



# **Fairer Local Tax for Scotland**

**The UNISON Scotland response to the consultation a Fairer  
Local Tax for Scotland**

**July 2008**

## **Introduction**

UNISON is Scotland's largest public sector trade union representing over 170,000 members. Over 90,000 work in local government and related services, many directly employed in council tax and council tax benefit. UNISON is therefore pleased to contribute to the consultation "A Fairer Local Tax for Scotland".

UNISON is concerned that this proposal is not for a local tax but a national one. This plan leaves a minimum of £280 million shortfall in local government funding. The proposal would lead to extensive cuts in services and jobs in local government. Increased income tax would move the burden of taxation from all households to those in work and would weaken local democracy through the setting of a national rate. UNISON believes that a property-based tax is the best way to fund local services. It is a reasonable indicator of wealth and is simple to collect. It would be more effective to correct the flaws in the current local tax than reorganise local government finance for the third time in twenty years.

## **Response**

UNISON believes that local government should have the ability to raise a proportion of its own finance. UNISON believes that the debates currently taking place around local government finance are too narrow and based on a number of incorrect assumptions. The debate needs to take place on the realities of local government finance in order to ensure adequate funding for essential services. Council tax only makes up 20% of local government funding but is the only part that local government can set. Any changes, which remove this power from local government, would seriously undermine local democracy and accountability. Despite its name the proposal is not for a local income tax.

UNISON believes that all forms of taxation should be fair and based on ability to pay. Ability to pay is complex, involves how much wealth an individual or family holds, how many people are dependent on that wealth and what their needs are. It is not just based on their wages. The fairness of a tax must not be judged in isolation. It is the how the whole system of taxation in a country works that will determine its fairness. The Government proposes to replace the portion of local government finance raised through council tax with a tax on wages. It claims this is fairer UNISON disagrees. This tax is even less fair there will be no tax on income from savings or other investments pushing the burden on to those in work and leaving wealth from income and investments untouched.

The Burt report states that

- "The tax base should be as broad as possible. Around one-third of UK tax receipts already come from UK income tax.
- Wealth as well as income should be taxed
- Additional income tax is a disincentive to work, which is economically undesirable
- Yield would be more volatile than under a property tax; and
- Local income tax would be "fair only if it was levied on all income but it would be extremely complex and expensive to do so. A tax that applied only to earned income would arguably not be fair"<sup>1</sup>

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<sup>1</sup>The Burt Report "A Fairer Way" : A report by the Local Government Finance Review Committee 2006 page 2

There is nothing in this consultation to lead UNISON to change its belief that a locally set and collected property tax is the best and fairest way to collect this portion of local government finance.

### **The Consultation**

UNISON is concerned by both the style and content of this consultation. The document is a very different style from that previously used offering tick boxes: a referendum rather than the usual space for a debate about the issues. Changes to finance require detailed and thoughtful planning and scrutiny; we are disappointed by what appears to be an attempt to use the consultation process as a ballot against the council tax.

UNISON is also concerned that there is so little detail about how the proposed tax will work. Local government delivers essential services and the council tax cannot be abolished without a properly planned alternative set up and ready to go. The abolition of council tax would be the third change in local government finance in twenty years. Scotland cannot afford to get it wrong.

There is little or no detail on

- how the income tax would be collected,
- how the funding shortfall created by the 3p rate will be dealt with,
- how long the tax will be fixed at 3p,
- who will be able to change the 3p rate,
- what support/information will payroll departments get,
- how non Scottish employers can be compelled to collect the tax from Scottish employees,
- will they be able to get the same support/information as Scottish employers,
- how much will this cost.
- how will current water and sewerage charges currently collected along side the council tax be collected
- how will the second homes tax be set/collected

The collection method is not a small detail to be filled in later. Until the collection method is laid out it is impossible to work out the costs of collection and how efficient this will be. There is even doubt as to whether the government has the power to introduce this tax. It is a matter of legal debate whether the devolution settlement allows the Scottish Parliament to introduce a national tax across Scotland. In his evidence to the parliament, Professor Christopher Himsworth stated that article 9 of the European Charter of Local Government gives local authorities the right to determine at least part of the rate of local taxation. Even if a bill to set up this national tax is passed by the parliament, it could still be subject to a legal challenge.

It is impossible to comment properly on the proposals until the government has set out the detail of its plan.

This approach gives the appearance of dealing with the complaints about the council tax without opening the government up to any of the challenges that sorting local government finances will bring.

## **Fairness**

Those who support increased income tax often claim that the council tax is unfair and that taxing wages is a fairer alternative. This displays a misunderstanding of what wealth is and how the tax system works as a whole. Firstly, the fairness of an individual tax cannot be judged in isolation. Taxing all forms of wealth makes the tax system fair. Increasing the tax on wages pushes the burden of taxes on to ordinary working people not onto those with the most wealth. It is overall wealth not just wages that defines your ability to pay. There is no other tax on property in Scotland. Property value is a reasonable proxy for wealth and can form the basis of a fair local tax. The Burt report states

“there is a clear association between households on low incomes and households living in dwellings covered by council tax band A.”

and

“Beyond band C, households become increasingly concentrated in the higher income deciles.”<sup>2</sup>

Burt also states that only 2%<sup>3</sup> of households fall into the category “asset rich, income poor”. It seems excessive to reorganise the system of local government finance to deal with the problems faced this small group of people when there are more obvious, fairer and cost effective solutions such as improving council tax benefit or deferring payments for those over a certain age. Property taxes remain the most common form of local taxation within Europe because of the need for balance in a fair system of taxation and the obvious link between your home and local government.

While it is true that the richest pay 2% of their income on council tax and the poorest 5%, if all of UK taxation is brought together then almost all income groups pay between 32% and 37% of their incomes on tax.<sup>4</sup> This does not mean that the system is fair. VAT is regressive as its set at a flat rate. Placing more tax on income rather than property will move more of the cost of local government onto those in work and will do nothing to increase the share that the very wealthy pay.

Wealth inequality is rising in the UK. Now the top 1% holds 23% of total personal wealth. Income other than wages and salaries is mainly investment income. Top 10% of working age population received 4% of their income from investment compared to less than 1% for the lowest 10%. Maintaining a wide base for taxation and placing tax on different things like property, earnings and spending is a key way of spreading the burden of taxation across society. Investment income is not liable to the new tax. Exempting a form of wealth such as property and investment income could in fact increase rather than decrease inequalities. Property is an important part of the “taxation basket”. The Organisation for Economic Co-operation and Development (OECD) agrees that taxing property should be part of an overall taxation system.<sup>5</sup>

Ability to pay is not just about what income and resources a household has but what the demands on those resources are, i.e. how many people have to live on that resource and what their needs are. That is why there is such a complex system of

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<sup>2</sup> Burt Report 2005 page 125

<sup>3</sup> Burt Report 2005 page 125

<sup>4</sup> Pearse N and Paxton W Social Justice Building a Fairer Britain IPPR 2005 page 117

<sup>5</sup> Journal, Tax systems in European Countries, OECD Economic Studies no 434 (2002) in Burt Report page 75

allowances in the tax system. While some families do have a higher gross income than many individuals they also have many costs such as mortgages, rent, childcare and the general costs of food, clothing and heating needed to raise a family. This leaves many with less disposable income than many households who may initially appear to be poorer. In particular, those who own their properties outright and have no dependants.

This new tax will also mean that many people who currently do not pay council tax or who pay one per household would all have individual bills. The most obvious group that this will impact on will be students. They are currently exempt from council tax but under these proposals would have to pay the tax on top of the tax they already pay on their earnings. UNISON is concerned that this would particularly impact on the least well off students who are already working long hours on top of their course work and full time in their term breaks to minimise their debts. Young workers still living at home with their families or sharing homes with friends will find that instead of one council tax bill per household they each have a tax to pay. This is exactly the same problem that the poll tax encountered the models showing how much better off people would be than under the rates turned out to be very wrong. While history focuses on the crisis this caused for the Tory government, local councils struggled to maintain services as people could not or would not pay.

People have complex attitudes to taxation. They feel differently about the principle than they do to paying themselves. Research indicates that 55% of people thought that high-income people should pay more tax. When probed only 4% of people considered themselves to be high income. It seems we want others to pay tax but not ourselves. As the Institute for Public Policy Research state “the vast majority of those who endorse progressive taxes think that someone else will actually pay them”<sup>6</sup> Paying tax is therefore not generally popular and council tax is highly visible, you get a tax bill. Other taxes are hidden in the costs of goods and services or out of wages before you see them. A great deal of the public complaints about the council tax focus on how “wealthy people should be paying” there is no consensus about who these people are. The community charge was an attempt to make local taxation “fairer” However, after the mass campaigns against the community charge (Poll Tax) it was a popular move back to property taxation.

Council tax was introduced with a large subsidy from central government in order to regain the political ground the Conservatives lost over the poll tax. As this subsidy was removed council tax bills rose in order to maintain local services. The same choice will arise with the income tax: cut services or raise the tax. Any subsidy used to keep the income tax rate at 3% (like the Liberal Democrats proposal for higher overall income tax rate for top earners) could just as easily be used to lower the council tax without any of the time consuming reorganisation, disruption and extra costs involved in changing the tax system

Reform of the current system is essential. The current band system limits how much those with more expensive properties contribute. A £400,000 household pays three times the rate of a £40,000 house not ten times. This is why council tax takes up a higher proportion of low incomes than high, not because it is a property tax. A new banding system with a wider range of top and bottom bands and a change in the multiplier rate between bands would make the current system fairer.

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<sup>6</sup> Pearse N and Paxton W Social Justice Building a fairer Britain IPPR 2005 page 119

Property values have altered radically since the original bands were set, regular re-evaluation of the band would also be required to ensure the system continues to match wealth with bills.

Organisations like Help the Aged and Citizen's Advice Scotland (CAS) link council tax payments and water and sewerage charges together in their discussions about problems with council tax. CAS<sup>7</sup> point out that those on low incomes who get full council tax benefit still have to pay water and sewerage charges. They indicate that people do not appear to understand that the council tax bill also includes the other charges. This leads to confusion in perception of the fairness of the council tax and people get into arrears because they wrongly believe that as recipients of council tax benefit they have no bill to pay. The introduction of a local income tax will not abolish water and sewerage charges. Households will still be liable for these. People who did not know about these charges will be surprised when the bill comes and others who know of them now may assume they have been abolished and will be equally dismayed when they receive a bill. The new method of billing and collection for these charges, if the council tax goes, may increase those charges as it will be proportionally more expensive to collect them without the benefit of the economies of scale of the using council tax billing process provides.

### **Council Tax Benefit**

In order to address concerns about the council tax **Council Tax Benefit** needs to be overhauled. Council tax benefit is not always claimed by or available to those it is intended to protect. It is estimated that there is £ 1.2 billion in unclaimed council tax benefit across the UK. Although half of the 4.7 million recipients are pensioners only 65% of all pensioners and 45% of owner-occupier pensioners are actually claiming. They are losing on average £7.60 per week

The council tax benefit system fails to protect low paid workers. Many low paid workers have to pay full council tax. Just under half the children living in poverty live in households not entitled to council tax benefit. The table below shows just little you can earn before you pay full council tax. The table also shows how complex the system is particularly its relationship with the Tax Credit system. It is therefore no surprise that one sixth of working age households who are eligible do not claim.<sup>8</sup>

Household type	Gross weekly earnings at which CTB is 0	Net weekly income after housing costs	Poverty line
Single under 25	135	60	105
Single 25 or over	150	95	105
Lone parent	130	205	195
Couple	225	140	190
Parent couple	225	240	280

<sup>7</sup> Citizen's Advice Scotland Briefing Paper 18: Council Tax 2005

<sup>8</sup> Local Government Information Unit Making It Fair Council Tax Benefit and Working Households 2005 page 7

Even for those who do claim the cut off rate is really steep: On earnings over £60 per week CTB falls by about 20p for every pound earned. This can put people off changing to better-paid jobs, doing over time or even starting work in the first place. Households with children start to pay council tax before National Insurance or Income Tax. Tackling the problems with this benefit would target support on those people living in poverty far more effectively than this proposal for a national flat tax.

### **Property Based Taxation**

A property tax is difficult to avoid. You cannot hide your house or its value. You cannot move it abroad or to a tax shelter. Even those who live abroad and do not pay UK income tax pay council tax on their UK properties. Under an extra income tax, they would pay nothing and still get their bins emptied. While there is a proposal to use a property tax on second homes there is no detail to enable comment on its effectiveness or fairness.

There is also an obvious link to local government; you pay a property tax to the area you live for the services in your area. Property tax is also simple to calculate and collect. You only need the property band and whether or not one or more people live there to work out the bill. Extra income tax would involve self-assessment for non-PAYE groups like pensioners. It would also make the income tax system more costly to administer.

Taxing property can have a positive effect on the economy. There are studies that indicate that property taxation can act as a stabiliser for property prices and encourages efficient use of housing<sup>9</sup>. This means people not living in households larger than they need and reduced demand for second homes. This frees up properties reducing the demand for new build and therefore green site development. The inability of people to get on the housing ladder because of the high cost of homes and shortage of houses particularly in rural areas because of the ownership of second homes are real problems in Scotland. Moving away from taxing property could make this worse.

### **Democracy**

Calling a tax local does not make it a local tax. The government is clearly setting out a national flat tax. A central tax gives the Scottish government the power to set the priorities and targets for local government. Currently councils set their own council tax rates and are accountable to local electors for this rate and the value for money they deliver in terms of local services. UNISON firmly believes that decisions about public services should be made as locally as possible. We support increased fiscal autonomy for the Scottish parliament for the same reason. Local government should have more not less control over its finance. This plan would mean that local government would get all its funding from the Scottish government and this turns local authorities into central government agencies instead of genuine local government.

Currently only 30 % of those from lower social classes think they can influence decision-making in their local area this compares to 47% for higher classes<sup>10</sup>. Turnout at elections is also falling, particularly for local elections. Removing the link to locally set taxes and will further alienate people from the democratic process.

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<sup>9</sup> Burt Report 2005 page 77

<sup>10</sup> Office Of Deputy Prime Minister, Local Government Revenue Report 2003-4

## **Stability**

Property tax is a good form of local taxation because it is reasonably stable. Houses are fixed in place, new ones take time to build and old ones do not disappear overnight. Councils can therefore predict income with reasonable certainty over long periods. Councils can therefore plan for the long term and vital services have secure funding.

UNISON also believes that the proposals for the income tax give far too little thought to the future of the current staff involved in administering the council tax. Currently over 4500 people are employed in local government in this area. Most of these jobs would be lost. There would be substantial costs involved in redeploying this many people or of redundancy. There is also the cost and impact on local economies of job losses on this scale particularly in rural areas.

## **Practicalities**

Apart from the disruption caused by the third change in local government finance in twenty years and the question of the competence of the parliament to introduce such legislation there are many other practical problems this consultation glosses over.

There have been no formal discussions with the UK tax service to agree a mechanism to collect the tax. Even if this is resolved the Scottish government has no power to instruct employers out with Scotland or UK bodies to do so. There are many practical difficulties in both payroll offices and the tax office. Computer systems will need to be changed and Scottish residents identified. There are enormous opportunities for tax avoidance. The wealthy can take their bonuses in shares rather than wages, they can hide their earnings in overseas accounts, they will invest in property, and people will lie about where they live. Ordinary workers on PAYE will feel the full burden of this tax. When you work overtime, get a bonus, or wage rise you will pay more tax.

The paper is not clear about the mechanism used to distribute the money raised among councils. Councils will have no control over how much money they raise and will be accountable to central government for spending rather than local people. Collecting water charges, currently collected with council tax, will need to be reorganised. They also plan to use a form of council tax on second homes. There is no plan to collect these in a cost effective manner. Much more detail is needed on how the new system would work before anyone can properly comment on the proposals. Any cut in local government budgets will lead to job losses.

## **Finances**

There is a great deal of debate about how the numbers add up; how much money will be raised; who will pay what and about the council tax benefit. What is clear is that the income tax set a 3% will not raise the same amount of money currently raised by council tax. The Herald claimed a £500 million shortfall and the Scotsman £700 million. The tax will also cost more to collect. The Scottish Parliament Information Centre estimates the cost at £500 million. Even with the government's own model, assuming the retention of £400 million of council tax benefit, an income tax will raise about £280 million less than current council tax revenue. The governments' estimated shortfall and the extra collection costs mean that the new national tax will leave Scotland's public services very short of cash. Efficiency drives and new technology will not cover this. There will be service cuts and job losses.



The consultation also gives no detail on how this money will be allocated back to local government. Even if the government as promised funds the shortfall for local government this would mean cuts in other public sector budgets. If you raise less money then there have to be cuts somewhere.

The SNP's own plans in opposition were for a higher rate than 3% even assuming the retention of Council tax benefit:

*"This means the rate required to pay for the abolition of council tax is £1.590 billion/£0.363 billion or 4.3p. This would increase the basic rate of 22p to 26.3p and the top rate of 40p to 44.3p, resulting in the abolition of the council tax."*<sup>11</sup>

The Liberal Democrats, who also support a move to a locally set income tax, were suggesting a figure of about 3.75% to meet funding levels in 2006. They though proposed a 50% tax rate for high earners that would have raised £2.4 billion across the UK that they would use to top up local government funding.<sup>12</sup>

Both parties acknowledge that a rate higher than this makes average income families worse off. This is the reason for a three pence rate. Even at this rate households with more than two earners for example the growing number of households where adult children are in work but living at with their parents or people flat sharing to save money, will find themselves worse of under this new tax. A joint income of about £49000 will make them worse off in a band D house<sup>13</sup>, for example three newly qualified nurses house sharing.

This rate does not raise the same amount of money as council tax. If the aim is to cut taxes and public spending then there is no reason to change the tax system. It would be simpler to cut the council tax. The government should be honest about their aims if this is the case then there could be a proper debate about that issue. Governments cannot cut taxes without cutting services. Scandinavian public services need Scandinavian taxes. UNISON believes that it is vital to protect Scotland's public services. The vulnerable will suffer if councils have to cut back on essential services. The council tax was also introduced at a subsidised rate. It then rose by an average of 10% in its first four years in order to meet the real costs of local government. The same choice would arise again: cut services or raise taxes.

The shortfall will be exacerbated when Scotland's working age population as predicted falls by 15% by 2040<sup>14</sup>. Moving the financial burden of local government onto a shrinking tax base is very short sighted.

Cuts in local authority budgets will lead to job losses. There will also be the loss of most of the jobs in council tax departments. Job losses on this scale will have financial costs for the individuals involved, for the councils (redundancy payments) and for local economies. Cuts to local government finance will lead to other job losses among people directly employed by the local government and indirectly in the third and the private sectors that provide both goods and services for local government. The Scottish newspaper industry is already claiming it in under thereat following changes in the way the public sector advertises job vacancies.<sup>15</sup> Local government provides

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<sup>11</sup> SNP Policy Unit Proposal for a Local Income Tax Saltire Paper 2/04 (2004) page 5

<sup>12</sup> Liberal Democrats [www.axethetax.org.uk/pages/annex2.html](http://www.axethetax.org.uk/pages/annex2.html)

<sup>13</sup> Price –Waterhouse Cooper SNP tax plan is branded a double whammy for first time buyers Scotsman 25<sup>th</sup> March 2008

<sup>14</sup> HMRC tax and benefit model in Burt report 2005 page 73

<sup>15</sup> <http://news.bbc.co.uk/1/hi/scotland/7403830.stm>

many essential services and the “fun” parts of life like recreation facilities, parks, museums and art galleries. They are a vital part of our society. Cuts to local government finance have a huge impact on local services and local economies. Cuts not only leave vulnerable people at risk but harm the wellbeing of the community in general.

### **Conclusion**

UNISON believes that this plan is based on a flawed premise regarding the problems with the current council tax. It is therefore the wrong solution. The proposals are also not detailed enough leaving many unanswered questions. UNISON is particularly concerned about the shortfall in funding for public services and the subsequent risk of cuts in jobs and services. UNISON is concerned that this proposal is not for a local tax but a national one. Increased income tax would move the burden of taxation from all households to those in work and would weaken local democracy through the setting of a national rate. UNISON believes that a property-based tax is the best way to fund local services. It is a reasonable indicator of wealth and is simple to collect. It would be more effective to correct the flaws in the current local tax than reorganise local government finance for the third time in twenty years.

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