



## Poverty & Inequality Commission

### Tax Working Group

Wednesday 8 March 2023

09:00-11:30

Virtual meeting by MS Teams

#### Attending

##### **Tax working group members**

Alex Cobham, Commissioner, Poverty & Inequality Commission

Bill Scott, Chair, Poverty & Inequality Commission

Sasha Saben Callaghan, PIC Experts by Experience Panel member

PM, PIC Experts by Experience Panel member

Professor Mike Danson, Heriot-Watt University

Joanne Walker, Low Incomes Tax Reform Group

Rory Morrison, PIC Secretariat

##### **Invited guests**

Professor Mark Stephens, University of Glasgow

Rebekah Cameron-Berry, COSLA

Jonathan Sharma, COSLA

James MacKessack-Leitch, Scottish Land Commission

Clare Blake, Welsh Government

Debra Carter, Welsh Government

Anna Adams, Welsh Government

##### **Apologies**

Shona Stephen, Commissioner, Poverty & Inequality Commission (Working group chair)

## 1. Welcome and apologies

Group members and invited guests were welcomed to the meeting.

## 2. Presentations and Q&A

The four invited groups of guests presented to the working group, with questions and discussion following each.

Professor Mark Stephens from the University of Glasgow shared his reflections on the range of past attempts in Scotland to reform local taxation, from his previous experience and research on the issue. He described how Council Tax is problematic not only because it is a poorly designed property tax but also because it is a service charge, and the service charge element explains some of its design features (such as the single person discount).

He explained that much of the discussion about the regressive nature of Council Tax focusses on distributional effects between households, but that we should also consider the distributional effect it has between regions that would need to be addressed in any replacement. A key challenge with replacement (reform or even just revaluation) is that – as it is a visible and salient tax – there would be a large numbers of losers and there appears to be little overall consensus in Scotland on what would constitute “fairness” in terms of reform.

He suggested that change is likely to be incremental. The current Scottish Government plans envisage a citizen’s assembly approach but that alone appears unlikely to be sufficient in prompting change. He made comparisons in terms of timescale with the phasing out of mortgage rates relief that was once thought to be politically impossible, but was eventually phased out over a 20 year period. Council Tax band multipliers could be tweaked (as SG has done previously) and/or a parallel tax like land tax could be introduced and increased as the current Council Tax is phased out.

Officials from COSLA Jonathan Sharma and Rebekah Cameron-Berry discussed COSLA’s current thinking on local taxation, noting that COSLA is a member organisation of Local Authorities so its views can change and are determined by its political leadership, which is relatively new following the 2022 elections. They described that while COSLA does not at present have a specific position on potential Council Tax alternatives, they are working on a series of principles for local taxation that they would want to see in any joint commitment between Scottish Ministers and COSLA leadership for a framework on local taxation reform.

COSLA officials see the Bute House Agreement commitment between the Scottish Government and the Green party to hold a consultative process on local taxation culminating in a citizen’s assembly as the main way it will engage with this agenda. COSLA officials expressed interest in engaging with the Commission’s working group and its findings, potentially through the Joint Working Group that has been formed to take forward the Bute House Agreement commitment.

COSLA officials explained that tackling child poverty is a clear commitment for Local Authorities in COSLA’s strategic plan. They described the current and longer-term challenges faced in local authority funding in light of the 23/24 Budget settlement and the smaller proportion of Local Authority revenue that is raised from council tax (when compared to the funding received from SG). They told the working group about increased demand for services and seeing councils being left making difficult choices about what to deliver, in the context of ring-fencing and national direction of funding by SG. They explained that it is important any alternative to Council Tax should address this issue and give Local Authorities greater fiscal flexibility and empowerment.

Officials from the Welsh Government spoke to the working group about their work on Council Tax reform, and also their wider tax strategy and plans to introduce a new Vacant Land Tax. Welsh Government Officials told the working group about the broader context of Council Tax reform in Wales as it is part of a wider programme with short, medium and longer-term actions.

In contrast to Scotland the last revaluation for Council Tax in Wales took place (relatively) more recently in 2003. In terms of short-term actions, officials discussed with the working group the way in which the Welsh Government has taken action on Council Tax Reduction uptake promotion, and also agreeing a protocol with local authorities around the management of Council Tax debt. Officials told the working group that despite national take-up campaigns on Council Tax Reduction, there were challenges, as there are in Scotland, of substantially improving uptake. Part of this appears to derive from a lack of actionable data to target campaigns effectively towards people who do not have contact with the system, but who may be eligible for Council Tax Reduction.

Officials described that an important feature of the Welsh approach to local tax reform was the degree of political consensus, and that the Welsh Government, as part of the co-operation agreement with Plaid Cymru, sees the current parliamentary terms as a significant opportunity to move reform forward. They told the working group how actions being taken forward through recent consultations were underpinned by a longer-running program of reform exploration between 2016 and 2021. They described further aspirations of Welsh Ministers on the potential replacement of Council Tax with an alternative (for example, proportional property or land value tax), but noted that this is a longer-term project.

Some of the challenges around the current reform described by officials was that, during consultations it was clear that the organisation responses and expert opinion supported Council Tax reform, but members of the public who responded tended to have a negative perception, as some are concerned that they will be on the losing end of property revaluation.

Welsh Government officials also told the working group about their work to try and secure new tax powers for Wales through agreement with the UK Government as part of a process defined in their devolution settlement. They described how they have been working on seeking a new power on Vacant Land taxation since 2018, but are still at relatively early stages of the multi-stage process. The challenge centres around the UK Government seeking information and detail on the new policy that Welsh Ministers are minded to determine themselves independently of UKG. As a result progress has been limited.

James MacKessack-Leitch from the Scottish Land Commission spoke to the working group about the Land Commission's work on land value and land taxation. James told the working group about the way that land value is mainly determined by society (rather than activity of the land owner) and the problems that can arise from the lack of a disincentive to owning land, but then doing nothing of value with it. He described the large proportion of UK wealth (around £5tn) that is locked in land and property

yet accounts for only around 12% of taxes in Scotland across taxes fully or partially levied on land and property.

James told the working group of some of the challenges of Land Value Tax as a replacement for Council Tax (and/or non-domestic rates) that were considered during the Land Commission's work on this issue. A key concern are regional distribution effects as cities like Edinburgh would be a winner under such a scheme, whereas rural areas would lose out. There are also complex interactions with other devolved and reserved taxes (for example the land component of Capital Gains Tax and Land & Buildings Transaction Tax).

The Land Commission's 2022 report provides an analysis and recommendations that are cognisant of some of these challenges. A further key challenge – that has only been addressed partially in Scotland – is the data and administration requirements of a land tax, in the form of a complete land register and improvement in zoned planning. While some work has been done on this, it still appears a long way from an effective conclusion. A particular challenge is that the voluntary registration process may not be sufficient, and a lot of public land in particular is not being registered.

### 3. Discussion

Working group members and guests had a discussion on various aspects of local taxation arising from the presentations, including:

- **The importance of political buy-in and evidence in creating the right conditions for local tax reform**, while the evidence and data is a pre-requisite, political will for reform is absolutely required as there will be some unavoidable challenges and tensions in terms of winners and losers from reform that will need to be navigated.
- **How to engage the public in discussions around local tax reform**, consultation responses from the public can be negative as individuals fear being on the losing end of change. Some of these fears may have a valid basis, some not, and communications work to explain the rationale and consequences from reform seems vital. Some aspects of reform may be unpopular no matter how it is presented.
- **The prospects for local tax reform in Scotland**, reflecting some disappointment in the track record so far, but also that there may be impetus for change coming from various angles and circumstances. There was a reflection that any new system must have credibility among the main actors responsible for it, in order for it to have legitimacy with the public.

### 4. Working group – next steps and Any Other Business

Invited guests left the meeting, and the working group members reviewed plans for future meetings. Working group members gave feedback to the secretariat on a set of draft survey questions on attitudes to taxation to be asked in polling of a representative sample of adults in Scotland. There was no other business.