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FILE 49
+End

Mr Graham ✓ 17/9

JOSEPH ROWNTREE FOUNDATION REPORT: OPTIONS FOR A LOCAL INCOME TAX

Earlier this year, Mrs Martin provided details of research being undertaken in the Local/Central Government Relations Research Programme, set up by the Joseph Rowntree Foundation. I attach for your information a copy of a summary of a study of options for local income tax, recently completed as part of the programme. I have not copied to the Divisional Heads in your Group at this stage, We would be happy to take any further action required.

Hamish Clark

HAMISH CLARK
CRU/SO
Room 5/67
NSAH
Ext 4381
16 September 1992

~~Mr Baxter~~
23/9

~~17/9 Mr Baxter~~
copy (for all times' sake) Mr Baxter

~~Mr Thompson~~
[Signature]

Issues raised at debate on 11 March 2004 on Council Tax

Tommy Sheridan (SSP)

- it is a fact of life that the majority of poor pensioners are women;
- [REDACTED]
- it is a tax which pampers the well paid and wealthy, but punishes the pensioner household and ordinary worker;
- there is a time and a need to debate alternatives;
- members should agree that the council tax should be replaced with an income-based alternative, [REDACTED]
- an income-based tax will redistribute wealth in Scotland;
- the wealthy and well paid will be taxed more and the pensioner and ordinary worker less;
- welcomes the idea of a local government finance review, [REDACTED]
- [REDACTED]
- the Parliament needs to recognise that the council tax is no longer acceptable.

Tavish Scott

- spoke of the forthcoming independent review of local government finance;
- [REDACTED]
- the council tax cannot be scrapped today as local government and the agencies that it supports through its funding system must have a mechanism to ensure that the funding continues;
- the Local Government Committee in the previous session of Parliament was robust in its destruction of the Scottish service tax;
- to replace Scotland's only local tax with a new national tax would leave councils in Scotland wholly dependent on central government for their funding and would, in the Committee's view, destroy local accountability for councils' spending decisions (taken from the LG Committee's report);
- telling people to run up long-term debts by not paying their council tax will only add to the sum of human misery;
- [REDACTED]

Fergus Ewing (SNP)

- the SNP has produced a set of proposals that serious commentators in the press have acknowledged as well thought out and detailed, based on the fundamental principal that local government taxation should be based on the ability to pay;
- if the current system is to continue it must be acknowledged that there will be a revaluation;
- CIPFA has concluded that a local income tax would be fairer and easier to administer.

Brian Monteith (Con)

- council tax in Scotland has become so unpopular because the increases have been so great;
- 80% of council spending is funded from general taxation based on income tax and consumption taxes;
- based on the above people who are high earners make significant, often greater contributions as a percentage or in real terms;
- an income-based tax could mean that a group of people would not have to pay a contribution but they may be capital rich and asset wealthy;
- people who use amenities funded by local authorities should make a contribution;
- the answer lies in making the council tax far fairer than it is at present;
- to suggest that some form of income-based tax might be a solution is misleading;
- how will people contribute to local services if they cannot be taxed through a local income tax i.e. second homes and people who have properties but live outwith the local area or even outside Scotland;
- there are serious flaws in the suggested replacements for the council tax.

Christine May (Lab)

- any local system must have 4 key elements for success – it must be visible, it must be accountable and fair, it must be simple to administer and collect, and it must produce as much revenue as possible for services;
- a property-based tax is almost impossible to avoid;
- council tax collection rates are more than 90% and rising;
- the proposed (income-based) tax would be ducked by the wealthy who would find a way round it, and would hit working families on lower wages harder than the council tax does;
- the proposed tax would put at risk £300 million in council tax benefits;
- the proposed tax would be a nightmare to administer;
- to believe someone will happily pay when others do not have to is a myth.

CHAPTER 8: HANDLING OF MEMBER'S BILLS AND COMMITTEE BILLS

313. This Chapter provides guidance on the handling of Bills introduced to the Scottish Parliament by Members who are not members of the Scottish Executive or junior Scottish Ministers.

Background

314. Rule 9.14 sets out the procedures to be followed in relation to Member's Bills. The Rule permits a Member to introduce no more than two Bills in a session of the Parliament. There is, therefore, potential for a very large number of Member's Bills to be introduced in each 4-year session. The handling of such Bills by the Executive requires to be quite different from the handling of Private Member's Bills in Westminster. In particular, the Executive needs to be able to set out its position in detail to the Parliament at an early stage, to build support for its position and, where it is opposed in principle, to secure a vote to that effect in the Parliament. The following paragraphs describe the Parliamentary procedures and the steps which need to be taken by the Department with the lead interest in the Bill.

Outline of Parliamentary Procedures**Lodging of Proposal/Introduction of Member's Bills**

315. There are two routes by which a Member may seek to introduce a Bill, viz

- a) where a Member arranges for a Bill to be prepared (a "Member's Bill") or
- b) where a Member submits a proposal for a Bill to the Parliamentary Bureau, the proposal is considered by the relevant committee and Parliament and a Bill subsequently commissioned by the Committee Convener (a "Committee Bill", but counts as a Member's Bill for the purpose of the quota of 2 per session)

316. In the first case the initial step is for the Member to give notice of a proposal for a Bill by lodging it with the Clerk i.e. the Chamber Office. The proposal then appears in the Business Bulletin, which is normally printed daily, for one month. If the proposal fails to attract the support of 11 other Members within the month, it falls, and a similar proposal may not be introduced by any Member for a period of 6 months. If at least 11 Members indicate support, a Bill to give effect to the proposal may be introduced at any time during the 4-year Parliamentary session, including during the month when the proposal appeared in the Business Bulletin.

317. When the Bill is introduced by the Member it should, unless the Parliament has agreed otherwise, be accompanied by a statement by the Presiding Officer on legislative competence, a financial memorandum, and a report from the Auditor General if it contains any provision which involves a charge on the Scottish Consolidated Fund. It may also be accompanied by Explanatory Notes explaining briefly what the Bill does, although the Standing Orders do not require Explanatory Notes to be supplied. Once the Bill is introduced, the Parliamentary Bureau (which consists of representatives of all the political

parties with more than 5 MSPs under the chairmanship of the Presiding Officer) must refer the Bill to a lead Committee, and can set a deadline for completion of the Committee's stage 1 report on the general principles of the Bill. In setting the deadline for the Stage 1 report, the Bureau is expected to take account of the other workload of the Committee.

318. Certain Member's Bills may receive Executive support and assistance in drafting. Where this happens, the procedures set out in paragraphs 146-161 should apply, as appropriate. It should be noted that, unlike at Westminster, no separate time is set aside for dealing with Member's Bills in the Scottish Parliament. The Bills therefore compete against Executive Bills and the other work of the Committees for time.

319. In the case of other Member's Bills, it may be that, prior to the introduction of the Bill, the Executive is asked by or on behalf of the Presiding Officer for the Executive's view upon the legislative competence of the Bill prior to its introduction. This may be for the purpose of informing the Presiding Officer as to the Executive's view before he gives his opinion under section 31(2) of the Scotland Act as to whether or not, in his view, the provisions of the Bill are within the legislative competence of the Parliament. Counsel should be consulted as soon as a draft Bill is available. Counsel can advise on the adequacy of, or deficiencies in, the Bill and, if the Executive is considering supporting the Bill in principle, can indicate what would require to be done to put the Bill into a fit state to be enacted.

320. It will be appreciated that this is a different situation from the position with regard to Executive Bills or Member's Bills which have been drafted with Executive support. In this case, it is not thought that it would be appropriate for the Executive to give its formal view upon the legislative competence of the Bill unless that view represents the definitive view of the Scottish Executive and, in particular, takes into account any views expressed by the Scottish Law Officers.

321. Prior to consulting the Scottish Law Officers, there would be nothing to prevent an informal note being sent by the Solicitor, in confidence, to Miss Watson and Mrs Nelson, or informal discussions taking place, in confidence, with them, upon the view then taken by OSSE provided it is made clear that this is not the Executive's final view.

Allocation of Responsibility within the Executive

322. Unlike Executive Bills, for which there will be a clearly identifiable lead Division or a Bill team, responsibility for dealing with a Member's Bill or a Committee Bill may not be immediately apparent. For each such Bill, the Parliamentary Clerk, will issue the proposal to the appropriate Department and the Secretariat will allocate it to the appropriate Division. If there is any doubt about who takes on the lead role, this should be discussed at official level initially with Executive Secretariat. If necessary Ministers can become involved (as for the Protection of Wild Mammals (Scotland) Bill). The tasks ascribed to the Executive in this guidance will then fall to the appropriate Division. The Parliamentary Clerk will draw the notice to the attention of the relevant Minister(s) and departmental officials, requesting that a minute should be sent by the Minister with lead responsibility to the Minister for Parliament setting out the background and the proposed handling. The Department concerned should submit a draft of this minute to the lead Minister within 5 days of intimation of the proposal having been lodged, or sooner if circumstances so require, and the lead Minister should

minute the Minister for Parliament within 10 days of intimation of the proposal having been lodged. The form of the minute should be as set out in Annex 13.

323. PS/Minister for Parliament will then arrange for the minute, and handling of the proposal, to be considered at the next convenient weekly Business Planning Group meeting. This Group is chaired by the First Minister, and includes the Deputy First Minister, the Minister for Parliament, the Deputy Minister for Parliament, ES and Special Advisers. Where necessary, the lead Minister will be invited to attend the Group meeting to discuss the handling of the proposal. Where agreement on handling cannot be reached within the Group, the matter will be referred to Cabinet.

324. The lead division within the Executive is also responsible for copying the Bill to the Scotland Office and interested Whitehall departments – see paragraph 191.

Executive Memorandum

325. It is for the lead Committee to consider how to prepare its report. It is open to the Executive to submit a Memorandum to the Committee setting out the Executive's views on the Bill/proposals. This is the opportunity for the Executive both to set out its general position in relation to the Bill/proposals, and to suggest how it should be handled by the Committee.

326. Following consideration of the proposal by the Business Planning Group, an Executive Memorandum should be prepared, cleared by Policy Unit, Executive Secretariat and relevant Ministers including the Minister for Parliament, and submitted, through the Departmental Liaison Officer to the lead Committee within 10 days of any Bill being published. The Memorandum should seek to ensure that the proposal is subject to proper pre-legislative scrutiny. It should comment on the consultation undertaken by the Member, recommend organisations who should be consulted or further consulted, give a view on how practicable the proposals are in practice, suggest alternatives, and give an indication of the likely costs.

327. Where the Executive is opposed in principle to the Bill, the Memorandum should make that clear. If it is clear that the Executive is opposed in principle to the Bill, it is open to the Executive to oppose the motion for approval of the Bill when it is considered by the Parliament. Advice on this should be submitted to Ministers at the same time as a draft of the Executive's Memorandum. These options should be considered in all cases where it is clear that the Bill should not enjoy the Executive's support.

Parliamentary Consideration

328. Once the Bill is printed the Parliamentary Bureau refers it to a lead committee to consider and report on the general principles of the Bill (Stage 1). The Committee will recommend to the Parliament whether the general principles of the Bill should be agreed. Once the Committee has so reported, the general principles of the Bill will be considered by a meeting of the Parliament. It will be for the Parliamentary Bureau to schedule the debate. If at that stage the general principles of the Bill are not agreed to, the Bill falls. If on the other hand the general principles are agreed to, the Bill will proceed to detailed consideration in Committee (Stage 2).

329. The Executive could also move that the Bill be referred back to the lead committee for a report on its general principles. If the Committee has not considered a Bill in as much detail as the Executive considers is necessary, Ministers may wish to refer it back to the committee. This will be for the Business Managers to determine at that time.

Committee Consideration of Member's Proposal where the member has not prepared a Bill

330. As an alternative to lodging a proposal to introduce a Bill and preparing a Bill, a Member may submit a proposal to the Parliamentary Bureau. The Parliamentary Bureau must refer the proposal to the Committee within whose remit it falls. The Committee must then consider the proposal and conclude either that no further action is required, in which case the proposal falls, or prepare a report for consideration by Parliament. Again it is for the Committee to consider how much work it does in preparation of its report. If the proposal is agreed to by the Parliament, the Convener of the Committee must wait at least 4 sitting days before instructing that a Bill be prepared or a Bill be introduced if one is already available. It is however open to the Executive to indicate within 5 sitting days of the Parliament agreeing to the Bill that it intends to bring forward legislation. Use of this procedure may be necessary where Ministers conclude that the introduction of an Executive bill is unavoidable, e.g. because of technical defects in the Member's Bill which the Executive supports in principle, and they wish to control the timetable for the legislation. Where the Executive gives such a commitment, it need not specify a time by which the Bill will be introduced – it will be for the committee to pursue the matter if no Bill is forthcoming within a reasonable time.

331. The consideration of the proposal by the Committee will be the only opportunity for the Executive to make its views known before the Parliament debates the proposal at Stage 1. The Department should therefore provide advice for the Minister for Parliament on handling and prepare a Memorandum as described at paragraphs 325 to 327 above to be placed before the Committee during its consideration of the proposal.

Financial Resolutions and Crown Consent

332. The need for a Financial Resolution or Crown consent may arise in connection with a Member's Bill or a Committee Bill. The Presiding Officer will write to the Member or Committee indicating whether or not a Financial Resolution is required

Financial Resolutions

333. Where a Bill (or amendment to a Bill) contains provisions which-

a) introduce new, or increase existing, expenditure charged on or payable out of the Scottish Consolidated Fund, or

b) impose or increase any tax or charge or otherwise require any payment to be made,

no proceedings may be taken on the Bill or the amendment at any Stage after Stage 1 unless the Parliament has by resolution agreed to the expenditure.

334. Financial Resolutions may only be moved by the Executive, but such resolutions may be required in connection with Committee Bills or Member's Bills. Where the Executive supports such a Bill, the Division responsible for overseeing the Bill should take responsibility for ensuring that a motion for a Financial Resolution is prepared in advance, including obtaining the approval of the Minister for Finance, but not lodged in advance of the Stage 1 debate. If the Bill is agreed to by the Parliament at Stage 1, and the Minister for Parliament has given permission, the motion should then be lodged in the name of the Minister for Finance. Further information on Financial Resolutions is to be found at paragraph 168.

Crown Consent

335. Crown consent may be required in connection with a Member's Bill or a Committee Bill in the same way as for an Executive Bill. However, individual members or committees cannot obtain Crown consent themselves and must therefore ask the First Minister to do so on their behalf. Although the Executive may not approve of the content of the Bill, it would be extremely discourteous to refuse such a request and the Executive should therefore provide assistance to the Member/Committee in obtaining Crown consent.

336. Further details on the procedures for obtaining Crown consent are to be found at paragraph 158.

Conclusion

337. The procedures for handling Member's Bills need to be followed with care to ensure that Ministers are able to appropriately influence Parliament's consideration of the legislation.

338. Further advice can be obtained from Ian Campbell, PS/Minister for Parliament, (Ext: 85593) on Parliamentary procedures; Andrew McNaughton (Ext: 41433) on preparation of the Executive Memorandum and from George Burgess (Ext: 47432) on wider procedural and devolution issues.

Duncan ID (Ian) (Local Tax)

From: Thomson A (Ann) (Local Tax)
Sent: 28 January 2003 09:15
To: Duncan ID (Ian) (Local Tax)
Subject: FW: SSP Debate, Thursday 30 January

Importance: High

Looks like he's changed his motion

-----Original Message-----
From: Thomson A (Anne) (PS) On Behalf Of Smith C (Christie)
Sent: 28 January 2003 09:13
To: Thomson A (Ann) (Local Tax)
Subject: FW: SSP Debate, Thursday 30 January
Importance: High

Ann

I assume that you will deal with this?

Anne

-----Original Message-----
From: PS/FCSD
Sent: 28 January 2003 09:10
To: Smith C (Christie)
Subject: FW: SSP Debate, Thursday 30 January
Importance: High

-----Original Message-----
From: McGowan M (Mariane) On Behalf Of Minister for Parliamentary Business
Sent: 28 January 2003 08:58
To: Minister for Finance and Public Services; Deputy Minister for Finance and Public Services
Cc: First Minister; Press SCB; Ghibaldan S (Sam); Deputy First Minister (Minister for Justice); Minister for Parliamentary Business; Deputy Minister for Parliamentary Business; Imrie C (Colin); Frerman J (Jeane); Donnelly M (Mike); Hastie P (Peter); Colwell A (Adrian); PS/FCSD; Collings PS (Peter); Press Finance
Subject: SSP Debate, Thursday 30 January
Importance: High

The Motion set out below has been submitted for debate on Thursday 30 January.

***SIM-3809 Tommy Sheridan: Abolition of Council Tax-**That the Parliament believes that the council tax is a fundamentally unfair and regressive tax; believes in social justice and the redistribution of wealth from the rich to the poor; therefore agrees to abolish the council tax and replace it with the Scottish Service Tax which is based on an individual's income and is inherently fairer, more efficient and redistributive; notes that this tax would raise more revenue than the council tax and that it would remove the burden of paying for local government jobs and services from the shoulders of low-paid workers and pensioners and place it firmly on the shoulders of the well-paid and the wealthy, and believes that the introduction of this tax should be complemented by the return of the right for local authorities to raise and retain their business rates and a thorough investigation of land value and speculation taxes to supplement local authority revenue.

***S1M-2632 Tommy Sheridan: Introduction of Progressive Water Tax**—That the Parliament believes that water and sewerage services are essential services which should be publicly owned and democratically controlled for the benefit of all Scotland's citizens; further believes that water and sewerage service charges to domestic customers should be paid for by using an income-based personal tax which would be progressive, efficient and easily understood; therefore endorses the replacement of the current unfair water rate system for domestic customers with a new individual income-based water tax that would be fair and redistributive, while raising more revenue for Scotland's water and sewerage services, and notes that this new Water Tax would be collected by the Inland Revenue in Scotland on behalf of the Scottish water industry.

***S1M-2631 Tommy Sheridan: Abolition of Council Tax**—That the Parliament believes that the council tax is a fundamentally unfair and regressive tax; believes in social justice and the redistribution of wealth from the rich to the poor; therefore agrees to abolish the council tax and replace it with the Scottish Service Tax which is based on an individual's income and is inherently fairer, more efficient and redistributive; notes that the Scottish Service Tax would raise more revenue than the council tax and that it would remove the burden of paying for local government jobs and services from the shoulders of low paid workers and pensioners and place it firmly on the shoulders of the well paid and the wealthy, and believes that the introduction of the Scottish Service Tax should be complemented by the return of the right for local authorities to raise and retain their business rates and a thorough investigation of land value and speculation taxes to supplement local authority revenue.

Duncan ID (Ian) (Local Tax)

From: Stitt B (Bill) on behalf of Press Finance and Public Services
Sent: 11 March 2004 08:58
To: Rushworth AJ (Andrew); Duncan ID (Ian) (Local Tax)
Subject: FW: PA - MSPs Urged to Condemn Council Tax

Follow Up Flag: PA - tax
Flag Status: Flagged

For information

-----Original Message-----

From: Carr J (Joanne)
Sent: 11 March 2004 08:38
To: Press Finance and Public Services
Cc: Press First Minister
Subject: PA - MSPs Urged to Condemn Council Tax

MSPs URGED TO CONDEMN COUNCIL TAX

By Kevin Schofield, Political Reporter, Scottish Press Association MSPs were being asked today to back calls for the scrapping of the council tax. The Scottish Socialists were hoping to gather as much support as possible for its replacement with "an income-based alternative". SSP leader Tommy Sheridan said the most recent opinion poll showed 77% of Scots were in favour of abolishing the council tax, which is based on the value of property. Protests have been mounted against the council tax across the UK in recent months, particularly from pensioners who claim they can barely afford to pay it. Mr Sheridan, whose party was leading a debate on the issue at Holyrood today, said MSPs had a duty to reflect public opinion. And he said that all parties opposed to the council tax should vote with his party. Speaking ahead of the debate, he said: "The vote will be against the council tax and for an income-based alternative. "The form of alternative can be decided in debate later, the priority is to unite against the council tax. "I appeal to the SNP and Liberal Democrats to put aside our major differences to ensure that on this issue Scotland's pensioner and low-income households win."

The SNP, who last week unveiled its plans to replace the council tax with a local income tax, was expected to vote with the SSP. Nationalist shadow finance minister Fergus Ewing said: "The SNP has put forward the only detailed policy offering an alternative. "Our policy was widely acknowledged as well thought-out and detailed and the SNP is leading the charge to end the unfair council tax." The Liberal Democrats have also said they are in favour of a local income tax, while Labour wants council tax bands to be re-drawn. But both coalition parties were expected to join forces today to vote down the SSP motion. An amendment tabled by the Executive said an independent review of local government finance was about to take place and would look at all the different proposals, including income-based charges and council tax reform. The amendment "encourages all those who wish to make a meaningful contribution to the review to submit their proposals when called upon to do so".

* **S1W-28866 Bill Butler** To ask the Scottish Executive what powers it has to introduce a Scottish service tax.

* **S1W-28867 Bill Butler**: To ask the Scottish Executive what impact the use of a Scottish service tax to increase public spending would have on the block grant.

S1W-28868 Irene Oldfather: To ask the Scottish Executive what progress has been made with the Glasgow bid to be the preferred location for the new European Maritime Safety Agency and what support it has been able to provide.

S1W-28869 Irene Oldfather: To ask the Scottish Executive what action it intends to take to increase awareness of, and encourage applications from suitably qualified people for, the post of Executive Director of the European Maritime Safety Agency.

S1W-28870 Bill Butler: To ask the Scottish Executive what impact a Scottish service tax would have on the administration of council tax.

* Both P.Q.s passed to P.F.O. Dr Follings

SRS - Sylvia Cunningham x 47785

David Palmer x 47292

(Lee) Leigh Keenan x 47068

From the President Norman Murray

27 March 2000

Tommy Sheridan MSP
Scottish Socialist Party
Scottish Parliament
Room 1.16
George IV Bridge
EDINBURGH
EH99 1SP

F/9-NW/HT

Dear Tommy

SCOTTISH SERVICE TAX

Thank you for your letter of 16 March inviting comments on your Scottish Service Tax Proposal. You had previously sent me a copy of the commissioned report.

As you know, COSLA has long campaigned for an independent review of local government finance to be undertaken. In that respect we welcomed the Local Government Committee's statement on 28 February indicating that if the Executive fail to agree to a review, it was prepared to consider how best to conduct its own review using the resources available. COSLA will wish to contribute fully to that process.

It will be important that any review considers local government finance in its entirety. This should rightly consider the appropriate forms of local taxation which should be put in place and in this respect your proposals can feed into that process. COSLA is firmly of the view, however, that if local government is to respond effectively to local needs and play an effective part in Scotland's government it needs more responsibility for its finances. The current 80:20 split between central and local funding needs to be addressed with the local revenue base being significantly increased. To consider one element of local finance in isolation however, may result in revised arrangements being put in place which could detract from the overall strategic goal. For that purpose any review needs to be holistic in its approach with a zero based consideration and fully consider what appropriate revenue controls (if any) should be put in place, the level and forms of local taxation, the problems caused by the ring-fencing of resources, the need to implement three year planning at an individual council level, the need for local government to be regarded as genuine partners in the policy development process, the move to output and outcome orientated budgeting, the impact of the government's pay policy, the potential for cross-cutting solutions to problem areas and public/private partnership arrangements.

This is a daunting, but by no means comprehensive list. However, these issues all require to be addressed if there is to be a serious attempt at remedying the current year on year difficulties being faced by local government to restore local democracy and accountability.

Yours sincerely

Norman Murray
President



SCOTTISH EXECUTIVE

Finance and Central Services Department
Local Government Finance & Performance Division

Victoria Quay
Edinburgh EH6 6QQ

S Farrell Esq
Clerk to the Public Petitions Committee
The Scottish Parliament
EDINBURGH
EH99 1SP

Telephone: 0131-244 7025
Fax: 0131-244 7020
ian.d.duncan@scotland.gsi.gov.uk
<http://www.scotland.gov.uk>

4th April 2002

Dear Mr Farrell

Thank you for your letter of 27th March about petition PE478 by Mr Thomas Gardner calling for the council tax to be replaced by a local income tax.

As you note, the recent report of the Local Government Committee inquiry into local government finance recommended the longer term consideration of a local income tax. Ministers are giving careful consideration to the reports recommendations and hope to announce their initial responses in June. Any proposal to change the local taxation system would require careful consideration and preparation.

I hope this is helpful in advising the Committee of the current position on this issue.

Ian Duncan





The Scottish
Parliament

PUBLIC PETITIONS COMMITTEE

Ian Mitchell
Finance and Central Services
Scottish Executive
3-H56, Victoria Quay
EDINBURGH

Room 5.16
Parliamentary Headquarters
EDINBURGH
EH99 1SP

27 March 2002

Dear Ian

I am writing in my capacity as Clerk to the Scottish Parliament's Public Petitions Committee.

At its meeting on 26 March, the Committee considered petition PE478 by Mr Thomas Gardner, calling for the Scottish Parliament to take the necessary steps to replace the Council tax by a local income tax.

The Committee agreed to formally refer the petition to the Executive for consideration in the light of recommendations from the Local Government Committee's recent Inquiry into Local Government Finance, that the feasibility of introducing a local income tax in Scotland should be examined in the longer term. The Committee recognised the Executive's consideration of this matter may be prolonged and specifically requested that both the Committee and the petitioner be kept informed of developments as they occur.

The Committee also agreed to take no further action on this petition, other than to provide the petitioner with details of the recent Local Government Finance Inquiry and send a copy of the petition to the Clerk to the Local Government Committee for information only.

A copy of the petition is enclosed and the Official Report of this meeting will be available on the Scottish Parliament Website from Friday 5 April 2002.

I am grateful for your assistance in this matter.

Yours sincerely

STEVE FARRELL
Clerk to the Public Petitions Committee

Contact Telephone Number (Clerk): 0131 348 5186

Fax Number: 0131 348 5088

Email Address (Clerk): steve.farrell@scottish.parliament.gov.uk

*Ian -> Steve, please
find out who deals
with this in
Clerks Division
please ask
to respond
directly
Mark
/an*

08 MAR 2002

SCOTS PARLIAMENT

PE 478

To the Scottish Parliament.

Petition for Human Rights to be invoked to protect householders from the Council Tax.

I, the undersigned, declare that the Council Tax contravenes the European Convention for the Protection of Human Rights and Fundamental Freedoms, as explained hereunder.

(Please find enclosed extracts from the Convention for the Protection of Human Rights and Fundamental Freedoms.)

You are invited to notice that Article 8(1) states a persons "right to respect.....for his home....."

Article 8(2) allows an exception for "the economic well-being of the country", which, may it be suggested, could include taxation.

But Article 14 protects people from discrimination, on such things as "sex, race, colour,property,.....". May it here be suggested that taxation, which discriminates between properties is contrary to the intention of the Convention.

Rates followed just such discrimination between properties, and the petitioner believes that that was why they had to be discontinued.

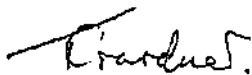
Half the Council Tax is based very similarly to the old Rates which were entirely property oriented and the other half assumes nominal incomes based on home addresses, which, the petitioner believes, is a form of property discrimination.

Hence, Council Tax, by definition, appears to be a crime against humanity, and like the hearth tax, the chimney tax and the windows tax, it discriminates against householders.

The petitioner respectfully submits that tax is the natural bed-fellow of trade, profit or income, and perhaps a more suitable basis for local taxation would be Income Tax, which would not offend the Convention

Although tax is a UK Parliament affair, the petitioner submits that the Scottish Parliament has responsibility and authority, with regard to Human Rights.

Monday, 25 February 2002



Thomas Gardner
145, Bruntsfield Place,
Edinburgh. EH10 4EB

Signorini D (David)

From: Stephen.Herbert@scottish.parliament.uk
Sent: 15 November 2004 12:09
To: Signorini D (David)
Subject: SST
Importance: High

This message has been received from an external party and
has been swept for the presence of computer viruses.

Hi Dave

Copy of the paper attached.

<<Revised 25March04.doc>>

If you need anything else or have any questions give us a shout.

Regards
Stephen

Dr Stephen Herbert
Senior Research Specialist
Local Government, Communities (Social Inclusion, Housing), Culture and Sport
Research Services
Scottish Parliament
Edinburgh
EH99 1SP
Tel: 0131-348-5373

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14/10/2005



**The Scottish
Parliament**

The Information Centre

Parliament Headquarters
EH99 1SP

Tel: 0131 348 5373

Fax: 0131 348 5378

Email: stephen.herbert@scottish.parliament.uk

2nd March 2004

Dear Mr Sheridan

Scottish Service Tax

Thank you for your enquiry requesting information on the comparison between council tax and Scottish Service Tax payment rates across a range of professions. Please find attached information as requested. If you require any clarification about the information attached or any further information please do not hesitate to contact me.

Yours Sincerely

Stephen Herbert
Senior Research Specialist
Local Government, Communities, Culture and Sport

INTRODUCTION

In this response I detail the council tax and Scottish Service Tax payment rates for a range of occupations. In providing this response I have used the same assumptions utilised in previous responses on this issue (most recently in January 2004) unless stated otherwise. For example I assume that the Scottish Service Tax will follow the model set out by Danson and Whittam in 2002.

COUNCIL TAX PAYMENT RATES

I have based the council tax payment rates on the Band D figures announced by local authorities recently. These figures are available from the Scottish Executive web-site at the following web-site:

http://www.scotland.gov.uk/about/CSU/DD-EAS-LG/00016945/refdata_ctax.aspx

Applying the proportions which exist between the different council tax bands (for example, a Band H property will be liable to pay double the amount of council tax that a Band D property is subject to) has enabled me to calculate the average Scottish council tax at each Band for 2004-05. These are as detailed in Table One.

Council Tax Band	Average Scottish Council Tax Due, £, p.a.
Band A	702
Band B	819
Band C	936
Band D	1,053
Band E	1,287
Band F	1,521
Band G	1,755
Band H	2,106

Source: Based on data from the Scottish Executive (2004)

You requested that public sector occupations be placed in Band D, MSPs and MPs in Band G. For a range of other occupations I have also placed these in Band G unless salary levels rose above £100,000 per annum in which case I have placed these occupations in Band H. Table 2 lists occupations by council tax band and includes the Scottish average annual Council Tax payment for that band in 2004-05.

As has been noted in previous responses, the amount paid in council tax is not directly a function of income earned but rather of the band in which an individuals' residence is located. However council tax rebates and discounts do take account of income. Accordingly, there is not necessarily a relationship between an individuals' occupation and the council tax band in which an individuals' property is located. However this response assumes that employment in a particular occupation is related to particular bands in council tax in line with the bands suggested by you for particular occupations. Accordingly, the examples provided in this response relate to a situation where one individual lives in a property within a particular band. For example, a bus driver living alone in a Band D property who is earning the average

salary for a bus driver. This response should not be read as stating that all bus drivers live in Band D properties. It is also important to note that this response does not factor in the impact of council tax rebates and of council tax benefit. For example a person living on their own in a property would receive a 25% discount on their council tax charge whilst council tax benefit would also be available to individuals on low incomes.

Occupation	Council Tax Band	Average Payment
Bus Driver	D	1,053
Nursery Nurse	D	1,053
Postal Worker	D	1,053
Pensioner	D	1,053
Teacher	D	1,053
Refuse Collector	D	1,053
Social Worker	D	1,053
Police Constable	D	1,053
Nurse	D	1,053
Hospital Auxillary Worker	D	1,053
Firefighter	D	1,053
General Practitioners (GPs)	G	1,755
Solicitors	G	1,755
MSP	G	1,755
MP	G	1,755
Advocate – Example 1 (1)	H	2,106
Advocate – Example 2 (1)	H	2,106
Local Authority Chief Executive	H	2,106
Communities Scotland Director	H	2,106
Scottish Water Executive Board Member	H	2,106

(1) The reason for providing two examples in relation to Advocates is discussed later in this response.

AVERAGE SALARIES PER OCCUPATION

The basis for arriving at an average salary for each of the occupations detailed above is described below.

The average salaries provided for teachers, refuse collectors, social workers, police constables, nurses, hospital auxillary workers and fire fighters are based on the same data provided in the response in January.

The average salary for a bus driver has been taken from the New Earnings Survey (2003) which details the average salary of 'bus and coach drivers' in the UK as being £333.70 per week. This equates to £17,352.40 per annum. The New Earnings Survey does not provide a figure at a Scottish level.

The average salary for a nursery nurse has been obtained from Unison. Unison stated that nursery nurses are paid £11,000 per annum, pro rata, on average. However nursery nurses are paid for working during term-term which equates to 38

weeks of the year. The average annual salary over the whole year is therefore £8,000 per annum.

Information regarding the average annual salary of a postal worker has been obtained from the Commercial Workers Union (Edinburgh Branch). They stated that from the 1st April 2004, the average salary of a postal worker will be £300 per week equating to £15,600 per annum.

The income of a pensioner can vary significantly depending upon individual circumstances such as the level of pension provision, income from investments etc. The 2001/02 Scottish Household Survey includes data on the income distribution, detailed in Table Three, amongst 'single pensioners' in Scotland from a sample of 4,759 pensioners. As almost half (47%) of all the single pensioners surveyed fall within the £6,001 to £10,001 income band I have taken the mid-point in this scale (i.e. £8,001) as being the average income of a single pensioner.

Income Band	%
£0 - £6,000	26
£6,001 - £10,000	47
£10,001 - £15,000	20
£15,001 - £20,000	4
Over £20,000	2
Total	100
Sample Size:	4,759

Source: Scottish Executive (2003) 'Scotland's People: results from the 2001/2002 Scottish Household Survey', p.29.

Information provided by the Royal College of General Practitioners indicates that the average salary of a General Practitioner in Scotland is £56,218 per annum.

The Law Society of Scotland conducted a 'Survey of Legal Practices in Scotland' in 2002. This survey found the following levels of remuneration for solicitors within the various levels across the profession:

Salaried Partner - £36,400 per annum
Qualified Assistant - £24,000 per annum
Unqualified fee-earners - £18,000 per annum
Trainees - £12,500 per annum

I have taken the average salary of a solicitor in Scotland to be that of a 'salaried partner' and therefore an average salary to be £36,400.

For MSPs and MPs I have updated the salary levels to those which MPs and MSPs will be paid in 2004-05¹. In 2004-05 the salary for an MSP will be £50,300 per annum and that of an MP will be £57,485 per annum.

¹ Information provided by the Scottish Parliament Allowances Office.

Obtaining an average salary for an Advocate has proved to be problematic. Discussions with the Faculty of Advocates indicated that there is a wide range of remuneration between advocates dependent upon a range of factors such as, whether the advocates deals with criminal or civil cases, the amount of work taken by the advocate etc. The Annual Report of the Scottish Legal Aid Board 2002-2003 provides details of the top twenty highest earning advocates in terms of income obtained from the Legal Aid Fund. It is important to note that advocates obtaining such funds are engaged in criminal law cases and that advocates engaged in civil law are likely to be obtain higher fees. Due to the difficulty in obtaining an average salary for an advocate I have taken two examples of advocates earnings and provided these instead of an average salary level. The two examples relate to the top income earner and 20th highest income earner in terms of income obtained from the Legal Aid Fund. Example One relates to Mr Charles P C Boag-Thomson QC, who was the 20th highest income earner from legal aid in 2002-03, with income worth £121,000 being paid. Example 2 relates to the highest income earner from the Legal Aid Fund in 2002-03, which was Mr Donald R Findlay QC, who obtained £267,000 from the fund.

Information on the salary of a local authority Chief Executive's has been provided by COSLA. The salary of a local authority Chief Executive in 2003-04 ranged from £82,997 in Orkney Islands Council to £141,831 in Glasgow City Council. I have taken the mid-point in the range between these salaries as being the average salary of a local authority Chief Executive which equates to £112,414 per annum.

The salary of the Chief Executive of Communities Scotland is contained in the organisation's 'Annual Report'. The Annual Report states that the salary of the Communities Scotland Chief Executive in 2002-03 was in the salary band £100,000 to £105,000. I have therefore taken the salary of the Chief Executive to be in the middle of this range and therefore to be £102,500 per annum.

The Scottish Water Annual Report contains details of the salaries of Scottish Water Board members. The salary of a Scottish Water Executive Board Member (including bonuses and benefits) ranges from £139,000 to £175,000 in 2002/03. I have taken the mid-point in this range as being the average salary of a Scottish Water Executive Board Member. This equates to £157,000 per annum.

Using the salary details for the various occupations, outlined above, the Scottish Service Tax contributions for each of these occupations is detailed in Table Four.

Table Four – Council Tax by Occupation		
Occupation	Average Salary p.a. (£)	SST Payment (£)
Bus Driver	17,352.40	330.77
Nursery Nurse	8,000	0
Postal Worker	15,600	251.91
Pensioner	8,001	0
Teacher	24,174	533.34
Refuse Collector	14,560	205.16
Social Worker	23,970	628.52
Police Constable	26,016	720.59
Nurse	20,798	485.78
Firefighter	23,175	592.74
General Practitioners (GPs)	56,218	5018.48
Solicitors	36,400	1859.72
MSP	50,300	3953.24
MP	57,485	5246.54
Advocate – Example 1 (1)	121,000	17299.06
Advocate – Example 2 (1)	267,000	46499.06
Local Authority Chief Executive	112,414	15581.86
Communities Scotland Director	102,500	13599.06
Scottish Water Executive Board Member	157,000	24499.06

Table Five details the difference between the council tax contribution detailed in Table Two and the SST contribution by occupation in Table Four.

Table Five – The Difference Between Council Tax and SST Contributions by Occupation				
Occupation	Council Tax	Average Salary	SST Payment	Difference (i.e. SST – CT)
Bus Driver	1,053	17,352.40	330.77	-722
Nursery Nurse	1,053	8,000	0	-1,053
Postal Worker	1,053	15,600	251.91	-801
Pensioner	1,053	8,001	0	-1,053
Teacher	1,053	24,174	533.34	-520
Refuse Collector	1,053	14,560	205.16	-848
Social Worker	1,053	23,970	628.52	-424
Police Constable	1,053	26,016	720.59	-332
Nurse	1,053	20,798	485.78	-567
Firefighter	1,053	23,175	592.74	-460
General Practitioners (GPs)	1,755	56,218	5018.48	3,263
Solicitors	1,755	36,400	1859.72	105
MSP	1,755	50,300	3953.24	2,198
MP	1,755	57,485	5246.54	3,492
Advocate – Example 1 (1)	2,106	121,000	17299.06	15,193
Advocate – Example 2 (1)	2,106	267,000	46499.06	44,393
Local Authority Chief Executive	2,106	112,414	15581.86	13,476
Communities Scotland Director	2,106	102,500	13599.06	11,493
Scottish Water Executive Board Member	2,106	157,000	24499.06	22,393

Thomson A (Anne) (PS)

From: Michael Danson [Dans-ern0@wpmail.paisley.ac.uk]
Sent: 01 April 2005 17:11
To: Plunkett N (Nikola)
Cc: Gilbert A E (Anna); McKenzie WJ (Billy); Conlong P (Peter)
Subject: Re: THE CASE FOR A SCOTTISH SERVICE TAX: UPDATE 040505



TaxPaper0405.doc
(248 KB)

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Dear Nikola,

as promised, I have now rewritten the first few pages of the update to incorporate the 2002-2003 income figures and the other refinements we have been discussing recently (mostly to aid clarification). There are several tables embedded in the attached: in/excluding an 8% marginal rate between £20 and 30k and for years 2000-01, 2001-02, 2002-03. Comments welcome. It is a superior version to previous copies hopefully.

Mike

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Stitt B (Bill)

From: Mackay N (Neville)
Sent: 30 March 2006 16:48
To: Minister for Finance and Public Service Reform; Smith JC (Jennifer)
Cc: PS/Perm Sec; PS/FCSD; Stafford A (Alyson); Parsons R (Ruth); Greatrex L (Laura); Henderson-Howat D (David); Owenson G (Graham); Arnott RJ (Richard); Lauder D (David); Deputy Minister for Finance Public Service Reform and Parly Business; First Minister; Minister for Environment and Rural Development
Subject: Rule of 85 Daily Update

The Minister has asked for daily updates on developments with the Rule of 85.

Today's developments have been as follows:

- There was a front page article and leader in The Scotsman claiming that the Executive is to back down on the Rule of 85 by considering an exemption from the European Employment Directive. It claimed that the Executive was using the EU Directive as a ruse to deflect blame for the strike onto the EU; that retaining the rule will leave Council Tax payers with a massive bill; and that the Executive is hiding from making difficult choices
- Press reports also commented on Audit Scotland's report into Local Authority finances, published yesterday, which noted that local authority pension liabilities had doubled from the previous year as a result of technical changes in accounting procedures.
- FMQ's included ones from Carolyn Leckie and John Swinney on the Rule of 85. The response to Ms Leckie was (i) we have clear legal advice on this but strike action is inappropriate as the Directive doesn't come into force until October (ii) he called for Unions to withdraw from any future strike action as there was still time for discussions (iii) the potential strike by meat hygiene staff was irresponsible as it could result in up to 1000 job losses. Mr Swinney asked if the Executive was seeking a derogation from the EU in relation to the Rule of 85 and the FM responded that the EU spokeswoman's quote had been refuted by us and then made the same points as above.
- We have provided further clarification for press office on the derogation issue in view of the Scotsman article and Mr Swinney's question.
- The DPM announced in the House of Commons that he was laying the SI's which would repeal the Rule by October; but that he was also reopening negotiations with the Unions on a nothing ruled in or out basis.
- We have received a request from the Clerk to the Scottish Parliament's European and External Relations Committee for an explanation of the legal advice received in respect of the Rule of 85 and of the European Directive obligations on which this is based. We have until 20 April to prepare a written response.
- We are preparing a briefing for the FM's meeting with Alistair Darling tomorrow at which the Rule of 85 will be discussed
- We have tried (unsuccessfully so far) to contact Joe Di Paola from UNISON in order to establish their next steps and the likely timings for any further industrial action
- The Food Standards Agency is considering taking out an injunction against UNISON in England in

order to prevent further strike action by the Meat Hygiene Service. Mr Finnie prefers to explore alternative options in Scotland but recognises that any injunction, if granted, would probably apply to Scotland as well.

- We have sent an annotated agenda to CoSLA suggesting issues to be covered at our meeting of officials which takes place tomorrow morning

So all in all another quiet day all round.

Neville Mackay
Chief Executive
Scottish Public Pensions Agency

Signorini D (David)

From: Conlong P (Peter)
Sent: 04 April 2005 10:54
To: Signorini D (David)
Subject: FW: THE CASE FOR A SCOTTISH SERVICE TAX: UPDATE



TaxPaper0405.doc
(248 KB)

For info, in case you haven't seen already. Seems that he (almost) agrees with your estimate of income for 2001-02 if you exclude the 8% tax band.

P

-----Original Message-----

From: Michael Danson [mailto:Dans-em0@wpmail.paisley.ac.uk]
Sent: 01 April 2005 17:11
To: Plunkett N (Nikola)
Cc: Gilbert A E (Anna); McKenzie WJ (Billy); Conlong P (Peter)
Subject: Re: THE CASE FOR A SCOTTISH SERVICE TAX: UPDATE

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Dear Nikola,

as promised, I have now rewritten the first few pages of the update to incorporate the 2002-2003 income figures and the other refinements we have been discussing recently (mostly to aid clarification). There are several tables embedded in the attached: in/excluding an 8% marginal rate between £20 and 30k and for years 2000-01, 2001-02, 2002-03. Comments welcome. It is a superior version to previous copies hopefully.

Mike

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THE CASE FOR A SCOTTISH SERVICE TAX:

UPDATE

April 2005

Mike Danson and Geoff Whittam	Christine Cooper
Paisley Business School	Department of Accounting and Finance
University of Paisley	University of Strathclyde
Paisley PA1 2BE	Glasgow G4 0LN

Introduction

This brief report presents an update to the April 2002 report (*Paying for Local Government, Water and Sewerage Services Fairly: The Case for a Scottish Service Tax and Scottish Water Charge*, University of Paisley) and the August 2004 report (*The Case for a Scottish Service Tax: Update*, University of Paisley), using data on incomes, council tax and council tax benefit for 2000-2001, 2001-2002, and most recently 2002-2003. Additionally we answer key questions which have been raised regarding the presentation of the original research. Finally we give some examples of how the proposed Scottish Service Tax will affect different groups of workers in different occupations. The data on incomes were provided by the Inland Revenue through SPICE (communications to Tommy Sheridan MSP, 4th December 2002 and 21st March, 2005), other data have been accessed from Scottish Local Government Financial Statistics 2000-2001 through 2002-2003 (Scottish Executive, 12/12/2002; September 2003; June 2004), with forecasting of final receipts in accordance with information from the Accounts Commission for Scotland accessed 17 December 2003.

After this, income data for 2001-2002 (downloaded from the Inland Revenue, 2004: http://www.inlandrevenue.gov.uk/stats/income_distribution/table-311-2001-02.pdf) and subsequent years are applied to demonstrate the robustness of the income based on the SST.

- In 2000/2001, there were 2,490,000 individuals in Scotland earning £45,400 million. Collectively they paid £7,310 million in income tax (Inland Revenue)
- Distribution of total income by income band is given in each Table in column 2.
- Council Tax levied in 2000-2001 was £1,420.000 million.
- Council Tax collected in 2000-2001 was £1,273.316 million.
- Council Tax Rebate (Council Tax Benefit paid by the DWP to local authorities) in 2000-2001 was £279.459 million.
- Local authority income from Council Tax and Council Tax Rebate amounted to £1,552.775 million in 2000-2001. This was the total actually collected, past experience suggests that an additional £70 million may be forthcoming in late payments.
- Even excluding the return of Council Tax Rebate by the DWP (see previous reports for the arguments on this), the SST would have raised about £1,757.8 million in 2000-2001, increasing local authority incomes by £130 million in a progressive way (Table 1).
- If the CTB was to be retained in Scotland through an addition to the Scottish Block Grant, then revenues would have been £285 million higher.
- If the Treasury agreed to the continuing transfer of the Council Tax Rebate from the DWP to the Scottish Block Grant, then this £285 million would have been available to invest in Scottish public services.
- The progressive SST offer all the advantages discussed in the previous research reports.

- In a previous report (April 2002), we explored the implications of Midwinter's advice to the Local Government Committee (11 December 2001) where he appeared to suggest the possibility to retain the Council Tax Benefit by continuing Council Tax in parallel with a local income tax, implying that there may well be more flexibility in the arrangements with Westminster than expected. This remains for discussion. However, and despite his public pronouncements in the press (Herald, various dates 2002), neither he nor the Committee have verified whether the Parliament could give tax varying powers to local authorities with regard to a local income tax (Col 247 9). That this has not been explored appears to be a very important omission as it undermines one of the three reasons he has given for not supporting the SST (Col 246 5). Information from a well regarded advisor to various government committees etc., in fact demonstrates that under the financial provisions of the Scotland Act 1998 the SST appears not to be disallowed: 'the Scottish Parliament can legislate to change the local taxation system, including the imposition of new taxes, as long as the proceeds are used to fund local authority expenditure'. ('The Laws of Scotland: Stair Memorial Encyclopaedia. Public Expenditure (from Constitutional Law, 2002; D Heald and A McLeod, Butterworths, page 455). Any arguments against the SST should therefore be conducted on political and economic grounds, and so not on the competency of such a proposal.
- The analysis of impacts of Council Tax and SST on different occupations on page 14 has been based on 2003 incomes (New Earnings Survey), Council Taxes and proposed rates of SST in Tables 1-3). The robustness of the revenues for SST, as demonstrated below, confirm that the tax would be reasonable as a form of revenue for local authorities, and so comparable analyses could be undertaken for other years. However, there has not been time to present such comparisons here.

TABLE I

Scottish Service Tax Model

2000-2001

Range of total income (lower limit) £	Total number liable for tax (000s)	Total income tax paid (£m)	Marginal Rate	Total SST paid (£000)	Average SST paid (£)	Average income (£)	SST paid as % of income
4385	66	2	0.0%	0	0	4697	0.0%
5000	659	278	0.0%	0	0	7481	0.0%
10000	607	861	4.5%	67050	110	12455	0.9%
15000	431	1040	4.5%	143100	332	17378	1.9%
20000	448	1715	4.5%	285750	638	24174	2.6%
30000	144	863	15.0%	216600	1504	34028	4.4%
40000	38	333	15.0%	101700	2676	41842	6.4%
45000	22	233	15.0%	75300	3423	46818	7.3%
50000	42	626	18.0%	230400	5486	58810	9.3%
70000	15	332	18.0%	134100	8940	78000	11.5%
90000	18	1020	20.0%	503800	27989	174444	16.0%
Total	2490	7303		1757800	706	18241	3.9%

compared with the anticipated Council Tax [including CTB] collected over that period (£1.625bn)
this represents an increase of about £130m.

TABLE 2

Scottish Service Tax Model

2001-2002

Range of total income (lower limit) £	Total number liable for tax (000s)	Total income tax paid (£m)	Marginal Rate	Total SST paid (£000)	Average SST paid (£)	Average income (£) as % of income	SST paid as % of income
4535	49	1	0.0%	0	0	4768	0.0%
5000	586	215	0.0%	0	0	7559	0.0%
10000	570	735	4.5%	62119	109	12422	0.9%
15000	436	991	4.5%	143103	328	17294	1.9%
20000	478	1,762	4.5%	307800	644	24310	2.6%
30000	180	1,040	15.0%	273208	1515	34099	4.4%
40000	39	335	15.0%	107050	2744	42293	6.5%
45000	27	283	15.0%	93326	3512	47411	7.4%
50000	50	716	18.0%	266281	5348	58046	9.2%
70000	18	396	18.0%	162770	8942	78013	11.5%
90000	20	1,120	20.0%	549276	27320	171102	16.0%
Total	2,453	7595.31		1964932	801	19452	4.1%

compared with the anticipated Council Tax [including CTB] collected over that period (£1.649bn)

this represents an increase of about £316m.

TABLE 3

Scottish Service Tax Model

2002-2003

Range of total income (lower limit) £	Total number liable for tax (000s)	Total income tax paid (£m)	Marginal Rate	Total SST paid (£000)	Average SST paid (£)	Average income (£)	SST paid as % of income
4615	38	1	0.0%	0	0	4842	0.0%
5000	614	219	0.0%	0	0	7606	0.0%
10000	580	740	4.5%	63000	109	12414	0.9%
15000	428	973	4.5%	141300	330	17336	1.9%
20000	490	1,808	4.5%	315450	644	24306	2.6%
30000	178	1,040	15.0%	275700	1549	34326	4.5%
40000	43	371	15.0%	119700	2784	42558	6.5%
45000	28	292	15.0%	97200	3471	47143	7.4%
50000	53	765	18.0%	282300	5326	57925	9.2%
70000	18	400	18.0%	163800	9100	78889	11.5%
90000	21	1,150	20.0%	563100	26814	168571	15.9%
Total	2,491	7759		2021550	812	19540	4.2%

compared with the anticipated Council Tax [including CTB] collected over that period (£1.753bn)
this represents an increase of about £269m.

TABLE 4

Scottish Service Tax Model
including 8% marginal rate

2001-2002

Range of total income (lower limit) £	Total number liable for tax (000s)	Total income tax paid (£m)	Marginal Rate	Total SST paid (£000)	Average SST paid (£)	Average income (£)	SST paid as % of income
4535	49	1	0.0%	0	0	4768	0.0%
5000	586	215	0.0%	0	0	7559	0.0%
10000	570	735	4.5%	62119	109	12422	0.9%
15000	436	991	4.5%	143103	328	17294	1.9%
20000	478	1,762	8.0%	379900	795	24310	3.3%
30000	180	1,040	15.0%	336333	1865	34099	5.5%
40000	39	335	15.0%	120705	3094	42293	7.3%
45000	27	283	15.0%	102628	3862	47411	8.1%
50000	50	716	18.0%	283707	5698	58046	9.8%
70000	18	396	18.0%	169141	9292	78013	11.9%
90000	20	1,120	20.0%	556312	27670	171102	16.2%
Total	2453	7595.31		2153948	878	19452	4.5%

compared with the anticipated Council Tax [including CTB] collected over that period (£1.625bn)
this represents an increase of about £505m.

TABLE 5

Scottish Service Tax Model
including 8% marginal rate

2002-2003

Range of total income (lower limit) £	Total number liable for tax (000s)	Total income tax paid (£m)	Marginal Rate	Total SST paid (£000)	Average SST paid (£)	Average income (£)	SST paid as % of income
4615	38	1	0.0%	0	0	4842	0.0%
5000	614	219	0.0%	0	0	7606	0.0%
10000	580	740	4.5%	63000	109	12414	0.9%
15000	428	973	4.5%	141300	330	17336	1.9%
20000	490	1,808	8.0%	389300	794	24306	3.3%
30000	178	1,040	15.0%	338000	1899	34326	5.5%
40000	43	371	15.0%	134750	3134	42558	7.4%
45000	28	292	15.0%	107000	3821	47143	8.1%
50000	53	765	18.0%	300850	5676	57925	9.8%
70000	18	400	18.0%	170100	9450	78889	12.0%
90000	21	1,150	20.0%	570450	27164	168571	16.1%
Total	2,491	7759		2214750	889	19540	4.6%

compared with the anticipated Council Tax [including CTB] collected over that period (£1.753bn)
this represents an increase of about £462m.

As is apparent from Table 2, based on 2001-2002 income data produced by the Inland Revenue, the income to local authorities is robust over the years. As the IR did not provide as detailed a breakdown of incomes and taxes paid for incomes over £30k as they had done for previous years, these are estimates of effects of SST. However, several consistency checks suggest that the results are significantly robust and so the Tables are as close as possible to what would actually be collected etc.

At the rates proposed, SST would have raised £1.965bn over the period 2001-2002, a projected surplus of £316m over Council Tax (£1.363bn) and CTB (£285m); if CTB was not retained by the Treasury then the surplus again would be appreciably higher. The most recent analysis uses the very latest Inland Revenue figures for 2002-2003, released towards the end of March 2005. In that year, "Scottish Local Government Financial Statistics 2002-03", Council Tax Income including CTB was £1,752,818,000 <http://www.scotland.gov.uk/stats/bulletins/00344-21.asp>. In that year (Table 3), SST would have raised £2.022bn, generating a surplus of £269m over the £1.753bn revenues of Council Tax (£1.459bn) and CTB (£294m) available to local authorities in 2002-2003.

The additional Tables above (4-5) repeat the exercise for 2001-2002 and 2002-2003 but including an 8% marginal rate for incomes between £20,000 and £29,999. This would suggest that £2.154bn would have been realised in the former year generating a surplus of £505m compared with the anticipated Council Tax [including CTB] collected over that period (£1.649bn). In 2002-2003, £2.215bn would have been raised through SST compared with £1.753bn under Council Tax and CTB: a surplus of £462m. Again, if the equivalent CTB actually distributed by DWP to local authorities over those years were included in the block grant to the Scottish Executive then an additional £285-295m would have been available to be spent in Scotland. These projected revenue streams under SST suggest that either services could be improved, marginal tax rates cut or a combination of these two. Indeed, the progressive SST with an additional 8% marginal rate for incomes between £20 and £30k would allow all domestic water and sewerage charges for 2001-2002 to have been covered (£494m - The Water Industry Commissioner for Scotland, 2001), as well as all local authority expenditure financed by the Council Tax and Council Tax Benefit.

Therefore, the redistribution effects of SST would be greater if applied to finance the Water Services also, and would improve the disposable incomes of several hundred thousand of the poorest in Scotland. As there are no longer any welfare benefits to protect the poorest from increases in water and sewerage charges in Scotland, the use of SST to finance domestic 'Water Services' (*Investing in Water Services 2006 - 2014 [The Quality and Standards III Project] : A Consultation Paper*, Scottish Executive, 2004) would particularly help the poorest Scots.

For a taxpayer on a salary of £24,310 in 2001-2002 the SST (with a marginal rate of 8% for incomes between £20,000 and £29,999) would have been £795, or without the 8% rate: £644. In the section on page 14 where comparisons are made between the SST and Council Tax for different occupations and incomes, the marginal rates of SST are kept at the original rates shown here, i.e. excluding the 8% marginal rate.

FIFTEEN QUESTIONS REQUIRING ANSWERS – WITH RESPONSES

1. Is the SST undemocratic because it is collected centrally and then distributed to LAs? No, because local authorities would set, collect and keep their own business rates (amounting to approx. 20% of local revenue), which would cancel out the 20% in revenue they would lose from domestic charges being collected centrally by the Inland Revenue, also Councillors are elected to make decisions over many other aspects of the community especially over expenditure priorities as well as revenue. PFI and PPP schemes and many other central initiatives have reduced the roles and flexibilities of local elected councillors with more determined centrally anyway. And finally, the Scottish Parliament does not raise its own revenues yet its legitimacy is not questioned on those grounds.
2. What would happen to local authority jobs currently involved in collecting council tax, providing debt and welfare advice etc? Those staff could be deployed to chase business rate collection, to undertake revenue maximisation programmes and to ensure that pensioners, low-income families etc. claim all the benefits they're entitled to.
3. Does SST achieve significant redistribution? Yes, in that it leaves money in the hands of the poorest in society, without means testing. However, the SST scheme is only a reform within the confines of the current economic and political settlement – it can only address some of the inequities of a regressive tax system with very low wages paid by many employers, a significant increase in the National Minimum Wage and higher value added jobs are also required. Reversing some of the many tax handouts and transfers to the rich which were introduced in the 1980s should be a key part of a policy of redistribution also.
4. Why £10k pa threshold? The Low Pay Unit campaigns for a minimum wage of half male median earnings (£4.94 per hour). With a 39 hour week and 52 weeks per annum that makes £10018 pa, which is close to the £10k used. In 2000, male average earnings were £423 pa or £21996, half of this is £11000. Taking account of inflation over that year (99-00) and of the difference between median and average suggest that £10k is not unreasonable.
5. Who would be exempt and so benefit either because they are no longer having to pay or having to claim means tested benefit? 85% of single pensioner households had an income below £10k in 1999; 54% of households with one pensioner, one non-pensioner and a child or just 2 pensioners had income below £10k, while 82% of this group were below £15k pa.
6. Is the SST “Competent”, that is can the Scottish Executive introduce such a tax? In a previous report (April 2002), we explored the implications of

Midwinter's advice to the Local Government Committee (11 December 2001) where he appeared to suggest the possibility to retain the Council Tax Benefit by continuing Council Tax in parallel with a local income tax, implying that there may well be more flexibility in the arrangements with Westminster than expected. This remains for discussion, but there are suggestions that the Government in England may follow just such a model for funding local government there (*Sunday Times, Scotland on Sunday* both 15/2/04). However, and despite his public pronouncements in the press (*Herald*, various dates 2002), neither he nor the Committee have verified whether the Parliament could give tax varying powers to local authorities with regard to a local income tax (Col 247 9). That this has not been explored appears to be a very important omission as it undermines one of the three reasons he has given for not supporting the SST (Col 246 5). Information from a well regarded advisor to various government committees etc., in fact demonstrates that under the financial provisions of the Scotland Act 1998 the SST appears not to be disallowed: 'the Scottish Parliament can legislate to change the local taxation system, including the imposition of new taxes, as long as the proceeds are used to fund local authority expenditure'. (*The Laws of Scotland: Stair Memorial Encyclopaedia. Public Expenditure (from Constitutional Law, 2002; D Heald and A McLeod, Butterworths, page 455)*). Any arguments against the SST should therefore be conducted on political and economic grounds, and so not on the competency of such a proposal.

7. Would the Treasury not reduce the Scottish Block Grant £ for £ for any extra revenue raised? No, only if levels of 'self-funded expenditure' grow more significantly than in England, or if they threaten the public finance targets of the UK as a whole can the Westminster Government intervene – according to HM Treasury *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly (3rd edition, 2002; para. 5.2)* However, as the Scottish Executive has not managed to spend its existing budget, as the extra revenue being generated by the SST is relatively small compared with both the Block Grant and the UK budget, and as similar schemes may be introduced for local government in England, it is highly improbable that there would be a problem.
8. Would the SST not mean that an old person living alone on a modest pension income could pay more than a household where several adults were on the minimum wage? In response to our previous report, there was some concern regarding the potential for anomalous positions facing different sizes of households. In particular, it was suggested in the debate in the Scottish Parliament that four 'gentlemen' living together on £11000 each working part-time in a bar (where such wages are paid is, of course, an interesting question) would pay less SST than a widow with an income of £15000. We note that in 1999, while 10% of all households did have more than 2 adults, only 3 or 4% had more than 2 adults working and this

tended to be a phenomenon of rural areas and suburbs; also 85% of single pensioner households had an income below £10k. The example referred to is very rare, therefore; in any event the four men would be paying around £200 in aggregate while the single pensioner would pay £250. Such so-called anomalies are the essence of a progressive tax system, they are inherent to income tax, national insurance contributions, and so forth. The same situation arises in other countries with a local or regional income tax, and would arise with the variants suggested most serious commentators on fiscal matters in the UK. As the four men in question were also presented as recent graduates, they reasonably could expect to see their incomes rise rapidly over the following months and years, far surpassing the contribution of their neighbour, and would then also be paying back student loans and endowment taxes. Under the present Council Tax system, it is not unlikely that the pensioner would be paying more than the four men anyway. This all suggests that the point raised in Parliament was frivolous rather than illuminating.

9. Would wealthy major landowners who have low reported incomes not escape paying the tax altogether and so be better off than now? We have argued consistently for taxation on land values to address those who continue to own large estates, land and property in Scotland yet declare small incomes. A tax on the value of land in place of business rates would capture these large land holdings and the ability of their owners to avoid much taxation. It would also restrict land speculation, allow the community as a whole to benefit from windfall gains from public investments, and allow the individual some protection from reduced land values due to the actions of others.
10. What about those with second homes who impose a cost on the local authority? We would support fiscal autonomy to local authorities in this regard and allow them to charge a suitable property tax on such property owned by non-residents.
11. Why are there not local tax rates for each local area? Simplicity, fairness and to avoid 'fiscal flight'. As the cities and other areas with high levels of poverty and deprivation need more resources, they would be under pressure to raise local income tax rates. Residents who were more mobile and those on higher incomes especially would then be likely to leave the area exacerbating the problem of low revenues. Also, those who live in the commuting suburbs around the cities tend to benefit from their facilities but, as with the Council Tax, do not pay for them. For both these reasons, it is better to have a tax which covers a wider region – in the case of Scottish Water, the Scottish Executive has decided that this 'region' should be Scotland as a whole. We believe that the same arguments can be applied to the local income tax. With only one set of income tax codes to set, the (albeit marginal) costs to the Inland Revenue would be reasonable

and no more than £11-15m pa. (see Jackson, T (1999) 'Tax varying powers: the watchdog that will not bark'. In McCarthy, J. and Newlands, D. (eds.) *Governing Scotland: Problems and Prospects*. Aldershot: Ashgate, 69-85; 'The Laws of Scotland: Stair Memorial Encyclopaedia. Public Expenditure (from Constitutional Law, 2002; D Heald and A McLeod, Butterworths, page 462)

12. What would happen to the Council Tax Benefit saved by the move to an SST with an exemption threshold of £10000? **This would return to the Treasury. The implication of seeking to help the poorest in the community by exempting them from paying any local taxation is that Westminster would gain from the reduction in benefit being claimed. It seems unfair that Scotland would lose about £285m. to the Treasury. Local authorities in England discovered a similar problem with their plans to exempt pensioners from the high increases in Council Tax in 2003.**
13. Could pensioners and some other groups not be exempt from some of the increases in Council Tax without having to introduce this new SST? It is illegal under EU laws (incorporated into Scots and UK legislation) to reduce the rate of Council Tax for just some groups e.g. pensioners within an area. All low income groups can be directly helped under the SST which is not the case with the Council Tax.
14. Would the proposed SST tax rates not make Scotland the highest taxed country in Europe? **This is difficult to say for the following reasons: in the first instance 'local government' is different in almost every facet, from size of authority, however size is measured, activities undertaken by the various local authorities, how these activities are financed, relationship to other tiers of government etc. Similarly, the regional and local spending as a per cent of GDP varies enormously between member states. These variations are accounted for by the variety of functions provided by local authorities. Further differences exist between the amount of taxes raised locally and the amounts provided by the state to be spent locally (www.lgib.gov.uk/eis/1996/articles/02.htm).**
15. Would not the proposed SST mean that we will lose our brightest and best? **The much respected Kay and King (1991) who have written one of the definitive texts on 'The British Tax System' comment: "The most important tax on factors of production is the income tax on individuals. If labour income is taxed too heavily in country A, you can often reduce the burden by working in country B instead. Again, this is an issue which generates more anecdote than evidence of serious effect. The study by Fiegehen and Reddaway (1981) showed that even the high tax rates of the 1970s appeared to have had little effect on the mobility of senior managers in practice. For most people, the ties of family, home, culture and language outweigh fiscal incentives to work in other countries, and the opportunities for advancement within mnc [multinational corporations] dominate the fiscal benefits of a lower tax rate on a lower salary. There are obvious**

exceptions- entertainers and professional sportsmen and women. But when the Inland Revenue published a consultation document on changes to the concept of residence for tax purposes, most of the practitioner response was to the effect that mobile managers were being penalized too heavily rather than moving to minimize tax. The competition between countries in the 1980s to lower their top rates of tax...is essentially a political rather than economic competition" (Kay and King 1991 p.200).

Comparisons of Tax Contributions under Scottish Service Tax and Council Tax

COMPARISON OF AVERAGE PUBLIC SECTOR WORKER TAX CONTRIBUTIONS				
Public Occupation	Sector	SST (pa, £)	Council Tax (pa, £)	Difference (i.e. SST - CT)
Refuse Collector		205.16	1,233	-1,027.84
Nurse		485.78	1,233	-747.22
Social Worker		628.52	1,233	-604.48
Fire-fighter		592.74	1,233	-640.26
Teacher		637.70	1,233	-595.30
Police Constable		720.59	1,233	-512.41

From SPICE, 22nd January 2004

COMPARISON OF MSP AND MP TAX CONTRIBUTIONS				
Elected Representative		SST (pa, £)	Council Tax (pa, £)	Difference (i.e. SST - CT)
MSP		3,796.67	1,458	2,338.67
MP		5,043.68	1,458	3,585.68
First Minister, Scottish Executive		7,757.19	2,018	5,739.19
Scottish Cabinet Minister, Westminster		18,657.63	2,018	16,639.63
Chief Executive, Scottish local government (ave)		13,614.63	2,018	11,596.63
Chief Executive, Scottish Enterprise		43,099.43	2,018	41,081.43
Chief Executive, Standard Life		133,899.4	2,018	131,881.40

Assumes MSPs and MPs live in a Scottish average Council Tax Band F property other high earners live in Band H property.

Land Value Tax

The abolition of the Council Tax and its replacement with a more progressive form of taxation is commensurate with a socially advanced philosophy.

However, as indicated in question 9, there is a particularly wealthy group who could be better off under the proposed taxation changes. These are individuals, companies and/or trusts who own large amounts of Scottish land but who could be domiciled outside of Scotland. Under the new proposals they would no longer be required to pay council tax, and, they would not be subject to Scottish Service tax. This would in effect reduce the progressivity of the tax changes at the top end of the tax scale.

The effectiveness of progressive income tax was considered by the OECD in a recent studyⁱ. The study found that in most countries the progressivity of personal income tax is reduced in effective terms due to tax allowances and deductions at the top marginal rate (especially for owner-occupied housing) which in many tax systems are more beneficial (in terms of implicit tax subsidy) to more affluent tax payers. Thus, an income tax which is progressive in statutory terms can turn out to be less progressive in effective terms. Due to anomalies in the UK tax system, this problem is particularly significant among the very rich.

It is proposed here that alongside the proposed changes with regard to the abolition of Council Tax, a form of land tax should be introduced in Scotland for certain land-owners.

Scottish Land Value Tax

The idea of land tax has a long history and is used in various forms throughout the world today. From a Scottish perspective the introduction of a land tax makes sense especially if it can enhance the effectiveness of the progressivity of taxation.

While various forms of land tax are used around the world, it could be that the Japanese system which became effective in January, 1992 might be the best model for Scotlandⁱⁱ. Under this tax system, any person who owns land in Japan or holds certain property rights is considered a tax payer for the purposes of this tax. A person is any individual or corporation, and associations that are not categorised as corporations are deemed to be corporations for the purposes of this tax. Non-Japanese nationals qualify as individuals under the tax, as do foreign corporationsⁱⁱⁱ. This system would have the advantage of capturing all Scottish landowners, whether they hold their land through off shore corporations or trusts.

ⁱ Tax Policy Studies No 6, p 19, 2001

ⁱⁱ For a more detailed explanation of this tax, see Tamura, K, "Japan : Land Value Tax", *East Asian Executive Reports*, Sep 15, 1991; 13, 9, pp 9 - 15

ⁱⁱⁱ The tax obligations for Land Value Tax since Tax Year 1998 have been cancelled as a provisional measure. Thus, taxpayers designated by the Land Value Tax Law are not currently required to prepare tax returns for Land Value Tax.

Clearly the move away from Council Tax will require that most individuals would be exempt from a land tax. The Japanese system works by giving exemptions, the main ones of which, for our purposes, are as follows—

- 1 Land used for residential purposes, up to 1,000 square metres.
 - a Land used for its owner's personal residence; if a person has two residences, only the main residence is exempted.
 - b If the area of the land exceeds 1,000 square metres, then the portion exceeding 1,000 square metres will be taxed.
- 2 Land owned by or leased to the national government, a municipality or a public corporation.
- 3 Land owned by or leased to a religious association, an educational association and so forth.
- 4
 - a Land preserved for the conservation of nature, and the like
 - b Land related to medical or welfare facilities
 - c Land related to cultural or educational institutions
 - d Land related to utility services such as energy, water and so forth.
- 5 Land with a value of Yen 30,000 per square metre or less.

These exemptions would clearly need to be adjusted to work within a Scottish context.

Given the preponderance of tax avoidance schemes, the taxation of land which cannot be physically moved has clear advantages. Moreover, it is felt that the above proposals will enhance the effectiveness of tax progressivity in Scotland.

Summary

This section recognises that the replacement of Council tax with income tax is to be welcomed on grounds of progressivity.

However, it also recognises that this change could enable very wealthy Scottish landowners to pay less taxation than under the current system.

Moreover, there is a growing problem that large professional bodies are actively seeking ways in which the rich can shelter from taxation. This problem is exacerbated by the growth of e-commerce.

One suggested solution to these concerns is to introduce a land tax system somewhat akin to the Japanese Land Value Tax. This would have the following advantages—

- land is impossible to move
- it would encourage large land owners to use their land productively thus promoting growth in the Scottish economy
- it would increase the effectiveness of progressive taxation in Scotland.
- It would capture all land-owners regardless of where they are domiciled or which trusts they have set up.

Water Charges

The Scottish Executive announced a consultation on paying for water services. The current Executive proposals, open to consultation, contain certain principles which should underpin charge limits and charges schemes in the period 2006 – 10. One of these is that

Charges for households should be set with a view to ensuring that they are as affordable as possible for low-income households.^{iv}

Scotland should ensure that water is affordable to all. One means of achieving this would be to include water charges in the Scottish Service Tax. This would mean that the above figures would need to be adjusted slightly. However, the basic principles would remain unchanged.

^{iv} Scottish Executive, "Paying for Water Services 2006 – 2010: A consultation on the principles of charging for water services", July 2004, p 5