

WEST DUNBARTONSHIRE COUNCIL

Report by Executive Director of Corporate Services

Council : 25 June 2008

Subject : A Fairer Local Tax for Scotland – Consultation Paper

1. Purpose

- 1.1 The purpose of this report is to recommend a Council response to the consultation paper issued by the Scottish Government titled 'A Fairer Local Tax for Scotland'.

2. Background

- 2.1 The consultation paper was issued on 11 March 2008 and seeks views on the Scottish Government's proposal to abolish council tax and replace it with a local income tax.

- 2.2 As a first step in this process, the Scottish Government announced proposals to freeze council tax at 2007/08 levels for the period 2008/09 to 2010/11. It is anticipated that the earliest date to implement a local income tax would be April 2011.

- 2.3 The main elements of the Scottish Government proposals are:

- A tax free personal allowance matching the UK personal allowance
- A 3% rate applied to income that is subject to income tax
- Collection through PAYE and self assessment
- Exemptions for savings and investment income
- A tax on second homes

- 2.4 A copy of the consultation paper is attached as Appendix 1 to this report. The closing date for a response to the consultation paper is 18 July 2008.

3. Main Issues

- 3.1 In order to respond objectively to the consultation questions, a number of key principles have been identified. These principles were agreed by the Local Government Finance Review Committee in 2006 as being the core issues for systems of local taxation. As such, each consultation question has been assessed in relation to conformity with the following principles:

- Accountability: For local authorities to be accountable to the electorate they should be responsible for the expenditure they incur and the revenues raised to finance it.

- **Fairness:** There should be a strong association between the level of a local tax bill and an individual's ability to pay, including the relationship with the Benefits system.
- **Stability & Predictability:** The form of local taxation should seek to ensure that local services can continue to be provided on a stable basis.
- **Ease of Collection:** The costs of collection and potential for avoidance have to be evaluated for any options. The Scottish average collection rate for Council Tax in 2007/08 was 94.2%.
- **Distribution:** The mechanism for distributing local taxes should strive to ensure stability within local authorities.
- **Ease of Understanding:** Any tax system requires to be readily understood by the public so as to retain credibility.

- 3.2** When considering responses to the consultation paper, Members may wish to bear in mind that in the current balance of funding, approximately 20% of local authority expenditure is funded from council tax with the remaining 80% coming from the Scottish Government.
- 3.2** Members will note with reference to Appendix 1 that some of the consultation questions are subjective in nature e.g. question 13 asks to what extent the tax rate would influence your decision to live in Scotland. In such instances, whereas no officer comment has been proposed, members may wish to submit a separate political response.
- 3.3** There is an indication in the consultation paper of a target implementation date of April 2011. HMRC have yet to confirm any implementation period and as such it is not possible at this stage to make any comment regarding timescale. It should be noted that any prolonged implementation period may have an adverse effect upon council tax collection levels.
- 3.4** There have been some announcements made by the Scottish Government since the publication of the consultation paper that seek to address some of the uncertainties regarding the proposals. The major issue clarified is in relation to student exemptions. This exemption will not continue under the new scheme as liability will be based upon income rather than status.
- 3.5** There may be costs to businesses associated with any upgrade required for payroll systems to cope with local income tax.
- 3.6** The proposed response to the consultation paper is attached as Appendix 2.

3.7 It should be noted that the paper does not address the question of collecting domestic water and sewerage charges. At present these charges are collected by local authorities on behalf of Scottish Water and the charges levied are based upon council tax bandings. The paper indicates that there will be further consultation issued in due course on proposals for the future billing and collection of domestic water and sewerage charges.

4. Personnel Issues

4.1 The council tax section currently has an establishment of 22 full time posts. If council Tax is abolished there would be a requirement to redeploy these members of staff.

5. Financial Implications

5.1 Council revenues raised locally require to be on a stable basis with a predictable yield. The responses to the consultation paper seek to promote these issues.

5.2 At the point of changeover to a new system of local taxation there will be residual council tax charges still to be collected by the Council. The Council will require to commit resources to the collection of any outstanding balances.

6. Risk Analysis

6.1 There is a risk to the future stability of the Council's finances if the source of local taxation is not stable or is not perceived to be fair by the public. The responses to the consultation paper seek to ensure that any proposal is seen as fair, is readily collectable and provides a stable yield of income to the Council.

6.2 As mentioned in 3.3 above, council tax collection levels may be adversely affected during any prolonged period of changeover to local income tax.

7. Conclusions

7.1 The Scottish Government is seeking responses to the consultation paper titled 'A Fairer Local Tax for Scotland'. The closing date for a response to the consultation paper is 18 July 2008. The recommended responses are attached as Appendix 2 to the report

8. Recommendations

8.1 **Members are requested to approve the responses contained in Appendix 2 to the consultation paper 'A Fairer Tax for Scotland'.**

Joyce White
Executive Director of Corporate Services
Date: 17 June 2008

Wards Affected: All

Appendices: Appendix 1 Consultation Paper – A Fairer Tax for Scotland

Appendix 2 A Fairer Tax for Scotland - Responses

Background Papers: None

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