Fair funding for public services

Scottish Greens Taxation Proposals
Presented 29th March 2016

Introduction

High quality public services are the bedrock of our society and are widely supported. Scotland can fund its public services, tackle inequality and raise more revenue fairly. This briefing outlines the Scottish Green Party's taxation policies for the next Scottish Parliament.

Green MSPs will support taxes that:

- Tackle inequalities in wealth and income
- Pay for public services
- Ask the wealthiest to pay more
- Are locally controlled

It is time to tackle Scotland's inequalities. Our proposals follow recommendations from poverty advisors, Scottish Government tax experts, the OECD and the cross-party Commission on Local Tax Reform.

SGP policies are based on the following principles:

- Fairness - the tax liabilities should be fairly distributed and progressive.
- Efficiency - tax policies should be easy to administer with high collection rates and minimal avoidance.
- Transparency - it should be clear how liabilities are arrived at.
- Transition - where change is involved and the system reformed, there should be a just and predictable transition period so that people are not subject to sudden changes in liability and can modify their circumstances and plans to adapt to a new tax regime.
- Fiscal Freedom - for any system of local tax, local government should have the freedom to set rates and to adapt elements or design to suit local circumstances.

The Scottish Parliament has always had the power to redesign the local tax system, but change has been put off for too long. With new Scottish income tax powers we can now design a coherent set of local and national tax changes. All parties on the Commission for Local Tax Reform agreed that the Council Tax is now outdated, discredited, strikingly unfair and must go. Despite this political agreement the current SNP government have ducked the chance to abolish the Council Tax.

Scottish Green proposals represent a much fairer system, which raises money to pay for public services, puts more control in local hands and moves us significantly towards our long-standing policy of a land value tax for Scotland.

1. INCOME TAX

Power to vary the rates and bands of income tax will enable us to build a significantly more progressive income tax. We will advocate using the Scotland Bill powers to reduce income tax for the lowest earners while raising it for higher earners and making the bands and rates smoother.

The power to vary non-savings, non-dividend income tax rates and bands will be devolved to the Scottish Parliament in April 2017.

Rates and bands

We propose to introduce a new band taxed at 18% for the first £7,500 of income above the personal allowance in 2017/18. Income earned above £19,000 would be taxed at 22%. Income above £43,000 would be taxed at 43%. Income above £150,000 would be taxed at 60%.

Tax rate proposals	UK tax bands (at 2017-18, with modifications to Basic Rate band)
Personal Allowance – 0%	£0-£11,500
First Rate – 18% (currently 20%)	£11,500-£19,000
Second Rate – 22% (currently 20%)	£19,000-£43,000
Higher Rate – 43% (currently 40%)	£43,000-£150,000
Additional Rate – 60% (currently 45%)	Over £150,000, with the personal allowance withdrawal starting at £100,000.

What this means for individuals

Everyone earning less than £26,500 per year would see their income tax reduce, while the highest earners would be asked to contribute more.

Median income in Scotland in 2013/14 was £24,000 with the poverty threshold before housing costs at £14,200.[1] The median gross full-time annual pay in Scotland in 2015 was £27,710 while the median gross annual pay for part-time employees was £9,837.[2] Taxpayers earning under £20,000 represent 47% of taxpayers in Scotland, while taxpayers earning under £30,000 represent 71%.[3]

See overleaf for sample taxation tables:

[1] Poverty and Income Inequality in Scotland: 2013/14, Scottish Government, 2015.
[2] Earnings in Scotland 2015, Scottish Parliament Information Service, 2015
[3] Income Tax in Scotland, Scottish Parliament Information Service, 2015

What I earn...	**How will my tax be different?**	
	Compared with SNP proposals	*Compared with the rest of the UK*
£10,000	No difference (earnings are below the personal allowance so pay no income tax)	No difference (earnings are below the personal allowance so pay no income tax)
£14,200	£54 less a year	£54 less a year
£24,000	£50 less a year	£50 less a year
£27,710	£24 more a year	£24 more a year
£40,000	£270 more a year	£270 more a year
MSP salary = £60,685	£938 more a year	£1,261 more a year
Scotland's highest paid public post. Chief executive of Scottish Water = £250,000	£13,607 more a year	£13,930 more a year

The aggregate effect

These changes would raise an additional £331 million per annum compared with the SNP's proposals and lower existing income inequality. The SNP's income tax proposals lower GINI by 0.1%, Scottish Green Party plans would lower GINI[4] by four times that.

	How much more money will be raised?	
	Compared with SNP proposals	*Compared with rest of UK*
Revenue Impact:	+ £331m	+£461m
Distributional Impact:	Gini is lowered by 0.4%	Gini is lowered by 0.5%

Source: These figures were calculated by Dr David Comerford using a microsimulation model of the household sector in Scotland, calibrated to reproduce the GERS figures. The calculations assumed no behavioural or supply side impacts from changes in the tax rates (although no credit was taken for any revenue increases from raising the Additional Rate of income tax), and so should be treated with caution.

[4] GINI is a measure of inequality where 0=perfect equality and 1=maximum inequality.

Tax avoidance

Powers over anti-tax avoidance are limited in the devolved context but we will press for the boldest action possible. With stronger tax avoidance policies the income would be expected to increase.

2. LOCAL TAXATION

Scottish Greens believe councils should have far greater fiscal autonomy in order to strengthen local democracy and enable elected local governments to govern with appropriate powers over their budgets.

To do this, we would like to see local government being responsible for around 50% of its revenue which would bring the balance of funding closer to the European norm. Scottish Greens will advocate for control of domestic property tax and the majority of non-domestic property taxes to be returned to local governments. Taken together these changes represents a significant step towards the 50% goal.

2.1. Residential Property Tax

Property taxes provide a stable and predictable source of revenue that is hard to avoid. Well-designed land and property taxes can help to moderate house prices and increase housing affordability as well as reduce wealth inequality. The Scottish Green Party believes that site value rating (otherwise known as land value taxation) is the best long-term policy for local taxation and these proposals represent a significant step towards it.

Under the current Council Tax system the most expensive homes pay only three times that of the least expensive, despite being worth on average 15 times more. A property tax is fairer since the tax is more closely related to the actual value of each home.

We propose to abolish the Council Tax and replace it with a Residential Property Tax (RPT) based on the value of the property, with a £10,000 tax-free allowance and relief for households on low and precarious incomes. The liability will rest with the owner, there will be a robust five year transition period and options to reduce or defer payment in cases of hardship.

These proposals follow the findings of the Commission on Local Tax Reform. The Commission included four political parties, local and central government, and experts in public finance, law, housing, welfare and equalities. The evidence they heard in 2016 told us that the Council Tax is discredited and that an alternative, more progressive property tax is the most practical fair alternative to providing an enduring and stable way to fund local services.

Our tax plans are also an integral part of our radical land reform programme to increase the amount of affordable, high quality housing available in Scotland, to secure housing for younger generations and to protect the welfare of households currently at risk of another housing crash.

Transition

Many criticisms of any new system are often based upon the immediate impact any changes have on individual taxpayers. Any change in tax system will create winners and losers and it is therefore extremely important to introduce any new system as part of a phased transition both to minimise the immediate impact of any tax rises but also to allow people to organise their affairs so as to be able to meet the anticipated new tax liability. This was a key recommendation of the Commission for Local Tax Reform (13.11).

We propose a five-year transitional period. During this time Council Tax bills will continue to be issued on the basis of the current system but will reduce by 20% each year. At the same time new RPT liabilities will be phased in by 20% every year.

The Council Tax Reduction scheme will continue to operate for households with low incomes - this will cover both the old Council Tax and the new property tax. In addition we will introduce two more options to ease the transition for people who need it.

Firstly, any eligible household will be able to apply for a deferral of Residential Property Tax liability until their death or until the property is sold. This deferral scheme is designed for older homeowners and will be modelled on the Rates (Deferment) Regulations (Northern Ireland) 2010.[5] Secondly, any eligible household will be able to continue paying the existing Council Tax for a maximum of five years at which point they will become liable for the remaining liability calculated on the basis of the standard transition. The precise eligibility criteria for these two options will be the subject of further consultation.

How will the value of property be assessed?

Any tax base (whether it be income or property) should be accurately assessed on an annual basis. This is normal with income tax where the tax due is calculated based on the amount we earn in each tax year. The current Council Tax is based on valuations that are over a quarter of a century old. The Commission on Local Tax Reform estimated that 57% properties are currently in the wrong Council Tax band.

The new RPT must be based on what properties are worth today. Basing the tax on what property is worth means any tax liability reflects the wealth of assets owned. This data is readily available using real-time sales data from the Land Register. Modern computerised systems can easily, cost effectively and efficiently keep property valuations up to date on an annual basis.

How much will I pay?

The precise tax rate would be set by local governments to fit local circumstances.

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[5] The legislation can be found here http://www.legislation.gov.uk/nisr/2010/63/contents/made it was repealed in 2012 having only had 21 applications, see here: http://www.northernireland.gov.uk/news-dfp-220212-finance-minister-to

In general terms, a Residential Property Tax rate of around 0.7% would raise the same amount as the current council tax - roughly £2 billion or 12% of local government funds.[6] After 8 years of the council tax freeze and corresponding cuts to local services, Greens believe it is time to raise revenue under a fairer tax system to pay for public services.

Assuming a rate of 1% across Scotland (with a tax free housing allowance of £10,000) a Residential Property Tax would raise £490m more in today's prices after the transition period.

This progressive change would mean a majority of households in Scotland would pay less (i.e. most properties in bands A, B and some of those in C). Higher value properties are likely to pay more than under the present system which has been frozen for eight years. Table 1 demonstrates the effect of a property tax set at 1%. The additional revenue will be used to invest in vital public services such as childcare, education and social care services.

We propose any change in the taxation system will have a robust five-year transition period; that the Council Tax Reduction scheme will continue for people on low and precarious incomes; and that there will be new options available to defer payment or part-payment until the property is sold.

Table 1: Residential property tax transition scheme

	Average Council Tax	Median property value	Year 1	Year 2	Year 3	Year 4	Year 5	% tax (CT)	% tax (RPT)
Band A	£766	£54,000	£701	£636	£570	£505	£440	1.42%	0.81%
Band B	£893	£89,000	£872	£852	£831	£811	£790	1.00%	0.89%
Band C	£1,021	£125,000	£1,047	£1,073	£1,098	£1,124	£1,150	0.82%	0.92%
Band D	£1,149	£160,000	£1,219	£1,289	£1,360	£1,430	£1,500	0.72%	0.94%
Band E	£1,404	£208,000	£1,519	£1,634	£1,750	£1,865	£1,980	0.68%	0.95%
Band F	£1,660	£278,000	£1,864	£2,068	£2,272	£2,476	£2,680	0.60%	0.96%
Band G	£1,915	£409,000	£2,330	£2,745	£3,160	£3,575	£3,990	0.47%	0.98%
Band H	£2,298	£795,000	£3,408	£4,519	£5,629	£6,740	£7,850	0.29%	0.99%

Source: Average council tax - *Scottish Local Government Financial Statistics 2014-15*. Median property values - *The Commission on Local Tax Reform, Volume 2 Technical Annex*, Table 4-c.

Other features of the Residential Property Tax are:

- Local government financing from the Scottish Government (the General Revenue grant) should assume that all councils levy a 1% RPT to ensure that councils with a high value tax base are not

[6] The Opportunity for Land & Property Taxes in Scotland, David Comerford, University of Stirling, November 2015

advantaged over councils with a low property tax base. This also ensures that there is a redistributive impact across Scotland.

- Under the Council Tax it is the residents of property who are liable for the tax. Under a property tax it would be owner who is eligible. Landlords would be required to itemise any element of the tax being passed on to tenants.
- The current Council Tax Reduction scheme is funded by the Scottish Government and currently costs £351m per annum. The cost of the scheme is expected to reduce significantly under the property tax regime as a result of a reduction in tax liability for the lowest value properties.
- All current council tax discounts and exemptions are retained under the proposed scheme, for example discounts for single occupancy, full-time students and exemptions for care or illness, but we propose to remove exemptions for second and long-term empty homes.

Moving to a land value tax

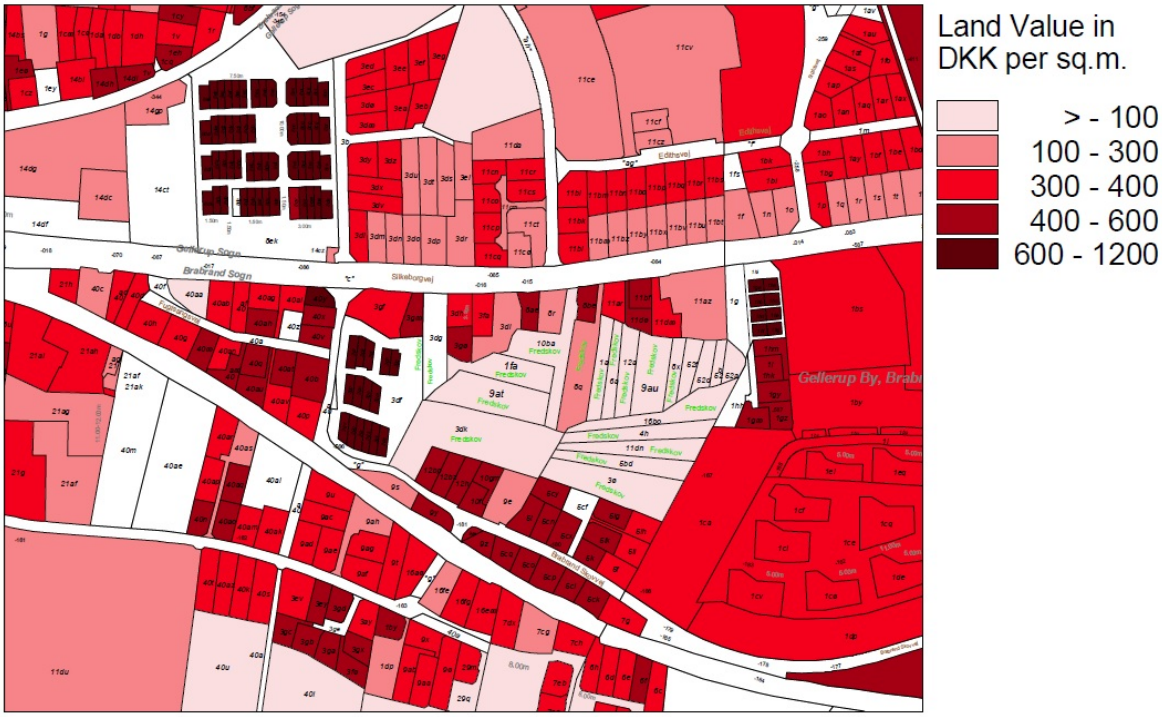
Our proposals for a Residential Property Tax represent a significant step towards the Scottish Greens' long-standing policy of a land value tax for Scotland. We favour a system of land value taxation since this is a system that captures the value created by the community in land values, incentivises productive land use, penalises land speculation and encourages the improvement and upgrading of property with no fiscal penalty.

All property valuations will be "split valuations" meaning that the site value (i.e. land value) and the building value will be separately identified in bills. A typical split would be roughly 30% site value and 70% building value. Denmark operates such a system and the maps below demonstrate the split - the land value excluding buildings (top map) and the total property value (land and buildings) (lower map).[7]

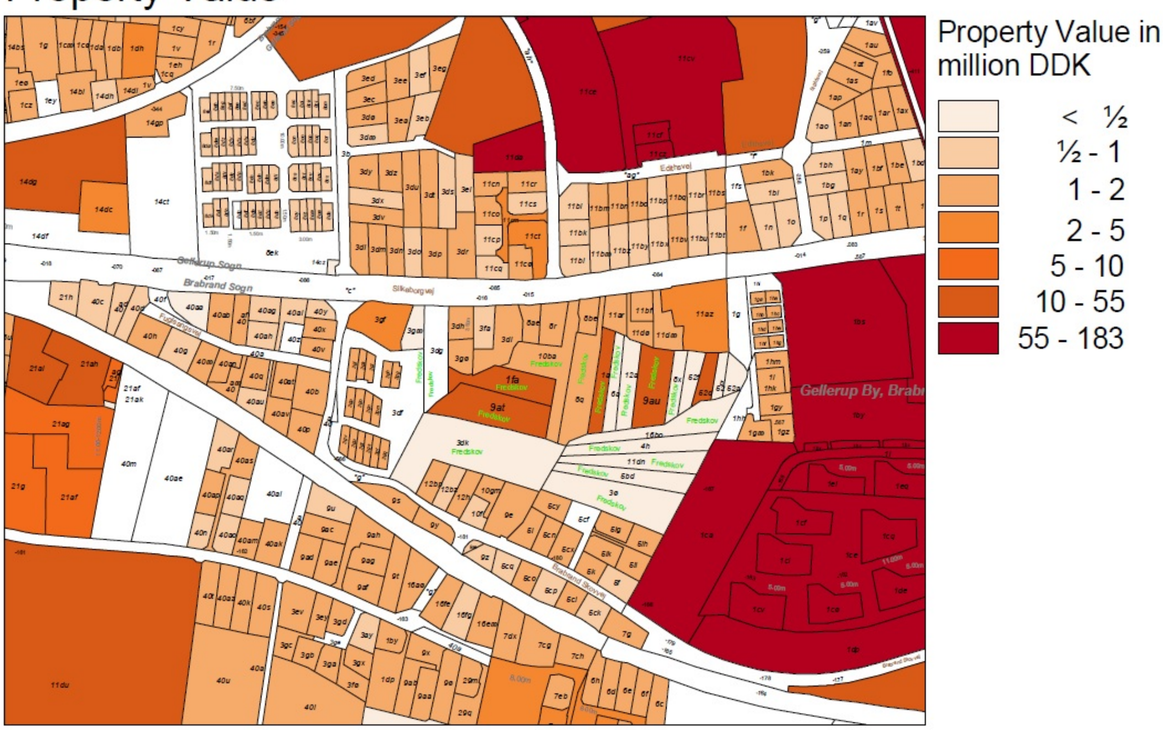
After the first few years of operation we will introduce legislation to allow councils to vary the percentage of each element used to establish the tax liability. So, for example, an SGP-controlled council could create a 100% weighting on the site value. This would create a land value tax.

[7] The Danish Way: Property Valuation and Taxation in Denmark, 2002. Maps on page 10.

Land Value per sq.m.



Property Value



2.2. Non-domestic property tax

Non-domestic rates currently generate around £2.5 billion in revenue. The rate, reliefs and exemptions are set nationally, tax is collected by councils, with revenues pooled nationally and then re-distributed according to a formula.

Scottish Greens will advocate for an increase in local control, a review of current reliefs and exemptions and a change in how the tax is calculated.

Local control

We believe control of the majority of non-domestic property taxes should be returned to local governments.[8] As a step towards this reform we will advocate to reverse years of centralisation by giving councils the power to set the rate for 50% of the assessed value of non-domestic property.

Reliefs & exemptions

Green MSP proposals for the 2016/17 budget and 2016 Land Reform legislation included a tax on vacant land. This could raise roughly £250m a year and help end incentives to keep land out of productive use for profit. Green campaigning resulted in a Scottish Government commitment to consult on this change in 2016.

The Small Business Bonus Scheme is a relief available to business occupying property with a rateable value under £35,000. We have always supported this scheme but believe there is a better way to provide relief to the small businesses which need the most support. The size of occupied property is not necessarily related to the scale of a business. In addition, any rates reduction on rented properties is likely to result in a rent rise for tenants thus cancelling out any potential gain. We will support a review of small business support to explore options that take other measures of business scale, such as turnover, into account.

Alongside tax relief for businesses occupying small premises there are a set of reliefs or even complete exemptions from non-domestic property rates. Many of these are likely to be valid and in the public interest but we support a full review. This review should be informed by bringing all land onto the Valuation Roll. This would allow the “cost” of current exemptions to be calculated and an informed debate to determine what reliefs and exemptions are in the public interest to be had.

Moving to a land value tax

Green MSPs will advocate replacing non-domestic rating (NDR) with site value rating, commonly known as land value tax.

[8] Larger subjects such as the energy networks and Grangemouth Refinery should continue to be collected nationally and redistributed.

The current NDR system calculates a business' tax liability using the value of the land and the building(s) it occupies. Under this system, if a business decides to repair or develop its buildings it will likely end up increasing its business' tax liability. Instead, we support basing the calculation of tax liability only on the land value, and for this tax liability to be payable by the owner of the asset. This would remove any disincentive to invest in property improvements.

Tax Shift

Scottish Greens support a broad and incremental "tax shift" from incomes to wealth. This approach is advocated by economists such as Thomas Piketty and by the OECD and is designed to tackle the fact that wealth inequality is growing faster than income inequality and is a more structural form of inequality that affects future generations.

Recent figures released by Scottish Government and ONS have shown that the distribution of wealth (GINI = 0.6424) is dramatically more unequal than the, already skewed, distribution of income (post tax and transfer GINI = 0.3025).[9]

Income tax will remain an important tax but we believe the balance of taxation should move towards wealth. However, the powers devolved to the Scottish Parliament do not cover the sources of wealth typically associated with the wealthiest in society: stocks, shares and large amounts of private pension wealth. This represents a significant constraint on the action we can take to tackle wealth inequality. It also leaves the Scottish Parliament with tax options that affect people with lower income more than people with high incomes. This is because people on higher incomes often have more options available to them to convert their income into wealth such as shares or investments.

A second tax shift described by these proposals is from central to local. We want to see Councils have significantly more freedom to manage their finances to fit local circumstances. For local taxation we support broadening the tax base, increasing fiscal autonomy and giving councils greater flexibility in how they raise revenue.

END of BRIEFING

[9] See also SGP wealth equality paper.