

Isitfair

Council Tax Reform

A non party political nationwide campaign

Meeting with the Liberal Democrat Party

Wednesday 9 February 2005 at the Houses of Parliament, Westminster

We were invited to this meeting by Edward Davey MP, Liberal Democrat Shadow Secretary for the Office of Deputy Prime Minister. The Agenda was to discuss the Liberal Democrat's proposal to scrap Council Tax (CT) and replace it with a Local Income Tax (LIT). We were warmly hosted by Edward Davey, Matthew Green MP for Ludlow and Polly Mackenzie (researcher) who spent two hours with us, during which we discussed key issues relating to CT, and how LIT would be implemented.



Edward Davey MP is the Liberal Democrat Member of Parliament for Kingston and Surbiton, and is also the Shadow Secretary for the Office of Deputy Prime Minister. He was elected as an MP in 1997 and was promoted to the Shadow Cabinet in 2001. In October 2002 he was appointed to shadow the Office of Deputy Prime Minister.

'Isitfair' was represented by Christine Melsom (founder), Janet Kelly (secretary), Peter Webb (STAG), Mike Crossley (Hampshire), Terry Mullaney (Surrey) and Colin Aiken (Hampshire).

The meeting commenced with Edward Davey outlining why LIT is a fairer system of raising tax for Local Authority (LA) funding, and how it could be implemented. See [Axe The Tax](#) for further information. The key benefit of a LIT is that it is based on ability to pay e.g. your income. The present unfair property tax system (Council Tax) would go.

Having studied and listened to the Liberal Democrat proposal, the following question and answer session took place:

Q1. Why are you so confident that you could implement LIT within two years, bearing in mind the history of failure in reform of local government finance over the past 40 years?

A. The systems needed to administer LIT are already in existence within the Inland Revenue (IR), PAYE and self assessment would only require a small additional change. The administrative arrangements to implement the change are not difficult, and ongoing administration thereafter would be simpler and cheaper than the present system. The annual net cost saving to the taxpayer would be £300m per year, and in addition to this, Council Tax Benefit (CTB) would no longer be required which would save a further £240m per year. Other countries operate this system of taxation successfully. There is no reason why it cannot work just as well in the UK.

Q2. "National Income Tax could be gradually cut, enabling LIT to rise, penny for penny." Explain.

A. In a decentralised and devolved society, with each Local Authority (LA) raising more and more of its funding requirements locally, e.g. LIT and re-localised "Business Rates" (National Non Domestic Rates; NNDR), the need for the Revenue Support Grant (RSG) would be greatly reduced and therefore, there would follow a corresponding fall in the National Income Tax rate. This creates a far more open and transparent system, and would make it difficult for Central Government to manipulate the system for political reasons, as it currently does. We want to see RSG reduced to no more than 25% of LA funding.

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Q3. What does your party mean by "Local accountability?"

A. The LA will set the rate of LIT for its area. Therefore, it has both the responsibility for raising the appropriate amount of tax, and consequently, spending it appropriately. This is local tax payers' money and therefore, these officials must account for their actions back to the local community. Ultimately, the local electorate retain the power to remove these people from office, via the ballot box, should they fail in their duty.

Q4. How is the rate arrived at?

A. At present, the rate used for examples is 3.75%. This is based on the CT requirement for the year 2003/04 and is explained in detail on the [Axe The Tax](#) website. In practice, each LA will set its own rate, based on its budget requirements. The IR will advise the LA each year of the total income tax revenue for its area. The LA will then set the rate after taking into account spending requirements, and incomes from NNDR, RSG (which includes £2.3bn of the proposed 50% tax rate for incomes in excess of £100k), fees and charges.

Q5. Budgets should reflect the needs of an LA so why retain an "equalisation grant"?

A. If the "equalisation grant" were to be removed, the disparity between rich and poor areas would create a new set of problems. National standards of public services could suffer. The level of LIT required in the poorer areas could be so high as to be unacceptable.

On the other hand, if all funding for LA was provided from RSG, where is the local accountability? Central Government would have total control of all LA funding, and therefore the problems that exist currently in the CT system would continue.

The grant formula would be reviewed and amended as necessary every five years, by an independent commission.

Q6. Why then can't the Chancellor accept budgets submitted by LA for approval, subject to controls, clearly demonstrating that their requirements are justified? No need for LIT then.

A. This again is contrary to the Liberal Democrat's meaning of "local accountability". It is a sad fact that some LA would abuse this type of system, creating budgets that exceed their real requirements. It's human nature to get as much as you can. We don't want decisions like these to be made centrally. This is contrary to our policy of creating a decentralised and devolved society.

Q7. I own a holiday home and will be taxed twice.

A. LIT will be levied on your main residence only. A second home would be taxed at the local business rate, or site value rate.

Q8. Is it true that if implemented, LIT would allow LA to vary the rate by +/- 3%?

A. There will be a variance between some LA due to the differences in need. At present, CT varies between LA within the same band. This cannot be avoided because the rate is local. We do not expect the variances to be significantly different from what they currently are.

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Q9. Will you retain Regional Assemblies?

A. Regional Government has been in existence for some time now. We would reform Regional Assemblies though to make them more accountable. At present, un-elected members include too many people with only their own self interests to preserve. These would be removed and only elected councillors allowed to become members. Although there would be no vote, because these councillors are already elected, we believe that this would provide a more acceptable forum. In addition, the plethora of "quangos" would go.

Q10. How will Regional Assemblies be funded?

A. It would have to be done centrally. To fund these via LIT would be too complex and it would be difficult to maintain transparency and openness. The differences between area needs within a Regional Assembly would also make local accountability difficult to show.

Q11. Have you read the 'Isitfair' proposal and do you understand it?

A. Yes, some time ago now though. I'll re-read it and let you have my thoughts.

In summary, this was a constructive meeting. The key issue of breaking the link between the value of the property you live in to determine how much tax you must pay is significant and is welcomed. This is a major step forward in bringing about a fairer system of local taxation.