



RICS

The mark of
property professionalism worldwide

15 July 2008

Eva Bru-Dominguez
Council Tax Abolition
Local Government Division
Room 3-J North
Edinburgh
EH6 6QQ

Dear Eva

**RICS SCOTLAND RESPONSE TO:
CONSULTATION ON 'A FAIRER LOCAL INCOME TAX FOR SCOTLAND'**

Thank you for you the opportunity to respond to the above consultation paper.

A global organisation, the Royal Institution of Chartered Surveyors (RICS) is the principal body representing professionals employed in the land, property and construction sectors. In Scotland, we represent over 10,000 members comprising chartered surveyors (MRICS or FRICS), technical surveyors (TechRICS), trainees and students. Our members practise in sixteen land, property and construction markets and are employed in private practice, central and local government, public agencies, academic institutions, business organisations and non-governmental organisations.

As part of its Royal Charter, RICS has a commitment to provide advice to the government[s] of the day and, in doing so, has an obligation to bear in mind the public interest as well as the interests of its members. RICS Scotland is therefore in a unique position to provide a balanced, apolitical perspective on issues of importance to the land, property and construction sectors.

Our respondent information form and responses to the questions can be found below.

If you have any queries, please do not hesitate to get in touch.

Yours sincerely

Neil Freshwater
Public Policy Executive
T: 0131 240 0897 (direct)
NFreshwater@rics.org

RESPONDENT INFORMATION FORM:

CONSULTATION ON 'A FAIRER LOCAL TAX FOR SCOTLAND'

Please complete the details below and return it with your response. This will help ensure we handle your response appropriately.

Thank you for your help.

Name:	Royal Institution of Chartered Surveyors in Scotland (RICS Scotland)
Postal Address:	9 Manor Place Edinburgh EH3 7DN

1. Are you responding: (please tick one box)

As an individual

go to Q2a/b and then Q4

On behalf of a group/organisation

go to Q3 and then Q4

INDIVIDUALS

2a. Do you agree to your response being made available to the public (in Scottish Executive library and/or on the Scottish Executive website)?

YES

ON BEHALF OF GROUPS OR ORGANISATIONS:

3. The name and address of your organisation **will be** made available to the public (in the Scottish Executive library and/or on the Scottish Executive website). Are you also content for your response to be made available?

YES

SHARING RESPONSES/FUTURE ENGAGEMENT

4. We will share your response internally with other Scottish Executive policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission for them to do so. Are you content for the Scottish Executive to contact you again in the future in relation to this consultation response?

YES

Foreword

RICS Scotland has provided responses to a number of the questions outlined in this consultation. However, given that a number of the questions are aimed at individuals as opposed to organisations, it has not been possible to fully respond to all of them.

The issue of local taxation is of relevance to a wide range of our RICS members, including surveyors employed by Assessors. Assessors in Scotland are responsible for valuing properties for the purposes of council tax banding and non-domestic rates and are required by law to be members of the RICS.

RICS Scotland has nevertheless taken an objective view on how we see the proposed system of Local Income Tax (LIT) operating in practical terms given the experiences of our members, and whether it is likely that there may be a positive or negative impact on Scotland.

Question 1 – In your view, should the local income tax personal allowance be the same, higher or lower than the UK income tax personal allowance?

The introduction of a local income tax in Scotland would increase personal taxation above that of the remainder of the UK. This would be against the economic interests of Scotland. To vary allowances would increase the complexity of the collection process.

Question 2 – Do you think a flat rate or 3% is too high, too low or about right?

Too low. RICS Scotland is concerned at the figures presented in the consultation document that 3% would be the likely rate of LIT. Based on HM Treasury and Scottish Executive figures for 2004/05, LIT set at 3% would only raise 40% of the income currently collected under council tax¹.

The consultation document provides no additional detailed analysis to support the proposed rate of 3% but indicates that the UK Government should continue to make available a sum equivalent to the Council Tax Benefit paid by the DWP to Scottish councils, which under existing arrangements amounts to £1.1 billion over the next three years.

Two independent reports commissioned to review local taxation - *A Fairer Way: Report by the Local Government Finance Committee* (Burt Report) (for Scotland) and *The Lyons Inquiry into Local Government* (for England) state that the required level of local income tax, in order to meet the current levels raised under council tax would need to be set at 6.5% and 7.7% respectively.

RICS Scotland is therefore sceptical that current revenue levels could be met by a 3% levy and would require further evidence to the contrary. The current proposals appear to give rise to a significant funding gap for the public sector with its attendant potential impact on investment. Uncertainty of this nature will have a significant impact on the economy in Scotland and is an aspect that we would seek to avoid.

¹ See *A Fairer Way: Report by the Local Government Finance Committee*, p95

Question 3 – Would you be inclined to pay more Local Income Tax (i.e. above 3%) to provide for better quality services?

An income tax supplement of 3% would appear to give rise to a funding gap and may have a significant negative impact on local government investment strategies and local economies whereas a higher level of taxation would have a significant and negative impact on the national economy.

Question 4 – Do you believe that the level should be set locally or nationally?

Under the current system, council tax rates are set locally by councils and the revenues collected and spent by local councils. Non-domestic (business) rates, whilst collected by the local councils, have their levels set nationally and revenues redistributed by Scottish Government.

One advantage of having a rate of LIT set by each local council is that there remains a level of accountability and democratic attachment to local public spending. If there was to be a fixed rate of LIT across Scotland (or indeed of any alternative local taxation) then the current link between the electorate and local government policy and expenditure decisions is lost. RICS Scotland does not advocate one LIT system over another, but observes that there could be a perceived level of power reduction from local council level if a uniform level is set.

The disadvantage of locally set levels of LIT is that the system would be more complex for employers and the collection authorities to administer.

Question 5 – Among the following, which should or should not be taxed as part of Local Income Tax?

If the intention is to tax a person's income, then in the interest of fairness the tax should apply to all income streams. By not taxing unearned income, the tax payable by the employed is increased² and will disincentivise key workers from living and working in Scotland. The potential for fiscal flight to lower personal tax regimes outside Scotland may have implications on the availability of skilled and enterprising workforce to the Scottish economy. The proposal to restrict the tax to earned income will encourage those who are self-employed to incorporate and thus further reduce the overall tax yield.

Question 7 – Do you agree that a Scottish taxpayer should be defined using the definition already contained in the Scotland Act....?

We have no objection to the definition. However, RICS Scotland does have concerns over the levels of collection if LIT is introduced. One of the principal advantages of a property based tax system, such as council tax, is that buildings are easily identifiable and are not mobile. Identifying individuals and dealing with their mobility would present significant difficulties that could lead to a reduction in the taxpayers and the actual collection of the tax can be much harder. This was illustrated when community charges were replaced by the council tax. Throughout the duration of the community charges, there was widespread anecdotal evidence of individuals seeking to avoid the charges by not registering to vote, hence the unofficial title 'Poll Tax'. There were also significant difficulties in the collection of the community charges. In year 1992-93 collection rates were at 87% under the community charges but in 1995-96 collection rates had increased to 95% under council tax³.

By utilising the current HMRC income tax system, taxpayers can be identified as they fall under the UK tax system. However, RICS Scotland believes that defining and identifying a "Scottish" taxpayer would be far harder than simply expanding on the current definition; further exploration of this area is required. Given the large number of employers that are not solely Scottish based, employees who move about and the ability for workers and businesses to be "virtual" (e.g. online etc) the scope for loopholes does on the face of it, seem wide. Whilst most people would be easy to identify as Scottish taxpayers, it does leave a level of uncertainty

² *A Fairer Way: Report by the Local Government Finance Committee*, p98

³ Midwinter and McGarvey, *The Reformed System of Local Government Finance in Scotland*, Policy and Politics, Vol.25, No.2 (1997) – as illustrated in the Burt Report, 2006

surrounding those who would fall into “grey” areas. This may depress the anticipated levels of collection and therefore exacerbate the funding gap and/or increase the likelihood of a higher rate of taxation being required.

If a locally set rate of income tax is used, the collection agency responsible would need to monitor when that person moves, depending on whether the rate of tax is based on where the taxpayer lives, or where he or she works. This would add an extra burden on local employers to provide this information. There is also the potential problem that people will register their address in areas where there are more favourable tax rates with say a friend or family member, rather than their own home. This would be very difficult to police and lead to inconsistency or perceived unfairness.

No collection system of tax is perfect, but this a major issue which should be considered when contemplating a move from the certainty of a property-based form of taxation to the uncertainty of a tax based on individuals.

Question 8 – In your view, should transitional arrangements for individuals apply?

There is potential for transitional arrangements to increase administration costs on employers and the collection authority.

Questions 9 – Which of the following do you think should collect Local Income Tax?

HMRC

Assuming Local Income Tax is introduced then there is a benefit in utilising the current HMRC system as taxpayers can be easily identified through NI numbers. However, a different rate of income tax in Scotland may have implications for UK Benefits one might be entitled to (such as CTB), a matter HMRC and HM Treasury would be better placed to comment on.

Scottish Government collection agency?

Setting up a Scottish-only collection agency might be costly to administer, but may be easier to manage given that it would be separate from the UK system and could function in its own right. It would however require linkage with HMRC to enable incomes to be monitored and taxed accordingly. Alternatively, cooperation would be required from employers to register with the collection agency resulting in employers being required to deal with two agencies rather than one. This would not be a welcome move.

A private sector collection agency?

Whether a private agency or public run body was used to collect the tax, the same issues would apply. We make no view on whether one is better than the other.

Local Authorities

We agree that the existing council tax collection services could be utilised within local councils. Extra resource would probably be required as local authorities would be dealing with individuals rather than households, but it might be less cumbersome than setting up an entirely new agency.

Question 10 – Do you think local income tax should be collected at source or through payment?

This would depend on the system used for collection and whether or not there was regional variation in LIT. A Scottish-wide rate of LIT would probably be best collected at source as there would be no need to factor in local variances. If locally set, deductions at source with employers having to deduct different rates of tax from each employee depending on where they lived would have cost implications for business that would reduce Scottish business’ competitiveness.

Question 11 – If the government were to offer support to employers to implement these proposals, which boxes would be the most appropriate medium of support in your view?

If changes were introduced to local taxation, we would support as much information as necessary to ensure employers are prepared.

Question 12 – In your opinion, will the introduction of a local income tax have positive economic impact for Scotland?

The Scottish Government has identified five strategic objectives aimed at creating a more successful country with opportunities for all of Scotland to flourish through increasing sustainable economic growth. In particular, Strategic Objective 1 is to make the country wealthier and fairer. There is a strong argument that the introduction of LIT is contrary to this policy.

The uncertainties surrounding the proposals and the potential for the LIT to be perceived as an additional national income tax will not have a positive impact on the Scottish economy. It will therefore not improve the wealth of the country.

In order to make taxation “fairer”, it is not possible to simply rely on the methods of taxation but also the level at which it is set. To introduce a uniform level of LIT throughout Scotland would be to introduce a Scottish income tax rather than an alternative local tax. To the outside observer, Scotland would become a less attractive place to locate a business, employ or be an employee due to the higher rate of overall personal taxation. Whilst employees would benefit from not having to pay council tax in overall terms, Scotland will become a less favourable location for business and employment. The short-term uncertainty and long term higher levels of income tax will damage the economy. During the current year employers in the service sectors are experiencing significant difficulties in securing staff, many of whom are migrant workers from within the EU. It is likely that a higher overall rate of income tax in Scotland will exacerbate this position, leading to potential wage inflation and a reduction in competitiveness for Scottish industry compared to the rest of the UK.

It is not clear how the government intends to distribute the tax to local authorities. If the tax is truly local in that the tax collected within a local authority area is allocated to that authority, an economic downturn and significant redundancies within a particular localised industry, or a decision by a major employer to relocate, would undoubtedly have a negative impact on the income of to the authority and that authority’s ability to deliver public services.

The introduction of a LIT would have a significant impact on the housing market. This market, as with much of the economy, has been subject to significant pressures during the last 12 months and more particularly since the ‘credit crunch’. The potential impact on households with two or more earners and high borrowing requirements could exacerbate an already fragile aspect of the Scottish economy.

Question 13 - To what extent would the tax rate influence your decision to live in Scotland?

RICS Scotland has concerns that there could be increased “brain drain” with people moving south of Border to seek employment given that like-for-like net salaries in Scotland will be lower than in other parts of the country owing to the extra income tax that would have to be paid.

In our response to Question 2 above, we have queried the 3% proposed level of income tax. It must be considered what potential investors/employers might think when deciding on whether or not to open for business in Scotland if income tax rates in other parts of the UK are lower, particularly with increased outsourcing of services such as call centres to other parts of the world.

In the European context, Scotland’s service industries have benefited from a large numbers of workers migrating from new EU member states such as Poland. Many of these workers stay for temporary periods of time and use shared accommodation. The increased income tax may dissuade them from moving to Scotland.

Questions 15 & 16

See answer to Question 4 above.

Question 17

No response

Question 18

No response

Question 19 – To what extent do you agree that Scotland should receive equivalent monies to Council Tax Benefit, after the abolition of council tax?

RICS Scotland would agree that the continued flow of monies equivalent to the Council Tax Benefit, either in full or in part, is a matter for negotiation between the Scottish Government and the DWP, however we would observe that it is essential for these issues to be resolved and the funding gap addressed to avoid uncertainty, particularly in the current financial climate.

In addition, applying a benefits scheme designed for council tax to a local income tax (if this is what is agreed between the Scottish and UK Governments) would present a number of challenges.

Question 20 – To what extent do you agree that local authorities should play a part in setting a second home tax?

Under the current system, defining a second home may be relatively simple as details of all properties are held for the purposes of council tax by the local Assessor. If there were to be a property tax on second homes under an LIT regime, RICS Scotland would support the maintenance of a register for all properties, similar to that currently used for council tax. Otherwise, the identification of properties which move from being first homes to second homes would present difficulties, unless the taxpayer volunteers the details. Whilst most honest people would do so, this would require the cost of policing the situation. We also believe that maintaining a property register would be good practice and could be used for a number of other purposes as referred to below.

RICS Scotland acknowledges the Land Register for Scotland does provide some of this information, but details are only entered into this Register when they are newly built or ownership is transferred (other properties remain in the Sasines Register until transferred). The current council tax register which is far more comprehensive and used by many public sector and research organisations, including Registers of Scotland, should therefore be maintained.

Question 21

No response

Question 22 – Which do you feel is the fairest approach to taxation?

We accept that if LIT was introduced then some groups may pay less than they currently do with council tax and vice-versa, but this by itself should not warrant changing a taxation system. It is possible to provide exemptions for certain groups under the current arrangements, which is already the case for example, with full-time students.

In its response to the [Sir Michael] Lyons Inquiry in March 2006, RICS (UK) stated in conclusion “council tax is a workable hybrid tax and should be retained and reformed”. The Scottish Local Government Finance Review [Sir Peter Burt] Committee carried out extensive research and recommended that a local income tax should not be introduced either as a replacement for council tax or as a supplementary tax⁴ and that a local tax should be based on the capital value of homes in Scotland⁵. RICS Scotland would therefore support this view.

⁴ *A Fairer Way: Report by the Local Government Finance Committee, Recommendation 2, p114*

⁵ *Ibid., Recommendation 4, p152*

Water Charges

We do have concerns over the issues of water charge collection. Currently, water charges for non-domestic properties are based on levels set at 1995 for existing properties whereas new properties are rated and current day values. Whilst the rateable value for business rates is adjusted, the level for water (held by Scottish Water) is not. This has led to situations whereby two identical non-domestic properties are paying the same business rates, but very different water rates.

This problem does not however exist with domestic properties which are simply charged on the basis of their council tax band. It would be sensible to resolve the non-domestic situation before removing water charges from the council tax band system to ensure this does not happen to domestic properties.

Conclusion

RICS Scotland does not support the introduction of a local income tax based on the proposals outlined in the consultation document but rather favours the retention and reform of the current system. Whilst property taxes require regular revaluations and provisions for those who have limited wealth to ensure that they are fair, they have a certainty and a local connection that the current proposals cannot provide.

The current proposals would be damaging to the economy and are not in the interests of Scotland.

END OF RESPONSE