

THE HIGHLAND COUNCIL

Resources Committee

11th June 2008

Agenda Item	
Report No	

Local Income Tax Consultation Response

Report by Depute Chief Executive and Director of Finance

Summary

This Report provides Members with an opportunity to discuss the Council's response to the Scottish Government's Local Income Tax Consultation, in respect of which the submission date is 18 July 2008.

1. Introduction

- 1.1 This consultation is the first step by which the Government is seeking to convince Parliament and wider society that Council Tax should be abolished and replaced by a Local Income Tax.
- 1.2 This cannot be achieved by the Government in isolation and requires the support of others across the public sector, whose views are now being sought. Members of the public also are being asked to respond to these proposals
- 1.3 The radical nature of these proposals will have far reaching implications, local and national, and generate a great deal of debate. They will also take time to implement properly, with a commencement date assumed to be no earlier than 2011/2012.
- 1.4 For the purposes of this consideration by the Council, the Consultation responses will address only those questions posed by Government.

2. Approach

2.1 Key Principles:

Because political views will differ, (and following the approach recently adopted by Cosla) it may be useful to set out in advance a number of key principles against which any taxation system can be assessed.

- Accountability – Layfield argued that “for local authorities to be accountable they should be responsible to their electorate for both the expenditure they incur and the revenues they raise to finance it.”
- Fairness – There is a strong association between fairness and the ability to pay. It is appropriate to consider the ability to pay from two perspectives:

- (1) The tax system should be progressive and recognise that some households are able to pay higher levels of tax than others, and
 - (2) The tax bill each household faces should be affordable in absolute terms.
- Stability and Predictability – Any changes must ensure that sufficient revenue for local services continues to be provided on a stable basis.
 - Ease of understanding – The tax system must be easily understood by the public to ensure credibility.

2.2 Technical and Operational Issues:

While technical issues will be considered in detail by professional bodies such as the Institute of Revenues, Rating and Valuation (IRRV) and Cipfa Directors of Finance, the following issues were highlighted at a recent Leaders' meeting of Cosla. It should be made clear that the context in which these issues were raised was not one of weighting any response against Local Income Tax, but one of seeking to ensure the workability of any proposal.

- Cash Flow – The introduction of Local Income Tax could have substantial cash flow implications for local authorities. An example would be those taxpayers who pay tax by self assessment. Not all of their tax is collected in year, and often by lump sum.
- Rate and ease of Collection – Councils currently achieve a high rate of Council Tax each year (In Highland 95.52% was collected in year for 2007/2008). A move away from having a property-based element in the tax system will have to be carefully considered in terms of impact upon collections.
- Tax Raising Powers – By moving to a Local Income Tax system the discretion that Councils have to locally determine the level of resources they raise through Council Tax will be removed, and could have consequences for Councils' ability to fund their local priorities.
- Distribution – The mechanism for distributing Local Income Tax will need to be such as to ensure stability within local authorities.

3. Draft Response

- 3.1 Suggested answers to the questions in the Consultation Paper have been provided at officer level and are attached in Appendix 1 for Members' consideration. These draw on practical experience of tax collection and fiscal matters, but some of the pieces of the jigsaw are not yet in place, and inevitably there are some questions where a political view (as opposed to an officer view) will determine the answer.
- 3.2 At this early stage it has not been possible to draw on any meaningful research by professional bodies, but official figures have been used as reference material

where possible.

3.3 The full Consultation Document may be accessed at <http://www.scotland.gov.uk/Publications/2008/03/11131725/0>

Recommendations

Members are invited to consider:

- whether the key principles set out at 2.1 above are reasonable ones against which any taxation system can be assessed, and thereafter
- if they are comfortable with the Draft Consultation Responses attached to this paper.

Signature:

Designation: Depute Chief Executive and Director of Finance

Date: 15 May 2008

Ref:

Background Papers:

- Consultation Paper, "A Fairer Tax for Scotland"
- Report by the Local Government Finance Review Committee, "A Fairer Way"
- "Abolition of Council Tax and introduction of Local Income Tax: Revenue Projections," Office of the Chief Economic Adviser, Scottish Government (paper attached as Appendix 2)

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