



Low Incomes
Tax Reform
Group
A voice for the unrepresented



Chartered
Institute of
Taxation
Excellence in Taxation

Call for evidence on the Council Tax (Substitution of Proportion) (Scotland) Order 2016
Response by the Chartered Institute of Taxation and the Low Incomes Tax Reform Group

1 Introduction

- 1.1 This is a response by the Chartered Institute of Taxation (CIOT) and its Low Incomes Tax Reform Group (LITRG) to the call for evidence on The Council Tax (Substitution of Proportion) (Scotland) Order 2016 published by the Local Government and Communities Committee. We welcome the opportunity to offer our comments and would be happy to elaborate on them in writing or in person.
- 1.2 Council Tax is a local tax, the revenues of which help to fund local authorities. It was introduced in 1993, and the rate of tax payable is based on values of residential property in 1991. Council Tax is chargeable on the occupier of a property, and the basis of property values is intended to act as a proxy for the use of local services.¹ Following the work of the Commission on Local Tax Reform, the Scottish Government published proposals for the reform of Council Tax in March 2016.² The main area of reform is to increase the ratios of the upper bands (E-H) relative to Band D. This means that bills for Band E will increase by 7.5%, Band F by 12.5%, Band G by 17.5% and Band H by 22.5%. We set out the changes in the ratios at Appendix 1. No additional bands will be added and the ratios for Bands A-D will remain unchanged. The Scottish Government has also confirmed that it does not plan to hold a revaluation.³
- 1.3 The CIOT and LITRG are politically non-partisan and would like to assist in ensuring that the tax system in Scotland is effective and efficient for taxpayers, agents and the tax authorities. The CIOT objectives for a good tax system include:
- A legislative process which translates policy intentions into statute accurately and effectively, without unintended consequences;

¹ Thus, Council Tax is not a tax on wealth.

² <http://news.scotland.gov.uk/News/Council-tax-reform-2347.aspx>.

³ <http://www.gov.scot/Topics/Government/local-government/17999/counciltax>.

- Greater simplicity and clarity, so people can understand how much tax they should be paying and why;
- Greater certainty, so businesses and individuals can plan ahead with confidence;
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented);
- Responsive and competent tax administration, with a minimum of bureaucracy.

1.4 The CIOT is an educational charity concerned with promoting the education and study of the administration and practice of taxation. For more details see the statement about us at section 9 below. The LITRG is an initiative of the CIOT to give a voice to the unrepresented taxpayer. For more details see the statement at section 10 below. Both CIOT and LITRG submitted written evidence and participated in roundtables, in order to assist the work of the Commission on Local Tax Reform.⁴

2 Executive summary

- 2.1 The proposals to reform Council Tax aim to make the system 'fairer', but what is fair is subjective. If fairness can be viewed as chiming to some extent with being proportionate to the ability to pay or progressive, the proposals can be said to improve fairness slightly, although we would still describe Council Tax as broadly regressive (see para 3.3). It should be noted that to a greater or lesser extent Council Tax already aligns with the Adam Smith principles of certainty and efficiency. It is equality (being proportionate to the ability to pay) and convenience where there is currently least alignment.
- 2.2 The decision not to hold a revaluation and update property values means that Council Tax will still not reflect actual property values and will not be any fairer in this regard.
- 2.3 Council Tax takes property values as its basis and is chargeable on the occupier. It therefore takes into account only one measure of ability to pay. By itself, even with the proposed reforms, it remains a regressive tax. However, it is very difficult for any individual tax to be entirely proportionate to the ability to pay. For example, a tax based on income is often viewed as proportionate, but, likewise, it only takes account of one measure of ability to pay. So, it is perhaps better to look at the tax system as a whole when considering the principle of being proportionate to the ability to pay, rather than taking each tax individually. The fully holistic approach would look at the tax system and the welfare system as a whole.
- 2.4 One of the main routes to fairness for Council Tax is the system of reliefs and exemptions, such as Council Tax reduction. The proposed changes aim to ensure that Council Tax takes account of both property value and income, thus better reflecting ability to pay. However, in order for such a relief to meet its objective, it is essential that take-up is high. Reliefs are often more successful when presented as an entitlement, rather than requiring means-testing and form-filling. In addition, it will be essential to raise awareness of entitlement to the reliefs through effective

⁴ The CIOT's submission is available at <http://www.tax.org.uk/policy-technical/submissions/future-local-taxation-scotland-ciot-comments>; LITRG's submission is available at <http://www.litr.org.uk/latest-news/submissions/150622-what%E2%80%99s-future-local-taxation-scotland>.

communications strategies, and to make the process for claiming reliefs as easy as possible.

- 2.5 The interactions of the changes to Council Tax reduction with tax credits, Universal Credit and other welfare benefits also need to be considered carefully, to prevent problems such as claimants being exposed to extremely high marginal deduction rates.
- 2.6 We note that there is no possibility of amending the draft Order. While the proposed changes make a start, as set out in this submission, we think more could be done to reform Council Tax. We call on the Scottish Government not to rule out future changes.

3 Overall, do you support the principles of the Government's plans to reform Council Tax?

- 3.1 The Scottish Government has committed itself to a tax system that has regard to Adam Smith's four principles: certainty; the burden proportionate to the ability to pay (the canon of equality); convenience; efficiency of collection.⁵ The CIOT agrees that these are important principles for a sound tax system.
- 3.2 Given the Scottish Government's stated commitment, we would expect plans to reform Council Tax to help make the tax align more closely to the Adam Smith principles. We note though that in some cases these principles can conflict, requiring a balance to be struck. The exception to closer alignment would be if there is a clearly stated policy objective that overrides these principles – which does not appear to be the case here, since the policy objective seems to be to make the system of local taxation fairer.
- 3.3 The current Council Tax system, when considered against these principles, could be described as follows. It meets the principle of legal certainty. It is not particularly progressive in relation to wealth, as it is only based on property values and then at a very outdated valuation. It is broadly regressive⁶ in nature (by reference to the tax base of property value) (by way of example we reproduce the Council Tax bands for Edinburgh Council for 2016/17 at Appendix 2). It bears no direct relationship to the income of the taxable unit (the household); it does however make allowances for certain household circumstances thorough reliefs, exemptions and Council Tax Reduction. Since Council Tax is based on property values and chargeable on the occupier, it does not easily meet the principle of convenience, although this is mitigated in part by the fact that payment can be spread over the year, and by the reliefs. In terms of efficiency, Council Tax is fairly straightforward to operate.
- 3.4 In terms of the Adam Smith principles therefore, it would appear that any proposals for reform should focus on improving the alignment with ability to pay, while not harming the position in relation to the other principles. If it is accepted that 'fairness' can be a proxy for being proportionate to the ability to pay, this appears to be the focus of the proposed reforms. We also think the valuations should be updated, in order to make the tax fairer by reference to property value.

⁵ The Scottish Government's Approach to Taxation, Finance Secretary John Swinney's statement to the Scottish Parliament, 7 June 2012: <http://www.gov.scot/News/Speeches/taxation07062012>.

⁶ This is according to the definition of a regressive tax as one where the lower the value of the tax base, the higher the tax rate – Appendix 2 illustrates this. The tax base is the property value. It is also income-regressive in so far as it affects persons on low incomes who are not entitled to Council Tax Reduction.

4 To what extent will the Government's proposed reforms make the system of Council Tax fairer?

- 4.1 As both the CIOT and LITRG pointed out in our responses to the Commission on Local Tax Reform, what is fair is subjective. There is unlikely to be a single system of Council Tax that pays proper regard to the ability to pay – this is because no two individuals have the same resources (capital/wealth and income); in addition, often the tax system ignores outgoings and dependants. With this in mind, we think that, rather than fairness, a more appropriate concept to consider is whether or not a tax is 'progressive'; that is one which recognises that society as a whole has to pay for certain people unable to care for themselves and that that burden should fall more on those that can afford it than on those that cannot.
- 4.2 The proposed reforms do little to change the broadly regressive nature of Council Tax. By way of example, we set out the possible position for Edinburgh Council if the proposals are implemented at Appendix 2 (using the 2016/17 charge for Band D). Council Tax, other than through reliefs and exemptions, takes account only of one measure of ability to pay – property value. However, as one of several taxes that taxpayers pay, it can be part of a system that is progressive when looked at holistically. In addition, when looking at the funding of local authorities, it must be noted that a significant part of local authority funding comes from Scottish or UK national taxes.⁷ Much of local authority funding therefore comes from taxes that are based on income (such as income tax or National Insurance contributions) or consumption of goods and services (such as VAT).
- 4.3 The Scottish Government's reforms⁸ will affect both local councils and individual households. The effect of the reforms on Council Tax bills varies from local authority to local authority. Some local authorities have more households in the higher bands – they will take in more additional income as a result of the proposed reforms. For households, the reforms will make the Council Tax slightly less regressive in relation to property values.
- 4.4 The changes to the current Council Tax system, which we suggested in our submissions to the Commission on Local Tax Reform would be more likely to make Council Tax more progressive and reflective of current property values. They include:
- the inclusion of additional bands at the higher end of property values;⁹
 - the use of percentage rates – this would make the tax more progressive within each band and also across the bands;¹⁰
 - all properties could be revalued and their values regularly reviewed thereafter. Updating valuations (and keeping them up-to-date thereafter) will help to ensure the tax is more reflective of actual property values and therefore fairer by reference to the tax base;
 - the banding of properties could be reviewed.

⁷ Scottish Government statistics show that Council Tax income for 2014/15 was about £2.02 billion. Council Tax constituted 17% of Total General Funding, compared to 22% from non-domestic rates and 61% from the General Revenue Grant and other funding: <http://www.gov.scot/Resource/0049/00494790.pdf>. The provisional outturn statistics for 2015/16 suggest a similar percentage (17%) of funding for local government from Council Tax: <http://www.gov.scot/Resource/0050/00501884.pdf>.

⁸ SPICe published a Financial Scrutiny Unit Briefing in March 2016 on the Scottish Government proposals: <http://www.parliament.scot/parliamentarybusiness/97534.aspx>. This analyses the impact of the proposals on Council Tax bills and the additional income raised by local authorities.

⁹ We note that this would need to be balanced against considerations of convenience, especially since the tax is currently not particularly well-aligned to the principle of convenience.

¹⁰ We note this would need to be balanced against considerations of efficiency, since it might require more detailed valuations and create more issues with valuations.

5 To what extent will the changes be straightforward for local authorities to implement?

- 5.1 We do not comment on how straightforward the changes will be to implement. A good communications strategy will be required to ensure that taxpayers are aware of the changes. The changes to Council Tax reductions will require particularly strong publicity to ensure awareness is raised about them. Work may also be required to ensure that eligible households take the necessary steps to obtain the reliefs, or to ensure that local authorities are able to identify those households that might be eligible for the reliefs.

6 Do you support the Government's planned changes to Council Tax reductions?

- 6.1 We understand that the proposal is to introduce a targeted relief for households in properties in Bands E-H on net incomes below the Scottish median for their household type, up to a maximum of £25,000. The Scottish Government also intends to increase the child allowance within the Council Tax reduction scheme by 25%. We do not have sufficient detail about the proposed changes to be able to consider them fully. We therefore make general comments on the proposals, but we may have further points once we have seen the draft SSI and have more detail about how the reliefs will operate in practice.
- 6.2 As LITRG noted in our response to the Commission on Local Tax Reform (paragraph 4.8), 'the main route to 'fairness' will be through the exemptions and discounts; this is because the value of the property does not necessarily reflect the income of the householder or their ability to add to their income.' So, a targeted relief, such as the one proposed by the Scottish Government, tries to ensure that Council Tax takes account of both property value and income, thus reflecting ability to pay better than a tax that takes into account property value alone or income alone. However, in order for such a relief to meet its objective, it is essential that take-up is high. Means-testing (due to the complexity of form-filling) and presentation as a welfare benefit can reduce take-up, especially among pensioners. It is better to present reliefs as an entitlement and as producing a fair liability to Council Tax based on circumstances.¹¹ Another option is passporting of benefits, which can also improve take-up.¹² In addition, it will be essential to raise awareness of entitlement to the reliefs, and ensure that the process for claiming the reliefs is as easy as possible.
- 6.3 Introducing a targeted relief (which, from the information available seems to be in addition to the existing Council Tax reduction scheme) potentially adds complexity. This may not be a problem, if any additional complexity is behind the scenes, but it may be problematic if those eligible for Council Tax reduction and/or the targeted reliefs face additional complexity.
- 6.4 The interaction of these Council Tax reduction proposals with tax credits, means-tested and other benefits should also be considered. A particular problem can be where claimants face excessively high marginal deduction rates – we think it is

¹¹ For example, in the 1970s and 1980s there was the 'rate rebate', for which there was a short application form, renewable each year. The term 'rebate' sounded more like an entitlement than a hand-out, meaning that those eligible were more likely to take it up.

¹² <http://www.gov.scot/Publications/2016/06/4798/3>.

important to avoid the situation where one government department pays a credit, for another to claw it back through a reduction in a benefit – this is both wasteful of resources and confusing to applicants, and often results in those eligible not pursuing claims or, more importantly, work opportunities.¹³ Ideally, there should also be a consistent measure of income across all systems, to make them easier to navigate.

- 6.5 Local authorities are responsible for administering reliefs and exemptions. The introduction of a relief that has to be administered separately by a number of authorities reduces the efficiency. In addition, there is a risk that implementation and application may be inconsistent across local authorities.

7 Please add any other comments on any aspect of the proposed reforms.

- 7.1 We have no other comments at this time.

8 Acknowledgement of Submission

- 8.1 We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation and the Low Incomes Tax Reform Group are included in the List of Respondents when any outcome of the consultation is published.

9 The Chartered Institute of Taxation

- 9.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

The CIOT's 17,600 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

¹³ A current example is that adjustments to working tax credits, which count in full as income for Council Tax reduction/Housing Benefit (subject only to the additional earnings disregard), can either reduce or increase these benefits. One option would be for working tax credits not to count as income for Council Tax Reduction/Housing Benefit. The problem of high marginal deduction rates will likely continue with Universal Credit. Universal Credit itself has a withdrawal rate of 65%, but when combined with Council Tax reduction, which could have a 20% taper, the overall taper can be 85%.

10 The Low Incomes Tax reform Group

- 10.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.

LITRG works extensively with HM Revenue & Customs and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.

The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

The Chartered Institute of Taxation and the Low Incomes Tax Reform Group
28 September 2016

Appendix 1

The changes in proportion can be seen in the following two tables:

Current

Band	Value (£) (as at 1991)	Rate of Band D	Percentage
A	Up to 27,000	6/9	67%
B	27,001 to 35,000	7/9	78%
C	35,001 to 45,000	8/9	89%
D	45,001 to 58,000	9/9	100%
E	58,001 to 80,000	11/9	122%
F	80,001 to 106,000	13/9	144%
G	106,001 to 212,000	15/9	167%
H	212,001 and over	18/9	200%

Proposed

Band	Value (£) (as at 1991)	Rate of Band D	Percentage
A	Up to 27,000	240/360	67%
B	27,001 to 35,000	280/360	78%
C	35,001 to 45,000	320/360	89%
D	45,001 to 58,000	360/360	100%
E	58,001 to 80,000	473/360	131%
F	80,001 to 106,000	585/360	163%
G	106,001 to 212,000	705/360	196%
H	212,001 and over	882/360	245%

Appendix 2

Council Tax

The table below shows the Council Tax bands for Edinburgh Council for 2016/17. The final column, rate of tax/£1,000, is based on the upper level of each band – the marginal rates on additional value will vary. It will be seen that, if a house is valued at £28,000, the rate of tax paid on the extra £1,000 over Band A is £129.89.

Band	Property values	Council tax £	Rate of tax/£1,000 £
A	Below £27,000	779.33	28.86
B	£27,001 to £35,000	909.22	25.98
C	£35,001 to £45,000	1,039.11	23.09
D	£45,001 to £58,000	1,169.00	20.16
E	£58,001 - £80,000	1,428.78	17.86
F	£80,001 to £106,000	1,688.56	15.93
G	£106,000 - £212,000	1,948.33	9.19
H	Above £212,000	2,338.00	

Using the same charge for Band D as in the table above, we set out below what the Council Tax bands for a council might look like using the proposed changes in proportions, as set out in the draft SSI (see Appendix 1).

Band	Property values	Council tax £	Rate of tax/£1,000 £
A	Below £27,000	779.33	28.86
B	£27,001 to £35,000	909.22	25.98
C	£35,001 to £45,000	1,039.11	23.09
D	£45,001 to £58,000	1,169.00	20.16
E	£58,001 - £80,000	1,535.94	19.20
F	£80,001 to £106,000	1,899.63	17.92
G	£106,000 - £212,000	2,289.29	10.80
H	Above £212,000	2,864.05	