

## **Poverty & Inequality Commission**

### **Tax Working Group**

**Wednesday 10 May 2023**

**09:30-11:30**

**Online by MS Teams**

#### **Attending**

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

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

Alex Cobham, Commissioner, 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

##### **Apologies**

Bill Scott, Chair, Poverty & Inequality Commission

## **1. Welcome and apologies**

Shona Stephen welcomed group members to the meeting.

## **2. Agreeing assessment criteria and process**

Working group members were asked to give their views on a set of assessment criteria that had been prepared by correspondence in advance of the meeting. These were draft criterion which working group members could then assess a range of potential tax policies and recommendations against.

Working group members reviewed the seven criterion and provided comment on them. The seven assessment criterion discussed were:

1. Revenue-raising potential
2. Inequality reducing/redistributive potential
3. Impact on tax representation

4. Strength/quality/integrity of supporting evidence
5. Technical/practical barriers or enablers
6. Other aspects of feasibility
7. Equality group impacts

Working group members agreed these seven criterion with some amendments to begin to use to assess potential policy proposals and recommendations.

### **3. Working through an example proposal using the criteria**

Working group members then went on to apply the amended assessment criteria against an example policy proposal: council tax property revaluation and re-banding.

Working group members discussed the proposal against the seven criteria, making points that included the following:

- 1. Revenue-raising potential** – Working group members noted that, depending on the details of the design, council tax reform of this nature could be either revenue raising or revenue neutral. Working group members further noted that it has potential to raise substantial revenue for local authorities if designed in such a manner. Behavioural effects and avoidance were expected to be relatively limited in comparison to some other areas of taxation given that council tax is difficult to avoid or evade. Working group members commented that there will be interactions with other taxes and benefits, and particular issues that would need to be addressed in terms of local authorities that are likely to benefit relatively more (or less) from reform because of the composition of property values in their area. Members noted this could have knock-on implications for the Scottish Government’s grant funding of local authorities.
- 2. Inequality reducing/redistributive potential** – The working group concluded that, as the status quo for council tax is regressive, revaluation and re-banding has the potential to be strongly inequality reducing, and, depending on how local authorities spend any additional revenue raised, also redistributive. Working group members noted that attention will have to be paid in the design to differences between local authorities to avoid increases in inequality, as more wealthy local authorities could potentially set lower council tax rates when compared to less well-off local authorities, because they need the revenue from council tax less.
- 3. Impact on tax representation** – Working group members noted that council tax is a very visible and salient tax, but it is also one that is very punitively enforced. Working group members felt that alongside reform in terms of revenue raising and inequality reducing elements, there must also be a focus on fairness, or this risks further damaging citizen engagement with their local democracies.
- 4. Strength/quality/integrity of supporting evidence** – The working group concluded that, while there are inevitably some gaps on specific questions

relating to council tax reform and council tax alternatives, there is a substantial volume of existing evidence of sufficient quality indicating the need for reform, and that lack of evidence does not appear to be the main barrier preventing such reform.

- 5. Technical/practical barriers or enablers** – The working group looked at the degree to which council tax revaluation and re-banding would be possible under existing technology and valuation systems. The desirability and potential of using new technological platforms and solutions to update values on a regular basis was also discussed. Working group members also noted that attention should be paid to the appeals process following revaluation, and the capacity risks present in creating a system that incentivises many/most people to appeal.
- 6. Other aspects of feasibility** – The working group noted that they have heard regularly throughout their meetings that the main barrier to seeing fully-fledged reform of council tax was one of political will. The group recognised that there will be groups who stand to lose out from reforms that apply higher rates to higher value properties; the need to consider unintended consequences of reform for rural and island communities; the potential to address these kind of issues through looking again at council tax reduction at the same time as reform; and increasing the uptake of CTR.
- 7. Equality group impacts** – The group discussed various equality groups and those with protected characteristics that could be differentially affected by council tax reform. The group discussed likely differential impacts on older adults who have lower incomes but a higher value home, and those who have bigger houses and higher value properties due to care needs or larger families.

The working group then reflected on the process of going through the assessment criteria for the council tax revaluation and re-banding proposal. It was agreed that going through the process helped to test thinking and raised issues regarding the level of detail required for potential recommendations in order to properly think through the benefits and consequences of each proposal.

#### **4. Next steps**

Following the discussions at the meeting, working group members agreed to carry out the following actions by correspondence before the next meeting:

- Contribute to a shortlist of proposals/recommendations to assess.
- Carry out an initial assessment of the proposals on the shortlist against the criteria for discussion at the next meeting.