



GREY HAIRS
THE EXPERIENCED
CONSULTANTS

Local Authority Funding

A Fairer Tax Raising System

(Summary Report)

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

IsItFair is campaigning for the Reform of the Council Tax which in its present form is unfair and is causing real hardship. Poorer people in some regions of the country are being forced to subsidise richer people in other parts of the country. In effect, people are being taxed on the basis of their **neighbour's** wealth. Is it fair?

Since it was introduced on April Fool's Day 1993, the average Council Tax has more than doubled. Neither pensions nor average earnings have managed to keep pace. The former Minister for Local Government, Nick Raynsford, has acknowledged that the trend in council tax rises is unsustainable. People just above the Council Tax Benefit threshold can be paying up to 25% of their income in Council Tax.

IsItFair proposes that the Council Tax in its present form should be scrapped and replaced by a more **broadly based** system of taxation which reflects an individual's **ability to pay** and which provides a real incentive for local authorities to give **good value for money**.

The following extracts cover the main points of our proposal.

2. PROBLEMS WITH THE CURRENT SYSTEM

The existing Council Tax system is now widely considered to be unfair because:

- The amount being demanded of householders bears only a passing relationship to either their net incomes or their net wealth. Its incidence is **haphazard**.
- The level of Council Tax, and the corresponding bills with which taxpayers are presented, bears only a very loose relationship to the amount a local authority actually spends. The local electorate is, in effect, **disenfranchised**.
- Many local residents, who benefit from council services and who could easily afford to pay more, contribute little or nothing to those services while others, whose ability to pay is much less, can end up having to pay as much as 25% of their income in Council Tax.
 - Many of those who vote for local services do not have to pay for them, whereas others, who make little or no use of those same local services have to foot the bill.

On average, Council Tax funds only a quarter of local government spending. The remainder comes from central government. This means that the present system is open to manipulation by government for political purposes.

- According to a recent report by the Audit Commission, the whole system is too complex for people to understand. In 2003/04 central government grants were moved from London and the South to the Midlands and the North.

3. PROPOSED NEW SYSTEM

IsItFair recognises that there is a widespread demand for **more** local democracy and accountability and **less** centralisation. We fear that unless there are **some** taxes which are collected locally and particularly whose **rates are set locally**, then any local autonomy that still remains will rapidly become a sham. It would be unrealistic to expect central government to stop calling the local tune when it pays the lion's share of the piper's wages. More local autonomy means that **some** local taxes are essential. Local **collection** is not enough. Only if those who decide how to spend the money are able to decide **how much** to spend and collect by way of tax are they truly accountable. Tax rates for local taxes really do need to be set locally.

We believe that this will only be possible as part of some much wider and more thoroughgoing reform of the relationship between central and local government. This would have to involve a better match between **power and responsibility**.

- Local and central government need to be entirely separate, with separate and well defined responsibilities and separate sources of funds. Councils would then have to **manage** and fund **their** decisions and central government would have to do likewise. Central government would be responsible for funding and **managing** all "essential" services. Local government would decide about all those little "extras" which make local communities what they are.

Any local tax needs to be cheap and easy to collect and difficult to avoid. Unless local authorities become much bigger than they are today, local income taxes and local sales taxes would tend to be avoided by displacing the taxable activities to other, slightly lower tax, authorities. We do not consider that such taxes could form any part of the solution. Ideally any local tax would be "fair" and non-discriminatory, broadly based and avoid any undue hardship for any for those who have to pay it. Also it should be fairly obviously "local". Ideally too its incidence will bear a direct relationship to the expenditure that it is supposed to fund and who benefits from, or votes for, that expenditure.

Given all of these criteria, it is very difficult to avoid some form of property based taxes, (like the rates or the Council Tax), or residency based taxes, (like the poll tax). Nothing else is truly local.

In the light of the problems experienced with reforms in the past, we believe that proper reform of the relationship between local and central government and the designing of the local taxes necessary to underpin it will require a considerable amount of time for reflection and consultation if they are to achieve widespread public acceptance. However, we believe that the current problems of hardship are so urgent and acute that we need to act **now**.

Accordingly Isitfair proposes that the **first step** should be to fund the complete abolition of the Council Tax by increasing the basic rate of income tax from 22% to 25%, the higher rate of income tax from 40% to 41% and the standard rate of VAT from 17.5% to 20.5%. In order to allow people time to adapt to the new situation, we recommend that these changes be phased in over a period of three years.

We recognise that if this were **all** that we were proposing then there would inevitably be less real local democracy than the already very limited amount that we have under the present system. Any incentive for local authorities to provide **good value for money** would actually be reduced. That is why these proposals are just a **first step**. Our first step is simply a **quick** solution not an **ideal** one. Only by using **existing systems** can we achieve the required changes in time. This is why we have chosen income tax and VAT to share all of the burden currently borne by the Council Tax.

While the “unfairness” of the Council Tax will persist during the transition period, we anticipate that virtually all of the real hardship that this causes will disappear in the first year as a result of the immediate reduction in Council Tax bills.

Isitfair believes that by solving the short term problems associated with the Council Tax, the government will buy itself sufficient time to address the other issues concerning the relationship between central and local government and any reforms to local taxation in a less fraught atmosphere - which will hopefully lead to better overall solutions. We are conscious of the fact that it was only the unpopularity of the rates that led to the poll tax and only the unpopularity of the poll tax that led to the Council Tax. The government and the nation need time to consider the options and conduct a proper debate. This is just what Isitfair aims to provide.

In framing these proposals, isitfair has 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. However we believe that it would be dishonest to use any changes to the Council Tax system to “smuggle in” other changes. The case for any such changes ought to be made completely separately.

Most people, including the relatively wealthy who live in expensive houses, would only notice very marginal differences in their overall standard of living from the implementation of these proposals. However, those most unfairly treated by the Council Tax and who are suffering real hardship, will find their situation much easier to bear. The main losers from these proposals would be those people on higher incomes who currently pay little or no Council Tax but who are entitled to use locally provided services.

The effects of our proposals on a number of sample households are shown in figures 1 and 2. Figure 1 shows how much more, (positive numbers), or less, (negative numbers), each household would pay in total tax in terms of pounds per annum as a result of our proposals once they have been fully implemented. Winners are shown in **bold** and **blue**, whereas losers are shown in *italics* and **red**

Note: *State pensions, (and some private pensions) are increased in line with the RPI. Increasing VAT will increase RPI which will then, in its turn, increase the state pension. There will then be more income tax to pay on that pension. Since not everyone gets the full state pension, (because of incomplete contribution records and so on), we have ignored these small effects when calculating the numbers for pensioners in both figures 1 and 2*

	Council Tax							
	A	B	C	D	E	F	G	H
1 income, 2 household	<i>1570</i>	<i>1448</i>	<i>1325</i>	<i>1202</i>	<i>957</i>	<i>711</i>	<i>466</i>	<i>97</i>
1 income, 2 household	<i>1227</i>	<i>1104</i>	<i>982</i>	<i>859</i>	<i>613</i>	<i>368</i>	<i>122</i>	-246
1 income, 2 household	<i>884</i>	<i>761</i>	<i>638</i>	<i>516</i>	<i>270</i>	<i>25</i>	-221	-589
1 income, 2 household	<i>712</i>	<i>589</i>	<i>467</i>	<i>344</i>	<i>98</i>	-147	-393	-761
1 income, 2 household	<i>541</i>	<i>418</i>	<i>295</i>	<i>172</i>	-73	-319	-564	-933
1 income, 2 household	<i>220</i>	<i>97</i>	-25	-148	-394	-639	-885	-1253
1 income, 2 household	-155	-278	-401	-524	-769	-1015	-1260	-1628
2 income (£50,000 + £30,000)	<i>1669</i>	<i>1546</i>	<i>1424</i>	<i>1301</i>	<i>1055</i>	<i>810</i>	<i>564</i>	<i>196</i>
2 income (£40,000 + £20,000)	<i>1122</i>	<i>999</i>	<i>876</i>	<i>754</i>	<i>508</i>	<i>263</i>	<i>17</i>	-351
2 income (£30,000 + £20,000)	<i>802</i>	<i>679</i>	<i>556</i>	<i>433</i>	<i>188</i>	-58	-303	-672
1 adult, age 65-74 (£9,500)	-418	-510	-602	-694	-878	-1062	-1246	-1523
1 adult, age 65-74 (£8,500)	-438	-530	-622	-714	-899	-1083	-1267	-1543
2 adults, aged 65-74 (£9,500 + £8,500)	-488	-611	-733	-856	-1102	-1347	-1593	-1961

Fig. 1

In figure 2, the same results are presented rather differently. Figure 2 shows the percentage increase, (a positive number), or decrease, (a negative number), in each household's disposable income. Once again, winners are shown in **bold**, whereas users are shown in *italics*

	Council Tax Band							
	A	B	C	D	E	F	G	H
1 income, 2 adult household (£100K)	-1.6%	-1.4%	-1.3%	-1.2%	-1.0%	-0.7%	-0.5%	-0.1%
1 income, 2 adult household (£80K)	-1.5%	-1.4%	-1.2%	-1.1%	-0.8%	-0.5%	-0.2%	0.3%
1 income, 2 adult household (£60K)	-1.5%	-1.3%	-1.1%	-0.9%	-0.5%	0.0%	0.4%	1.0%
1 income, 2 adult household (£50K)	-1.4%	-1.2%	-0.9%	-0.7%	-0.2%	0.3%	0.8%	1.5%
1 income, 2 adult household (£40K)	-1.4%	-1.0%	-0.7%	-0.4%	0.2%	0.8%	1.4%	2.3%
1 income, 2 adult household (£30K)	-0.7%	-0.3%	0.1%	0.5%	1.3%	2.1%	2.9%	4.2%
1 income, 2 adult household (£20K)	0.8%	1.4%	2.0%	2.6%	3.8%	5.1%	6.3%	8.1%
2 income household (£50,000 + £30,000)	-2.1%	-1.9%	-1.8%	-1.6%	-1.3%	-1.0%	-0.7%	-0.2%
2 income household (£40,000 + £20,000)	-1.9%	-1.7%	-1.5%	-1.3%	-0.8%	-0.4%	0.0%	0.6%
2 income household (£30,000 + £20,000)	-1.6%	-1.4%	-1.1%	-0.9%	-0.4%	0.1%	0.6%	1.3%
1 adult, age 65-74 (£9,500)	4.4%	5.4%	6.3%	7.3%	9.2%	11.2%	13.1%	16.0%
1 adult, age 65-74 (£8,500)	5.2%	6.2%	7.3%	8.4%	10.6%	12.7%	14.9%	18.2%
2 adults, aged 65-74 (£9,500 + £8,500)	2.7%	3.4%	4.1%	4.8%	6.1%	7.5%	8.8%	10.9%

Fig. 2

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. We have framed our 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.

4. FURTHER READING

The document "Local Authority Funding - A Fairer Tax Raising System" sets out our proposal in considerably more detail. This is available from our website.