <li>LIT would be proportionate to income and therefore ensure that an individual's tax liability corresponds to ability to pay, insofar as earned income corresponds to ability to pay.</li> <li>No requirement for property valuation or banding, removing requirement for regular revaluations and capping through bands.</li> <li>Crucially, LIT would not address the significant issues that exist in relation to water charging. Many households would continue to struggle to pay their water charge liability. Any LIT would therefore have to be legislated for in conjunction with water charging reform. Reference should be made to the <i>Reformed council tax</i> paper (4 November 2008) for water charge issues and options for reform.</li> <li>There would also be scope for tax avoidance and a significant element of personal and national wealth would no longer be subject to taxation, with subsequent adverse behavioural impacts.</li> </ul> |
| Efficiency           | <ul style="list-style-type: none"> <li>Systems and controls in place to effectively administer tax and benefits</li> <li>Relatively high collection rates and low cost of collection</li> </ul>  | <ul style="list-style-type: none"> <li>Eligible households do not always apply for benefit, exemptions or discounts</li> <li>Tax payers with more than</li> </ul>   | <ul style="list-style-type: none"> <li>No requirement for benefits / rebates system and therefore avoids issue of poor take-up. However, there may still be requirement for water rebating system and housing benefit administration would have to continue. There may</li> </ul>   |

| Criteria / Principle | Existing council tax benefits  | Existing council tax concerns  | Potential reform and related impact of locally set LIT   |
|----------------------|--|--|--|
|                      | <ul style="list-style-type: none"> <li>• Currently yield is adequate to support required revenue</li> <li>• Few adverse behavioural effects and encourages property owners to make economic use of their assets</li> </ul> | <p>£16,000 in savings are excluded from benefit</p> <ul style="list-style-type: none"> <li>• Existing arrangements whereby local authorities collect water charges on behalf of Scottish Water are not satisfactory (see 4.10 in previous report)</li> <li>• NNDR valuations are not consistently applied and the system of reliefs and exemptions often has adverse impacts.</li> </ul> | <p>also be requirements to monitor student status of individuals should they be exempt from LIT.</p> <ul style="list-style-type: none"> <li>• LIT is naturally means-tested, relating to earned income. However, as noted above, there is scope for avoidance and other forms of wealth will not be taxed.</li> <li>• Any failure to supplement LIT legislation with water reform would mean the existing significant concerns relating to administration and collection of water charges would remain.</li> <li>• LIT could have a significant impact on employers in terms of administration and collection. This would be magnified by a locally set LIT whereby employers and collecting agencies would have to keep up to date information on the exact place of residence of all employees. In turn, this could affect businesses' decisions to locate in Scotland. There is also a risk that a LIT would result in disincentive to work in Scotland.</li> <li>• The systems and controls in place to administer, collect and monitor a LIT are not in place and would require significant change management and investment by employers, local and central government, and HMRC. There are therefore a number of operational and strategic risks associated with such a significant shift.</li> <li>• LIT would be a tax on individuals. The only prior experience of local taxation on individuals (the Community Charge) resulted in significant collection problems.</li> <li>• CIPFA have noted that a LIT would not fulfil the criteria of a sustainable tax: the working age population is expected to decline in the medium / long term and there would potentially be less incentive to maximise efficient use of land and property.</li> </ul> |

| Criteria / Principle            | Existing council tax benefits   | Existing council tax concerns   | Potential reform and related impact of locally set LIT   |
|---------------------------------|---|---|--|
| Predictability                  | <ul style="list-style-type: none"> <li>• Tax base is relatively stable year on year and the tax yield can be predicted reasonably accurately</li> <li>• Retains an element of buoyancy (at least over the medium and longer term)</li> <li>• Cash flows can be managed relatively easily</li> <li>• Enables Glasgow to be subsidised through central government or DWP funding to reflect socio-economic factors</li> <li>• Projections indicate a 11% increase in taxable domestic properties by 2016</li> </ul> | <ul style="list-style-type: none"> <li>• Glasgow's unique socio-economic situation means collecting council tax is challenging</li> </ul>   | <ul style="list-style-type: none"> <li>• To maintain taxation on second homes would require either voluntary information from owners or continuation of property registers.</li> <li>• LIT would avoid the collection problems that Glasgow currently faces in relation to poorer households. However, the current difficulty of taxing a relatively transient population would continue to be a problem in collecting a LIT. A locally set LIT could exaggerate this issue for populations that frequently move between local authority areas.</li> <li>• LIT would be relatively buoyant but, in turn, may prove unpredictable in terms of yield and cash flow. The Scottish Government has confirmed that local authorities would have the same overall level of funding made available under the LIT and this would therefore only be an issue for central government to address.</li> <li>• The issue of DWP / central government subsidy for council tax benefit is one for the Scottish and UK Governments to resolve.</li> <li>• There is a risk that relative revenues from a LIT decline compared to any property based tax on the assumption that the working age population continues to decline, whilst numbers of taxable domestic properties increase.</li> </ul> |
| Local democratic accountability | <ul style="list-style-type: none"> <li>• Relatively transparent enabling the electorate to hold members to account</li> <li>• Clearly identifiable as a local tax</li> </ul>  | <ul style="list-style-type: none"> <li>• The 'gearing' effect and the water charge issue impacts on the true level of local accountability</li> <li>• There is a need for additional flexibility in relation to the system of business taxation.</li> </ul> | <ul style="list-style-type: none"> <li>• A locally set LIT would maintain local democratic accountability, one of the main advantages over a nationally set LIT. It would also clearly be a 'local' tax and therefore avoid potential legal challenges.</li> <li>• As noted above, LIT reform in isolation would not address water charging issues and the lack of accountability within water charging.</li> </ul>  |

Source: *Local taxation working group 'Existing council tax arrangements' paper, section 4*



## Appendix 2d: Appraisal of existing council tax benefits and concerns against local property tax

Appendix 2d provides an overview of the benefits and concerns previously identified with the existing council tax regime, according to the agreed set of criteria and principles, and suggests how a LPT could impact these issues.

### Impact of LPT on existing benefits and concerns associated with the council tax

| Criteria / Principle | Existing council tax benefits  | Existing council tax concerns  | Potential reform and related impact of LPT   |
|----------------------|--|--|--|
| Fairness             | <ul style="list-style-type: none"> <li>Visible and transparent.</li> <li>Benefits system provides a certain element of means-testing.</li> <li>Property is one indicator of wealth and much of the country's wealth is stored in property.</li> <li>Discounts and exemptions adjust for income-earning capacity of household.</li> <li>Income tax already contributes significantly to local government finance.</li> <li>Difficult to evade payment.</li> </ul> | <ul style="list-style-type: none"> <li>Does not always reflect the ability to pay and is not progressive.</li> <li>Current valuations often bear little resemblance to current values.</li> <li>Banding system effectively caps the maximum any household will pay.</li> <li>Households on full council tax benefit are still required to pay a water charge and often struggle to do so.</li> <li>Property-wealth does not necessarily reflect ability to pay an annual cash levy.</li> </ul> | <ul style="list-style-type: none"> <li>LPT would likely be more progressive, with greater incidence falling on owners of higher valued property. No requirement for banding system.</li> <li>Once implemented, system of regular revaluations would be relatively straightforward. However, potential for additional work for local authorities to reflect changes in revenues arising from revaluations in annual revenue budgets.</li> <li>Crucially, would not address the significant issues that exist in relation to water charging without parallel reform.</li> <li>Likely would still require a rebate / benefits system to assist those on low incomes.</li> </ul> |
| Efficiency           | <ul style="list-style-type: none"> <li>Systems and controls in place to effectively administer tax and benefits.</li> <li>Relatively high collection rates and low cost of collection.</li> <li>Currently yield is adequate to support required revenue.</li> <li>Few adverse behavioural effects and encourages property owners to make economic use of their assets.</li> </ul>  | <ul style="list-style-type: none"> <li>Eligible households do not always apply for benefit, exemptions or discounts.</li> <li>Tax payers with more than £16,000 in savings are excluded from benefit.</li> <li>Existing arrangements whereby local authorities collect water charges on behalf of Scottish Water are not satisfactory (see 4.10 in previous report).</li> </ul>  | <ul style="list-style-type: none"> <li>As noted above, potential requirement for rebate / benefits system, which would need to be designed to ensure adequate take-up. See 'Reformed council tax' report (LTWG 4 November 2008 Item 3) for options to improve benefit take up.</li> <li>In order to resolve water charging issues, would require parallel water charge reform to be introduced alongside CV tax.</li> <li>Burt recommends continuation of NDR arrangements. Potential for parallel reform to enhance local authority discretion.</li> <li>The systems and controls to administer, collect and</li> </ul>   |

| Criteria / Principle            | Existing council tax benefits   | Existing council tax concerns  | Potential reform and related impact of LPT  |
|---------------------------------|---|--|---|
|                                 |   | <ul style="list-style-type: none"> <li>• NNDR valuations are not consistently applied and the system of reliefs and exemptions often has adverse impacts.</li> </ul>   | <p>monitor a LPT are largely in place and would require minimal reform.</p> <ul style="list-style-type: none"> <li>• Would largely fulfil the criteria of a sustainable tax: the tax base is relatively constant and LPT encourages the best use of available resources.</li> <li>• Relatively easy to collect and therefore collection and cost of collection rates would likely remain favourable.</li> </ul> |
| Predictability                  | <ul style="list-style-type: none"> <li>• Tax base is relatively stable year on year and the tax yield can be predicted reasonably accurately.</li> <li>• Retains an element of buoyancy (at least over the medium and longer term).</li> <li>• Cash flows can be managed relatively easily.</li> <li>• Enables Glasgow to be subsidised through central government or DWP funding to reflect socio-economic factors.</li> <li>• Projections indicate an 11% increase in taxable domestic properties by 2016.</li> </ul> | <ul style="list-style-type: none"> <li>• Glasgow's unique socio-economic situation means collecting council tax is challenging.</li> </ul>   | <ul style="list-style-type: none"> <li>• Potential for continued difficulty in collecting LPT from very poor households.</li> <li>• Would be relatively buoyant whilst retaining a certain degree of predictability and stability.</li> </ul>   |
| Local democratic accountability | <ul style="list-style-type: none"> <li>• Relatively transparent enabling the electorate to hold members to account.</li> <li>• Clearly identifiable as a local tax.</li> </ul>  | <ul style="list-style-type: none"> <li>• The 'gearing' effect and the water charge issue impacts on the true level of local accountability.</li> <li>• There is a need for additional flexibility in relation to the system of business taxation.</li> </ul> | <ul style="list-style-type: none"> <li>• A locally set LPT would ensure continued element of local democratic accountability. However, the absence of additional local tax raising powers would see a continuation of the existing gearing issue.</li> <li>• As noted above, LPT reform in isolation would not address water charging issues and the lack of accountability within water charging.</li> </ul>   |

Source: *Local taxation working group 'Existing council tax arrangements' paper, section 4*

## Appendix 2e: Appraisal of existing council tax benefits and concerns against land value tax

Appendix 2e provides an overview of the benefits and concerns previously identified with the existing council tax regime, according to the agreed set of criteria and principles, and suggests how LVT could impact these issues.

### Impact of LVT on existing benefits and concerns associated with the council tax

| Criteria / Principle | Existing council tax benefits  | Existing council tax concerns  | Potential reform and related impact of LVT   |
|----------------------|--|--|--|
| Fairness             | <ul style="list-style-type: none"> <li>Visible and transparent.</li> <li>Benefits system provides a certain element of means-testing.</li> <li>Property is one indicator of wealth and much of the country's wealth is stored in property.</li> <li>Discounts and exemptions adjust for income-earning capacity of household.</li> <li>Income tax already contributes significantly to local government finance.</li> <li>Difficult to evade payment.</li> </ul> | <ul style="list-style-type: none"> <li>Does not always reflect the ability to pay and is not progressive.</li> <li>Current valuations often bear little resemblance to current values.</li> <li>Banding system effectively caps the maximum any household will pay.</li> <li>Households on full council tax benefit are still required to pay a water charge and often struggle to do so.</li> <li>Property-wealth does not necessarily reflect ability to pay an annual cash levy.</li> </ul> | <ul style="list-style-type: none"> <li>LVT would likely be more progressive, with greater incidence falling on owners of higher valued land. No requirement for banding system.</li> <li>Once implemented, system of regular revaluations would be relatively straightforward. However, potential for additional work for local authorities to reflect changes in LVT revenues arising from revaluations in annual revenue budgets.</li> <li>Crucially, LVT would not address the significant issues that exist in relation to water charging without parallel reform or including funding of water services in any LVT.</li> <li>Likely would still require a LVT rebate / benefits system to assist those on low incomes. However, LVT would likely reduce burden on owners of low value land and there would likely be fewer low-income land owners compared to low-income property residents.</li> </ul> |
| Efficiency           | <ul style="list-style-type: none"> <li>Systems and controls in place to effectively administer tax and benefits.</li> <li>Relatively high collection rates and low cost of collection.</li> <li>Currently yield is adequate to support required revenue.</li> <li>Few adverse behavioural effects and encourages property owners to make economic use of their assets.</li> </ul>  | <ul style="list-style-type: none"> <li>Eligible households do not always apply for benefit, exemptions or discounts.</li> <li>Tax payers with more than £16,000 in savings are excluded from benefit.</li> <li>Existing arrangements whereby local authorities collect water charges on behalf of Scottish Water are not satisfactory (see 4.10 in previous</li> </ul>   | <ul style="list-style-type: none"> <li>As noted above, potential requirement for LVT rebate / benefits system, which would need to be designed to ensure adequate take-up. See 'Reformed council tax' report (LTWG 4 November 2008 Item 3) for options to improve benefit take up.</li> <li>In order to resolve water charging issues, would require water to be funded by any LVT, or for parallel water charge reform to be introduced alongside LVT.</li> <li>There is potential to include NDR in a LVT system, thus addressing many of the existing anomalies (see 'Existing council tax' report, LTWG 4 November 2008 Item 2). However,</li> </ul>   |

| Criteria / Principle | Existing council tax benefits  | Existing council tax concerns  | Potential reform and related impact of LVT  |
|----------------------|--|--|---|
|                      |  | <p>report).</p> <ul style="list-style-type: none"> <li>• NNDR valuations are not consistently applied and the system of reliefs and exemptions often has adverse impacts.</li> </ul> | <p>this could potentially have a significant impact on local businesses and their tax liability. Consideration also needs to be given as to the treatment of agricultural land.</p> <ul style="list-style-type: none"> <li>• The systems and controls to administer, collect and monitor LVT are largely in place (in the form of existing council tax, benefits and NNDR systems) and would require minimal reform.</li> <li>• LVT would largely fulfil the criteria of a sustainable tax: the tax base is entirely constant and LVT encourages the best use of available land.</li> <li>• Relatively easy to collect, with the exception of some small strips of land where ownership may be difficult to identify. LVT would be almost impossible to avoid whilst maintaining receipt of benefits from the land, and therefore collection and cost of collection rates would likely remain favourable.</li> <li>• Taxation of 2<sup>nd</sup> homes would be straightforward, with no adjustments required according to residency or other land ownership.</li> </ul> |
| Predictability       | <ul style="list-style-type: none"> <li>• Tax base is relatively stable year on year and the tax yield can be predicted reasonably accurately.</li> <li>• Retains an element of buoyancy (at least over the medium and longer term).</li> <li>• Cash flows can be managed relatively easily.</li> <li>• Enables Glasgow to be subsidised through central government or DWP funding to reflect socio-</li> </ul> | <ul style="list-style-type: none"> <li>• Glasgow's unique socio-economic situation means collecting council tax is challenging.</li> </ul>   | <ul style="list-style-type: none"> <li>• Potential for continued difficulty in collecting LVT from very poor households although incidents of land owners with such low incomes would be less than the current incidence of home-dwellers with low incomes.</li> <li>• LVT would be relatively buoyant whilst retaining a certain degree of predictability and stability. LVT could also help smooth market fluctuations, in turn further enhancing predictability and stability.</li> <li>• The issue of DWP / central government subsidy for council tax benefit and the possible translation of this into LVT rebates would have to be carefully considered.</li> </ul>  |

| Criteria / Principle            | Existing council tax benefits  | Existing council tax concerns  | Potential reform and related impact of LVT   |
|---------------------------------|--|--|--|
|                                 | <p>economic factors.</p> <ul style="list-style-type: none"> <li>• Projections indicate an 11% increase in taxable domestic properties by 2016.</li> </ul>                      |  |  |
| Local democratic accountability | <ul style="list-style-type: none"> <li>• Relatively transparent enabling the electorate to hold members to account.</li> <li>• Clearly identifiable as a local tax.</li> </ul> | <ul style="list-style-type: none"> <li>• The 'gearing' effect and the water charge issue impacts on the true level of local accountability.</li> <li>• There is a need for additional flexibility in relation to the system of business taxation.</li> </ul> | <ul style="list-style-type: none"> <li>• A nationally set LVT is not identifiable as a local tax and would, in practice, result in near 100% of local government expenditure being funded by central government. As such, local democratic accountability would be impinged and various legal obstacles would have to be overcome.</li> <li>• A locally set LVT would avoid these issues but would likely require central government equalisation. In turn, this could lead to a continuation of the existing gearing issue and potentially skew anticipated macro-economic benefits of a LVT.</li> <li>• LVT itself is arguably more closely related to local services. That is, LVT would automatically reflect levels of public investment, thus ensuring that local beneficiaries would essentially fund such investment.</li> <li>• Should the Council introduce a pilot LVT scheme to sit alongside existing tax systems, then this could be said to enhance existing local democratic accountability.</li> <li>• As noted above, LVT reform in isolation would not address water charging issues and the lack of accountability within water charging.</li> </ul> |

Source: Local taxation working group 'Existing council tax arrangements' paper, section 4

**Appendix 3: Glasgow City Council pilot study on local property tax & land value tax**

This appendix provides extracts from the detailed findings of the pilot study into LPT, LVT and a hybrid LPT/LVT tax in Ward 18.

| <b>LPT facts &amp; figures - Ward 18</b>              |            |
|---|------------|
| Council tax gross revenue                             | £14.754m   |
| Total residential capital value                       | £1,396m    |
| 'Rate poundage' for revenue-neutral LPT - residential | 1.1p       |
| <b>Old tenement flat (band A)</b>                     |            |
| Capital value   | £66,720    |
| CTX charge  | £809       |
| LPT charge  | £705       |
|   | CTX charge |
| <b>Modern flat (band B)</b>                           |            |
| Capital value   | £90,850    |
| CTX charge  | £943       |
| LPT charge  | £960       |
|   | CTX charge |
| <b>'Four in a block' (band B)</b>                     |            |
| Capital value   | £65,100    |
| CTX charge  | £943       |
| LPT charge  | £688       |
|   | CTX charge |
| <b>Modern semi-detached house (band D)</b>            |            |
| Capital value   | £121,000   |
| CTX charge  | £1,213     |
| LPT charge  | £1,279     |
|   | CTX charge |
| <b>Pre-1914 semi-detached (band E)</b>                |            |
| Capital value   | £331,540   |
| CTX charge  | £1,483     |
| LPT charge  | £3,504     |
|   | CTX charge |

| <b>LVT facts &amp; figures - Ward 18</b> |            |
|--|------------|
| Council tax gross revenue                | £14.754m   |
| Total residential land value             | £397m      |
| 'Rate poundage' for revenue-neutral LVT  | 3.7p       |
|  |            |
| Old tenement flat (band A)               |            |
| Land value                               | £9,720     |
| CTX charge                               | £809       |
| LVT charge                               | £361       |
|  | CTX charge |
| Modern flat (band B)                     |            |
| Land value                               | £37,000    |
| CTX charge                               | £943       |
| LVT charge                               | £1,375     |
|  | CTX charge |
| 'Four in a block' (band B) <sup>15</sup> |            |
| Land value                               | £16,120    |
| CTX charge                               | £943       |
| LVT charge                               | £599       |
|  | CTX charge |
| Modern semi-detached house (band D)      |            |
| Land value                               | £51,660    |
| CTX charge                               | £1,213     |
| LVT charge                               | £1,920     |
|  | CTX charge |
| Pre-1914 semi-detached (band E)          |            |
| Land value                               | £78,560    |
| CTX charge                               | £1,483     |
| LVT charge                               | £2,920     |
|  | CTX charge |

<sup>15</sup> Using a residential 'flatted' land value rate (£355 per square meter). If using semi-detached rate of £160 psm then LVT is £1,330.



| Hybrid LPT / LVT facts & figures - Ward 18   |  |
|--|--|
| <p>Old tenement flat (band A)</p> <p>Capital value</p> <p>CTX charge</p> <p>Hybrid charge</p>          | <p>£66,720</p> <p>£809</p> <p>£707 (£101 land, £606 property)</p> <p>CTX charge</p>        |
| <p>Modern flat (band B)</p> <p>Capital value</p> <p>CTX charge</p> <p>Hybrid charge</p>                | <p>£90,850</p> <p>£943</p> <p>£958 (£383 land, £575 property)</p> <p>CTX charge</p>        |
| <p>'Four in a block' (band B)</p> <p>Capital value</p> <p>CTX charge</p> <p>Hybrid charge</p>          | <p>£65,100</p> <p>£943</p> <p>£688 (£168 land, £521 property)</p> <p>CTX charge</p>        |
| <p>Modern semi-detached house (band D)</p> <p>Capital value</p> <p>CTX charge</p> <p>Hybrid charge</p> | <p>£121,000</p> <p>£1,213</p> <p>£1,275 (£538 land, £737 property)</p> <p>CTX charge</p>   |
| <p>Pre-1914 semi-detached (band E)</p> <p>Capital value</p> <p>CTX charge</p> <p>Hybrid charge</p>     | <p>£331,540</p> <p>£1,483</p> <p>£3,507 (£818 land, £2,689 property)</p> <p>CTX charge</p> |

| <b>LVT facts &amp; figures - Ward 18 Industrial property</b> |            |
|--|------------|
| NDR gross revenue  | £3.023m    |
| Total land value   | £8.4m      |
| 'Rate poundage' for revenue-neutral LVT                      | 36p        |
|  |            |
| 1949 Terraced Unit on industrial estate                      |            |
| Land value   | £25,042    |
| NDR charge   | £9,297     |
| LVT charge   | £9,012     |
|  | CTX charge |
| 1960 warehouse non-estate                                    |            |
| Land value   | £41,285    |
| NDR charge   | £17,862    |
| LVT charge   | £14,859    |
|  | CTX charge |
| 1975 store non-estate  |            |
| Land value   | £28,534    |
| NDR charge   | £8,610     |
| LVT charge   | £10,269    |
|  | CTX charge |
| 1979 warehouse industrial area                               |            |
| Land value   | £14,660    |
| NDR charge   | £5,725     |
| LVT charge   | £5,219     |
|  | CTX charge |

| <b>LVT facts &amp; figures - Ward 18 Retail property</b> |            |
|--|------------|
| NDR gross revenue  | £0.650m    |
| Total land value   | £2.9m      |
| 'Rate poundage' for revenue-neutral LVT                  | 22p        |
|  |            |
| Parade shop  |            |
| Land value   | £18,742    |
| NDR charge   | £4,122     |
| LVT charge   | £4,142     |
|  | CTX charge |
| Tenement shop  |            |
| Land value   | £18,346    |
| NDR charge   | £4,809     |
| LVT charge   | £4,054     |
|  | CTX charge |
| Stand alone shop   |            |
| Land value   | £15,566    |
| NDR charge   | £2,771     |
| LVT charge   | £3,440     |
|  | CTX charge |
| 1979 warehouse industrial area                           |            |
| Land value   | £14,660    |
| NDR charge   | £5,725     |
| LVT charge   | £5,219     |
|  | CTX charge |

| <b>LVT facts &amp; figures - Ward 18 vacant land</b>          |          |
|---|----------|
| Low rise housing land value (land use according to city plan) |          |
| Land value  | £5.6m    |
| LVT charge  | £208,152 |
| Land for flats land value (land use according to city plan)   |          |
| Land value  | £12.425m |
| LVT charge  | £461,387 |
| Total possible LVT revenue on Ward 18 derelict & vacant land  | £669,539 |

*No derelict or vacant land is currently subject to local taxation.*

**Appendix 4: Local Taxation Working Group membership & representation**

The working group included representation from across the Council's political groups, as detailed in the table below.

| <b>Political group</b>            | <b>Council member</b>   |
|-----------------------------------|---|
| <b>Labour</b>                     | <ul style="list-style-type: none"><li>• Bailie J McFadden (chair)</li><li>• Bailie J McNally</li><li>• Councillor S Curran</li><li>• Councillor J Findlay</li></ul> |
| <b>SNP</b>                        | <ul style="list-style-type: none"><li>• Councillor A Dingwall</li><li>• Councillor K Malik</li></ul>  |
| <b>Scottish Green Party</b>       | <ul style="list-style-type: none"><li>• Councillor S Clay</li></ul>   |
| <b>Scottish Liberal Democrats</b> | <ul style="list-style-type: none"><li>• Councillor K Elder</li></ul>  |

Councillor D Meikle (Conservative) was also invited to give a presentation to the working group on 5 March 2009.