

**FALKIRK COUNCIL**

**Subject: THE COMMISSION ON LOCAL TAX REFORM**  
**Meeting: EXECUTIVE**  
**Date: 12 JANUARY 2016**  
**Author: DIRECTOR OF CORPORATE & HOUSING SERVICES**

**1. INTRODUCTION**

- 1.1 In February 2015 The Commission on Local Tax Reform (the Commission) was established jointly between the Scottish Government and COSLA.
- 1.2 The Commission was asked to identify and examine alternatives to the present council tax that would deliver a fairer system of local taxation to support the funding of services delivered by local government and to report on their findings in Autumn 2015.
- 1.3 The report, titled 'Just Change: A New Approach to Local Taxation' was published on 14 December 2015.
- 1.4 The full report (Volume 1), the Technical Annex (Volume 2), and the Compendium of Evidence (Volume 3) are available to download online at:  
  
<http://localtaxcommission.scot/download-our-final-report/>
- 1.5 It is worth noting that the 2016/17 financial settlement from the Scottish Government assumes a council tax contribution of £1,949m against total revenue funding of £9,693m, c20%.

**2. BACKGROUND**

- 2.1 The remit of the Commission was not to recommend a form of local taxation but evaluate the pros and cons of all the options. The report stresses that the selection of a system of local taxation is a political choice and notes that there is an expectation that Scotland will be offered alternative systems of local taxation in the Scottish Parliamentary election in May 2016.
- 2.2 The Commission contained representation from the Scottish Nationalist Party, the Labour Party, the Liberal Democrat Party and the Scottish Green Party. The Scottish Conservatives chose not to participate but will separately produce proposals. Representatives from local and central government also participated alongside other experts.
- 2.3 The Commission undertook significant engagement with both the public at large and professionals in a number of areas. An on-line survey attracted 4,492 responses. In addition, there were 203 detailed responses to calls for written evidence from a diverse range of organisations.

- 2.4 A total of 58 expert witnesses gave evidence at 12 sessions and there were also 12 public listening events or workshops held in communities across Scotland.
- 2.5 In addition there were 16 academics and practitioners (from Scotland and abroad) who provided professional advice and support to the Commission.

### **3. FINDINGS OF THE COMMISSION**

- 3.1 The report makes clear that the present Council Tax system must end. Chapter 2 of the report sets out the Commission's "case for change" which highlights the following points:
- Some people are paying more than they should
  - People in the most expensive houses pay no more than 3 times the tax on the largest value homes although the values of the properties are roughly 15 times as much
  - The amount being charged is too disproportionate to income with middle income households paying c4% of their income and highest income households paying c2% of their income
  - The Council Tax Reduction Scheme can reduce bills but these households have to have very low income
- 3.2 The report examines alternative taxes, for example property, land and income and sets out some of the benefits and issues associated with each tax. In examining the alternatives, an emphasis is placed on what is fair and equitable with fairness associated with ability to pay and equitable not having a disproportionate impact on any group. It also considers how the alternative taxes can be collected and administered, whilst recognising the significant challenge that a change will create. The following options were considered for collection of a locally determined tax:
- HMRC
  - Local authorities
  - A new income tax collection system set up on a Scotland wide basis
- 3.3 The Commission highlights the logistical issues of a change in the tax regime, noting that a transition will be a substantial administrative task that will incur costs and take a number of years to implement. It also notes that some individuals will pay more, whilst others will pay less and therefore a transitional framework will be required which will require to be costed.
- 3.4 The report is clear that a new system could not be enacted before the local government elections in 2017.
- 3.5 The report emphasises that any reform must be coupled with clear information about the case for change, what this means for individuals and households and how local government receives funding and spends money.

- 3.6 Finally, the report stresses that any change must support an enduring and stable tax base for local government. It highlights that the importance of local government having the ability to make choices about how local taxes are raised and spent and to be held accountable for those choices.

#### **4. CONCLUSIONS OF THE COMMISSION**

- 4.1 A number of the key points made by the Commission are outlined in section 3 of this report. Whilst there is no recommendation on the ideal model of taxation there is a clear suggestion that local taxation should primarily take the form of one, or more, of:

- Property Tax (Land and Buildings)
- Land Value Tax (Land Value only)
- Local Income Tax

The report recognises that no one type of tax provides a perfect solution to the issues raised.

- 4.2 The report suggests that a revised tax on property is the more readily administered alternative tax system. However, a property tax that is more proportionate to property values would still not be proportionate to incomes and a system of relief would be needed for those without the ability to pay. This system should be more effective than the current Council Tax Reduction scheme.
- 4.3 There is merit in considering further a system of land value tax but further analysis would be required to gain a full understanding of the impact of such a tax.
- 4.4 The predominant view of the Commission is that the local government tax base should be broadened (if feasible) to include income. The public attaches a strong importance to a perception of fairness through taxes and the ability to pay. In order to meet the test of fairness, local income taxes would need to apply not just to income from earnings but also to income from dividends, investments etc and this would be an administrative challenge.
- 4.5 Finally the Commission highlights that “*this is an opportunity that must not be missed*”.

#### **5. CONCLUSIONS**

- 5.1 It is now a decision for each political party to propose a form of local taxation in their respective manifestos, in advance of the Scottish Parliamentary Elections in May 2016. It is entirely possible that each political party will take forward different proposals albeit the report notes that this is “one area of public policy that would benefit greatly from a period of cross-party agreement and consensus in order to create an enduring, stable settlement for Scotland”.

## **6. RECOMMENDATIONS**

### **6.1 It is recommended that the Executive:-**

- a) note the contents of the report.**

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**Director of Corporate & Housing Services**

**Date: 22 December 2015**

**Ref: AAB160112 – Commission on Local Tax Reform**

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### **LIST OF BACKGROUND PAPERS**

- 1. The Commission on Local Tax Reform, Volume 1 – Just Change: A New Approach to Local Taxation**

Any person wishing to inspect the above background papers should telephone Falkirk (01324) 506893/506371 and ask for Paul Ferguson/Amanda Templeman.