

A FAIRER LOCAL TAX FOR SCOTLAND

CONSULTATION RESPONSE BY THE MORAY COUNCIL

The Council welcomes the opportunity to contribute to the debate on the future arrangements for Local Taxation. The questions in the consultation document "A Fairer Local Tax for Scotland" published by the Scottish Government appear to be targeted at individuals rather than organisations like Councils. The Council would therefore wish to highlight that should the Scottish Government decide to change the current arrangements for local taxation then more detailed discussion should be held with Local Authorities and the relevant professional bodies such as the Chartered Institute of Public Finance and Accountancy (CIPFA). Implementation of any changes will be more efficient if all relevant issues are identified and appropriate solutions are agreed. Full engagement with Local Government will be essential for the success of any changes in local taxation.

The Council's response provides comments on each of the headings provided in the consultation document. Where appropriate, an organisational response to the specific questions in the document has also been provided.

Section 1 – How Much Local Income Tax Will People Pay?

Question 1 – In your view, should the local income tax personal allowance be the same, higher or lower than the UK income tax personal allowance?

The Same ✓ **Higher** **Lower** **Don't Know**

Question 2 – Do you think a flat rate of 3% is too high, too low or about right?

Too High **Too Low** ✓ **About Right** **Don't Know**

The consultation document refers to additional income tax of 3p in the pound. It is understood that this amount is insufficient to match existing income from Council Tax and that the rate of 6.5p is recognised as the amount required. The Council considers that the financial implications for Scotland and individual Council areas should be quantified prior to making any changes. This would ensure that the impact on the future provision of public services due to a shortfall in income can be considered. The Scottish Government has committed £210M per year with effect from 2010/2011 to support a freeze in the current levels of Council Tax. In addition to this, the 3p additional income tax will leave a shortfall of £281M leaving a gap of £491M each year. In addition, there are other funding streams at risk as indicated in response to Question 19.

Question 3 – Would you be inclined to pay more Local Income Tax (ie above 3%) to provide for better quality local services?

Yes No Don't Know

No response

Question 4 – Do you believe the level should be set locally or nationally?

Locally Nationally ✓ Don't Know

The administrative burden associated with a locally set income tax would be unnecessarily complicated and could result in movements in the population to the detriment of individual Council areas.

Other relevant comments to this point are included in response to Question 15.

Question 5 – Among the following, which should or should not be taxed as part of Local Income Tax?

- **Earned Income/Wages?**
Yes ✓ No Don't Know
- **Income from Pensions?**
Yes ✓ No Don't Know
- **Income from Savings?**
Yes ✓ No Don't Know
- **Income from Financial Investments?**
Yes ✓ No Don't Know
- **Income from Second Homes?**
Yes ✓ No Don't Know

Question 6 – In your view, do you think that there should be any special exemptions or discounts from a local income tax?

Yes No ✓ Don't Know

If yes, please state what for and share with us any thoughts on how you think these might be funded?

The Consultation document expresses a preference for income from savings and investments to be exempt from local income tax. This may well result in the potential for tax avoidance and will certainly result in large amounts of income being ignored in the future. A significant proportion of retirement income may in the future come from investment income.

Question 7 – Do you agree that a Scottish taxpayer should be defined using the definition already contained in the Scotland Act, described at paragraph 19 above?

Yes ✓

No

Don't Know

If you disagree, how would you propose residency be defined?

Whatever definition is used, a register will need to be established and maintained of individual taxpayers' addresses. Discussions would need to be held with HMRC on how such a system could be managed as it is understood that their database is based on individuals and their employment as opposed to residency.

A register for second homes would also require to be maintained and it is assumed that this would remain the responsibility of Local Authorities.

Question 8 – In your view should transitional arrangements for individuals apply?

Yes

No ✓

Don't Know

If yes, please give your reasons and provide any comments on how you think transitional arrangements should be funded.

Any transitional arrangements would add an additional administrative burden which would be difficult to justify in terms of benefits.

Section 2 – How will Local Income Tax be Collected and Administered?

It may seem intuitive that a single local income tax administered and collected by HMRC will be more cost effective than the current arrangements where each of the thirty-two Local Authorities administer and collect Council Tax independently. Some work was done in this area for the report by the Local Government Finance Committee (known as the Burt Report). The report identified only marginal administrative savings for a nationally set income tax and urged caution as in practice, the figures were likely to under-estimate the cost for HMRC administering and collecting the local income tax. It should also be highlighted that in the main, the levels of collection for Council Tax are relatively high, in Moray, the Budget allows for a collection rate of 98.7%. Local Authorities are also working together in the north of Scotland to establish a shared process for Council Tax Administration and Collection to improve the efficiency of the service whilst retaining local jobs. A local income tax would reduce the numbers of people employed locally by Councils and this would be of particular concern for rural authorities.

Question 9 – Which of the following do you think should collect a Local Income Tax?

- Her Majesty's Revenue and Customs (HMRC)? ✓**
- A Scottish Government collection agency?**
- A private sector collection agency?**
- Local Authorities?**
- Don't Know**

Question 10 – Do you think local income tax should be collected at source or through payment?

- Collected at source ✓**
- Collected through payment**
- A combination of collection at source and by payment**
- Don't Know**

It should be noted that there are a significant number of self-employed people who do not currently pay at source. It is also widely recognised that the level of tax collected from this source is inaccurate and as it is based on self-assessment a significant shortfall is estimated by many commentators.

There is also an issue regarding cashflow for Scotland. Scotland currently receives around 94% of Council Tax income during the financial year in which it is due. Since income tax from the self-employed is paid in arrears, during the first year of any change there would be a shortfall to Scotland of an estimated £200 million. Unless HMRC made an advanced payment, this amount would effectively never be recovered by the Scottish economy.

Question 11 – If the Government were to offer support to employers to implement these proposals, which would be the most appropriate medium of support in your view? Please tick all boxes that apply.

- Information booklet for employers ✓
- Designated advice hotline ✓
- Designated advice e-mail ✓
- Website with a section of “Frequently Asked Questions (FAQs)” ✓
- Workplace visits ✓
- Roadshows for employers ✓
- Media advertising ✓
- None
- Other (please specify)
- Don't Know

Section 3 – What will be the impact of a Local Income Tax on our Economy and People?

The potential loss of jobs associated with the administration and collection of taxation from rural areas in Scotland to central collection points in Scotland and/or England was referred to in Section 2 above.

Question 12 – In your opinion, will the introduction of a local income tax have positive economic impacts for Scotland?

Yes No Don't Know

No response

Question 13 – To what extent would the tax rate influence your decision to live in Scotland?

A Lot A Little Not at all

No response

Question 14 – To what extent do you agree with the following statements about the impact that a local income tax might have on your working patters? (select on a scale of 1-5 where 1 is strongly agree and 5 is strongly disagree)

I am likely to work more hours

1 2 3 4 5 Don't Know

I am likely to work fewer hours

1 2 3 4 5 Don't Know

I am likely to work in a different location

1 2 3 4 5 Don't Know

I am likely to change jobs to a different sector

1 2 3 4 5 Don't Know

It will have no impact on my work patterns

1 2 3 4 5 Don't Know

Other work impacts (please specify)

(Note: 1 is strongly agree and 5 is strongly disagree)

No response

Question 15 – On a scale of 1-5, where 1 is strongly agree and 5 is strongly disagree, how important is it that your local authority has the power to set a tax?

1 ✓ 2 3 4 5 Don't Know

Question 16 – Please provide any comments you may have about local income tax and accountability and democracy.

It is important in terms of local accountability and flexibility that Local Authorities retain tax raising powers. In 2004, Councils were given greater flexibility to invest in local Capital projects using the Prudential Code and all the indications are that this has been very well managed and resulted in an acceleration to improve the local infrastructure for services. In the absence of local tax raising powers, Councils' ability to take advantage of a Prudential Code will be severely constrained. The concordat between the Scottish Government and COSLA has been widely welcomed by Local Authorities and they are now striving to implement local and national priorities as identified in the new Single Outcome Agreements. A longer term reduction in the flexibility to raise taxation locally is likely to hamper the success of delivering those outcomes.

Question 17 – If you have any specific comment about the impact of our proposals on equality issues, please tell us what these are.

A detailed Equalities Impact Assessment will need to be carried out in respect of any detailed proposals.

Section 4 – How will a Local Income Tax Pay for Local Authority Services?

Question 18 – Do you feel that the money raised from a Local Income Tax should be distributed to councils according to:

- Need? ✓**
- Population in each area?**
- The amount of local income tax raised in each area?**
- Don't know**
- Other (please specify)**

Question 19 – To what extent do you agree that Scotland should receive equivalent monies to Council Tax Benefit, after the abolition of council tax? (where 1 is strongly agree and 5 is strongly disagree)

1 2 3 4 5 Don't Know

In terms of fairness, it would appear reasonable that Scotland should continue to receive an equivalent sum to the amount currently paid in respect of Council Tax Benefit. However, this is likely to result in wider debate across the United Kingdom with the potential call for a review of the Barnett formula. The consequences for Scotland of entering into this debate need careful consideration and it is clear that the estimated annual contribution of £350 million paid to Scottish households from total of UK taxation could be at risk.

Of a similar nature, is the contribution in lieu of Council Tax paid by the Ministry of Defence in relation to armed force bases may well be at risk. For Moray Council, this currently amounts to £1.3 million per year and there are a number of other bases throughout Scotland.

Section 5 – How will Empty and Second Homes be Taxed?

Question 20 – To what extent do you agree that local authorities should play a part in setting a second homes tax? (where 1 is strongly agree and 5 is strongly disagree)

1 ✓ 2 3 4 5 Don't Know

Question 21 – To what extent do you feel second homes tax should be collected by:

- **Her Majesty's Revenue and Customs (HMRC)?**
1 2 3 4 5 ✓ Don't Know
- **A Scottish local collection agency?**
1 2 3 4 5 ✓ Don't Know
- **A private collection agency?**
1 2 3 4 5 ✓ Don't Know
- **Local authorities?**
1 ✓ 2 3 4 5 Don't Know

Current arrangements for the administration and collection of Council Tax on empty and second homes are very efficient. If Council Tax administration in general is no longer required, it will prove relatively costly to maintain and administer a scheme exclusively for empty and second homes. Regardless of any new system put in place, it is difficult to envisage how such a scheme would combat the individuals who might choose to avoid declaring second homes.

HMRC have no local knowledge, experience or presence of dealing with land or property based taxes.

A Scottish or a private collection agency would both result in the centralisation of a service which is highly unlikely to be based in rural Scotland.

Section 6 – How will Domestic Water Charges be affected?

Scottish Water currently benefit from the cost effective services provided by Local Authorities with a local collection rate in Moray of 98.7%. If collection for water charges is no longer the responsibility of local Councils, then a separate register will need to be administered by another body. If Council Tax is to be replaced by a local income tax, the Scottish Government may wish to consider directing the remaining billing and collection work associated with Scottish Water so that the work is retained in Scotland and is focussed in one or more areas requiring more jobs of this nature.

Section 7 – Are there other Taxation Systems that should be considered?

Reference was made earlier in this response to the Burt report which provided strong justification for the retention of a property based tax. That report identified the need to refine the current arrangements for Council Tax including a review of the bandings and a revaluation of all properties. There are a number of other changes to Council Tax that could be considered by politicians if the tax is to remain.

The UK taxation system is currently based on a mixture of property, income and consumer tax and whilst Scotland remains part of the UK, a unilateral removal of the property tax may have unintended consequences that cannot be foreseen. Therefore, great care should be taken in looking at the taxation systems adopted by other countries with independent taxation arrangements as the outcomes that those countries achieve might not be reflected in Scotland.

Question 22 – Which do you feel is the fairest approach to taxation (select 1 only)

Council Tax

Land Value Tax

Local Income Tax

Environmental Tax

None of the above

Don't know

No response

Question 23 – Which approach do you feel will provide a more wealthy Scotland? (select 1 only)

Council Tax

Land Value Tax

Local Income Tax

Environmental Tax

None of the above

Don't know

No response

Question 24 – If a Local Income Tax is introduced, what would be the most significant factor (good or bad) for you? (select 1 only)

That the Council Tax will be abolished

I / my household shall be better off

I / my household shall be worse off

That a Local Income Tax system would be fairer than the Council Tax

That it will help to make Scotland a wealthier and fairer place to live and work

Don't know

Other (Let us know what the significant factor is)

No response