



GREY HAIRS
THE EXPERIENCED
CONSULTANTS

Local Authority Funding

Appendix II

Miscellaneous Calculations

Michael Boon

Isitfair is an organisation campaigning for the reform of the Council Tax. This paper considers replacing the present funding of Council Tax with increases to national income tax and VAT. However, Isitfair recognises that this is just one of the possible alternative approaches to relieving the hardship being caused by the Council Tax in its current form.

1. Introduction

Over the last year or two there have been a number of ideas proposed whose purpose is to remove either the “unfairness” or the Council Tax or the real hardship that it occasionally causes. For example, for the general election of 2005, the Liberal Democrats proposed to abolish the Council Tax and replace it with some sort of local income tax and the Conservatives proposed to offer a 50% discount on Council Tax, up to a maximum of £500 for those aged over 65. More recently the Labour government has proposed the replacement of the rates in Northern Ireland with a flat rate tax on property values. All of these ideas, both from the established political parties and elsewhere, have their merits and their drawbacks. The purpose of this appendix is to examine the implications of some of these ideas in terms of the **numbers** that they would entail - in particular how various types of households might be affected.

In some of our calculations we have deliberately examined the implications of some of the more extreme versions of these ideas. We have NOT done this in order to rubbish them. We have done so in order to aid understanding. It is only by going to extremes that one can see what **might** happen. Most of this appendix however forms the numerical back-up in support of the specific proposals that we make in the main body of this document.

Many proposals for change reflect the political complexion of their creators. Some are openly designed to make the overall tax and benefits system more progressive than it currently is. Others are designed to do the reverse. The proposals of both of these types are aimed primarily at dealing with the “unfairness” of the Council Tax.. Other proposals are really patches designed to deal with the hardship caused by the tax. Isitfair wants to do **both**.

Isitfair is not a political party in the conventional sense. Our sole aim is to remove the most glaring inequities of the Council Tax and to alleviate the real hardship that it causes to some sections of our society. Accordingly we have in our own proposals deliberately avoided any attempt to make the overall impact of the tax and benefits system any more progressive or any more regressive than it currently is. Good arguments can be made for either position. It seems to us that it would be dishonest to use any proposed changes to the Council Tax system as a way of “smuggling in” other changes. The case for any such changes ought to be made completely separately. We have therefore framed our own proposals to as to minimise so far as possible the number of big winners and big losers. By achieving this, we believe that our proposals ought to be acceptable to the losers - as well as to the winners.

What we are trying to achieve is a situation where the main winners would be people on low incomes living in the sorts houses that they could no longer afford were they to have to buy them today. Obviously **someone** must suffer from any redistribution. We aim to spread this burden as widely and as thinly as possible. People who live in “appropriate” housing, (as envisaged by the creators of the Council Tax), should be largely unaffected. We are, in effect trying to achieve the sort of situation illustrated in figure 1.

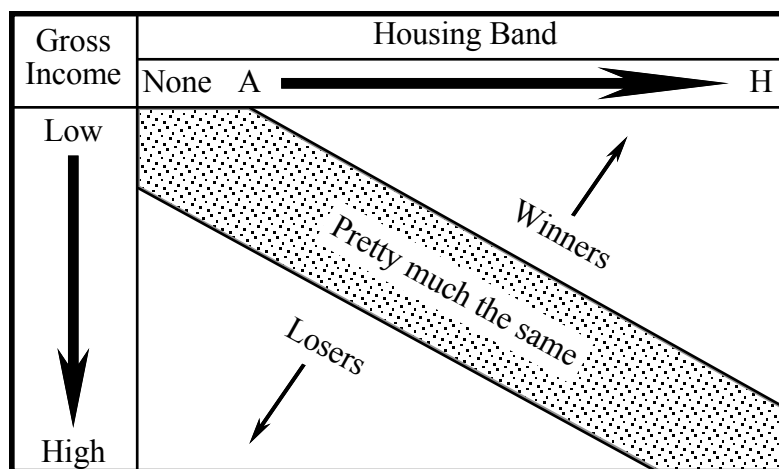


Fig. 1

This shows that the main losers would be people on higher incomes living in cheaper houses - or in a manner that enables them to escape paying any Council Tax.. Nobody would win very big and nobody would lose very big either. We are only trying to relieve hardship **at the margin** - not to enable paupers to live like princes or to “soak the rich”.

2. Local taxation

In Appendix I, section 2.2 we discussed a number of ideas for the reform of local taxation. In particular we floated the ideas of:

- Revaluing and re-banding properties on a regional instead of on a national basis;
- Removing the regressive nature of the Council Tax and replacing it with a flat rate tax on property values, (similar to the government’s proposals for replacing the Northern Irish rates);
- Reintroducing some sort of poll tax as a **supplementary** tax in order to relieve **some** of the burden of the Council Tax.

In this section we examine some of the numerical consequences of these proposals

2.1 Regionally based valuation and re-banding

Figure 2 shows the percentage of housing in each English local government region that would be re-banded **upwards** if dwellings were banded on a local basis so that all regions had more or less the same percentage of housing in each and every band as the national average

| Region | Band A | Band B | Band C | Band D | Band E | Band F | Band G |
|--------|--------|--------|--------|--------|--------|--------|--------|
| NE | 56.0% | 100% | 100% | 100% | 100% | 100% | 36.4% |
| NW | 41.2% | 93.5% | 77.4% | 82.4% | 74.1% | 72.3% | 17.5% |
| Y&H | 43.7% | 100. % | 91.2% | 96.9% | 83.6% | 88.1% | 23.5% |
| E Mid | 33.6% | 72.3% | 69.4% | 73.9% | 70.3% | 75.9% | 25.0% |
| W Mid | 20.5% | 49.5% | 51.6% | 52.1% | 43.8% | 45.8% | 17.7% |
| E of E | - | - | - | - | - | - | 1.1% |
| Lond | - | - | - | - | - | - | - |
| SE | - | - | - | - | - | - | - |
| SW | - | - | - | - | 2.6% | 12.6% | 8.6% |

Fig. 2

In the vast majority of cases where houses would move up to more expensive bands the change would be of only one band. Only in Yorkshire & Humberside and in the North East would any changes of more than one band occur. In Yorkshire & Humberside this would only happen to some band A properties, (where 17,000 of the 440,000 dwellings in band A which move upwards would move up the two bands to band C). The changes that would occur in the North East are summarised in Figure 3.

| Number of houses affected (thousands) | | | |
|---------------------------------------|-------|--------|---------|
| Band A | Total | 1 band | 2 Bands |
| Band B | 373 | 219 | 154 |
| Band C | 158 | 91 | 67 |
| Band D | 159 | 104 | 55 |
| Band E | 82 | 52 | 30 |
| Band F | 41 | 26 | 15 |

Fig. 3

As we remarked in Appendix I section 2.2.2, in areas like the North East, where the predominant trend from regional re-banding would be to move some properties up a band, the Council Tax for each band will actually fall. This is illustrated in figure 4, where we show the current and what would be the new values of Council Tax for each Band. We also show how people’s bills would change as a result regional re-banding

| Council Tax Bill | Council Tax Band | | | | | | | |
|------------------|------------------|------|------|------|------|------|------|------|
| | A | B | C | D | E | F | G | H |
| Current | 819 | 956 | 1092 | 1229 | 1502 | 1775 | 2048 | 2458 |
| New | 696 | 811 | 927 | 1043 | 1275 | 1507 | 1739 | 2087 |
| Change | | | | | | | | |
| Same band | -124 | -144 | -165 | -186 | -227 | -268 | -309 | -371 |
| Up 1 Band | -8 | -28 | -49 | 46 | 5 | -36 | 38 | - |
| Up 2 Bands | 108 | 87 | 183 | 278 | 237 | 311 | - | - |

Fig. 4

As we can see, the people whose housing remains in the same band all gain, as do most of those people whose properties move up just one band. Only those whose properties move up two bands lose out.

The Council Tax bands shown in figure 4 refer to the current banding of any property. For example the 219 thousand properties that move from band A to band B are shown under band A. Each resident of these properties would gain by £8, whereas those who move from band A to band C would lose by £108.

In contrast to what would happen in the North East, the situation in London, the South East, the South West and the East of England looks very different. Many houses in these regions would move **down** a band. The percentages of houses in each band that would move down a band are shown in Figure 5.

| | Band B | Band C | Band D | Band E | Band F | Band G | Band H |
|--------|--------|--------|--------|--------|--------|--------|--------|
| E of E | 53.4% | 35.4% | 25.8% | 20.7% | 18.5% | 7.6% | - |
| London | 100% | 67.2% | 84.6% | 81.1% | 85.0% | 60.9% | 66.0% |
| SE | 100% | 76.8% | 77.9% | 78.5% | 79.9% | 50.9% | 38.7% |
| SW | 34.9% | 14.3% | 10.6% | 8.9% | - | - | - |

Fig. 5

The regions shown in figure 5 are the only regions where any property would be re-banded downwards. Once again, most of the changes would involve only a one band jump. However, as before, there are a few instances where a jump of two bands would occur.

The effect that regional re-banding would have on Council Tax bills in the South East is illustrated in figure 6. (compare these results with those shown in figure 4!)

| Council Tax Bill | Council Tax Band | | | | | | | |
|------------------|------------------|------|------|------|------|------|------|------|
| | A | B | C | D | E | F | G | H |
| Current | 779 | 909 | 1039 | 1169 | 1429 | 1689 | 1948 | 2338 |
| New | 868 | 1013 | 1158 | 1302 | 1592 | 1881 | 2171 | 2605 |
| Change | | | | | | | | |
| Same band | 89 | 104 | 119 | 133 | 163 | 193 | 222 | 267 |
| Down 1 Band | - | -41 | -26 | -11 | -126 | -97 | -67 | -167 |

Fig.6

2.2 Flat rate property taxes

In the technical sense, Council Tax in its present form is a regressive tax. Some proposals for the reform of the Council Tax involve turning it into a flat tax where the amount payable would be proportional to the average valuation of a house within each band. The effect of any such change would vary widely from region to region. Those living in high value properties are penalised the most where they are rarest whereas those living in lower value properties gain the least when they are the most common. Figure 7 illustrates these points and shows the percentage by which council tax bills would have to change if it were to be made a flat tax in order to raise the same revenue locally as at present.

| | Band A | Band B | Band C | Band D | Band E | Band F | Band G | Band H |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| NE | -11.0% | -11.7% | 0.8% | 16.4% | 26.6% | 44.2% | 115.1% | 138.6% |
| NW | -15.6% | -16.3% | -4.4% | 10.3% | 20.1% | 36.7% | 103.9% | 126.2% |
| Y&H | -14.5% | -15.2% | -3.1% | 11.8% | 21.7% | 38.6% | 106.7% | 129.3% |
| E Mid | -15.5% | -16.2% | -4.4% | 10.4% | 20.2% | 36.8% | 104.1% | 126.4% |
| W Mid | -17.4% | -18.1% | -6.5% | 7.9% | 17.5% | 33.8% | 99.5% | 121.3% |
| E of E | -23.7% | -24.3% | -13.6% | -0.2% | 8.6% | 23.6% | 84.4% | 104.5% |
| Lond | -30.4% | -31.0% | -21.2% | -9.0% | -1.0% | 12.8% | 68.2% | 86.5% |
| SE | -29.0% | -29.6% | -19.6% | -7.1% | 1.0% | 15.1% | 71.6% | 90.3% |
| SW | -21.9% | -22.5% | -11.5% | 2.1% | 11.1% | 26.6% | 88.7% | 109.3% |

Fig. 7

As we remarked in Appendix I, section 2.2.2, making a local property tax proportional to the average valuation of a house within each band, will tend to make those who are house asset rich but income poor suffer **even more** than they do under the present system. A glance at figure 7 confirms this point.

This raises the question of whether it might be better to have a different sort of flat tax where all houses were charged the same amount of local tax, regardless of their value. This would certainly solve the problem of our asset rich but cash poor individuals. Figure 8 shows what would happen in the different English regions if we were to adopt this strategy on a revenue neutral basis. A positive number means that people would be worse off.

| | Council Tax Band | | | | | | | |
|--------|------------------|-------|--------|--------|--------|--------|--------|--------|
| | A | B | C | D | E | F | G | H |
| NE | 17.1% | 0.4% | -12.2% | -21.9% | -36.1% | -46.0% | -53.2% | -61.0% |
| NW | 24.9% | 7.0% | -6.3% | -16.8% | -31.9% | -42.4% | -50.1% | -58.4% |
| Y&H | 23.4% | 5.7% | -7.5% | -17.8% | -32.7% | -43.1% | -50.7% | -58.9% |
| E Mid | 26.2% | 8.1% | -5.4% | -15.9% | -31.2% | -41.8% | -49.5% | -57.9% |
| W Mid | 29.6% | 11.1% | -2.8% | -13.6% | -29.3% | -40.2% | -48.2% | -56.8% |
| E of E | 43.2% | 22.8% | 7.4% | -4.5% | -21.9% | -33.9% | -42.7% | -52.3% |
| Lond | 58.3% | 35.7% | 18.7% | 5.5% | -13.6% | -26.9% | -36.7% | -47.2% |
| SE | 53.7% | 31.7% | 15.3% | 2.4% | -16.2% | -29.1% | -38.5% | -48.8% |
| SW | 40.1% | 20.1% | 5.1% | -6.6% | -23.6% | -35.3% | -44.0% | -53.3% |
| Eng | 37.9% | 18.2% | 3.5% | -8.0% | -24.8% | -36.3% | -44.8% | -54.0% |

Fig 8

Again we see the same disparity between the regions that we saw in the case where we adopted a strategy at the opposite extreme. This option looks particularly unattractive when we realise that all that we would be doing is shifting the burden from those in more expensive houses, (usually the richer segment of our society), onto those living in cheaper housing, usually the poorer segment). We need to bear in mind that it is a relatively small **minority** that we are trying to help. We certainly don't want to place hardship on a **greater** number of people!

It would appear that none of the potential reforms to Council Tax do much to address the real problem, which is simply that the Resource Equalisation system drains too much money from some regions to the benefit of others.

2.3 The poll tax

In Appendix I, section 2.2.3 we raised the possibility of reintroducing the poll tax as a **supplementary** tax, which would enable Council Tax bills to be reduced. Figure 9 shows how much poll tax would have to be collected on **average** in **England** in order to reduce **English** Council Tax by 25%, 50%, 75% and 100%. These correspond to reductions in the average band D council tax of £1167 to £876, £584, £292 and nothing respectively

| Band D CT | Poll tax on all adults | Poll tax on adults<65 |
|-----------|------------------------|-----------------------|
| 1167 | 0 | 0 |
| 876 | 133 | 165 |
| 584 | 266 | 330 |
| 292 | 399 | 496 |
| 0 | 533 | 661 |

Fig. 9

We show two possibilities. In the first option **all** adults pay the poll tax. In the second option all adults over 65 are exempt from making any contribution. There are, of course, numerous intermediate positions between these two extremes.

We are of course only considering the possibility of re-introducing the poll tax as a **supplementary** tax to the Council Tax thereby enabling the latter to be reduced. Figure 10 shows how the total bill for local taxation might differ from the present system for different types of household. We have assumed a 50/50 split between poll tax and Council Tax and that **all** adults pay the poll tax in **full**. In deriving this table we have allowed for the 25% reduction in Council Tax enjoyed by single occupants.

| | Band A | Band B | Band C | Band D | Band E | Band H |
|----------|--------|--------|--------|--------|--------|--------|
| 1 adult | -25 | -74 | -122 | -171 | -268 | -608 |
| 2 adults | 144 | 79 | 14 | -51 | -180 | -634 |
| 3 adults | 410 | 345 | 280 | 216 | 86 | -367 |

Fig. 10

3. Flat rate income tax calculations

In Appendix I, section 2.3.1.1, we examined the case for a flat rate income tax regime. As we noted there, if a flat rate of income tax of just 20% were to be imposed and **all** allowances and thresholds were to be abolished then the yield from **existing** income tax payers would be (slightly) **increased**. We also noted that we would almost certainly choose to impose a higher rate than this in order to fund the extra benefits without which the impact of such a scheme on the poorest people in our society would become intolerable.

There are currently 30.6 million people in this country who pay income tax. If we were to have a flat rate of income tax above the 20% necessary to be revenue neutral, we could redistribute the surplus equally amongst each of these 30.6 million taxpayers in a form of negative poll tax. Figure 11 shows how people on different levels of pre tax income would be affected by just such a scheme for different rates of a flat income tax. A positive number means that the person concerned would be better off by the number of pounds shown and a negative number means that he would be that much worse off. For simplicity we have ignored people who don't pay any income tax at the moment - effectively assuming that they would be treated in exactly the same way as they are now. Again for simplicity we have also assumed that those who only pay savers rate taxes would not have to pay any higher rate than they do now, but would nevertheless receive the negative poll tax that would make the whole scheme revenue neutral. For the purposes of these calculations we have left Council Tax and VAT unchanged.

| Gross Income | Flat rate of income tax % - no thresholds; no personal allowance | | | | | | | |
|--------------|--|--------|--------|--------|--------|--------|--------|--------|
| | 22.00% | 25.00% | 27.50% | 30.00% | 32.50% | 35.00% | 37.50% | 40.00% |
| £5,000 | -538 | -20 | 412 | 843 | 1275 | 1706 | 2138 | 2569 |
| £10,000 | -754 | -373 | -55 | 262 | 580 | 898 | 1216 | 1533 |
| £15,000 | -754 | -510 | -306 | -102 | 102 | 306 | 510 | 714 |
| £20,000 | -754 | -646 | -556 | -466 | -375 | -285 | -195 | -105 |
| £25,000 | -754 | -783 | -806 | -830 | -853 | -877 | -900 | -924 |
| £30,000 | -754 | -919 | -1056 | -1194 | -1331 | -1468 | -1606 | -1743 |
| £35,000 | -754 | -1056 | -1307 | -1558 | -1809 | -2060 | -2311 | -2562 |
| £40,000 | -311 | -749 | -1114 | -1479 | -1843 | -2208 | -2573 | -2938 |
| £45,000 | 508 | -66 | -545 | -1024 | -1502 | -1981 | -2459 | -2938 |
| £50,000 | 1327 | 616 | 24 | -569 | -1161 | -1753 | -2346 | -2938 |
| £100,000 | 9518 | 7442 | 5712 | 3982 | 2252 | 522 | -1208 | -2938 |
| -ve poll tax | 454 | 1108 | 1654 | 2199 | 2744 | 3289 | 3835 | 4380 |

Fig. 11

It is immediately apparent from figure 10 that it is the relatively poor and the relatively rich who would do best from a flat tax of the sort being discussed. This demonstrates the hypocrisy or ignorance of those on middle incomes who argue for progressive taxes in order to help the poor. The real beneficiaries of a progressive income tax system are actually those on middle incomes!

The particular form of flat rate income tax illustrated in figure 11 is a rather extreme version. Most of those countries that have actually introduced a flat rate tax have only applied it after some fairly generous tax free allowances at the bottom end. Figure 12a shows the gainers and losers relative to the current system from adopting a personal allowance of £7,500, £10,000, £12,500 and £15,000 before applying a flat rate income tax. Figure 11a also shows the flat rate tax that would be necessary to be revenue neutral with respect to the current situation.

Figure 12b shows what would happen if we were to apply the same flat tax rates calculated in figure 12a to a zero personal allowance coupled with a negative poll tax regime. The gains and losses are once again calculated with respect to the current situation.

| Gross Income | Personal Allowance £ | | | | Flat rate tax - no allowances | | | |
|--------------|----------------------|--------|--------|--------|-------------------------------|--------|--------|--------|
| | 7500 | 10000 | 12500 | 15000 | 28.21% | 32.38% | 37.26% | 42.44% |
| 5000 | 10 | 10 | 10 | 10 | 534 | 1254 | 2096 | 2990 |
| 10000 | 152 | 794 | 794 | 794 | 35 | 565 | 1185 | 1844 |
| 15000 | -131 | 322 | 947 | 1795 | -248 | 93 | 491 | 913 |
| 20000 | -413 | -151 | 253 | 865 | -530 | -380 | -204 | -17 |
| 25000 | -696 | -623 | -441 | -65 | -813 | -852 | -898 | -947 |
| 30000 | -978 | -1095 | -1136 | -995 | -1095 | -1324 | -1592 | -1877 |
| 35000 | -1261 | -1568 | -1830 | -1925 | -1378 | -1797 | -2287 | -2807 |
| 40000 | -1100 | -1597 | -2081 | -2412 | -1217 | -1826 | -2538 | -3294 |
| 45000 | -564 | -1250 | -1957 | -2523 | -681 | -1479 | -2413 | -3405 |
| 50000 | -27 | -904 | -1832 | -2634 | -144 | -1132 | -2289 | -3516 |
| 100000 | 5338 | 2564 | -585 | -3744 | 5221 | 2335 | -1042 | -4626 |
| Flat rate | 28.21% | 32.38% | 37.26% | 42.44% | - | - | - | - |
| -ve poll tax | - | - | - | - | 1809 | 2718 | 3782 | 4912 |

Fig. 12a

Fig. 12b

It is immediately obvious that the poor do substantially better under the negative poll tax model. The rich are, by and large, in much the same situation under either model. It is those on middle incomes who do better under the allowances model than under the negative poll tax model.

It would seem that the main effect of **any** plausible flat rate income tax model would be to tax middle incomes more heavily and low and high incomes more lightly. There are of course good arguments for doing this - as well as good arguments for not doing so. Nevertheless it does seem to be worthwhile to investigate whether some sort of **national** flat rate income tax, used as a **supplement** to the existing income tax could possibly be “the answer” to the Council Tax problem.

It is almost impossible to work out the yield from a flat rate income tax in which everybody paid tax from the first pound of their income to the last - the Inland Revenue does not collect or publish statistics on non tax payers! Indeed, as we have already noted, we have ignored people who don't currently pay income tax when performing the calculations that produced figures 11 and 12.

Following this line of reasoning, if we were to disregard that portion of anybody's income below £5,000 p.a. and charge a supplementary income tax at a flat rate of 4.7% on all income above that level, then we would raise £25.2Bn. extra from income tax. This is very close to the £25Bn or so that we identified in section 6.2 of the main body of this document as being the right sort of figure needed to abolish the Council Tax altogether.

Figure 13 shows the gains, (positive numbers), and losses, (negative numbers), for a household with one earner but at least two adult occupants that would result from a change of this sort. We have based our calculations on the average Council Tax of £1167 for a band D property.

| Gross Houshold Income | Council Tax Band | | | | | | | |
|-----------------------|------------------|-------|-------|-------|-------|-------|-------|-------|
| | A | B | C | D | E | F | G | H |
| 5000 | 778 | 908 | 1037 | 1167 | 1426 | 1686 | 1945 | 2334 |
| 10000 | 543 | 673 | 802 | 932 | 1191 | 1451 | 1710 | 2099 |
| 15000 | 308 | 438 | 567 | 697 | 956 | 1216 | 1475 | 1864 |
| 20000 | 73 | 203 | 332 | 462 | 721 | 981 | 1240 | 1629 |
| 25000 | -162 | -32 | 97 | 227 | 486 | 746 | 1005 | 1394 |
| 30000 | -397 | -267 | -138 | -8 | 251 | 511 | 770 | 1159 |
| 35000 | -632 | -502 | -373 | -243 | 16 | 276 | 535 | 924 |
| 40000 | -867 | -737 | -608 | -478 | -219 | 41 | 300 | 689 |
| 45000 | -1102 | -972 | -843 | -713 | -454 | -194 | 65 | 454 |
| 50000 | -1337 | -1207 | -1078 | -948 | -689 | -429 | -170 | 219 |
| 100000 | -3687 | -3557 | -3428 | -3298 | -3039 | -2779 | -2520 | -2131 |

Fig. 13

A scheme of the sort just described would certainly remove the hardship associated with the Council Tax. However, the resultant tax system would be much more progressive than the current one - as figure 13 illustrates. In fact **any** significantly more progressive system than we currently have would relieve much of the hardship associated with the Council Tax. The model illustrated in figure 13 is not really a flat tax at all. **Any** allowances, (other than zero), associated with a flat tax turns a flat tax into a progressive tax.

We could of course reduce the progressiveness of a (fake) flat tax of the type which led to the results in figure 13 by reducing the top rates of income tax elsewhere in the system. However, it would seem to be less complex simply to adjust basic and higher rates of tax directly.

4. Other income tax calculations

Given that a flat rate of income tax is still **too** progressive to avoid increasing the overall progressiveness of the current tax system if it is used as a replacement for Council Tax, it seems to be worthwhile to investigate whether a really regressive supplementary income tax can achieve the desired result illustrated in figure 1. It would be difficult to imagine any much more regressive form of income tax than that illustrated in figure 14 below.

| | | Range Lower Limit | Range Upper Limit | Average Income | Extra Tax | Number Paying | Total Yield |
|--------------------|----|-------------------------|-------------------------|-------------------|--------------|------------------|----------------|
| On first £5,000 | 0% | 0 | 7,500 | 7242 | 202 | 3068 | 619074 |
| On next £2,500 | 9% | | | | | | |
| On next £2,500 | 7% | 7,500 | 10,000 | 8548 | 298 | 3544 | 1057479 |
| On next £5,000 | 6% | 10,000 | 15,000 | 11766 | 506 | 6134 | 3103516 |
| On next £5,000 | 5% | 15,000 | 20,000 | 16575 | 779 | 5058 | 3938964 |
| On next £10,000 | 3% | 20,000 | 30,000 | 23306 | 1049 | 6362 | 6674937 |
| On next £20,000 | 2% | 30,000 | 50,000 | 36656 | 1383 | 4316 | 5969537 |
| On next £50,000 | 1% | 50,000 | 100,000 | 62641 | 1776 | 1523 | 2705478 |
| On next £100,000 + | 0% | 100,000 | Infinity | 198227 | 2150 | 480 | 1032000 |
| | | | | | | Grand Total | £25.1Bn |

Fig.14

The particular income bands used in figure 14 are those contained in the Inland Revenue table T2.5. This has proved to be vital data for our calculations since it gives the number of taxpayers within each band and the total tax levied on them. From this we can deduce the average tax per taxpayer within each income band and by working backwards what the average income for tax purposes is. These incomes can then be used as a basis for investigating changes to the overall income tax yield as a result of any proposed “tweaks” to the tax system.

In figure 15 we have used these average incomes to illustrate the effects of our super regressive model on a variety of households of different income levels living in property of different Council tax bands. For the purposes of figure 15, we have assumed only one earner in the household.

| Gross Household Income | Council Tax Band | | | | | | | |
|------------------------|------------------|-------|-------|------|------|------|------|------|
| | A | B | C | D | E | F | G | H |
| 7242 | 576 | 706 | 836 | 965 | 1225 | 1484 | 1743 | 2132 |
| 8548 | 480 | 609 | 739 | 869 | 1128 | 1387 | 1647 | 2036 |
| 11766 | 272 | 402 | 531 | 661 | 920 | 1180 | 1439 | 1828 |
| 16575 | -1 | 129 | 259 | 388 | 648 | 907 | 1166 | 1555 |
| 23306 | -271 | -142 | -12 | 118 | 377 | 636 | 896 | 1285 |
| 36656 | -605 | -475 | -346 | -216 | 43 | 303 | 562 | 951 |
| 62641 | -998 | -869 | -739 | -609 | -350 | -91 | 169 | 558 |
| 198227 | -1372 | -1242 | -1113 | -983 | -724 | -464 | -205 | 184 |

Fig. 15

As can be seen even with this very regressive system, the poor still do better while the rich do worse out of the change. This is inherent in any income tax system, or indeed sales tax system.

The nearest approach that we can find to replacing the Council Tax using income tax is to band **incomes** rather than property. It would be comparatively simple to divide the income earning population up into eight bands where the number of taxpayers in each band would be proportional to the number of dwellings in each Council Tax band, (There are more income tax payers than there are dwellings.) Each income band would then have to pay the same amount as is currently paid by a property in the corresponding band. As always, the problem would arise at the band boundaries. Unless these were smoothed out in some way, there would be a real disincentive on earnings at the margin.

The nearest approach to such a system, of which we can give no more than a flavour, is illustrated in figure 16.

| Income Band | Lower Limit | Upper Limit | Per cent on Slice | Average Tax | Maximum Tax | Council Tax | Earner Ratio |
|-------------|-------------|-------------|-------------------|-------------|-------------|-------------|--------------|
| 1 | 0 | 12500 | 5.47% | 481 | 684 | 778 | 1.62 |
| 2 | 12500 | 17500 | 3.65% | 774 | 866 | 908 | 1.17 |
| 3 | 17500 | 25000 | 1.37% | 915 | 969 | 1037 | 1.13 |
| 4 | 25000 | 35000 | 0.91% | 1007 | 1049 | 1167 | 1.16 |
| 5 | 35000 | 50000 | 0.91% | 1110 | 1185 | 1426 | 1.28 |
| 6 | 50000 | 75000 | 0.91% | 1280 | 1401 | 1686 | 1.32 |
| 7 | 75000 | 100000 | 0.91% | 1504 | 1629 | 1945 | 1.29 |
| 8 | 100000 | - | 0.46% | 2081 | - | 2334 | 1.12 |

Fig 16.

The “Earner Ratio” shown in figure 16 is the number of people earning within the income range shown for the average household to end up paying exactly the same amount in supplementary income tax as they would previously have done had they been in the “appropriate” Council Tax band, (i.e. Income band 1 in a band A property, income band 4 in a band D property and so on). According to our calculations, this particular scheme would raise £24.98Bn - which is essentially the same as the £25Bn that we decided that we needed to raise to abolish the Council Tax and have sufficient left over for dealing with “hard cases”.

Unfortunately, we consider that such a scheme would be very difficult to implement quickly. We doubt whether the Inland Revenue’s computer systems are sufficiently flexible to be able to cope. One has only to recall the various fiascos associated with tax credits for children or working families to appreciate the potential dangers. For this reason, if for no other, we believe that the sort of changes regularly announced on budget days, (i.e. changes to rates, **existing** thresholds and allowances), are the only changes that we should seriously consider at the present time.

5. Value Added Tax

There is very little difference between taxing incomes and taxing expenditure. Politically though, the differences are enormous. There would almost certainly be real opposition to raising basic rate income tax without raising higher rate income tax as well. However nobody has ever seriously proposed that “the rich” should pay a higher rate of VAT! VAT is the nearest thing that we currently have to a flat tax. Since we are trying to replace a very regressive tax, a flat tax causes less change to the overall progressiveness of the system than conventional income tax. If it were politically acceptable, we might well have proposed that VAT should be the **only** tax increased to pay for the abolition of the Council Tax..

Unfortunately however, macho governments dislike raising VAT rates because it increases the **headline** inflation rate, (the true underlying rate of inflation remains unchanged). This is doubly unfortunate since pensioners represent a significant proportion of those suffering hardship under the Council Tax. Yet state pensions are indexed to headline inflation. Some of the bad effects of increasing VAT are therefore mitigated for pensioners. Figure 17 shows, *inter alia*, the extra state pension payable.

| VAT Rate | RPI Increase | Retired Households Gross Income - Quintiles | | | | | Extra Yield |
|----------|--------------|---|--------|-------|--------|-----|-------------|
| | | Bottom | Second | Third | Fourth | Top | |
| 18.00% | 0.28% | 14 | 16 | 16 | 16 | 17 | £2.2Bn |
| 19.00% | 0.84% | 42 | 48 | 47 | 47 | 50 | £6.5Bn |
| 20.00% | 1.40% | 69 | 80 | 78 | 78 | 84 | £10.9Bn |
| 20.50% | 1.69% | 83 | 97 | 94 | 93 | 101 | £13.1Bn |
| 21.00% | 1.97% | 97 | 113 | 109 | 109 | 118 | £15.3Bn |
| 22.00% | 2.53% | 125 | 145 | 141 | 140 | 151 | £19.6Bn |
| 23.00% | 3.09% | 153 | 177 | 172 | 171 | 185 | £24.0Bn |
| 23.23% | 3.22% | 159 | 184 | 179 | 178 | 192 | £25.0Bn |

Fig 17

In addition to the basic state pension increases for households ranked in quintiles on the basis of their gross household income, (the quintiles are those defined by the NSO), figure 17 also shows the consequences of various rates of VAT on the Retail Price Index and the increased yield from VAT. We recognise that some private pensions, including many occupational ones, also have an element of inflation proofing, (but many don't). However, there is no real basis on which to allow for this - and in any case more and more of these pensions are not being increased in line with inflation at the moment because of the deficits in the funds that support them.

However, it is not all good news. The increases in pensions are subject to income tax and the pensioners have to pay more for their purchases as a result of any VAT changes. The effect on extra VAT paid is summarised in figure 18 and the extra income tax payable is shown in figure 19.

| VAT Rate | Retired Households Gross Income - Quintiles | | | | |
|----------|---|--------|-------|--------|-----|
| | Bottom | Second | Third | Fourth | Top |
| 18.00% | 20 | 21 | 25 | 33 | 47 |
| 19.00% | 61 | 62 | 75 | 100 | 140 |
| 20.00% | 102 | 104 | 125 | 167 | 233 |
| 20.50% | 122 | 125 | 150 | 200 | 279 |
| 21.00% | 142 | 146 | 175 | 234 | 326 |
| 22.00% | 183 | 187 | 226 | 300 | 419 |
| 23.00% | 224 | 229 | 276 | 367 | 512 |
| 23.23% | 233 | 238 | 287 | 382 | 533 |

Fig 18

| VAT Rate | Retired Households Gross Income - Quintiles | | | | |
|----------|---|--------|-------|--------|-----|
| | Bottom | Second | Third | Fourth | Top |
| 18.00% | 1 | 2 | 3 | 3 | 4 |
| 19.00% | 4 | 5 | 10 | 10 | 11 |
| 20.00% | 7 | 8 | 17 | 17 | 18 |
| 20.50% | 8 | 10 | 21 | 21 | 22 |
| 21.00% | 10 | 11 | 24 | 24 | 26 |
| 22.00% | 12 | 15 | 31 | 31 | 33 |
| 23.00% | 15 | 22 | 38 | 38 | 41 |
| 23.23% | 16 | 24 | 39 | 39 | 42 |

Fig 19

Of course, the whole purpose in proposing increases to VAT are in order to abolish or reduce the Council Tax. Figure 20 shows the reductions in Council Tax that would be possible for our various pensioner households given different rates of VAT. Everybody else's Council Tax bills would, of course, fall by the same percentage as pensioners' bills would be cut. Total abolition could be achieved with a VAT rate of 23.23%, (see figure 17).

| VAT Rate | Retired Households Gross Income - Quintiles | | | | |
|----------|---|--------|-------|--------|-----|
| | Bottom | Second | Third | Fourth | Top |
| 18.00% | 48 | 42 | 41 | 54 | 79 |
| 19.00% | 144 | 125 | 124 | 161 | 238 |
| 20.00% | 241 | 209 | 206 | 268 | 397 |
| 20.50% | 289 | 251 | 247 | 322 | 476 |
| 21.00% | 337 | 292 | 289 | 375 | 555 |
| 22.00% | 433 | 376 | 371 | 483 | 714 |
| 23.00% | 529 | 459 | 454 | 590 | 873 |
| 23.23% | 552 | 479 | 473 | 615 | 909 |

Fig 20

The overall net effect of all the changes given in figures 17 to 20 is shown in figure 21. As can be seen, all **pensioners** are winners. (This merely reflects the fact that we have replaced a regressive tax with what is virtually a flat tax - and **all** our pensioner quintiles are below the **average** income for non retired households.)

| VAT Rate | Retired Households Gross Income - Quintiles | | | | |
|----------|---|--------|-------|--------|-----|
| | Bottom | Second | Third | Fourth | Top |
| 18.00% | 40 | 35 | 28 | 32 | 46 |
| 19.00% | 121 | 106 | 85 | 97 | 138 |
| 20.00% | 201 | 177 | 142 | 162 | 230 |
| 20.50% | 242 | 213 | 170 | 194 | 276 |
| 21.00% | 282 | 248 | 199 | 227 | 322 |
| 22.00% | 362 | 318 | 255 | 292 | 413 |
| 23.00% | 443 | 385 | 312 | 356 | 505 |
| 23.23% | 462 | 401 | 325 | 371 | 526 |

Fig 21

Technical Note: *Great care should be exercised in using any of the data in figures 17 to 21. The figures on state pensions, Council Tax, VAT on expenditure and income tax all refer to the year 2002/03. (The latest household expenditure survey on the ONS web-site). On the other hand, the yield from VAT shown in figure 17 is the yield that would be raised in 2005/06 and the £25Bn that would be raised by a rate of 23.23% is the amount that would be necessary to abolish **today's** Council Tax. completely. Since Council tax has risen faster than just about everything else, (like pensioners' incomes, household expenditure, the VAT paid by pensioners and so on), The gains shown in figures 20 and 21 are probably understated. The remaining numbers would have virtually the same gains and losses in **percentage** terms if more up to date figures had been available. The best that these figures can do is to give a **flavour** of what might have happened had the changes to VAT been introduced in the financial year 2002/03*

Of course, pensioners are not the only people suffering hardship as a result of the Council Tax. If our sole purpose had been to relieve the plight of pensioners, we would probably have proposed a tax that pensioners do not pay - like National Insurance Contributions!

6. Effect of our proposals on some sample households

Our specific proposals are very much of a compromise between what we consider to be politically acceptable, what we believe to be really “fair”, what would be good for the economy generally and what could be implemented quickly and with the minimum of change to existing systems.

As we state in section 6 of the main body of this document, we are proposing the total abolition of Council Tax over a period of three years and funding the changes by increases in VAT and income tax. In the first year we are proposing that VAT should be raised to 19% and the basic rate of income tax be raised to 23%. (See table 20 in the main body of this document). The effect of these changes on the tax payable by our “standard” two adult, two earner household in which the principal bread-winner earns twice as much as the secondary one are shown in figures 22 to 27.

Figures 22 and 23 show the changes to the total tax paid in the first year by these households. (A negative number means that the household pays less tax). Figure 22 shows the results in terms of pounds whereas figure 23 gives the same information as figure 22, but where the changes to net taxation are expressed as percentages of the household's gross income.

| Gross Household Income | Council Tax Band | | | | | | | |
|------------------------|------------------|------|------|------|------|------|------|------|
| | A | B | C | D | E | F | G | H |
| 5000 | -172 | -206 | -241 | -275 | -344 | -413 | -482 | -585 |
| 10000 | -139 | -173 | -208 | -242 | -311 | -380 | -449 | -552 |
| 15000 | -82 | -116 | -151 | -185 | -254 | -323 | -392 | -495 |
| 20000 | -24 | -58 | -92 | -127 | -196 | -265 | -333 | -437 |
| 25000 | 46 | 11 | -23 | -57 | -126 | -195 | -264 | -367 |
| 30000 | 118 | 83 | 49 | 15 | -54 | -123 | -192 | -295 |
| 35000 | 190 | 155 | 121 | 87 | 18 | -51 | -120 | -223 |
| 40000 | 262 | 227 | 193 | 159 | 90 | 21 | -48 | -151 |
| 45000 | 334 | 299 | 265 | 231 | 162 | 93 | 24 | -79 |
| 50000 | 406 | 372 | 337 | 303 | 234 | 165 | 96 | -7 |
| 100000 | 824 | 790 | 756 | 721 | 652 | 584 | 515 | 412 |

Fig 22

| Gross Household Income | Council Tax Band | | | | | | | |
|------------------------|------------------|-------|-------|-------|-------|-------|-------|--------|
| | A | B | C | D | E | F | G | H |
| 5000 | -3.4% | -4.1% | -4.8% | -5.5% | -6.9% | -8.3% | -9.6% | -11.7% |
| 10000 | -1.4% | -1.7% | -2.1% | -2.4% | -3.1% | -3.8% | -4.5% | -5.5% |
| 15000 | -0.5% | -0.8% | -1.0% | -1.2% | -1.7% | -2.2% | -2.6% | -3.3% |
| 20000 | -0.1% | -0.3% | -0.5% | -0.6% | -1.0% | -1.3% | -1.7% | -2.2% |
| 25000 | 0.2% | 0.0% | -0.1% | -0.2% | -0.5% | -0.8% | -1.1% | -1.5% |
| 30000 | 0.4% | 0.3% | 0.2% | 0.0% | -0.2% | -0.4% | -0.6% | -1.0% |
| 35000 | 0.5% | 0.4% | 0.3% | 0.2% | 0.1% | -0.1% | -0.3% | -0.6% |
| 40000 | 0.7% | 0.6% | 0.5% | 0.4% | 0.2% | 0.1% | -0.1% | -0.4% |
| 45000 | 0.7% | 0.7% | 0.6% | 0.5% | 0.4% | 0.2% | 0.1% | -0.2% |
| 50000 | 0.8% | 0.7% | 0.7% | 0.6% | 0.5% | 0.3% | 0.2% | 0.0% |
| 100000 | 0.8% | 0.8% | 0.8% | 0.7% | 0.7% | 0.6% | 0.5% | 0.4% |

Fig 23

Figures 24 and 25 provide similar information to figures 22 and 23 for the second year, where we are proposing that basic rate income tax be set at 24%, higher rate income tax at 41% and VAT at 20%.

| Gross Household Income | Council Tax Band | | | | | | | |
|------------------------|------------------|------|------|------|------|-------|-------|-------|
| | A | B | C | D | E | F | G | H |
| 5000 | -463 | -550 | -636 | -723 | -896 | -1069 | -1243 | -1503 |
| 10000 | -408 | -494 | -581 | -668 | -841 | -1014 | -1188 | -1448 |
| 15000 | -305 | -391 | -478 | -565 | -738 | -911 | -1084 | -1344 |
| 20000 | -198 | -284 | -371 | -458 | -631 | -804 | -978 | -1238 |
| 25000 | -69 | -155 | -242 | -329 | -502 | -675 | -849 | -1109 |
| 30000 | 66 | -21 | -108 | -194 | -368 | -541 | -714 | -974 |
| 35000 | 200 | 113 | 27 | -60 | -233 | -407 | -580 | -840 |
| 40000 | 334 | 248 | 161 | 75 | -99 | -272 | -445 | -705 |
| 45000 | 469 | 382 | 296 | 209 | 36 | -138 | -311 | -571 |
| 50000 | 603 | 517 | 430 | 343 | 170 | -3 | -177 | -437 |
| 100000 | 1623 | 1536 | 1450 | 1363 | 1190 | 1016 | 843 | 583 |

Fig 24

| Gross Household Income | Council Tax Band | | | | | | | |
|------------------------|------------------|--------|--------|--------|--------|--------|--------|--------|
| | A | B | C | D | E | F | G | H |
| 5000 | -9.3% | -11.0% | -12.7% | -14.5% | -17.9% | -21.4% | -24.9% | -30.1% |
| 10000 | -4.1% | -4.9% | -5.8% | -6.7% | -8.4% | -10.1% | -11.9% | -14.5% |
| 15000 | -2.0% | -2.6% | -3.2% | -3.8% | -4.9% | -6.1% | -7.2% | -9.0% |
| 20000 | -1.0% | -1.4% | -1.9% | -2.3% | -3.2% | -4.0% | -4.9% | -6.2% |
| 25000 | -0.3% | -0.6% | -1.0% | -1.3% | -2.0% | -2.7% | -3.4% | -4.4% |
| 30000 | 0.2% | -0.1% | -0.4% | -0.6% | -1.2% | -1.8% | -2.4% | -3.2% |
| 35000 | 0.6% | 0.3% | 0.1% | -0.2% | -0.7% | -1.2% | -1.7% | -2.4% |
| 40000 | 0.8% | 0.6% | 0.4% | 0.2% | -0.2% | -0.7% | -1.1% | -1.8% |
| 45000 | 1.0% | 0.8% | 0.7% | 0.5% | 0.1% | -0.3% | -0.7% | -1.3% |
| 50000 | 1.2% | 1.0% | 0.9% | 0.7% | 0.3% | 0.0% | -0.4% | -0.9% |
| 100000 | 1.6% | 1.5% | 1.4% | 1.4% | 1.2% | 1.0% | 0.8% | 0.6% |

Fig 25

Figures 26 and 27 give the equivalent information for the final year. (Figure 27 is also included in the main body of this document as table 19. We have merely included it here for the sake of completeness.)

| Gross Household Income | Council Tax Band | | | | | | | |
|------------------------|------------------|------|------|------|-------|-------|-------|-------|
| | A | B | C | D | E | F | G | H |
| 5000 | -640 | -758 | -876 | -994 | -1230 | -1466 | -1702 | -2056 |
| 10000 | -574 | -692 | -810 | -928 | -1164 | -1400 | -1636 | -1990 |
| 15000 | -434 | -552 | -670 | -788 | -1024 | -1260 | -1496 | -1850 |
| 20000 | -288 | -406 | -524 | -642 | -878 | -1114 | -1351 | -1705 |
| 25000 | -109 | -227 | -345 | -463 | -699 | -935 | -1171 | -1525 |
| 30000 | 79 | -39 | -157 | -275 | -511 | -747 | -983 | -1337 |
| 35000 | 267 | 149 | 31 | -87 | -323 | -559 | -795 | -1149 |
| 40000 | 455 | 337 | 219 | 101 | -135 | -372 | -608 | -962 |
| 45000 | 642 | 524 | 406 | 288 | 52 | -184 | -420 | -774 |
| 50000 | 830 | 712 | 594 | 476 | 240 | 4 | -232 | -586 |
| 100000 | 2109 | 1991 | 1873 | 1755 | 1519 | 1283 | 1047 | 693 |

Fig 26

| Gross Household Income | Council Tax Band | | | | | | | |
|------------------------|------------------|---------|---------|---------|---------|---------|---------|---------|
| | A | B | C | D | E | F | G | H |
| 5000 | -12.79% | -15.16% | -17.52% | -19.88% | -24.60% | -29.32% | -34.04% | -41.12% |
| 10000 | -5.74% | -6.92% | -8.10% | -9.28% | -11.64% | -14.00% | -16.36% | -19.90% |
| 15000 | -2.89% | -3.68% | -4.47% | -5.25% | -6.83% | -8.40% | -9.97% | -12.33% |
| 20000 | -1.44% | -2.03% | -2.62% | -3.21% | -4.39% | -5.57% | -6.75% | -8.52% |
| 25000 | -0.43% | -0.91% | -1.38% | -1.85% | -2.80% | -3.74% | -4.68% | -6.10% |
| 30000 | 0.26% | -0.13% | -0.52% | -0.92% | -1.70% | -2.49% | -3.28% | -4.46% |
| 35000 | 0.76% | 0.43% | 0.09% | -0.25% | -0.92% | -1.60% | -2.27% | -3.28% |
| 40000 | 1.14% | 0.84% | 0.55% | 0.25% | -0.34% | -0.93% | -1.52% | -2.40% |
| 45000 | 1.43% | 1.17% | 0.90% | 0.64% | 0.12% | -0.41% | -0.93% | -1.72% |
| 50000 | 1.66% | 1.42% | 1.19% | 0.95% | 0.48% | 0.01% | -0.46% | -1.17% |
| 100000 | 2.11% | 1.99% | 1.87% | 1.75% | 1.52% | 1.28% | 1.05% | 0.69% |

Fig 27

The vast majority of households in this country will be found on the leading diagonal in figures 22 to 27, (i.e. households with larger incomes will tend to live in higher banded properties than those on lower incomes). As figure 1 showed, we are trying to have the minimum effect on households of this type. The people we are really trying to help are those on lower incomes who, largely for historical reasons, find themselves living in higher banded properties than their incomes really warrant. This is a particularly common problem in areas where property prices are well above the national average. Figure 28 is another picture of the leading diagonal in which we have divided the population into eight fairly typical income segments. As can be seen, apart from the very poorest end of the income distribution, the effects of our changes on total taxation as a percentage of household income are quite small.

| | | Council Tax Band | | | | | | | |
|----------------|--|------------------|-------|-------|-------|-------|-------|-------|-------|
| | | A | B | C | D | E | F | G | H |
| Typical Income | | 7500 | 15000 | 20000 | 25000 | 35000 | 40000 | 45000 | 75000 |
| Year 1 | | -2.1% | -0.8% | -0.5% | -0.2% | 0.1% | 0.1% | 0.1% | 0.3% |
| Year 2 | | -5.8% | -2.6% | -1.9% | -1.3% | -0.7% | -0.7% | -0.7% | 0.1% |
| Year 3 | | -8.1% | -3.7% | -2.6% | -1.9% | -0.9% | -0.9% | -0.9% | 0.1% |

Fig 28

On the other hand, when we examine households further away from the leading diagonal, we find substantially larger changes. Figures 29 to 31 show the effects of our proposals on households for each of the three years of our proposed implementation period, (figure 29 for year 1, figure 30 for year 2, and figure 31 for year 3).

| | | Council Tax Band | | | | | | | |
|--------------------|--|------------------|------|-------|-------|-------|-------|-------|-------|
| | | A | B | C | D | E | F | G | H |
| Two bands Too Low | | -0.1% | 0.0% | 0.3% | 0.4% | 0.4% | 0.5% | | |
| Two bands Too High | | | | -3.0% | -1.2% | -1.0% | -0.8% | -0.3% | -0.4% |

Fig 29

| | | Council Tax Band | | | | | | | |
|--------------------|--|------------------|-------|-------|-------|-------|-------|-------|-------|
| | | A | B | C | D | E | F | G | H |
| Two bands Too Low | | -1.0% | -0.6% | 0.1% | 0.2% | 0.1% | 0.7% | | |
| Two bands Too High | | | | -8.1% | -3.8% | -3.2% | -2.7% | -1.7% | -1.8% |

Fig 30

| | | Council Tax Band | | | | | | | |
|--------------------|--|------------------|-------|--------|-------|-------|-------|-------|-------|
| | | A | B | C | D | E | F | G | H |
| Two bands Too Low | | -1.4% | -0.9% | 0.1% | 0.3% | 0.1% | 0.9% | | |
| Two bands Too High | | | | -11.2% | -5.3% | -4.4% | -3.7% | -2.3% | -2.4% |

Fig 31

In general, people in houses that are two bands too high are to be found in places like London, whereas people in houses that are two bands too low are to be found in regions like the North East. To some extent, therefore our proposals eliminate this particular form of “unfairness”, (which we discuss more fully in sections 2.4 and 2.5 of the main body of this document, in Appendix I, section 2.2.2 and again in section 2.1 of this Appendix.), in the Council Tax system.

The people who are suffering **real** hardship as a result of the unfairness of the Council Tax system are those who, largely for historical reasons, (like some pensioners in London and the South east of England), are living in properties whose prices rose (prior to 1991), by much more than the national average and are therefore more highly banded than they “ought” to be based on the actual accommodation that they provide. Some of these people will be living in properties that are three, (or even four), bands too high for their incomes of today. Figure 32 shows how these people would benefit most from our proposals.

| | Band D | Band E | Band F | Band G | Band H |
|--------|--------|--------|--------|--------|--------|
| Year 1 | -3.4% | -1.7% | -1.3% | -1.1% | -0.6% |
| Year 2 | -9.3% | -4.9% | -4.0% | -3.4% | -2.4% |
| Year 3 | -12.8% | -6.8% | -5.6% | -4.7% | -3.3% |

Fig 32

Despite our proposals being inevitably something of a compromise, we see one of their main virtues as lying in the way that they take comparatively small amounts from a lot of people enabling us to give a lot to a small number of people who are really suffering hardship. This is very clearly illustrated by the numbers contained in figures 22 to 32.

In order to complete the picture of the impact that our proposals might have, we have included figures 33 and 34 in this Appendix. These examine the effect that our proposals might be expected to have on households other than our “standard” two earner ones. Figure 33 examines the impact on households where 66.7% of the household income does not come from one earner. To illustrate this we have chosen to display what would happen when 50%, 75% and 100% of the household income comes from one earner.

| Gross Household Income | Band B | | | Band D | | | Band F | | |
|------------------------|--------|------|------|--------|------|------|--------|-------|-------|
| | 50% | 75% | 100% | 50% | 75% | 100% | 50% | 75% | 100% |
| 5000 | -758 | -758 | -758 | -994 | -994 | -994 | -1466 | -1466 | -1466 |
| 10000 | -690 | -680 | -620 | -926 | -916 | -856 | -1398 | -1388 | -1328 |
| 15000 | -602 | -522 | -433 | -838 | -758 | -669 | -1310 | -1230 | -1141 |
| 20000 | -414 | -364 | -245 | -650 | -600 | -481 | -1123 | -1072 | -953 |
| 25000 | -227 | -208 | -57 | -463 | -444 | -293 | -935 | -916 | -765 |
| 30000 | -39 | -39 | 131 | -275 | -275 | -105 | -747 | -747 | -577 |
| 35000 | 149 | 149 | 319 | -87 | -87 | 82 | -559 | -559 | -390 |
| 40000 | 337 | 337 | 451 | 101 | 101 | 215 | -372 | -372 | -257 |
| 45000 | 524 | 524 | 537 | 288 | 288 | 301 | -184 | -184 | -171 |
| 50000 | 712 | 708 | 623 | 476 | 472 | 387 | 4 | 0 | -85 |
| 100000 | 2072 | 1821 | 1481 | 1836 | 1585 | 1245 | 1363 | 1113 | 773 |

Fig 33

In figure 44 we return to our, (or rather the ONS’) standard retired households. As we remarked when considering figures 17 to 21, all of these households would benefit from our proposals.

| | Bottom Quintile | | Second Quintile | | Third Quintile | | Fourth Quintile | | Top Quintile | |
|---------------------|-----------------|-------|-----------------|--------|----------------|--------|-----------------|--------|--------------|--------|
| | Before | After | Before | After | Before | After | Before | After | Before | After |
| Net Council Tax | 552 | 0 | 479 | 0 | 473 | 0 | 615 | 0 | 910 | 0 |
| Income Tax | 118 | 126 | 195 | 205 | 430 | 484 | 977 | 1,105 | 3,683 | 4,185 |
| VAT | 712 | 834 | 728 | 853 | 877 | 1,027 | 1,168 | 1,368 | 1,628 | 1,907 |
| Total Tax | 1,382 | 960 | 1,402 | 1,057 | 1,780 | 1,511 | 2,760 | 2,473 | 6,221 | 6,089 |
| Gross Income | 7,283 | 7,366 | 10,003 | 10,100 | 11,763 | 11,857 | 15,633 | 15,726 | 29,418 | 29,519 |
| Disposable Income | 5,901 | 6,406 | 8,601 | 9,042 | 9,983 | 10,346 | 12,873 | 13,253 | 23,197 | 23,430 |
| Percent Improvement | | 8.56% | | 5.13% | | 3.63% | | 2.95% | | 1.00% |

Fig 34