

# **Abolition of Council Tax (Scotland) Bill**

**Replacing the Council Tax  
with a  
Tax Based on Personal Income**

**Consultation Paper**

**May 2004**

## **Who should respond**

Responses to this consultation are invited from individuals and organisations, who may be affected by, or have an interest in, the proposed replacement of council tax with a tax based on personal income.

Should you be aware of other individuals or organisations who may be interested in responding to this consultation, please feel free to pass them a copy of this paper.

Further copies of the paper may be obtained by contacting the address below; copies may also be downloaded from the following website:

**<http://www.scrapthecounciltax.com>**

## **How to respond :**

Please send your response to this consultation paper by

**Friday 8th October 2004 to:**

**Tommy Sheridan MSP  
Room 2.8  
Scottish Parliament  
Edinburgh  
EH99 1SP**

Tel: 01313485632

Fax: 01313485948

Email: [tommy.sheridan.msp@scottish.parliament.uk](mailto:tommy.sheridan.msp@scottish.parliament.uk)

Respondents should make clear whether their submission is on behalf of a particular group or organisation, or if it is an individual or personal response.

To help inform debate on the matters covered by this paper and in the interests of openness, the responses submitted on this consultation document will be made public. It will be assumed that responses can be made public unless the respondent indicates that his or her response is confidential.

Confidential responses will nevertheless be included in any summary or statistical analysis, which does not identify individual responses.

## **CONTENTS**

	<b>Page</b>
Summary	4
1 Introduction	11
2 A Brief Overview of the Council Tax	12
3 The Council Tax in Practise	18
4 Background to the Proposal	28
5 Investigations, Reports and Opinion	31
6 The Proposal to Replace the Council Tax with an Income Based Tax	39
Appendix 1 Questions for Respondents	47
Appendix 2 How the proposal will affect households	48
Appendix 3 Glossary	
Appendix 4 MSP supporters of the proposed Bill	

## Summary

- i) Tommy Sheridan MSP, National Convener of the Scottish Socialist Party (SSP) has lodged in the Scottish Parliament a:  

**“Proposal for a Bill to replace the council tax with a tax based on personal income”**
- ii) The proposal has attracted enough cross party support to be accepted for consideration by the Scottish Parliament as the Abolition of Council Tax (Scotland) Bill.
- iii) Your views are sought on the merits of the proposal and any information on issues or options associated with the proposal will be welcome.
- iv) The document is set out in 6 sections.

### **Section1 – The Introduction.**

- v) This section explains that the proposers believe the Council Tax is an unfair tax which despite a complex means-tested rebate system, bears far too little relation to a citizen’s ability to pay.
- vi) This problem is made worse by the low take up of Council Tax Benefits by those who are entitled to them. These problems combine to be a major contributor to the continuing poverty of many pensioners and low paid workers.
- vii) The replacement of the Council Tax with an income based tax would shift the burden of taxation from pensioners and low waged workers to those on above average personal incomes.
- viii) The precise form of the replacement income based tax is still open for discussion and contributions on this issue are welcome as part of the consultation.

### **Section 2 – A Brief Overview of the Council Tax,**

- ix) This describes: how the Council Tax was introduced; the rules which determine how much is charged; council tax benefit and rebate rules. The following describes the key points.
- x) Council Tax is a Local Government Tax. Local Government is a devolved matter and it is within the power of the Scottish Parliament to abolish the Council Tax or change its rules.
- xi) The Council Tax rules apply across the whole of Scotland. Each Council sets the rate at which Council Tax is calculated for the

properties within their boundaries. However, the rules determine how much the occupants of each property will pay.

- xii) Within a given Council Area the amount due to be paid by the occupants of the most expensive property is only 3 times that for the cheapest property.
- xiii) There has been no revaluation of properties or adjustment of bands since Council Tax was introduced in 1993. Newly built properties are assigned a notional band based on 1991 values.
- xiv) Single occupants receive a 25% reduction in the Council Tax charge. Second homes and vacant properties receive a 50% discount in Council Tax.
- xv) Council Tax Benefits are available for households on low incomes with modest or no savings, however, these benefits must be applied for.
- xvi) Persons in receipt of Income Based Job Seekers Allowances of Social Security will generally be granted full Council Tax Benefit and will not pay any Council Tax. However, people in employment or receiving pensions and other benefits will have to disclose their full income and savings in order to determine whether they are entitled to Council Tax Benefit.
- xvii) Persons with savings over £16,000 are not entitled to Council Tax Benefit. Savings over £3,000 may reduce the amount of Benefit received.
- xviii) Those whose income after tax and allowances, and taking savings into account, equals the “applicable amount” the Government rules determine they require for basic living needs, will receive full Council Tax Benefit. Those earning above that level will pay 20p in Council Tax for every £1 they earn after tax, until they earn sufficient to pay the full Council Tax.
- xix) Benefits such as Housing Benefit and pension credit are cut along with Council Tax Benefit. This results in many losing 85p and some 91p out of every extra £1 earned after tax.

### **Section 3 - The Council Tax in Practise**

- xx) This section analyses how the Council Tax operates in Scotland. It examines: the amount of income raised; the numbers on Council Tax Benefits either in full or part; the numbers eligible for benefit who do not claim; the cost of processing benefit applications; the level of charges and how they have changed; how efficiently Council Tax is collected and the level of arrears; the effect of Council Tax on poor households; the cost of collecting the tax. Key findings are:

- xxi) Scottish Councils will collect around £1,596 million in Council Tax in 2004/05 and receive in addition around £333 million in Council Tax Benefit grants from the Department of Works and Pensions (DWP).
- xxii) Council Tax is around 4% of all Government Revenue from Scotland. Income Tax represents 24% of revenue.<sup>1</sup>
- xxiii) Council Tax represents 11% of all Local Government revenue and 14.8% of tax related revenue, 17.9% if Council Tax Benefits are added.
- xxiv) The average Band D charge is now £1,053 and the average charge per household is £886. Only 8 Councils have a Band D charge below £1,000.
- xxv) Since local government reorganisation Council Tax has risen 48.7% in Scotland and inflation by 20.8%. Council Tax is rising at over twice the inflation rate.
- xxvi) In August 2003, there were 523,900 Scottish Households receiving Council Tax Benefits, 24% of all households. Of these 178,300 low waged households, including 107,000 pensioner households, still had to pay some Council Tax.
- xxvii) The number of recipients of Council Tax Benefit in Scotland fell by 12% between 1998 and 2003, at least in part due to more complex claims forms. Elderly persons with £16,000 in savings are ineligible for Council Tax Benefits.
- xxviii) Glasgow has the highest take up of benefit with 40% of households receiving Council Tax Benefit. The lowest Councils have 13%.
- xxix) The DWP estimate that between 28% and 34% of those households which are entitled to Council Tax Benefit are not claiming Council Tax Benefit. In Scotland this amounts to between 204,000 and 270,000 households, including between 154,000 and 198,000 pensioner households. Between 9% and 11.9% of all households are entitled to it but do not claim.
- xxx) The average amount of unclaimed benefit is £8.50 a week, amounting to between £90 million and £120 million in unclaimed Council Tax Benefit each year in Scotland.
- xxxi) Processing new claims takes Councils on average 49 days, 111 days in North Ayrshire. Delays resulting in refusal or only partial Benefit cause unexpected high bills for low waged claimants. The cost of processing claims is rising far faster than inflation.

---

<sup>1</sup> 2000/01 figures from Scottish Economic statistics 2003.

- xxxii) The cost of collecting Council Tax and processing Council Tax Benefit claims was £68.5 million in 2001/02, 5% of the amount collected.
- xxxiii) The amount of unpaid Council Tax which has arisen since reorganisation was £555 million at March 2003. In any given year, 5% of the amount of Council Tax Billed will never be collected.
- xxxiv) There is a strong association between arrears of rent, arrears of Water Charges and arrears of Council Tax. This particularly affects 71,000 working age families on partial benefit who are charged 20p in Council Tax for every extra £1 income earned. These families also lose 65p in every pound after tax they earn in housing benefit. Councils raised 28,792 eviction actions in 2001/02, many of these eviction actions were debt related. Fear of Council Tax debt is the second highest fear amongst poor families.
- xxxv) Around 107,000 pensioner families on partial benefit also lose 20p in every pound if they increase their earnings. They may also lose a further 40p in the pound pension credit or in other circumstances lose benefits at the total rate of 91p in every pound.
- xxxvi) Council Tax in 2001/02 (before Benefits etc) represents 8.4% of the gross income of the poorest 20% of households (disposable income less than £9,846) and 5% of the gross income after benefits are paid. 76% of these households were not entitled to Council Tax Benefit or did not claim it and were billed for a much higher proportion of their gross income.

#### **Section 4 - Background to the Proposal**

- xxxvii) This section explains why the proposer believes the Council Tax is unfair. It also describes: previous attempts to abolish the Council Tax.
- xxxviii) That the Council Tax is unfair is apparent from the information in sections 2 and 3:
  - a. It is a tax based on property values rather than the ability to pay and those with council tax debt tend to be poor.
  - b. Occupants of the most expensive properties pay only 3 times the tax of occupants of the cheapest. The lowest 20% of households pay 8.4% of their gross income in council tax, the richest 20% only 2.1%.
  - c. Benefits are means tested, are not automatic but must be applied for on complex claims forms. The high rate of withdrawal of benefit contributes to the poverty trap for working people and pensioners.
  - d. The tax is expensive to collect (5p in the £), that is 3 and a 1/2 times the collection cost of income tax (1.4p in the £).

- xxxix) **In summary** Council Tax disproportionately affects those who have little ability to pay; it has complex rules which discourage poor people from claiming benefit; it is costly to administer and inefficient in its collection; it charges poor families a higher proportion of income than rich families; it contributes to the poverty trap. **It is an unfair tax.**
- xl) In the first session of the Scottish Parliament, Tommy Sheridan MSP proposed a Bill to abolish the Council Tax and replace it with “a Scottish Service Tax”.<sup>2</sup>
- xli) The proposed Bill was based on a report which argued that the current system of local government finance is unable to deliver service improvements in such a way that is effective, efficient and equitable<sup>3</sup> and that the Council Tax is a regressive tax which should be replaced with a more progressive form of taxation linked to an individual’s ability to pay.
- xlii) The report then set out the case for a new system of taxation which would “assist the growth of the economy; be a progressive tax; assist in the reduction of poverty.
- xliii) Although the Scottish Parliament did not adopt the Bill proposal from Tommy Sheridan, the subject has been debated in the Parliament on five occasions, most recently on 11<sup>th</sup> March 2004.

## Section 5 - Investigations, Reports and Opinion

- xliv) This section looks at completed and on going investigations into Local Government finance, and reports on the changing attitude to Council Tax and Income based taxes.
- xlv) The Mackintosh Commission in 1999 recommended an independent review into Local Government Finance. The Scottish Executive refused this call until recently and has not yet named the review members.
- xlvi) The Local Government Committee of the Scottish Parliament (LGC) took evidence on Local government Finance from 2000 to 2002. At that time only a small number of respondents favoured replacing the Council Tax, and the Committee recommended that the Council Tax rules be amended by charging the full Council Tax on 2<sup>nd</sup> homes, adding new tax bands and revaluing properties.
- xlvii) The proposer challenges the LGC recommendation to retain the Council Tax in any form. This does not address the problem that the

---

<sup>2</sup> See Scottish Parliament spice briefings 00/25 and 02/07

<sup>3</sup> Danson, M & Whittham G *Time for Redistribution of Income: The Case for a Scottish Service Tax* February 2000



value of the home that people live in is largely unrelated to peoples' ability to pay.

- xlvi) These changes would not affect the complex nature of the Council Tax Benefit scheme, nor the huge numbers of eligible people who do not claim benefits. It would not affect the high cost of collecting Council Tax, the processing delays, the level of arrears and the high percentage never collected. It would require frequent revaluation and re-banding of properties and regular redistribution of Grant Aided Expenditure (GAE) between authorities. Far better to replace the Tax.
- xlix) The Westminster Government has established a review into Local Government finance in England and Wales and is considering a Local Income Tax (LIT) as one of its options. Most respondent "want consideration of LIT in some form".
  - l) The chartered institute of Public Finance and Accountancy (Cipfa) in its submission stated that a LIT could be introduced within 2 years of legislation. The groups that would gain most from LIT replacing Council Tax would be: lower income groups, particularly pensioners; single parent families; household with dependents. A LIT would cost less to collect provided collection was carried out by the Inland Revenue. Annual savings across England, Scotland and Wales could be up to £500 million.
  - li) Both the Liberal Democrats and the SNP now support replacing the Council Tax with a form of Local Income Tax.
  - lii) A number of other countries, notably Sweden have introduced Local Income Taxes. Both central and local government in Sweden are happy with its working.

## **Section 6 - The Proposal**

- liii) The proposal is to introduce a Bill to replace the Council Tax with an Income based Tax. The Bill will:
  - a) Include the proposal that the Inland Revenue be assigned as agents for the Scottish Parliament and it would grant powers to Scottish ministers to negotiate an agency fee.
  - b) Repeal the Local Government Finance Act 1992 insofar as it relates to Scotland, including those sections relating to Council Tax Benefit.
  - c) Specify rules relating to the income levels above which tax will be paid and specify whether pensioners will have a higher tax free amount.
  - d) Specify any additional tax bands at which a higher rate tax will be payable or above which no additional tax will be paid.

- e) Specify who will set the Tax, the Scottish Parliament or Local Councils or the former for a transitional period, thereafter the latter.
  - f) Be accompanied by guidelines on grant allocation and tax distribution to authorities, which would ensure that each Local Authority would be able to maintain services during any transitional period.
  - g) Be accompanied by a request to the Scottish Executive to establish in discussions with the DWP and Treasury the financial impact if any of repealing the Council Tax Benefit system
  - h) Be accompanied by measures designed to ameliorate the impact on staff affected by the proposals.
  - i) Include such additional measures regarding tax on holiday homes and amnesty on Poll Tax and Council Tax debt as are deemed appropriate following consultation.
- liv) It is intended that the detail in c), d) and e) above will be the subject of discussion between supporters of the principles of the Bill to determine the wording of the Bill which will receive maximum Stage 1 support in the Parliament. This will allow proponents of different variants of Income Based Tax schemes the ability to move amendments to determine the level of support for their particular scheme at stage 2 of the Bill in the parliament.
- lv) The SSP, the SNP and the Liberal Democrats have all published details of Income Based schemes. The differences between these schemes are discussed in section 6, and examples of how the proposals affect individuals is given in Appendix 2. With good will a common proposal to replace the Council Tax with an income based tax could follow consultation.
- lvi) Section 6 includes requests for detailed information to determine the timetable, costs and staff affected by the various proposal options.
- lvii) Appendix 1 outlines a series of question for respondents. These questions seek information on the options available for an Income Based Tax, its method of implementation, collection, cost, the workers affected by the proposals and its economic impact.

## **1. Introduction**

1.1 On 24<sup>th</sup> September 2003 Tommy Sheridan MSP, National Convener of the Scottish Socialist Party (SSP), lodged in the Scottish Parliament a:

**“Proposal for a Bill to replace the council tax with a tax based on personal income”**

By 1<sup>st</sup> October 2003, the proposal had attracted, as well as the support of the SSP’s six MSPs, enough cross party support to be accepted for consideration by the Scottish Parliament.

1.2 The member’s motivation is to address the acutely unfair nature of the Council Tax system which, despite a complex means-tested rebate system, bears far too little relation to a citizen’s ability to pay.

1.3 This inherent unfairness of the Council Tax is exacerbated by the low level of take up of Council Tax Benefits by many eligible groups especially pensioners. The Council Tax contributes to the continuance of poverty amongst pensioners and low paid workers.

1.4 In contrast to the Council Tax, a tax based on personal income may readily be matched to the citizen’s ability to pay.

1.5 Were a progressive tax regime introduced, the burden of taxation would be shifted from pensioners and lower paid workers to those on above average personal incomes.

1.6 The central thrust of the proposal is to replace the manifestly unfair council Tax with a much fairer income based tax and thereby reduce the revenue-raising burden on pensioners and lower paid workers, while requiring more from those on high personal incomes.

1.7 The precise form of the replacement income based tax will be decided at a later stage. The various proposals from Scottish parties are discussed in section 6 and further comments or information on these or any other income based tax proposals is welcome.

## 2. A Brief Overview of the Council Tax

- 2.1 The Council Tax was introduced in April 1993<sup>4</sup>, by the Conservative Government, as a replacement for the Community Charge (Poll Tax).
- 2.2 Unlike the Poll Tax which was a personal charge, the Council Tax is a property tax levied on domestic property. There is only one bill issued per household and there is a system of discounts, exemptions and rebates.
- 2.3 In this framework, the Council Tax is more akin to the former Rates system<sup>5</sup> than the Poll Tax. However, whereas the Rates system was based on the rental value of the property, Council Tax is based on the notional sale value of the property.

### Council Tax Bands

- 2.4 When the Council Tax was introduced, properties were placed in one of 8 bands based on their value as at April 1991. The Council Tax bands are coded with the letters A to H. A property is allocated to a band in accordance with its value (Table 1).

**Table 1 Council Tax Bills related to Property Bands**

Range of values for Scotland (at 1 April 1991)	Band	Proportion of Band D Bill	Proportion of Band A Bill
Up to £27,000	A	2/3	1
Over £27,000 and up to £35,000	B	7/9	7/6
Over £35,000 and up to £45,000	C	8/9	4/3
Over £45,000 and up to £58,000	D	1	3/2
Over £58,000 and up to £80,000	E	11/9	11/6
Over £80,000 and up to £106,000	F	13/9	13/6
Over £106,000 and up to £212,000	G	5/3	2.5
Over £212,000	H	2	3

<sup>4</sup> Local Government Finance Act 1992 is the primary Legislation. Local Government, including local government taxation, is a devolved matter. The Scottish Parliament has altered secondary legislation relating to Council Tax.

<sup>5</sup> The Poll Tax was introduced in Scotland in 1989 and in England and Wales in 1990. It replaced the Rates system which had operated in various forms since the beginning of modern local government.

- 2.5 For each local authority, the council tax varies between the different bands according to proportions laid down by law.
- 2.6 Table 1 shows the proportions. The bill for a dwelling in band A will be two thirds of the size of one in band D and one third of the bill for a dwelling in band H. Thus the bill associated with the least valuable property is only a third that of a multi million pound mansion.
- 2.7 There has been **no re-valuation** of properties since the introduction of the Council Tax, so the rapid changes in property values which have occurred in recent years have not resulted in changes in the band properties are in. New build houses are placed in bands based on what their value would have been in 1991.

### **Council Tax and the Scottish Parliament**

- 2.8 The Scotland Act 1998 explicitly gives the Scottish Parliament power to introduce changes to local government taxation. This is worded as an exception to the general reservation of fiscal policy.

“Local taxes to fund local authority expenditure (for example council tax and non domestic rates).”<sup>6</sup>

- 2.9 The Scottish Parliament therefore has the power to introduce new legislation which would in effect amend those sections of the Local Government Finance Act 1992 which relate to payment and collection of Council Tax in Scotland and introduce new legislation to replace the Council Tax with a new local tax to fund local authority expenditure.
- 2.10 Council Tax Benefit rules were also laid down in the Local Government Finance Act 1992. The issue of whether and how the Scottish Parliament can amend these rules, as a consequence of any change in primary legislation, is discussed in section 5.

### **Council Tax Benefits, discounts, exemptions and reductions**

- 2.11 The amount of Council Tax to be paid may be lowered, in some circumstances to zero, depending on the circumstances of the owners or occupants of the property or the status of the property itself. The main adjustments are:
- Discounts, particularly a 25% reduction for single occupants and a 50% discount for second homes and vacant properties
  - Certain categories of properties are exempt and the owners pay no council tax.
  - Exemptions for persons under 18, students and some other groups.
  - Council Tax Benefits for people on low incomes

---

<sup>6</sup> Scotland Act 1998 Part II Specific Reservations, Head A1 Fiscal, economic and monetary policy

- Reductions for disabilities
  - A combination of the above
- 2.12 The full Council Tax is only charged if there are 2 or more adults living in the building. In determining the number of adults, exempt groups are not counted.
- 2.13 Groups which are exempt include:
- persons under 18;
  - apprentices and people on youth training schemes;
  - students, student nurses and others on full time courses of education;
  - hospital patients, persons in care and the severely mentally impaired;
  - monks and nuns;
  - person in night shelters or hostels;
  - certain live in carers (but not when the partner of the person cared for);
  - persons in prison;
  - diplomats and members of visiting defence organisations.
- 2.14 Once exempt adults are excluded, if there is only 1 adult in the dwelling they are eligible to a 25% discount. If there are no adults left then the bill to the owner is reduced by 50%.
- 2.15 The following properties are exempt and their owners are not liable for Council Tax:
- Properties including halls of residence occupied entirely by students or by persons under 18;
  - Properties only occupied by the severely mentally impaired;
  - Armed forces accommodation and foreign diplomatic accommodation;
  - Properties unoccupied and unfurnished for up to 6 months;
  - Unoccupied agricultural dwellings;
  - Properties undergoing major alteration for up to 1 year;
  - Properties unoccupied for up to 6 months after the death of the owner;
  - Property owned by a social landlord awaiting demolition;
  - The following properties whilst unoccupied as a result of:
    - the residents are in prison;
    - the owner and last occupier was a student;
    - the occupants have moved to give or receive personal care;
    - planning conditions prevent them being let;
    - the owner is a trustee in bankruptcy;
    - occupation is prevented by law or pending compulsory purchase;
    - possession by a mortgage lender;
    - the property is a vicarage etc. awaiting occupation.

- 2.16 Properties which have been converted for use by persons with disabilities who reside in the property may receive a disabilities reduction. This effectively lowers the Property Band of the property from say D to C, or in the case of a Band A property, may reduce the amount to be paid equivalently.

### **Council Tax Benefits**

- 2.17 Council Tax Benefit is available on application to certain households which include low paid adults who are not exempt from paying Council Tax.
- 2.18 In determining whether Council Tax Benefit is paid, the circumstance of each of the resident adults, who is not exempt, is considered.
- 2.19 If one adult is not eligible for Benefit, then the maximum Benefit which can be paid is 25% and 75% or more of the Council Tax must be paid. If 2 or more adults are not eligible for Benefit then the full Council Tax must be paid.
- 2.20 Individuals in receipt of Income support or income based Job Seekers Allowance are entitled to maximum Council Tax Benefit. In the case of single adults or households where there are no non dependent adults, the maximum Benefit will be equal to the Council Tax and no tax will be paid. If there are adults eligible to pay council Tax then the amount to be paid is as 2.16.
- 2.21 Persons who are working or who are in receipt of non income related benefits, child benefit, disability benefits etc, may be eligible for Council Tax Benefit, however, both their income and their savings are taken into account.
- 2.22 If they have savings of over £16,000 then they are ineligible for Council Tax Benefit and any savings over £3,000 (£6,000 for over '60s) will be treated as additional income at the rate of £1 per week for every £250 of savings or part thereof.
- 2.23 The rules governing benefit are set out by the Department of Works and Pension, although in exceptional circumstances there is scope for Council discretion. The rules for eligibility generally follow the rates governing eligibility for Income Support and Income Based Jobseekers Allowance. Councils can also adjust the benefit paid if they consider the claimant is living in a home too large for their family.<sup>7</sup>
- 2.24 The amount of Council Tax Benefit is calculated by considering the persons gross income, including assumed income from savings, and

---

<sup>7</sup> Source Department of Works and Pensions Website

making allowances for income tax, national assurance and half of any pension contributions. For each single person a further £5 is ignored (£10 for a couple, £25 for a single parent). The resulting amount of income is compared to an **applicable amount** which the government sets to represent the basic needs of a claimant and family.

- 2.25 The “applicable amount” is made up of a claimant’s personal allowance, a personal allowance for a partner and dependent children, and a premium, for example a family premium or disability premium.
- 2.26 If the family income as calculated in 2.21 is less than the “applicable amount”, the claimant receives full benefit. If the income is higher than the “applicable amount”, their council tax benefit is reduced by 20p per week for every £1 extra (after tax) they earn each week. In other words **for every £1 extra the family earn after tax, they have to pay 20p in Council Tax**. This situation continues up to the level where they earn sufficient to pay the full Council Tax bill and don’t receive any Council Tax Benefits.
- 2.27 These families also lose Housing Benefit at the rate of 65p in the pound. This means **that for every £1 they earn after tax, they lose 85p to pay rent or council tax**.
- 2.28 Persons on low incomes of with modest savings may also be entitled to Rent Rebates and income credits. If so these are also removed at the same threshold. **This can result in some pensioner claimants losing up to 91p out of every extra £1 they earn after tax and many losing 85p in each extra £1 earned.**

“single pensioners with an income between £100 and £135 will have a 91 per cent rate if they receive housing benefit and council tax benefit....only 8 per cent of pensioners on the pension credit will fall into that group .... Thereafter people will be subject only to the housing benefit and council tax benefit tapers, bringing them back down again to the 85 per cent rate as they lose the pension credit” (Hansard 24<sup>th</sup> January 2002)<sup>8</sup>

---

<sup>8</sup> Baroness Hollis of Heigham in debate of state pension credits, speaking for the Government



## **Council Tax – Key Points**

- 2.29 Council Tax is a Local Government Tax. Local Government is a devolved matter and it is within the power of the Scottish Parliament to abolish the Council Tax or change its rules.
- 2.30 The Council Tax rules apply across the whole of Scotland. Each Council sets the rate at which Council Tax is calculated for the properties within their boundaries. However, the rules determine how much the occupants of each property will pay.
- 2.31 Within a given Council Area the amount due to be paid by the occupants of the most expensive property is only 3 times that for the cheapest property.
- 2.32 There has been no revaluation of properties or adjustment of bands since Council Tax was introduced in 1993. Newly built properties are assigned a notional band based on 1991 values.
- 2.33 Single occupants receive a 25% reduction in the Council Tax charge. Second homes and vacant properties receive a 50% discount in Council Tax.
- 2.34 Council Tax Benefits are available for households on low incomes with modest or no savings, however, these benefits must be applied for.
- 2.35 Persons in receipt of Income Based Job Seekers Allowances of Social Security will generally be granted full Council Tax Benefit and will not pay any Council Tax. However, people in employment or receiving pensions and other benefits will have to disclose their full income and savings in order to determine whether they are entitled to Council Tax Benefit.
- 2.36 Persons with savings over £16,000 are not entitled to Council Tax Benefit. Savings over £3,000 may reduce the amount of Benefit received.
- 2.37 Those whose income after tax and allowances, and taking savings into account, equals the “applicable amount” the Government rules determine they require for basic living needs, will receive full Council Tax Benefit. Those earning above that level will pay 20p in Council Tax for every £1 they earn after tax, until they earn sufficient to pay the full Council Tax.
- 2.38 Benefits such as Housing Benefit and pension credit are cut along with Council Tax Benefit. This results in many losing 85p and some 91p out of every extra £1 earned after tax.

### 3. The Council Tax in Practise

#### Income from Council Tax

- 3.1 Scottish Councils collected £1,363 million in Council Tax in 2001/02. In addition they received £285 million in Council Tax Benefit grants from the Department of Works and Pensions.<sup>9</sup> The amount collected includes Council Tax from previous years.
- 3.2 The amount billed in 2001/02 was £1,428 million and was £1,513 million in 2002/03. These amounts exclude Council Tax Benefit. The amount collected in 2001/02 including arrears from previous years amounted to 95.5% of the amount billed in 2001/02.
- 3.3 Between 2002/03 and 2003/04 the increase in Council Tax for a given property was 3.9% and between 2003/04 and 2004/05 was 4.4%. The number of properties is also estimated to have increased by 1.9% between 2002/03 and 2004/05.<sup>10</sup>
- 3.4 Applying these figures to the 2003/04 bill figure, the amount of Council Tax to be billed for 2004/05 will be around £1,672 million.
- 3.5 Assuming the amount of Council Tax Benefit grants rise in proportion, **Council Tax Benefit grants will be £333 million in 2004/05.**
- 3.6 Given a 95.5% collection rate, **Councils should collect £1,596 million in Council Tax during 2004/05.**
- 3.7 In 2000/01, Council Tax accounted for 4% of all Government Revenue from Scotland<sup>11</sup>. In the same year income tax accounted for 24% of revenue.
- 3.8 Local Authorities' revenue comes from a mixture of Government and other Grants, Non domestic Rates (NDR), Council Tax, Rents on council houses and other income. Total Local Government revenue<sup>12</sup> in 2001/02 was £13,580 million.
- 3.9 Council Tax accounted for 11.0% of all local Government income in 2001/02. If only Government and other Grants, NDR and Council Tax are considered<sup>13</sup> (£9,198 million) this is 14.8% of tax related revenue. If Council Tax Benefits are added this rises to 17.9%.

---

<sup>9</sup> Scottish Local Government Financial Statistics 2001/02.

<sup>10</sup> Scottish Executive statistical bulletin.

<sup>11</sup> Scottish Economic statistics 2003 Chapter 6.

<sup>12</sup> Excluding special funds e.g. superannuation, and inter account transfers.

<sup>13</sup> This excludes income from Rents, Trading Services, sales fees and charges and other income. It includes grants to housing including housing benefit.

## Council Tax Benefits

- 3.10 As at **August 2003, there were 523,900 households in receipt of Council Tax Benefits in Scotland, 24% of all Households**<sup>14</sup>. Of these 345,600 were also in receipt of job seekers allowance, invalidity benefit, minimum income guarantee or social security (“other benefits”). In general they would receive a full rebate of Council Tax (unless there were non dependent household members).
- 3.11 A further 178,300 received some Council Tax Benefits. However, most of these low paid households have to pay some Council Tax. If they increase their income they have Council Tax Benefit removed at the rate of 20p in the £1 i.e. they pay 20p extra in Council Tax for every £1 extra they earn.
- 3.12 The number of recipients of Council Tax Benefit has fallen in Scotland by 12% between August 1998 and August 2003.
- 3.13 The take up of Council Tax Benefit varies between Local Authorities. Glasgow has the highest take up at 40%, the lowest in Aberdeenshire, East Dunbartonshire, East Renfrewshire and Shetland – all with 13% of households in receipt of Council Tax Benefits.
- 3.14 Across the UK<sup>15</sup>, 79% of working age people who receive Council Tax Benefits also receive “other benefits” and would generally pay no Council Tax. Only 21% of low paid working age claimants in receipt of Council Tax Benefit pay some Council Tax.
- 3.15 Across the UK, of elderly people who have claimed and received Council Tax Benefits, 59.3% receive “other benefits” and pay no Council Tax. However 40.7% receive Council Tax Benefit, but still pay some Council Tax.
- 3.16 Across the UK, there are 2,330,900 working age recipients and 2,326,400 elderly recipients of Council Tax Benefits. If these UK wide ratios are applied to the 523,900 recipients of Council Tax Benefits in Scotland<sup>16</sup>, then **in August 2003 there were 262,000 elderly claimants in Scotland who receive Council Tax Benefits and 107,000 of these would still pay some Council Tax**<sup>17</sup>.

---

<sup>14</sup> Department of Works and Pensions (DWP) quarterly statistics, table HB2.3. Also Benefits and Tax Credits in Scotland report for August 2003 (Scottish Executive).

<sup>15</sup> Separate figures for Scotland are not available. Figures from DWP, table HB2.1a and HB2.1b.

<sup>16</sup> The Department of Work and Pensions does not supply separate Scottish figures for elderly and working age claimants.

<sup>17</sup> Scottish Executive report – Benefits and Tax Credits in Scotland report for August 2003 states that 99% (935,900) of over 60/65 persons in Scotland claim some form of state benefit, only 7% received the Minimum Income Guarantee and a further 29% Sick or disabled benefits. 63% (596,500) only receive the state pension. A large number of this latter group do not claim Council Tax Benefits.

- 3.17 It can also be derived that 71,000 households of non pension age were in receipt of partial Council Tax Benefit.
- 3.18 It should be noted that **due to persons with over £16,000 savings being ineligible many elderly persons who receive a lump sum on retirement are ineligible for Council Tax Benefit.**

### **Eligible - But Not Claiming Council Tax Benefit**

- 3.19 On 26<sup>th</sup> February 2004 the Department of Works and Pensions (DWP) reported<sup>18</sup> that between 28% and 34% of eligible households were not claiming Council Tax Benefits. Across the UK this amounted to between 24% and 30% of the amount eligible to be claimed. In monetary terms between £760 million and £1,060 million was unclaimed in 2001/02.
- 3.20 The DWP assessed that between 37% and 43% of eligible pensioners do not claim Council Tax Benefit. It also reported that the percentage of pensioners claiming benefits for the first time had fallen between 2000/01 and 2001/02.
- 3.21 If these figures are applied to Scotland, it would indicate that **between 204,000 and 270,000 Scottish households are entitled to but do not claim Council Tax Benefit.**
- 3.22 Of these **between 154,000 and 198,000 are pensioners who do not claim Council Tax Benefit.**
- 3.23 The DWP estimate the average weekly amount of unclaimed benefit per eligible claimant is £8.50.
- 3.24 In 2001/2002 **the amount of unclaimed Council Tax Benefit in Scotland was between £90 million and £120 million a year.**
- 3.25 As Scotland has 2,265,000 chargeable dwellings, **between 9% and 11.9% of households are entitled to Council Tax Benefit but do not claim.**

### **Processing Council Tax Benefit Applications**

- 3.26 Council Tax and Housing Benefits are applied for in the same claim although different rules apply to determine the amount of each type of benefit award.
- 3.27 Filling in the claim forms is fairly complex and considerable effort is required by Council Staff to ensure the forms are filled in correctly and to process the claim.

---

<sup>18</sup> National Statistics Income Related Benefits Estimates of take up in 2001/02.

- 3.28 The Audit Commission reports<sup>19</sup> that **the time taken to process new claims in 2002/03 ranged from 19 days in South Lanarkshire to 111 days in North Ayrshire with an average of 49 days** (compared to the DWP target of 36 days). Where household circumstances had changed, it took from 5 to 42 days to process the information, with an average of 15 days (compared to the target of 9 days). All claims must be renewed each year to confirm circumstances have not changed. Councils are tasked to ensure that information is updated before the previous claim “expires”. The number processed on time ranged from 4% in Moray to 100% in Shetland with an average of 76.9% (compared to a target of 83%).
- 3.29 The considerable **delays in processing claims, mean that where Council Tax Benefits are not granted or are granted at a lesser amount than the claimant expects, the claimant is faced with paying a higher than expected Council Tax bill and with paying arrears of Council Tax back to the date of claim.** This places an extra burden on these low paid households.
- 3.30 The number of Council and Housing Benefit cases processed by Councils is higher than the number identified by the Department of Works and Pensions as each change of circumstance or renewal counts as a new case. According to the Audit Commission councils processed 912,000 cases in 2002/03.<sup>20</sup>
- 3.31 The cost of processing each case (excluding Glasgow) averaged £47.27 in 2002/03, up from £41.89 in 2001/02. That is an increase of 12.8%. (Glasgow rose from £36.60 to an estimated £39.14, a rise of 6.9%).
- 3.32 **The total cost of processing Housing and Council Tax Benefit claims in 2002/03 came to £41.8 million.**
- 3.33 **After 11 years of the Council Tax, Local Authorities are still failing to meet Government targets for processing claims on time. In addition the cost of processing claims is rising far faster than inflation.**

### **Council Tax Charges**

- 3.34 The average Council Tax per Scottish dwelling in 2004/05 is **£886**. This figure varies significantly by Local Authority with the lowest average charge of £646 raised by Eilean Siar and the highest of £1,118 by East Dunbartonshire.<sup>21</sup> The 2<sup>nd</sup> lowest average charge is Orkney on £713, then Shetland on £720. The lowest mainland average is Falkirk on £756. Four Councils have an average over £1,000.

---

<sup>19</sup> Corporate management Performance Indicators 2002/03.

<sup>20</sup> Including Glasgow’s figures which the commission deemed unreliable.

<sup>21</sup> Figures from Scottish Executive web site. Note that all figures exclude water charges.

- 3.35 Local Authority charges are commonly compared by looking at the amount charged for a Band D property. The lowest rate is Eilean Siar on £911 and the highest Glasgow City on £1,185. Only 8 Scottish Authorities charge less than £1,000 for a Band D property. **The average across Scotland is £1,053.**
- 3.36 The Band D average for Scotland in 1996/97 was £708 as compared to £1,053 now, an increase of 48.7%. Over the same period inflation was 20.8%.<sup>22</sup> **Council Tax has risen by more than 2 times the inflation rate since Local Government reorganisation.**
- 3.37 There is some evidence of convergence of Council Tax rates since reorganisation. In 1996/97 the lowest charge for a Band D was Shetland council on £443 and the highest Edinburgh and West Dunbartonshire on £812, 83% higher than the lowest. In 2004/05 the highest Glasgow City is 30% above the lowest. Some convergence is also seen if the average Council Tax per dwelling is compared. In 1996/97 the lowest average charge was Shetland at £343, the highest Edinburgh £752, 119% higher. In 2004/05 the highest is 73% above the lowest.

### Collection of Council Tax and Council Tax Arrears

- 3.38 Allied to their difficulty in processing claims, Councils have difficulty collecting Council Tax. The Accounts Commission noted that social deprivation and population density have an effect on collection rates and that these factors were largely outside councils' control. Other factors such as the accuracy of records and speed of recovery action are in councils' control.
- 3.39 Councils collected 91.5% of the Council Tax due in 2002/03 before the year end. (£1,380 million out of £1,510 million).
- 3.40 Councils attempt to recover outstanding Council Tax from previous years, however, the amount of outstanding cumulative debt continues to rise. At 31st March 2003, **the cumulative arrears of Council Tax since 1996/97 came to £555 million.**
- 3.41 The amount still outstanding<sup>23</sup> from 1996/97 represented 5% of that year; from 1997/98 5.2%; 1998/99 5.3%; 1999/00 5.6%; 2000/01 6.3%; 2001/02 6.8%; 2002/03 8.5%.
- 3.42 Given the diminishing collection from earlier years, it is reasonable to conclude that **around 5% of Council Tax from any given year will never be collected.**

---

<sup>22</sup> December 2003 index 183.5, December 1995 index 150.7. Source

<http://www.moneyextra.com/glossary/g100969.htm>

<sup>23</sup> Scottish Local Government Financial statistics 2001/02. (SLGFS 2001/02)

- 3.43 Councils have been encouraged by the audit commission (Council tax collection Feb 1998) to increase their collection rate and many have put the collection in the hands of professional debt collectors. This form of debt recovery is more expensive than normal methods and councils generally operate on a commission basis with agencies so as to avoid the cost of collection exceeding debt recovered.
- 3.44 The gradual improvement of collection in the year of bill and the recovery of outstanding arrears has increased the overall amount collected above the trend line of 95% to around 95.5%.

### **The Effect of Council Tax on Poor Households**

- 3.45 A Scottish Executive report<sup>24</sup> in 1999 noted that in one sample authority, around 10% of Households on full Council Tax Benefit and 16.3% of households on partial Council tax Benefit, were in arrears with Water Charges.
- 3.46 The requirement on local Authorities to collect water charges and the fact that Water charges were not eligible for 100% rebate increases the % of households deemed to be in arrears.
- 3.47 A joint study by Scottish Homes and the Accounts Commission<sup>25</sup> highlighted that “many tenants in arrears with their rent are also in arrears with their Council Tax.”
- 3.48 Shelter Scotland<sup>26</sup> notes that there were 28,792 eviction actions by Local Authorities between April 2001 and March 2002. A total of 3,077 tenants were evicted from Council Housing. The reasons for these is not fully analysed in the available statistics, however, many will be associated with debt.
- 3.49 Council Tax (ignoring benefits and discounts) accounted for 8.4% of the gross income of the poorest 20% of Scottish households in 2001/02.<sup>27</sup> These households were ones which had a disposable income (after tax) of less than £9,846. Many of these households do not claim or are ineligible for Council Tax Benefits and this will represent the amount of disposable income they pay on average. Once discounts and benefits are taken into account, Council Tax still represented on average 5% of gross income for this 20%. Given that 24% of households were on Council Tax Benefit and around 16% were on 100% benefit in 2001/02, 76% were not on any Benefit. It is clear that there are many households who pay or at least are billed to pay 10% or more of their gross income. The percentage of their disposable income will be far higher.

---

<sup>24</sup> Council Tax collection Arrangements in Scotland and England and Wales. Published 1999

<sup>25</sup> Managing rent arrears getting the balance right – June 2000

<sup>26</sup> Evictions by Local Authorities in Scotland – a joint paper from shelter Scotland and the Legal services Agency 2003

<sup>27</sup> Hansard 10<sup>th</sup> June 2003 written answer to Matthew Taylor

- 3.50 The 20% of Scottish households with the highest disposable income pay on average only 2.1% of their gross income in Council Tax. This is both a gross and net Council Tax figure as this sector is not eligible for Council Tax Benefit having a disposable household income over £26,409. It should be noted that a household with disposable income of £26,409 will have a gross income of around £40,000. (the band D average was £929 in 2001/02 and band E £1135). Even at that level of income, Council Tax counts for 2.3% of gross income in a band D household and 2.8% of gross income in a Band E house. The average of 2.1% reflects a gross income of £54,037 in a Band D house. Many households in this group will have much higher gross incomes.
- 3.51 Council Tax clearly has a much greater impact on poorer households who either are not eligible for or do not claim Council Tax Benefit. It also particularly affects those on partial Council Tax Benefit who are charged 20p extra in Council Tax for every extra £1 income they earn after tax. Removal of other benefits may also be triggered, so that families on partial benefit may face an effective removal of benefits rate of 85p in the £1 on new after tax earnings - a poverty trap exacerbated by Council Tax rules.
- 3.52 All working age families on partial benefits will be caught in this poverty trap. In Scotland this amounts to 71,000 households. **So Council Tax Benefit is removed at 20p in the pound and other benefits at an additional 65p in the pound after tax from 70,000 working Scottish Households.**<sup>28</sup>
- 3.53 A further 107,000 pensioner households are on partial Council Tax Benefit. Almost all of these will be in receipt of other benefits. According to the Westminster government<sup>29</sup> 8% of pensioners on pension credit will lose benefits at 91p in the pound if they increase their earnings from a part time job. Others on pension credit and on partial Council Tax Benefit will lose benefit at the rate of 60p in the pound. **Around 100,000 pensioners are discouraged from taking on part time work because they would lose benefit at the rate of 60p in every pound they earned after tax. Loss of Council Tax Benefit represents 20p in the pound of that.**
- 3.54 Fear of getting into Council Tax arrears was the 2<sup>nd</sup> most common worry amongst poor households in a 2003 survey<sup>30</sup>. It is clearly a major contributory factor in the continuing debt problems of poorer households.

---

<sup>28</sup> The March 2004 budget altered thresholds but not tapers. Numbers are based on August 2003 figures which may be marginally reduced by the budget.

<sup>29</sup> Hansard 24<sup>th</sup> January 2002 Baroness Hollis see section 2.

<sup>30</sup> Financial services company CPP May 2003. 21% of survey of 2000 feared Council Tax debt.



## Cost of Collection

- 3.55 The cost of collection of Council Tax per dwelling<sup>31</sup> in 2002/03 averaged £13.53<sup>32</sup> across Scotland. There were 2,265,822 properties on the Valuation List on 1<sup>st</sup> September 2003<sup>33</sup>. This gives a cost collection of £30.7 million for 2002/03..
- 3.56 The total cost of collecting Council Tax and processing Council Benefit claims for 2002/03 is not readily available. However the total cost in 2001/02 was £68.5 million.<sup>34</sup> **This represents 5% of the £1,363.4 million collected.** The Council Tax therefore has a collection rate of 5p in the £.
- 3.57 The Inland Revenue reports the cost of collection of Income Tax to be 1.41p in the £.<sup>35</sup> **Thus Council Tax costs 3.5 times more to collect than Income Tax for every pound collected.**

---

<sup>31</sup> According to the Accounts Commission this indicator used to refer to “chargeable dwellings” but was changed in 2002/03. It advises that direct comparisons with previous years are not applicable.

<sup>32</sup> This figure includes the net cost (profit or loss) of collecting water and sewerage charges on behalf of Scottish Water. These charges are reimbursed to Local Authorities and the overall Scottish figure will be a very small amount which is ignored.

<sup>33</sup> The figure for the number of dwellings is taken from the Scottish Executive number of properties on the Valuation role. It states these are chargeable dwellings. The statistical bulletin states there were 2,358,415 dwellings. Using this gives a cost of collection of £31.9 million.

<sup>34</sup> SLGFS 2001/02.

<sup>35</sup> Inland Revenue Annual Report 2002/03 – Appendix 2 Table 1.

## **Council Tax in Practise – Key Facts**

- 3.58 Scottish Councils will collect around £1,596 million in Council Tax in 2004/05 and receive in addition around £333 million in Council Tax Benefit grants from the Department of Works and Pensions (DWP).
- 3.59 Council Tax is around 4% of all Government Revenue from Scotland. Income Tax represents 24% of revenue.<sup>36</sup>
- 3.60 Council Tax represents 11% of all Local Government revenue and 14.8% of tax related revenue, 17.9% if Council Tax Benefits are added.
- 3.61 The average Band D charge is now £1,053 and the average charge per household is £886. Only 8 Councils have a Band D charge below £1,000.
- 3.62 Since reorganisation Council Tax has risen 48.7% in Scotland and inflation by 20.8%. Council Tax on average is rising over 2 times the inflation rate.
- 3.63 In August 2003, there were 523,900 Scottish Households receiving Council Tax Benefits, 24% of all households. Of these, 178,300 low waged households, including 107,000 pensioner households, still had to pay some Council Tax.
- 3.64 The number of recipients of Council Tax Benefit in Scotland fell by 12% between 1998 and 2003, at least in part due to more complex claims forms. Elderly persons with £16,000 in savings are ineligible for Council Tax Benefits.
- 3.65 Glasgow as the highest take up of benefit with 40% of households receiving Council Tax Benefit. The lowest Councils have 13%.
- 3.66 The DWP estimate that between 28% and 34% of those households which are entitled to Council Tax Benefit are not claiming Council Tax Benefit. In Scotland this amounts to between 204,000 and 270,000 households, including between 154,000 and 198,000 pensioner households. Between 9% and 11.9% of all households are entitled to Council Tax Benefit but do not claim.
- 3.67 The average amount of unclaimed benefit is £8.50 a week, amounting to between £90 million and £120 million in unclaimed Council Tax Benefit each year in Scotland.
- 3.68 Processing new claims takes Councils on average 49 days, 111 days in North Ayrshire. Delays resulting in refusal or only partial Benefit

---

<sup>36</sup> 2000/01 figures from Scottish Economic statistics 2003.

cause unexpected high bills for low waged claimants. The cost of processing claims is rising far faster than inflation.

- 3.69 The cost of collecting Council Tax and processing Council Tax Benefit claims was £68.5 million in 2001/02, 5% of the amount collected. This is 3.5 times the cost of Income Tax which only costs 1.41% of the amount collected.
- 3.70 The amount of unpaid Council Tax which has arisen since reorganisation was £555 million at March 2003. In any given year, 5% of the amount of Council Tax Billed will never be collected.
- 3.71 There is a strong association between arrears of rent, arrears of Water Charges and arrears of Council Tax. This particularly affects 71,000 working age families on partial benefit who are charged 20p in Council Tax for every extra £1 income earned. These families also lose 65p in every pound after tax they earn in housing benefit. Councils raised 28,792 eviction actions in 2001/02, many of these eviction actions were debt related. Fear of Council Tax debt is the second highest fear amongst poor families.
- 3.72 Around 107,000 pensioner families on partial benefit also lose 20p in every pound if they increase their earnings. They may also lose a further 40p in the pound pension credit or in other circumstances lose benefits at the total rate of 91p in every pound.
- 3.73 Council Tax in 2001/02 (before Benefits etc) represents 8.4% of the gross income of the poorest 20% of households (disposable income less than £9,846) and 5% of the gross income after benefits are paid. Many of these households were not entitled to Council Tax Benefit or did not claim it and were billed for over 10% of their gross salary.

## **4. Background to the Proposal**

### **The Council Tax is an Unfair Tax**

- 4.1 The Council Tax was seen by many as fairer than the Community Charge or Poll Tax when it was introduced in April 1993, however, the defects of the tax have become clearer as time has passed.
- 4.2 These defects are described in some detail in sections 2 and 3, but in summary are:

#### **General**

- a) The tax is not based on your ability to pay, but rather the property you live in
- b) Within a local authority area the amount paid by the occupants of the most expensive property is only 3 times that for the cheapest property
- c) There has been no revaluation of properties or adjustment of property bands since 1993. All properties are based on their notional 1991 values. Significant anomalies exist due to recent property price rises.
- d) Vacant properties and second homes receive a 50% discount thus encouraging second home ownership particularly outside cities and removing houses for local workers and tax from rural councils.

#### **Council Tax Benefit**

- e) Council Tax Benefits are available for households on low income and low savings, but they must be applied for and are means tested.
- f) Those who are on low wages but are granted partial Council Tax Benefit, lose 20p in every £1 of that benefit whenever they increase their earnings until they pay the full Council Tax.
- g) For some families, the loss of other benefits, mean they lose 85p out of every extra £1 earned. Council Tax acts as an added disincentive to low waged workers to seek higher wages or increase their working hours and contributes to the poverty trap. There are around 70,000 claimants in Scotland of working age on partial Council Tax Benefit.
- h) Council Tax Benefit takes modest savings into account. Persons with £16,000 savings are ineligible to claim and savings of over £3,000 may reduce entitlement. This particularly affects pensioners who may have savings but little pension.
- i) There are 107,000 pensioner households on partial Council Tax benefit. Should their income increase from part time work, they will lose Council Tax benefit at the rate of 20p in the pound. These

families will also lose other benefits. Depending on their circumstances they could lose a further 40p or even 71p in every pound after tax. This effectively prevents them taking on such work.

### **Not claiming benefit although entitled**

- j) Council Tax Benefit claim forms and benefit rules have become more complex. The number of claimants in Scotland fell 12% between 1998 and 2003. The Department of Works and Pensions estimates between 28% and 34% of eligible households do not claim Council Tax Benefit.
- k) In Scotland between 154,000 and 198,000 pensioners are eligible for Council Tax Benefit but do not claim it. A further 50,000 to 90,000 households of working age are entitled to benefit but do not claim. Between £90 million and £120 million of Council Tax Benefit is unclaimed each year.

### **Administration of Council Tax**

- l) Council Tax Benefit is expensive to administer and arrears are difficult to collect. Around £555 million of Council Tax billed since 1996 is uncollected. Around 5% of each year's bills will go uncollected. A further 5% of the amount collected goes in Council Tax Benefit and collecting costs. These costs are rising far faster than inflation.
- m) Council Tax costs 3.5 times as much to collect as Income Tax.
- n) Processing of Council Tax Benefit claims takes on average of 49 days and can take 111 days in some authorities. If a claim is rejected or only partial benefit is granted, a low paid household can face an unexpectedly high bill. This gives rise to debt.

### **Council Tax and Poor Families**

- o) Arrears of Council Tax are closely associated with arrears of rent and arrears of water charges and with low income. There were 28,792 eviction actions by local authorities in 2001/02 many associated with debt.
- p) Council Tax before discounts and benefits accounts for 8.4% of the gross income of the lowest 20% of households (5% after discounts). Many households are billed for 10% of their gross income.
- q) For the highest paid 20% Council Tax is only 2.1% of gross income on average and much lower for many.
- r) A survey indicated that fear of Council Tax debt is widespread amongst poor families.

- 4.3 In summary** Council Tax disproportionately affects those who have little ability to pay; it has complex rules which discourage poor people from claiming benefit; it is costly to administer and inefficient in its collection; it charges poor families a higher proportion of income than rich families; it contributes to the poverty trap. **It is an unfair tax.**

#### **Previous attempt to Abolish the Council Tax**

- 4.4 In the first session of the Scottish Parliament, Tommy Sheridan MSP proposed a Bill to abolish the Council Tax and replace it with “a Scottish Service Tax”.<sup>37</sup>
- 4.5 This proposal was based on a research report by Professor Mike Danson and Geoff Whittham at the University of Paisley.<sup>38</sup>
- 4.6 It argued that the current system of local government finance is unable to deliver service improvements in such a way that is effective, efficient and equitable<sup>39</sup>
- 4.7 The report also argued that the Council Tax is a regressive tax which should be replaced with a more progressive form of taxation linked to an individual’s ability to pay.
- 4.8 It then set out the case for a new system of taxation which would “assist the growth of the economy; be a progressive tax; assist in the reduction of poverty.
- 4.9 Although the Scottish Parliament did not adopt the Bill proposal from Tommy Sheridan, the subject was debated in the Parliament on 30<sup>th</sup> March 2000, on 8<sup>th</sup> February 2001, on 24<sup>th</sup> January 2002, on 30<sup>th</sup> January 2003 and on 11<sup>th</sup> March 2004.

---

<sup>37</sup> See Scottish Parliament spice briefings 00/25 and 02/07

<sup>38</sup> Danson, M & Whittham G *Time for Redistribution of Income: The Case for a Scottish Service Tax February 2000*

<sup>39</sup> *ibid* page 2

## 5. Investigations, Reports and Opinion

### Scottish Reports and Commissions

5.1 The Commission on Local Government and the Scottish Parliament (McIntosh Commission)<sup>40</sup> in 1999 noted:

“that an independent enquiry into local government finance should be instituted immediately”.

5.2 This call was rejected at that time by the Scottish Executive. Despite this, in 2000 the Scottish Parliament’s Local Government Committee backed the call for an independent review of local Government Finance.<sup>41</sup>

5.3 The Local Government Committee itself then embarked into a review of the strengths and weaknesses of the current system of local government finance in Scotland.

### Local Government Committee investigations and report

5.4 The Local Government Committee (LGC) decided in June 2000 to hold an inquiry into local government finance. Amongst the topics it considered were: the balance between the central and local funding of council’s revenue budgets; the Council Tax; other sources of local tax income.

5.5 It sought witnesses and deliberated then reported on 20<sup>th</sup> March 2002.<sup>42</sup>

5.6 The LGC’s conclusions on local finance were that the present high level of central funding blurs local accountability. It considered changes to Local Government responsibilities e.g. transferring financial responsibility for Education and social work expenditure to the Executive, however, it rejected such changes.

5.7 The LGC also noted that a 1% increase in local spending results in 5% increase in Council Tax and for councils with a low Council Tax base an even higher increase in Council Tax would result.

5.8 The LGC took the view that the Council Tax was “sound”, but that “if it were to remain so properties need to be revalued on a regular basis”.

The LGC recommended that period should be every 10 years.

---

<sup>40</sup> Moving forward Local Government and the Scottish Parliament, June 1999 HMSO

<sup>41</sup> Local Government Committee Third Report, *Issues arising from the McIntosh report 2000*

<sup>42</sup> Local Government Committee Sixth Report 2002 – Report on inquiry into Local Government Finance.

- 5.9 The LGC also recommended that the revaluation should be accompanied by a review of banding arrangements.

“New bands should be added at both the upper and lower ends of the existing valuation range, and the Council Tax should be made more progressive by changing the relationship between the bands”.

It also recommended that Council Tax should be charged in full on second homes.

- 5.10 The LGC proposed (unspecified) transitional arrangements to smooth the introduction of the changes and also the retention of the Council Tax Benefit Scheme.<sup>43</sup>
- 5.11 The LGC also concluded that Local Government could not adequately fund itself by Council Tax alone, but must be given an additional source of taxation. They recommended the return of Non Domestic Rates to local authority control.
- 5.12 The Executive chose not to present proposals for the reform of Local Government following the LGC report, but has indicated that following consultation with Cosla, it will set up an Independent Review into Local Government Finance.<sup>44</sup> At the time of writing, the Executive has not appointed members of this review.

### **Evidence presented to the LGC**

- 5.13 Cipfa<sup>45</sup> in its evidence on Council Tax, pointed out that any revaluation would inevitably need to be accompanied by a revision of bands otherwise a wide range of properties would fall into a single band.
- 5.14 Glasgow Council noted that around 75% of its houses were in the lower bands and less than 0.5 per cent were in the top band. If revaluation took place,
- “prices will have risen by 20 per cent above average in Edinburgh, for example. In Glasgow, the value of houses will have risen by 20 per cent below average”
- 5.15 Research was commissioned by the committee from Heriot-Watt University. This concluded that there had been an increased diversity in house prices between councils since 1991.
- 5.16 If a revaluation were carried out, this would require a major redistribution between Local Authorities, of the support grant from the

---

<sup>43</sup> Ibid Volume 1 Summary of Conclusions and recommendations para (x)

<sup>44</sup> the Scottish Executive Draft Budget 2004/05 – chapter 11, objective 1 target 5.

<sup>45</sup> Chartered Institute of Public Finance Accountants



Scottish Executive. If this did not happen, then there would be a significant widening in the range of Council Tax charges across the country.<sup>46</sup>

- 5.17 Argyle and Bute Council and Professor Stephen Smith (university college London) advocated the introduction of a Local Income Tax in Scotland.
- 5.18 Professor Smith noted that at present the Inland Revenue has little need to know accurately the address of taxpayers. Its information can be out of date or non-existent. With local income tax there would require to be an accurate database to ensure receipts went to the correct local council.
- 5.19 Professor Smith pointed out that local authorities have “different resource bases - in the form of residential property – quite independently of spending needs”. In consequence if no allowance were made for that local authorities would have “to levy substantially different council tax rates.”
- 5.20 The system of Grant Aided Expenditure (GAE) developed by the Scottish Executive, seeks to ensure that based on some standard level of expenditure “all local authorities are able to levy the same rate of taxation.” However, the mechanisms for determining these standard levels of expenditure “may bias GAEs in favour of certain classes of authority.”

### **Comments on the LGC Evidence and Conclusions**

- 5.21 The main LGC conclusion which the proposer would challenge is their decision to retain the Council Tax in any form.
- 5.22 Starting from that viewpoint then decisions to charge the full rate on second homes and to widen the bands seem sensible.
- 5.23 Such tinkering will not overcome the problem that the value of the home that people live in is largely unrelated to peoples’ ability to pay.
- 5.24 These changes would not affect the complex nature of the Council Tax Benefit scheme, nor the huge numbers of eligible people who do not claim benefits.
- 5.25 They would not affect the gearing factor whereby a 1% increase in spending unfunded by the government results in an over 5% rise in Council Tax.

---

<sup>46</sup> Ibid Volume 2 para 43

- 5.26 They would not affect the high cost of collecting Council Tax, the processing delays, the level of arrears and the percentage never collected.
- 5.27 The proposal for frequent revaluation of properties, (and regular rebanding?) would tie local government income more closely to the vagaries of the property market. Given the uncertainties of the valuation process, the different property values between authorities, combined with gearing effects, greater divergence in Council Tax rates between authorities would be inevitable. This will require increased intervention from the Scottish Executive by way of regular redistribution of the GAE in an attempt to protect vital services. Indirectly therefore these proposals would reduce the autonomy of Local Authorities and their ability to effectively forward plan.

### The Balance of Funding Review

- 5.28 The Westminster Government has embarked on a review of funding of Local Government in England and Wales. It intends to complete this Balance of Funding Review by summer 2004.<sup>47</sup> Its remit is to “consider a range of short and long term options for changing the current balance of funding”
- 5.29 The aim is to have local authorities raise more of their funds locally. Amongst submissions to the review there were options to reform the council tax; make non domestic rates local; introduce a local income tax; a local sales tax; a local land value tax.
- 5.30 The Local Government minister (for England) Nick Raynsford was quoted<sup>48</sup> as agreeing that Local Income Tax “is one of three front runners” in the balance of funding review group.
- 5.31 The suggestions of reform of the Council Tax mirror those to the LGC. Some suggested limiting the amount to be raised from Council Tax and combining it with a Local Income Tax, other submissions argue that any property tax is unfair and want it abolished.<sup>49</sup>
- 5.32 The report notes **“that most responses want consideration of LIT (local income tax) in some form.”** The forms mentioned include: “variable LIT” (set by Local Authority); “assigned LIT” (rate set nationally); “regional income tax” (set for major regions).
- 5.33 Amongst recent submissions to the review Cipfa<sup>50</sup> looks at the case for a Local Income Tax and considers both ‘assigned’ and ‘variable’

---

<sup>47</sup> Balance of Funding Review – Paper 12 areas for further examination – October 2003 Office of the Deputy Prime Minister.

<sup>48</sup> Guardian 23<sup>rd</sup> October 2003

<sup>49</sup> Balance of Funding Review paper 12 page 5 and 6.

<sup>50</sup> Reviewing the Case for a Local Income Tax – Chartered Institute of Public Finance and Accountancy 4<sup>th</sup> March 2004

LIT. It also considers whether LIT should supplement or replace the Council Tax.

### The Cipfa submission to the Balance of Funding Review

5.34 The Cipfa summarised findings are:

- a) **A Local Income Tax would produce savings in the tax collection costs.** Depending on the model adopted these could amount to **£500 million**. If however, Local Authorities rather than the Inland Revenue collected LIT there would be additional costs, as opposed to savings of £1,500 million.
- b) Savings would be greatest with a nationally set rate rather than a variable rate set by local councils.
- c) **Adding LIT to the Council Tax would increase overall tax collection costs by £230 to £270 million per annum.** (NB these figures in a) and c) relate to England.)
- d) If LIT was set by local Authorities, rates could vary between 3.2p and 6.5p across England.
- e) The advantages of LIT are that it would:
  1. be capable of shifting balance of funding towards Local Authorities;
  2. be more progressive than the council Tax;
  3. would better reflect the state of the economy;
  4. cost less to collect.
- f) The disadvantages of LIT are that it would:
  1. be less predictable as to how much would be collected;
  2. add to the burden of employees in preparing PAYE<sup>51</sup>;
  3. complicate year end assessments of tax (depending on scheme introduced);
  4. take time to properly prepare;
  5. place greater demands on the need for resource equalisation between areas.
- g) **The groups that would gain most from LIT replacing Council Tax would be: lower income groups, particularly pensioners; single parent families; households with dependents.**
- h) The groups that would gain least from LIT replacing Council Tax would be: single employed persons; households with at least 2 earners.

---

<sup>51</sup> the paper also considers a number of approaches which could minimise this impact.

- i) In general the effect on families with children where both parents were earners would be neutral.<sup>52</sup>
  - j) Local Income Tax is perceived as a Progressive as opposed to a regressive tax and is perceived as a fairer tax.
- 5.35 Cipfa noted that many of the difficulties previously believed to exist regarding LIT had now been addressed. The main remaining issue was the lack of a database of residence and the ability to relocate cash between authorities when residence changed.
- 5.36 In considering the time to introduction, Cipfa believes that an LIT could be introduced within 2 years of legislation. It notes that due to residence issues it would be easier to introduce it across the UK including in Scotland at the same time. Indeed it says “it is questionable whether it would be possible to implement LIT in one country and not another”.<sup>53</sup>

#### **Comments on submissions to the Balance of Funding Review**

- 5.37 The proposer notes that in contrast to the submissions to the Local Government Committee, most submissions to the Balance of Funding Review favour the introduction of some form of Income Based Tax.
- 5.38 The Cipfa report makes clear that replacing the Council Tax with an income based tax is a practical option.
- 5.39 Cipfa state a LIT would:
- a. be capable of shifting the balance of funding towards Local Authorities;
  - b. be more progressive than the council Tax;
  - c. would better reflect the state of the economy;
  - d. cost less to collect.
  - e. benefit lower income families particularly pensioners, single parent families and households with dependents.
- 5.40 A tax collected centrally by the Inland Revenue would be cheaper than one collected by local authorities.
- 5.41 The options for setting, distribution, administration and timescale for introducing an income based tax, require detailed consideration in a Scottish context and responses relating to these matters will be welcomed. (see Section 6)**

---

<sup>52</sup> Cipfa page 5

<sup>53</sup> Cipfa page 33.

## Other Opinions and developments

- 5.42 The Liberal Democrats in England are waging a campaign to have the Council Tax replaced by a Local Income Tax.<sup>54</sup> On 13<sup>th</sup> January 2004, the Scottish Liberal Democrats' local government spokesman was quoted<sup>55</sup> as giving full backing to that campaign.
- 5.43 The Local Government Association, in England, which represents councils led by all parties, argued<sup>56</sup> that the present council tax system is unfair “because it is not related to people’s incomes and that voters cannot see a clear connection between local taxes and local spending”. They proposed either a portion of income tax to be assigned to local councils or for a LIT.
- 5.44 The Scottish National Party in March 2004 launched a policy to replace the Council Tax with a Local Income Tax.
- 5.45 In his March 2004 budget, the chancellor has given pensioners a one off £100 to help them cope with Council Tax.

## International

- 5.46 Variations of local income tax operate in several European countries, including Norway, Finland, Switzerland and Sweden, as well as in Canada and some American states.
- 5.47 Swedish Local Government taxes at 2 levels, Municipal and County level. In 2001 the Municipal tax was 20.51% on average and County Tax level was 10.02% on average after allowances, 30.53% in total. The range was between 26% and 35%. State income tax which is only charged on taxable incomes above around £20,000 was an additional 20% and rises to 25% on higher incomes. Thus the bulk of income tax is set locally.<sup>57</sup>
- 5.48 A commentary on the Swedish system submitted to the Balance of Funding review<sup>58</sup> notes that the present Swedish system was set up in 1991 and is currently under review. It notes that the state income tax is used to redistribute cash to poorer regions and local authorities and that this gives rise to discontent from wealthier areas. It states that “there is no suggestion that the local income tax system of financing local government should be changed. Both the government and the local authorities are happy with the current arrangement and it enjoys a high level of public support.”

---

<sup>54</sup> [www.axethetax.org.uk](http://www.axethetax.org.uk)

<sup>55</sup> Scotsman 13<sup>th</sup> Jan 2004

<sup>56</sup> BBC News 15<sup>th</sup> January 2004

<sup>57</sup> [www.sweden.se](http://www.sweden.se) figures relate to 2001.

<sup>58</sup> Local Income Tax in Sweden: reform and continuity. John Loughlin and Steve Martin, Cardiff University February 2004.

## **Investigations Reports and Opinion – Key Facts**

- 5.49 Between 2000 and 2002 the Local Government Committee of the Scottish Parliament considered Local Government Finance and recommended reform of the Council Tax by extending and, revaluing properties and charging second homes in full.
- 5.50 The Scottish Executive chose not to act on these proposals and has pledged to set up an independent review into Local Government Finance, however, at the time of writing the members of the review have not been appointed.
- 5.51 A number of those giving evidence to the Local Government Committee supported a Local Income Tax.
- 5.52 The Westminster Government has established a balance of funding review into Local Government finance and is considering a Local Income Tax as one of its options. Most respondents “want consideration of LIT in some form”.
- 5.53 CIPFA in its submission stated that most of the difficulties regarding LIT had now been addressed and that it could be introduced within 2 years of legislation. The groups that would gain most from LIT replacing Council Tax would be: lower income groups, particularly pensioners; single parent families; household with dependents.
- 5.54 CIPFA noted that LIT would be more progressive than the Council Tax and would cost less to collect provided collection was carried out by the Inland Revenue. Annual savings across England, Scotland and Wales could be up to £500 million.
- 5.55 Both the Liberal Democrats and the SNP now support replacing the Council Tax with a form of Local Income Tax.
- 5.56 A number of other countries, notably Sweden have introduced Local Income Taxes. Both central and local government in Sweden are happy with its working.

## **6. The Proposal to Replace the Council Tax with an Income Based Tax**

### **The Proposal and Options**

- 6.1 It is our intention to introduce a Bill to replace the Council Tax with an Income based tax. The reasons for replacing the Council Tax are described above. This section considers the options relating to the framing of the Bill.
- 6.2 Amongst those who support this proposal, there are different views about whether:
- a) The tax levels should be set: by local authorities; nationally by the Scottish Parliament; or set by local authorities after an initial 3 years to allow for GAE to be reallocated fairly.
  - b) The tax free allowances should match Income Tax or be raised to a higher level.
  - c) There should be a more progressive element whereby higher paid taxpayers pay a higher rate of tax.
  - d) The tax should be capped at £100,000 income.
  - e) The tax should be collected by the Inland Revenue or by Local Authorities.
  - f) The tax revenue should be allocated strictly to the Local Authority wherein the person stays.
- 6.3 In the light of Cipfa's comments that collection by Local Authorities would cost an additional £1,500 million (in England, estimate £120 million in Scotland), it is proposed that collection of the Tax would be carried out by the Inland Revenue.
- 6.4 The options set out in 6.2, can broadly be summarised as: differences over the tax bands; differences over the setting mechanism; differences over the distribution mechanism.
- 6.5 These differences can best be understood by describing the proposals of 3 parties who all back replacing the Council Tax with an Income Based Tax.

### **Liberal Democrats – Local Income Tax**

- 6.6 In January 2004 Charles Kennedy set out the Liberal Democrat alternative to the Council Tax and this was subsequently backed by the Scottish Liberal Democrats.
- 6.7 The proposal is for Local Authorities to set their rate for income tax and for the Inland Revenue to collect the tax on their behalf.

- 6.8 The Tax would be introduced with a tax free personal allowance of £5,000 for a single person (as opposed to £4,615 for National income tax in 2003/04) and £7,000 for pensioners (as opposed to £6,610 for National Income Tax 2003/04).
- 6.9 All other income would be subject to local income tax, except income over £100,000. Income over £100,000 will be free of local income tax. A nationally set higher rate of tax would be used to “reduce the average LIT rate for the less well off.”<sup>59</sup>
- 6.10 The Liberal Democrats estimate that on average across England, Wales and Scotland, the rate would average 3.75p in each £, however, each local authority would be free to set its own rate.
- 6.11 The Liberal Democrats proposals for tax free allowances and upper limits would cut across existing income tax bands, however, these new supplementary tax bands would be set nationally. Although the Liberal Democrats at Westminster will argue for legislation across the UK and for tax bands to be set by Westminster, it is assumed that if they were backing a change through the Scottish Parliament they would support tax bands being set by the Scottish Parliament.
- 6.12 All money collected from each local authority area would be distributed to the local authority.

### **SNP – Local Income Tax**

- 6.13 The SNP launched a proposal for a Local Income Tax in February 2004.<sup>60</sup>
- 6.14 The proposal is for Local authorities to set their rate of income tax and for the Inland Revenue to collect the tax on their behalf.
- 6.15 The Tax would be based on the basic rate of income tax which would give a tax free allowance for a single person of £6,575 (in 2003/04) and £8,620 for a pensioner.
- 6.16 All other income would be subject to local income tax, including income over £100,000.
- 6.17 The SNP estimate that the rate would average 4.3p in each £ across Scotland, however, each local authority would be free to set its own rate.
- 6.18 Although no new tax bands would be created, the SNP proposal would affect both standard and higher rates of tax.

---

<sup>59</sup> [www.axethetax.org.uk](http://www.axethetax.org.uk) annex 2.

<sup>60</sup> SNP policy unit, proposals for a Local Income Tax, Saltire Paper 02/04.



- 6.19 All money collected from each local authority area would be distributed to the local authority.

### **SSP – Scottish Service Tax**

- 6.20 The SSP launched its proposal for a Scottish Service Tax in February 2000 and revised the proposed tax bands in 2002.
- 6.21 The proposal is for an Income Tax rate to be set nationally by the Scottish Parliament and for the Inland Revenue to collect the tax on their behalf.
- 6.22 The Tax would be based on a new set of Tax bands which would give a tax free allowance for both a single person and a pensioner of £10,000 (in 2003/04).
- 6.23 All other income would be subject to the Scottish Service Tax, with higher tax bands on income above, £30,000, £50,000 and £90,000.
- 6.24 The SSP estimate the rate across Scotland for income between £10,000 and £30,000 would be 4.5p in each £. Higher rates would be 15p, 18p and for income over £90,000 20p in the £. The rate would be the same across all authorities and would be set by the Scottish Parliament.
- 6.25 The above new tax bands would be set by the Scottish Parliament.
- 6.26 Money collected from each local authority would be pooled and distributed to each authority on the basis of a needs assessment in the same manner as GAE.

### **Could the SSP, SNP and Lib Dem proposals form the basis for a Bill?**

- 6.27 The proposals from all 3 parties would repeal the provisions relating to Scotland in the Local Government Finance Act 1992.
- 6.28 All 3 proposals require new tax bands to be set and rules relating to how tax should be calculated, and hence the power to instruct the Inland Revenue in relation to Scottish Local Government Taxation rules. Although the Inland Revenue is a UK Government agency, the Scottish Parliament has the power to vary the standard rate of tax and thus indirectly alter Inland Revenue rules. It is assumed that should the Scottish Parliament exercise its powers to alter Local Government Taxation, the UK Government would facilitate the Inland Revenue acting as agents of the Scottish Parliament in this regard. **We would welcome evidence of analogous arrangements and information on the mechanisms by which these arrangements were entered into.**

- 6.29 According to Cipfa were a LIT introduced across England, Scotland and Wales, there would be no additional costs in collecting the tax on an agency basis for a Nationally set Tax and between £120 million and £260 million collection costs for a LIT where Local Authorities set the rate.<sup>61</sup> **We would welcome information on the likely agency costs of the Inland Revenue administering a LIT in Scotland.**
- 6.30 A Bill would include the proposal that the Inland Revenue be assigned as agents for the Scottish Parliament and it would grant powers to Scottish ministers to negotiate an agency fee.
- 6.31 Repeal of sections of the Local Government Finance Act 1992 would also repeal the provisions for Council Tax benefits to be paid. Clarification will be required from the Department of Works and Pensions, the Treasury and Scottish Ministers whether the cancelling of these benefits will be treated as a reduction of Government Expenditure in Scotland which would be partially recoverable from the Barnett formula or whether the entire existing amount will continue to be part of the Scottish Budget. **We would welcome information and opinion on this issue.**

## Tax Bands

- 6.32 There are differences between the 3 parties' proposals on the level of tax free allowances, whether pensioners require a different level of tax free allowances, whether additional tax bands are required for higher levels of income and whether there should be a cut off level above which no further tax is paid. These differences are no greater than can be accommodated by Stage 2 amendments. Ultimately the proposal with most support would be adopted.
- 6.33 Appendix 2 sets out how each of the proposals would affect different types of households. Under each of the proposals, the poorest households would pay less than under the Council Tax.
- 6.34 In drafting a Bill there is a requirement to start with a clear proposal which may subsequently be amended. At this stage it is proposed to frame the Bill around the SSP proposals, namely that there be 4 tax bands set at over £10,000 income, over £30,000, over £50,000 and over £90,000.
- 6.35 Implicit within the SSP proposals for multiple tax bands is the view that the tax should charge higher income individuals a larger proportion of their salary. That would ensure that families on an average income paid less and wealthier families paid more. Both the SNP and the Liberal Democrats propose a flat rate on taxable income. The Liberal Democrats would limit the tax to income below £100,000, with the assumption (which would not necessarily apply in

---

<sup>61</sup> Cipfa *ibid* page 45

a Scottish context) that a higher tax band would nationally apply to income over £100,000. **We would welcome opinion on whether the form of tax introduced should allow for persons on higher incomes to pay tax at a higher rate than persons on average earnings. We would also welcome opinion on whether the SSP suggested higher rates of 15%, 18% and 20% are deemed reasonable and opinion on the appropriate tax bands.**

### **A Locally or Nationally Set Tax**

- 6.36 The second area of disagreement is whether the levels of tax should be set by the Scottish Parliament or by Local Authorities.
- 6.37 The SSP has proposed that the tax rate(s) should be set by the Scottish Parliament and would apply across Scotland. The SNP and the Liberal Democrats both insist that the tax rate(s) should be set by Local Authorities.
- 6.38 The SSP hold the view that families on the same income in different parts of Scotland should have access to equivalent services from their Local Authority and should pay the same tax. Under the Council Tax, families on the same income and in similar housing paid widely different levels of tax. This is one of the main deficiencies of the Council Tax.
- 6.39 Although GAE is used to reallocate resources to areas of greater need, the Local Government Committee heard evidence that in its application, this disadvantages certain groups of local authorities.
- 6.40 Cipfa indicated that if all money collected by a Local Authority was spent by the local authority, then in order to ensure current levels of expenditure, a Local Income Tax could vary between 3.2p and 6.5p across England. As a detailed analysis of income levels between residents of different Scottish Local Authorities is not available, it is assumed that a similar range of tax could occur in Scotland. The SSP believe that it would be unacceptable for families on the same income to pay twice as much in tax simply as a result of which local authority they stayed in.
- 6.41 If the tax were set nationally at suitable tax levels, then each local authority could be provided with the same amount of income they would have received from the Council Tax irrespective of the actual income from their area. In effect in year 1, the income tax from their locality would be added to an adjusted GAE and distributed in such a manner as to ensure no service cuts.
- 6.42 According to Cipfa, an assigned rate of tax set nationally would cost less to collect and would be quicker to establish on the Inland Revenue systems. This could result in the tax being introduced earlier

than with a locally set rate. **We seek information on likely costs and timescales for establishing a nationally set rate.**

- 6.43 Once the expected levels of tax raised from each authority had been established, the distribution of GAE could be adjusted so that each authority received at least as much income from GAE plus Income Tax as it previously had from Council Tax plus GAE. This would ensure that no authority had to cut services as a result of the introduction of the new tax. It would also ensure that each authority received the tax raised from their area. The proposer believes this would meet the competence criteria of the Scotland Act of “Local taxes to fund local authority expenditure”. It would also meet the SSP requirement for an equivalent level of service and an equivalent level of tax across all local authorities.
- 6.44 One argument raised, against a nationally set rate, is that it could exceed the powers of the Scottish Parliament. However, Business Rates are a local government tax which are set, collected and distributed by the Scottish Parliament. The Scottish Parliament has the power to give local authorities back tax setting powers over Business Rates. The SSP believe this sets a precedent for establishing a National tax rate. **We welcome information and opinion, especially legal opinion, on this point.**
- 6.45 The main argument for local authorities setting the tax rate is that local authorities must be seen to be responsible for raising and spending their income in accordance with their service requirements. In fact the lack of resources available to local authorities was the main background to both the Local Government Committee hearings and the Balance of Funding Review.
- 6.46 This argument is very powerful as is the argument that a new tax must be seen to be equitable across the country.
- 6.47 There are 3 options for inclusion in the Bill: the tax rate is set by the Scottish Parliament and not local authorities; the tax rate is set by Local Authorities from year 1; the tax is set by the Scottish Parliament for a predetermined number of years, say 5 years, and thereafter is set by local authorities. **We seek opinions and evidence for or against each of these positions. We also seek opinion and evidence on the transitional and long term impact on local authorities of each option.**

### Other Options

- 6.48 Given the shortage of affordable housing in rural areas, there is an argument that Council Tax or a similar replacement should be charged on second homes and holiday homes even if Council Tax is abolished for primary residences. **We seek opinion on whether**

**continuing a form of tax on second homes and holiday homes is desirable and if so what form the tax should take.**

- 6.49 When the Poll Tax was abolished, collection of arrears continued and Poll Tax debt is still enforceable. Many people in Scotland still fear to register to vote for fear of attracting warrants for Poll Tax debt. Many people have called for an amnesty on Poll Tax debt. Should the Council Tax be abolished, there is a case for an amnesty on Council Tax debt. **We seek views on whether Poll Tax debt and / or Council Tax debt should be the subject of an amnesty and if so the period after which the amnesty should come into force. We also seek opinion on any practical or legal implications of such a move, and which agencies and the number of staff in these agencies who would be affected.**

#### **Staff affected, costs and timescales**

- 6.50 Cipfa estimates that depending on the options adopted above, there could be savings or a small increase in costs to the Inland Revenue from the new Tax. Their submissions were largely based on English figures. **We would welcome submissions providing information on the effect of the proposals on the Inland Revenue costs and staff in Scotland. We would also welcome information on the Inland Revenue's estimated timescale to prepare for the new tax and whether that timetable would be altered were different options adopted.**
- 6.51 Cipfa estimates that there would eventually be significant savings to Local Authorities resulting from abolishing the Council Tax. Many of these savings will result from removal from councils of responsibility for collecting Council Tax, processing Council Tax Benefit claims and pursuing new arrears of Council Tax. Staff will still be required to process Housing Benefit claims. The number of staff required will also be affected by whether those in Council Tax arrears and Poll Tax arrears are granted an amnesty and whether Council Tax or a replacement continues to be charged on second homes and holiday homes.
- 6.52 In order to minimise the effect on staff, it would be desirable to retrain the staff affected in other areas either in Local Government, the Inland Revenue or other areas of public service. The SSP also believe that staff affected should not suffer financially as a result of these changes. **We would welcome submissions providing information on the number of staff likely to be affected by the proposal to abolish the Council Tax, the number who could be readily retrained into other similarly paid employment, the timescale over which this relocation could take place, costs associated with retraining and relocation and eventual savings which may result. We also seek opinion and information on how**

**to ensure that best practice is adopted by Councils or Cosla in negotiating with and providing for affected staff.**

- 6.53 It is likely that other agencies such as courts, sheriffs officers and debt collecting firms will be affected by the removal of Council Tax and associated debt from poorer families. **We would welcome information and estimates of the number of such staff affected, any savings which may result and opinion as to whether action is required to deal with the consequences.**
- 6.54 The proposed change is anticipated to have a positive economic effect on poorer communities and contribute to anti poverty measures and social inclusion initiatives. It has also been suggested that it could positively aid moves towards equal opportunity for women. **We seek information, estimates and opinion in relation to these economic and social consequences.**

## **The Proposed Bill – Key Facts**

- 6.55 The proposal is to introduce a Bill to replace the Council Tax with an Income based Tax. The Bill will:
- a) Include the proposal that the Inland Revenue be assigned as agents for the Scottish Parliament and it would grant powers to Scottish ministers to negotiate an agency fee.
  - b) Repeal the Local Government Finance Act 1992 insofar as it relates to Scotland, including those sections relating to Council Tax Benefit.
  - c) Specify rules relating to the income levels above which tax will be paid and specify whether pensioners will have a higher tax free amount.
  - d) Specify any additional tax bands at which a higher rate tax will be payable or above which no additional tax will be paid.
  - e) Specify who will set the Tax, the Scottish Parliament or Local Councils or the former for a transitional period, thereafter the latter.
  - f) Be accompanied by guidelines on grant allocation and local tax distribution to authorities to ensure that each Local Authority would be able to maintain services during any transitional period.
  - g) Be accompanied by a request to the Scottish Executive to establish in discussions with the DWP and Treasury the financial impact if any of repealing the Council Tax Benefit system
  - h) Be accompanied by measures designed to ameliorate the impact on staff affected by the proposals.
  - i) Include such additional measures regarding tax on holiday homes and amnesty on Poll Tax and Council Tax debt as are deemed appropriate following consultation.
- 6.56 It is intended that the detail in c), d) and e) above will be the subject of discussion between supporters of the principles of the Bill to determine the wording of a bill which will receive maximum Stage 1 support, whilst allowing proponents of the SSP, SNP and Lib Dem schemes the ability to move amendments to determine support for their scheme at stage 2. **We welcome information, opinion or contributions on this matter.**

## **Appendix 1 Questions for respondents**

- A1.1 How should the proposed new income tax be collected?
- A1.2 We would welcome information on the likely costs of collection.
- A1.3 Are there any other issues regarding collection?
- A1.4 Should the new income tax rate be set nationally or locally? Please give reasons.
- A1.5 Are there any other issues regarding setting the rate?
- A1.6 What rates and bands should be set for low/average/high earners?
- A1.7 What is the minimum threshold of income below which tax payers would be exempt from paying the new income tax?
- A1.8 How should it be calculated?
- A1.9 How would abolition of council tax affect local authority staff?
- A1.10 How would abolition of council tax affect other agencies?
- A1.11 What should be done about Council Tax and Poll Tax debt?
- A1.12 We welcome any other information or comment on the issues raised in this consultation.



## Appendix 2 How the Proposal will affect Households

The following information is extracted from research carried out by the Scottish Parliament Information Centre. It was specifically aimed at contrasting the Council Tax with the SSP Scottish Service Tax proposals, however, it also contrasts the SSP proposals with the SNP proposal for Local Income Tax. It aims to ascertain:

1. The proportions of households in different income bands which would pay more (or less) under the Scottish Service Tax proposals than under the Council Tax based on one scenario and a set of assumptions.
2. An assessment of the total revenue accruing from the Scottish Service Tax based on a set of assumptions.
3. The impact of the Scottish Service Tax using the case study examples recently set out in the SNP paper on Local Income Tax
4. The effect of the Scottish Service Tax on a range of occupations.

**TABLE ONE – AVERAGE ANNUAL SCOTTISH COUNCIL TAX LEVELS, BY BAND, 2004-05**

Council Tax Band	Average Scottish Council Tax Due, £, p.a.
Band A	702
Band B	819
Band C	936
Band D	1,053
Band E	1,287
Band F	1,521
Band G	1,755
Band H	2,106

Source: Based on data from the Scottish Executive (2004) '[Band D Council Tax Levels 1996-97 to 2004-05](#)'.

Data relating to the proportion of households in each council tax band and by income band are based on the answer provided by Tavish Scott MSP in response to PQ S2W-3285. This data is presented in Table Two.

**table two - % of Households by council tax and income band - Gross Household Income Excluding Council Tax Benefit (£ per week)**

	Up to 150	to 150 to 300	to 300 to 450	to 450 to 600	to 600 to 750	to Over 750	Total
Band A	32	42	12	7	4	3	100
Band B	20	36	20	12	6	6	100
Band C	13	26	21	17	12	11	100
Band D	8	21	20	17	15	20	101
Band E	6	14	15	13	17	34	99
Band F		13	11	14	15	47	100
Band G & H		9	9	10	10	62	100

Source: Response to PQ S2W-3285 (9<sup>th</sup> December 2003)

Data on the number of chargeable dwellings by council tax band is available from the Scottish Executive and has been reproduced in Table Three below.

**Table Three – Chargeable Dwellings by Council Tax Band, 1 September 2003**

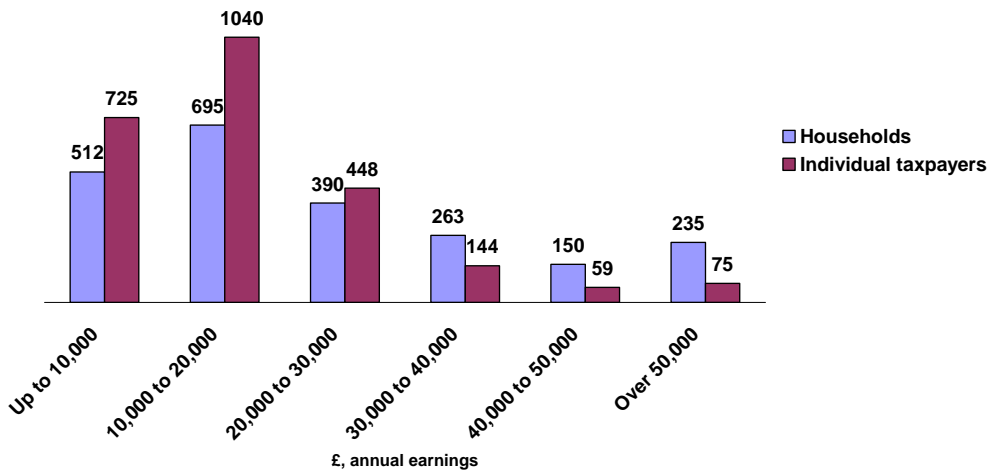
	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Number of dwellings	543,463	561,534	355,766	276,136	280,646	143,233	94,643	10,401
% of total dwellings	24.0	24.8	15.7	12.2	12.4	6.3	4.2	0.5
Source:	Scottish	Executive	(2003)	–	Available			at:
	<a href="http://www.scotland.gov.uk/about/CSU/DD-EAS-LG/00016945/refdata_ctax.aspx">http://www.scotland.gov.uk/about/CSU/DD-EAS-LG/00016945/refdata_ctax.aspx</a>							

It is important to note that many of the calculations in this paper are based upon household income figures as opposed to earnings.

Figure One illustrates the relationship between the number of individual taxpayers by income band compared to the number of households by income band. The graph indicates that there are 2.3m households and 2.5m income earners. Figure One also indicates that there are more low income taxpayers than low income households, but more high income households than high earning individual taxpayers. Figure One also suggests that the average Scottish household tends to contain one income earner.

**Figure One - Comparison of income bands for households and individual taxpayers (thousands)**

(source DWP for households and Inland Revenue for individuals)



**SCENARIO ONE – ASSUMING THAT ALL HOUSEHOLD INCOME IS TAXED ON THE BASIS OF BEING ONE INDIVIDUAL’S INCOME UNDER THE SCOTTISH SERVICE TAX AND COMPARING THAT TO CURRENT PAYMENT RATES IN COUNCIL TAX**

This scenario assumes that a household income is taken as one income and taxed as such under the Scottish Service Tax. Income levels have been obtained by taking the mid-point in the income bands and multiplying the mid-point by 52 in order to obtain an annual income. For example, the £150 to £300 per week band has a mid-point £225 giving an annual household income of £11,700.

The exceptions to this are the ‘up to £150’ income band where a mid-point of £100 has been taken and the ‘over £750’ income band where a mid-point of £825 has been used. The Council Tax payment of a household is subtracted from the SST payment of a household and the result of these calculations are provided in Table Four. **The figures in bold, in Table Four, highlight households which would pay more in SST than these households currently are charged in Council Tax.**

**Table four – Scottish service tax payments minus council tax payment : Household income by council tax and income band – scottish average Gross Household Income Excluding Council Tax Benefit and council tax discounts (£ per week)**

Council Tax Band	Income Bands (weekly and annual average)					
	Up to £150 / £5,200	£150 to £300 / £11,700	£300 to £450 / £19500	£450 to £600 / £27300	£600 to £750 / £35100	Over £750 / £42900
Band A	-702.00	-625.55	-274.59	<b>76.37</b>	<b>962.72</b>	<b>2,132.57</b>
Band B	-819.00	-742.55	-391.59	-40.64	<b>845.72</b>	<b>2,015.57</b>
Band C	-936.00	-859.55	-508.59	-157.64	<b>728.72</b>	<b>1,898.57</b>
Band D	-1,053	-976.55	-625.59	-274.64	<b>611.72</b>	<b>1,781.57</b>
Band E	-1,287	-1,210.55	-859.59	-508.64	<b>377.72</b>	<b>1,547.57</b>
Band F	-1,521	-1,444.55	-1,093.59	-742.64	<b>143.72</b>	<b>1,313.57</b>
Band G	-1,755	-1,678.55	-1,327.59	-976.64	-90.28	<b>1,079.57</b>
Band H	-2,106	-2,029.55	-1,678.59	-1,327.64	-441.29	<b>728.57</b>

It is important to note that the 25% Council Tax discount available to one person households and various benefit payments (including council tax benefit) is not factored into these calculations. We consider that the average Scottish household consists of one income earner and two individuals eligible for the council tax is probably the closest set of assumptions to the ‘statistical reality’ given the data available.

Table Five displays the proportion and number of households paying more and less under the SST than currently under the Council Tax. **In total 619,004 households or 27.32% of all households, based on the assumptions in this model, would pay more under the SST than under the Council Tax. Conversely, 1,646,818 or 72.68% of households would pay less under the SST than they currently pay in council tax.**

**TABLE FIVE – OUTCOMES FROM SCENARIO ONE**

Council Band	Tax	Paying more under SST		Paying less under SST	
		% of Band	Number of Households	% of Band	Number of Households
Band A		14%	76,085	86%	467,378
Band B		12%	67,384	88%	494,150
Band C		23%	81,826	77%	273,940
Band D		35%	96,648	65%	179,488
Band E		51%	143,129	49%	137,517
Band F		62%	88,804	38%	54,429
Band G		62%	58,679	38%	35,964
Band H		62%	6,449	38%	3,952
All Bands		27.3%	619,004	72.7%	1,646,818

## ASSESSING THE OVERALL TAX REVENUE ARISING FROM THE IMPLEMENTATION OF THE SCOTTISH SERVICE TAX

Using the assumptions outlined in Scenario One I have calculated the total tax revenue of the SST by council tax band and income band using the data detailed in Tables Two and Three. **This indicates that the total tax take from the SST would be £1,847,633,321 or £1.85bn.** In 2003/04 CIPFA calculated the total sum to be collected by Scottish local authorities in council tax to be £1,833,221,000 or £1.83bn. The difference between these figures is +£14,412,321 or £14.4m. This represents a total tax take which is +0.79% higher than that collected under the Council Tax suggesting that the assumptions detailed in Scenario One provide a reasonable fit with reality.

Table Seven shows that, based upon the assumptions in Scenario One, that the percentage of SST tax take from each income band would be as follows:

- 0% of the total SST tax take would be collected from the £5,200 income band
- 2.68% of the total SST tax take would be collected from the £11,700 income band
- 8.67% of the total SST tax take would be collected from the £19,500 income band
- 11.79% of the total SST tax take would be collected from the £27,300 income band
- 19.75% of the total SST tax take would be collected from the £35,100 income band
- 57.1% of the total SST tax take would be collected from the £42,900 income band

In terms of the distribution of the SST tax take by Council Tax, using the assumptions in Scenario One indicates that the distribution would be as follows:

- 8.52% of the total SST tax take would come from households living in Band A properties
- 14.48% of the total SST tax take would come from households living in Band B properties
- 14.51% of the total SST tax take would come from households living in Band C properties
- 15.7% of the total SST tax take would come from households living in Band D properties
- 21.61% of the total SST tax take would come from households living in Band E properties
- 13.55% of the total SST tax take would come from households living in Band F properties
- 10.49% of the total SST tax take would come from households living in Band G properties
- 1.15% of the total SST tax take would come from households living in Band H properties

It would therefore seem reasonable to assume that the overall impact of the implementation of the SST, based on the assumptions set out in Scenario One, would be broadly fiscally neutral. This Scenario does not factor in council tax discounts or council tax benefits. In 2001-02, the last financial year for which figures are available, £285m was paid to Scottish local authorities by the Department of Work and Pensions in council tax benefit<sup>62</sup>.

---

<sup>62</sup> Scottish Executive (2003) '[Scottish Local Government Financial Statistics 2001-02](#)', p.14.

## CASE STUDY – SNP LOCAL INCOME TAX CASE STUDY EXAMPLES

This response considers the impact of the SST against a range of case studies outlined by the SNP when launching their proposals for a 'local income tax'. The SNP launched their proposals for a '[Local Income Tax](#)' (LIT) on the 5<sup>th</sup> April 2004. The Proposals contained 8 case-studies of how the LIT would impact on people on different incomes. In this example I compare the impact of the SST against the examples used by the SNP.

### Example 4.1 – Pensioner Household (Single Income £8,500; Band B home)

The first example is that of a Single Pensioner living in a Band B property with a income of £8,500 p.a. The average Scottish Council Tax payment for a Band B property is £819 however with a 25% discount applied for a single person this falls to £614.25<sup>63</sup> p.a. Under both the SST and LIT the pensioner in this example would pay nothing in either SST or LIT. **The Pensioner would therefore save £614.25 p.a under both the LIT and SST.**

### Example 4.2 – Pensioner Household (Joint Income of £11,500, Band D home)

This example relates to a pensioner household living in a Band D property with a joint income of £11,500 p.a. In the SNP paper the joint income of £11,500 has been treated as a single income for income tax purposes but a 25% discount is not applied in relation to Council Tax. I have adopted the same approach with regard to the SST calculations. The average Scottish Council Tax payment for a Band D property is £1,053 p.a. Under the LIT this household would pay £120 p.a. whilst under the SST the annual payment would be £67.46.

Accordingly the **savings** for this household of a change from the Council Tax would be as follows:

LIT : £933 p.a.  
SST : £985.55 p.a.

### Example 4.3 – Single Person (Single Income £13,400, Band B home)

This example relates to a single person with an income of £13,400 p.a. living in a Band B property. The average Scottish Council Tax payment for a Band B property is £819 p.a. However, after the single person discount of 25% this falls to £614.25 p.a. for this household. Under the LIT this person would pay £293 p.a. Under the SST this person would pay £152.96 p.a.

Accordingly the **savings** for this household of a change from the Council Tax would be as follows:

LIT : £321.25 p.a.  
SST : £461.29 p.a.

### Example 4.4 – Single Person (Single Income £25,000, Band D home)

This example relates to a single person living in a Band D property with an annual income of £25,000. The average Scottish Council Tax payment for a Band D property is £1,053 p.a. Following a 25% discount for a single person this falls to £789.75 p.a. Under the LIT this person would pay £747 p.a. Under the SST this person would pay £674.87 p.a.

Accordingly the **savings** for this person of a change from the Council Tax system would be as follows:

LIT : £42.75 p.a.

---

<sup>63</sup> The SNP document states that the Scottish Band B average, after the 25% discount, to be £615 p.a. however I calculate the average to be £614.25 p.a.

SST : £114.88 p.a.

**Example 4.5 – A Family on a Single Minimum Wage Income - £9,360 p.a. living in a Band B home**

This example relates to a family (including one other adult eligible for Council Tax) which has one income earner who earns the minimum wage of £9,360 p.a. The family live in a Band B property. The average Scottish Band B Council tax payment is £819 p.a. Under the LIT this family would pay £120 p.a. Under the SST this family would pay £0 p.a.

Accordingly the **savings** for this family of a change from the Council Tax system would be as follows:

LIT : £699 p.a.  
SST : £819 p.a.

**Example 4.6 – A Family on a Double Income of £25,000 p.a. and £13,400 p.a., Band D home)**

This example relates to a family with two income earners who earn £25,000 p.a. and £13,400 p.a. The family lives in a Band D property. The average Scottish Band D Council Tax payment for a Band D property is £1,053 p.a. Under the LIT this household would pay £1,040 p.a. Under the SST the household would pay £827.82 p.a.

Accordingly the **savings** for this family of a change from the Council tax system would be as follows:

LIT : £13 p.a.  
SST : £225.18 p.a.

**Example 4.7 – Family on a Double Income of £27,000 and £25,000, Band F home)**

This example relates to a family with two income earners who earn £27,000 p.a. and £25,000 p.a. respectively. The family lives in a Band F property. The average Scottish Council Tax payment for a Band F property is £1,521 p.a. Under the LIT this household would pay £1,595 p.a. Under the SST the household would pay £1,439.73 p.a. Accordingly the impact of a change from the Council Tax system for this household would be as follows:

LIT : An **additional payment** of £74 p.a.  
SST : A **saving** of £81.27 p.a.

**Example 4.8 – Family on a Double Income of £56,358 and £80,000, Band H home**

This example relates to a household with two income earners who earn £56,358 p.a. and £80,000 p.a. respectively. The average Scottish Council Tax payment for a Band H property is £2,106 p.a.<sup>64</sup>. Under the LIT this household would pay £5,298 p.a. Under the SST this household would pay £14,342.73 p.a. Accordingly the impact of a change from the Council Tax system for this household would be as follows:

LIT : An **additional payment** of £3,192  
SST : An **additional payment** of £12,236.73 p.a.

---

<sup>64</sup> The SNP document provides an average Scottish Band H figure of £2,160. However I use the figure of £2,106 which is double the cost of a Band D property.

## OVERVIEW OF SST CONTRIBUTIONS BY A RANGE OF OCCUPATIONS

You requested that public sector occupations be placed in Band D, MSPs and MPs in Band G. For a range of other occupations I have also placed these in Band G unless salary levels rose above £100,000 per annum in which case I have placed these occupations in Band H. Table 2 lists occupations by council tax band and includes the Scottish average annual Council Tax payment for that band in 2004-05.

It is also important to note that this response does not factor in the impact of council tax rebates and of council tax benefit. For example a person living on their own in a property would receive a 25% discount on their council tax charge whilst council tax benefit would also be available to individuals on low incomes.

## AVERAGE SALARIES PER OCCUPATION

The basis for arriving at an average salary for each of the occupations detailed above is described below.

The average salaries provided for teachers, refuse collectors, social workers, police constables, nurses, hospital auxiliary workers and fire fighters are based on the same data provided in the response in January.

The average salary for a bus driver has been taken from the New Earnings Survey (2003) which details the average salary of 'bus and coach drivers' in the UK as being £333.70 per week. This equates to £17,352.40 per annum. The New Earnings Survey does not provide a figure at a Scottish level.

The average salary for a nursery nurse has been obtained from Unison. Unison stated that nursery nurses are paid £11,000 per annum, pro rata, on average. However nursery nurses are paid for working during term-term which equates to 38 weeks of the year. The average annual salary over the whole year is therefore £8,000 per annum.

Information regarding the average annual salary of a postal worker has been obtained from the Commercial Workers Union (Edinburgh Branch). They stated that from the 1<sup>st</sup> April 2004, the average salary of a postal worker will be £300 per week equating to £15,600 per annum.

The income of a pensioner can vary significantly depending upon individual circumstances such as the level of pension provision, income from investments etc. The 2001/02 Scottish Household Survey includes data on the income distribution, detailed in Table Three, amongst 'single pensioners' in Scotland from a sample of 4,759 pensioners. As almost half (47%) of all the single pensioners surveyed fall within the £6,001 to £10,001 income band I have taken the mid-point in this scale (i.e. £8,001) as being the average income of a single pensioner.

### TABLE THREE – ANNUAL NET HOUSEHOLD INCOME, SINGLE PENSIONERS IN SCOTLAND, 2001/02

Income Band	%
£0 - £6,000	26
£6,001 - £10,000	47
£10,001 - £15,000	20
£15,001 - £20,000	4
Over £20,000	2
Total	100
Sample Size:	4,759

Source: Scottish Executive (2003) '[Scotland's People: results from the 2001/2002 Scottish Household Survey](#)', p.29.

Information provided by the [Royal College of General Practitioners](#) indicates that the average salary of a General Practitioner in Scotland is £56,218 per annum.

The Law Society of Scotland conducted a 'Survey of Legal Practices in Scotland' in 2002. This survey found the following levels of remuneration for solicitors within the various levels across the profession:

Salaried Partner - £36,400 per annum  
Qualified Assistant - £24,000 per annum  
Unqualified fee-earners - £18,000 per annum  
Trainees - £12,500 per annum

I have taken the average salary of a solicitor in Scotland to be that of a 'salaried partner' and therefore an average salary to be £36,400.

For MSPs and MPs I have updated the salary levels to those which MPs and MSPs will be paid in 2004-05<sup>65</sup>. In 2004-05 the salary for an MSP will be £50,300 per annum and that of an MP will be £57,485 per annum.

Obtaining an average salary for an Advocate has proved to be problematic. Discussions with the Faculty of Advocates indicated that there is a wide range of remuneration between advocates dependent upon a range of factors such as, whether the advocates deals with criminal or civil cases, the amount of work taken by the advocate etc. The Annual Report of the Scottish Legal Aid Board 2002-2003 provides details of the top twenty highest earning advocates in terms of income obtained from the Legal Aid Fund. It is important to note that advocates obtaining such funds are engaged in criminal law cases and that advocates engaged in civil law are likely to be obtain higher fees. Due to the difficulty in obtaining an average salary for an advocate I have taken two examples of advocates earnings and provided these instead of an average salary level. The two examples relate to the top income earner and 20<sup>th</sup> highest income earner in terms of income obtained from the Legal Aid Fund. Example One relates to Mr Charles P C Boag-Thomson QC, who was the 20<sup>th</sup> highest income earner from legal aid in 2002-03, with income worth £121,000 being paid. Example 2 relates to the highest income earner from the Legal Aid Fund in 2002-03, which was Mr Donald R Findlay QC, who obtained £267,000 from the fund.

Information on the salary of a local authority Chief Executive's has been provided by COSLA. The salary of a local authority Chief Executive in 2003-04 ranged from £82,997 in Orkney Islands Council to £141,831 in Glasgow City Council. I have taken the mid-point in the range between these salaries as being the average salary of a local authority Chief Executive which equates to £112,414 per annum.

The salary of the Chief Executive of Communities Scotland is contained in the organisation's '[Annual Report](#)'. The Annual Report states that the salary of the Communities Scotland Chief Executive in 2002-03 was in the salary band £100,000 to £105,000. I have therefore taken the salary of the Chief Executive to be in the middle of this range and therefore to be £102,500 per annum.

The Scottish Water Annual Report contains details of the salaries of Scottish Water Board members. The salary of a Scottish Water Executive Board Member (including bonuses and benefits) ranges from £139,000 to £175,000 in 2002/03. I have taken the mid-point in this range as being the average salary of a Scottish Water Executive Board Member. This equates to £157,000 per annum.

---

<sup>65</sup> Information provided by the Scottish Parliament Allowances Office.



Table Five details the difference between the council tax contribution detailed in Table Two and the SST contribution by occupation in Table Four.

**TABLE FIVE – THE DIFFERENCE BETWEEN COUNCIL TAX AND SST CONTRIBUTIONS BY OCCUPATION**

<b>Occupation</b>	<b>Council Tax</b>	<b>Average Salary</b>	<b>SST Payment</b>	<b>Difference (I.e. SST – CT)</b>
Bus Driver	1,053	17,352.40	330.77	-722
Nursery Nurse	1,053	8,000	0	-1,053
Postal Worker	1,053	15,600	251.91	-801
Pensioner	1,053	8,001	0	-1,053
Teacher	1,053	24,174	533.34	-520
Refuse Collector	1,053	14,560	205.16	-848
Social Worker	1,053	23,970	628.52	-424
Police Constable	1,053	26,016	720.59	-332
Nurse	1,053	20,798	485.78	-567
Firefighter	1,053	23,175	592.74	-460
General Practitioners (GPs)	1,755	56,218	5018.48	3,263
Solicitors	1,755	36,400	1859.72	105
MSP	1,755	50,300	3953.24	2,198
MP	1,755	57,485	5246.54	3,492
Advocate – Example 1 (1)	2,106	121,000	17299.06	15,193
Advocate – Example 2 (1)	2,106	267,000	46499.06	44,393
Local Authority Chief Executive	2,106	112,414	15581.86	13,476
Communities Scotland Director	2,106	102,500	13599.06	11,493
Scottish Water Executive Board Member	2,106	157,000	24499.06	22,393

## Appendix 3 Glossary of Terms

**Applicable amount.** The amount of disposable income that the UK Government decides is required to live without undue hardship. Separate amounts are determined for single claimants, couples, single parents etc. The figure is usually the level at which basic state benefits are paid.

**Arrears.** The amount (of Council Tax) unpaid or behind with payment.

**Barnett formula.** The formula used to calculate changes in the annual grant from Westminster to the Scottish Executive which makes up the bulk of the Scottish Budget.

**Cost of collection.** The cost in staff, buildings, stationery and recovery mechanisms of issuing a bill and receiving the payment. It is calculated in the number of pence to collect one pound billed.

**Council Tax Benefits.** A scheme administered by the Department of Works and Pensions which provides low income families who apply with help towards paying their Council Tax.

**Department of Works and Pensions.** The UK government agency responsible for administering UK government schemes for low income individuals and families.

**Devolved and reserved powers.** Reserved powers are those matters for which legislation may only be made by the UK government. Devolved powers are those which the Scottish parliament may legislate. These powers are set out in the Scotland Act 1998.

**Fiscal policy.** Policy pertaining to money, especially government taxation and spending policies.

**Government Expenditure in Scotland.** The portion of UK government administered expenditure which is spent in Scotland.

**Grant Aided Expenditure.** This is the amount of grant provided by the Scottish Executive to local authorities in order to provide local authority services.

**Inflation.** Inflation is a general increase in prices across the economy over a period of time. The measure of inflation used in this document is that used by the government until this year i.e. Retail Price Index.

**Local Income Tax.** A tax on personal income set by a body other than central government e.g. a local authority.

**Means-tested.** Means-tested benefits are those for which recipients must demonstrate financial need, as opposed to universal benefits which apply to all.

**Poverty trap.** A situation in which an increase in income results in a loss of benefits so that the individual is no better off.

**Progressive and regressive taxes.** A progressive tax is a tax on income in which the proportion of tax paid relative to income increases as income rises. A regressive tax is a tax on income in which the proportion of tax paid relative to income decreases as income rises.

**Stage 1 and stage 2 of legislation.** Stage 1 is where the parliament votes on whether to accept a draft bill for further consideration. Stage 2 is where amendments to the bill are voted on by committee.

## **Appendix 4      MSP supporters of the Proposed Bill**

Tommy Sheridan

Carolyn Leckie

Frances Curran

Colin Fox

Ms Rosemary Byrne

John Swinburne

Margo MacDonald

John Farquhar Munro

Dr Jean Turner

Donald Gorrie

Rosie Kane

Christine Grahame

Ms Sandra White

