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A Fairer Local Tax (CRE 959)  
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Dear Sir

### **Scottish Government's Proposals for A Fairer Local Tax for Scotland**

The ICAEW Members in Scotland (IMS) welcomes the opportunity to comment on the consultation for the proposals for A Fairer Local Tax for Scotland released by The Scottish Government on 11 March 2008.

#### **Who we are**

IMS is the dedicated Scottish branch of the Institute of Chartered Accountants in England & Wales (ICAEW) serving over 1300 members across the private and public sectors in Scotland. IMS represents the views of ICAEW members who work in Scotland for Scottish and international organisations and disseminates information from ICAEW to its members in Scotland.

ICAEW operates under a Royal Charter, working in the public interest. The regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the ICAEW provides leadership and practical support to over 130,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The ICAEW is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.

#### **Scope of response**

This response focuses on areas where we believe our professional expertise and knowledge can add value to the consultation process and to the development of A Fairer Local Tax for Scotland.

Our comments on the 24 questions raised in sections 1 to 7 are included as Appendix I to this response.

## Major points

1. In 1999 the ICAEW published a paper entitled Ten Tenets for a Better Taxation System. This document, attached as Appendix II, lists what is required in any new form of tax and to which all current taxes should seek follow. The Scottish Government's consultation paper includes proposals which appear to fail many of these ten tenets. In particular simplicity of understanding, of calculation and collection is in doubt.
2. The consultation document clearly sets out the proposal to replace the current council tax regime with a Local Income Tax (LIT). The initial suggestion is for the LIT to be set at 3% charged on earned income. The revenues from this tax are to be passed to council authorities to provide services for their residents. There is an intention implicit that the revenue should be better and fairer if targeted to a resident's income rather than on their property.
3. Further information and research is required to substantiate the proposed LIT plans as there are many unquantified factors including estimated income from LIT and the certainty and quantum of any top up from UK government from current benefit payments. It is thus unclear whether sufficient revenue will be raised through this alternative method to fully replace the funds raised from council tax.
4. In consequence, the proposed LIT rate of 3% may well result in a shortfall of the necessary amount and need to be significantly higher to maintain services. To properly gauge appetite for a change consultees will need more information on what rate of tax on income could be set.
5. Whilst evidence from some overseas countries/tax regimes may imply that tax payers choose where they want to live according to environmental and service criteria, the UK workforce is dynamic and mobile and there must be a risk of a loss of talent and entrepreneurs from a high tax environment in Scotland. Businesses may relocate higher paid senior positions to England, or further afield, to remain competitive and attract talent to their organisations. This would be to the detriment of the Scottish economy.
6. The paper seeks a fairer tax for Scotland, but in terms of raising funds to pay for service provision our members raised doubts as to whether there is a great deal wrong with the existing taxation revenue as a whole – raised as it is at present on a combination of income, capital gains (HMRC self assessment), expenditure (VAT) and property (Council Tax). Any system is as capable of producing anomalies as another and while tax on income provides a closer link between income and the burden of taxation, this is not the same as matching the burden of tax to the ability to pay.
7. The UK taxation system is already complex and there are current initiatives to reduce the complexity of these systems. The Chancellor has declared that tax changes be aimed at simplifying tax rather than adding to legislation. LIT would appear to contradict the current initiatives and at the same time the payroll changes required will impose a greater administrative burden on businesses.
8. Will the requirement to collect and pay local income tax for employees based in Scotland – the paper notes that this definition needs to be clearly agreed - be properly and transparently applied on businesses head-quartered outwith Scotland? This is unclear at present.
9. Clarity is also required in respect of off-shore oil and gas employees. Not all offshore platforms are north of the border: how will allocation be applied? By mapped boundaries, by point of departure or some other basis?

10. We have concerns over how efficient the payment streams to councils will be. At present council tax is paid monthly usually in the first 10 months of a financial year to an authority directly by tax payers. If LIT is collected by HMRC, the payments would be spread over 12 months, always one month in arrears with additional payments some time after the financial year end in respect of self employed tax returns being finalised. These changes will adversely affect the flow of cash into councils and thus have a significant impact on their ability to provide services.
11. There is merit in the simplicity of applying a local tax on all income, not just earned income, and using HMRC – if willing and rewarded appropriately – to collect against income already being disclosed or available to them. We feel that excluding unearned income, combined with the generous provision of healthcare for the aged would make Scotland an extremely attractive domicile for economically inactive senior citizens who could occupy large houses with little or no tax contribution to their local economy as they use increasingly disproportionate local services as they age further. Whilst the 'grey pound' has its attractions economically it would in our opinion be fairer to apply LIT to unearned income as well as to earned income.
12. If LIT replaces council tax there is uncertainty over how the centrally collected funds will be distributed to local authorities. Unless LIT collected is to be paid over to LAs by reference to the tax payers post code, what accountability will there be? Authorities could be free to ignore the needs and demands of their residents. A situation may arise where complaints at an under-provision of services could be simply deflected away as the result of a lack of funds allocated to the authority by a remote Scottish government.
13. **Tenets 7** for a better tax system requires adequate time for drafting legislation and a full consultation. To satisfy this we would welcome clarification on areas such as funds raised, funding requirements, allocation of funds, provisions for any shortfalls and any guarantees on the future LIT rate. In addition, if there was to be a shortfall, as many sources predict, would the Scottish Variable Rate be used to fund the deficit? We believe this would have a serious impact on many individuals and businesses in Scotland, to the long term detriment of the Scottish economy.
14. In conclusion, our study of the current proposals shows that there are insufficient details regarding income raised, costs, benefits, practicalities, commercial implications and social and demographic issues to fully support an informed decision. Whilst a local income tax can in principle have merit as a fairer basis than a property based tax, the proposals outlined in the consultation document issued in March 2008 require additional information on revenue, costs, collection and transparency. We would welcome further research and a new proposal which seeks to incorporate the ICAEW's ten tenets for a better tax system, attached as Appendix II, and the opportunity to participate in further consultation and discussion.

Yours sincerely



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## Appendix I

### Section 1 - How much Local Income Tax will people pay?

We understand the aim is to replace the council tax by alternative local income tax. Business rates will remain under the current system. Information is required on the impact on businesses of dealing with the two different systems, administering the LIT in addition to paying rates.

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

The Same

Higher

Lower

Don't Know

To be fair and avoid excessive complications the Personal Allowance should be the same as within the existing UK system. This will facilitate using the PAYE and Self Assessment systems and result in some certainty as required by **Tenet 2**.

Further information is required about whether the proposal will extend to all the personal allowances within the current income tax system and not just the basic personal allowance, for example blind personal allowance and age related personal allowance. Encompassing all the personal allowances will ensure consistency with the current income tax system and avoid extra complexities. It should be noted that this will have an impact on the amount of LIT raised.

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

Too high

Too low

About right

Don't Know

Substantiation of 3% is required. There have been several reviews highlighting shortfalls in the budgeting requirements and the rate of 3% could need to be higher.

A flat rate may be reasonable, however to comply with **Tenet 9**, we believe that there should be an earnings limit. To be a fair and reasonable tax, LIT should be capped to avoid excessive liabilities on individuals.

If there was a shortfall, as many predict, would the Scottish Variable Rate be used to fund the deficit? This would have a negative impact on many individuals and businesses in Scotland.

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

Yes                  No                  Don't Know

This is a matter for the individual. Some would be prepared to pay more, others would claim not to use local services and thus be disinclined to pay more than the minimum.

The level of LIT will also be influenced by the additional cost of water rates. We feel many individuals have not appreciated that the proposed LIT excludes water rates and to make a meaningful comparison of costs between LIT and council tax, the cost of water rates must be added to the LIT calculations.

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

Locally                  Nationally                  Don't Know

If you believe the level should be set locally, should Scottish Ministers be able to cap the rate?

Yes                  No                  Don't Know

A level set nationally would satisfy **Tenet 3**, **Tenet 4** and **Tenet 6**, making LIT simple, easy to calculate and constant. However, Scottish Ministers need to work together with local authorities to ensure the rate is set at a level which meets the funding requirements. The Ministers may need to establish the ability to cap the local rate of LIT to avoid excessive local variations and inconsistencies.

If local councils are unable to set the rate of LIT, there will be little incentive to improve efficiency of existing services. Alternatively, how would local areas be able to obtain additional funds if the LIT was set at a rate below their realistic requirements?

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

> Earned Income / Wages?  
Yes    No    Don't Know

> Income from Pensions?  
Yes    No    Don't Know

> Income from Savings?  
Yes    No    Don't Know

> Income from Financial Investments?  
Yes    No    Don't Know

> Income from Second Homes?  
Yes    No    Don't Know

There would be opportunities under tax law for high earning director-shareholders within private limited companies to restrict income taken from the business as salary and instead withdraw the funds as dividend income. This would reduce payment of LIT if paid only on 'earned income'. Applying LIT to all income renders such actions impotent.

The proposed LIT system, if only applied to earned income, would encourage aggressive tax planning, particularly as there is currently no earnings cap proposed for the calculation of LIT. This is the opposite to one of the main aims of general taxation currently and against many of the Ten Tenets for a Better Tax System.

There is a view that bank interest, for example, should not be taxed. The monies earning the interest are highly likely to have been saved from post-tax earnings and the interest will already be subject to income tax again as savings income. A further liability to LIT on these earnings could simply discourage saving, potentially resulting in a future dependence on state funding should circumstances change. We believe that people should be encouraged to save and to invest in business in Scotland to promote economic growth.

Question 6 - In your view, do you think that there should be any special exemptions or discounts from a local income tax?

Yes

No

Don't Know

If yes, please state what for and share with us any thoughts on how you think these might be funded?

Accepting the full range of personal allowances could avoid the need for special exemptions and discounts satisfying certainty of liability and simplicity of calculation per **Tenet 2** and **Tenet 3**.

There is a risk that the LIT may discourage persons from returning to/starting work especially in lower paid jobs – an issue which the tax credit system was implemented to help address.

Question 7 - Do you agree that a Scottish taxpayer should be defined using the definition already contained in the Scotland Act, described at paragraph 19 above?

Yes

No

Don't Know

If you disagree, how would you propose residency be defined?

The current definition of a Scottish taxpayer, contained within the Scotland Act is a good starting point. There are, however, issues which require further investigation and clarification.

Under the current proposals if the time you spend in Scotland is more than in the remainder of the UK then the individual will be liable to LIT. This may result in an unfair liability where a person's job requires them to reside in more than one place, or to travel extensively.

The current proposals may be fair to one particular social group but certainly not 'across the board'. As part of the clarification, we would welcome information on the impact of LIT and offshore oil workers. We consider that this is failing **Tenet 5** – to properly target tax payers.

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

Yes

No

Don't Know

If yes, please give your reasons and provide any comments on how you think transitional arrangements should be funded.

Phasing in higher payments would be fair to those with a high liability, however this would be an unacceptably complex burden to businesses and be difficult to legislate as required by **Tenet 1**.

Collecting varying amounts may be reasonable where the charges are being collected as a separate item, but not when it is tied to someone's total income and total income tax liability.

Rather than overly complex transitional arrangements we would suggest clear advance notification of the commencement date of LIT, of the rate to be charged and how it will be collected from tax payers. This follows **Tenet 4** that tax be easy to calculate.

## Section 2 - How will Local Income Tax be Collected and Administered?

**Tenet 4** requires that tax liability should be straightforward and cheap to collect.

Question 9 - Which of the following do you think should collect a Local Income Tax?

- > Her Majesty's Revenue and Customs (HMRC)?
- > A Scottish Government collection agency?
- > A private sector collection agency?
- > Local authorities?
- > Don't Know

The suggestion that HMRC collect the LIT would, prima facie, appear reasonable as the proposal is to base the levy on earnings and attach the % to the income tax rates. HMRC have experience of the PAYE and self assessment tax systems and already have access to sensitive and confidential information on taxpayer income.

However we would welcome further investigation on the feasibility of HMRC to take on this additional work including whether resources are available to update existing systems and provide the necessary training.

The Scottish Government have stated they will make a payment to HMRC for these services. We consider the proposal should include information on the following:

- who will determine the charge
- the potential costs
- how these costs equate to the less effective cost of collection of council tax.

New agency – the use of a new agency would seem unrealistic both commercially and practically. We are unable to comment fully on the fiscal impact of this option without details of costs and savings.

Private company – this, as above, prima facie seems an excessive use of funds. Whilst there are likely to be many private companies with experience of credit control and collecting funds, they may not have the experience of dealing with HMRC and PAYE systems, procedures and policies.

Taxpayers may also be unwilling for an external entity to hold personal financial information.

Councils – they are familiar with collecting these funds. However they are unlikely to have the required knowledge of payroll, HMRC and income tax. Each local authority may create a duplication of effort.

We suggest further research and engagement with HMRC is required on the practicalities and feasibility of the proposal to use HMRC as the collection vehicle.



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

- > Collected at source
- > Collected through payment
- > A combination of collection at source and by payment
- > Don't Know

We understand that it may be possible for self assessment taxpayers to add the LIT payment to their tax payment. However, we would welcome further research regarding online filing and identification of the separate amounts.

The same identification issues will arise for entities filing PAYE documents and settling liabilities online. Currently, taxpayers and business entities are actively encouraged by HMRC and governmental bodies to file their returns online.

We would be interested to see further details in the proposals regarding the identification of those required to pay LIT, and how HMRC will ensure they receive the correct amount, and in turn how each local authority will receive the correct amount.

We would also welcome further clarification on which system it is proposed to extend to account for LIT (point 27 of the consultation document). The suggestion that anyone outwith the current self assessment regime but within the LIT system would be required to submit an annual return would be a huge burden on members of the public and a further burden on HMRC to process these returns.

We agree that a different income tax in Scotland from that in the rest of the UK would be an issue for employers who provide data and tax information to HMRC. This would also appear to contradict all the current initiatives to make tax simpler and clearer and as required by **Tenet 4**.

Question 11 - If the Government were to offer support to employers to implement these proposals, which would be the most appropriate medium of support in your view? Please tick all boxes that apply

- > Information booklet for employers
- > Designated advice hotline
- > Designated advice e-mail
- > Website with a section of 'Frequently Asked Questions (FAQs)'
- > Workplace visits
- > Roadshows for employers
- > Media advertising
- > None
- > Other (please specify)
- > Don't Know

Clear guidance must be provided for employers' understanding of the new system and their requirements. However this will not reduce the burden of collection of the tax and/or training of the payroll staff.

We would welcome further planning and research into a timetable to ensure that government processes are approved and streamlined by the time LIT is to be introduced. This timetable should also ensure that there is adequate time and information provided to software and training providers to enable them to update their systems and provide appropriate working systems to businesses ready for the collection of LIT.

We believe the following measures could help employers prepare for the implementation of LIT:

- Information booklet for employers – we would suggest an online booklet to avoid unnecessary printing and distribution costs and be environmentally friendly.
- Designated advice hotline to help employers get started and help them with their obligations.
- Designated advice email – this would be essential and would allow communication for those working outwith standard office hours or preferring electronic communication.
- Website with FAQs – typically with any new system, many users will experience the same problems, areas of concern or queries. FAQs provide a fast, efficient and cost effective solution for many of those common queries.
- Roadshows for employers – this would provide an opportunity for any interested party to find out more and is often better use of organisations' time and resources than individual workplace visits.
- Media advertising will be required to ensure individuals as well as employers are aware of impending changes.

### Section 3 - What will be the impact of a Local Income Tax on our Economy and People?

**Tenet 10** states that tax should encourage investment, capital and trade.

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

Yes

No

Don't Know

The LIT proposal document states that the amount raised through LIT will not be identical to that raised through council tax. Will additional funds be utilised to improve services or to further develop environmental projects?

If the collected funds are less than under the current council tax system we would welcome further detail on how the deficit will be funded to maintain services.

The LIT proposal document states that one of the key drivers of LIT is to close the gap between Scotland's growth and the UK average (1.8% v 2.3%).

Whilst the examples given state only the very top decile will be worse off, how much LIT is estimated to be collected from these higher earners? Without an earnings cap on the assessable amount, the tax collected from this top decile could be excessive and fail the "fairer" test.

Increasing the income tax rate carries a risk of the loss of highly skilled, higher paid workers from Scotland if this is seen by individuals as a disincentive to live and work in Scotland. As the greatest burden of tax will lie with these taxpayers, this could lead to the migration of many in this sector with adverse consequences not only on LIT fundraising but also on the contribution of these individuals to the Scottish economy.

We question whether sufficient research has been carried out to quantify the burden on tax payers in pursuit of **Tenet 5** and **Tenet 9**.

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

A Lot

A Little

Not at all

A decision to live in Scotland will depend on various factors including personal circumstances, family commitments, career opportunities and wealth generation.

Today's workforce is dynamic and mobile, and many higher earning professionals and entrepreneurs could be reluctant to work in Scotland if it is seen as a high tax environment. The LIT, whilst intending to promote growth, may well result in the system being seen as a disincentive, making it much harder and more expensive to attract high calibre business people to Scotland.

Question 14 - To what extent do you agree with the following statements about the impact that a local income tax might have on your working patterns? (select on a scale of 1 – 5 where 1 is strongly agree and 5 is strongly disagree)

I am likely to work more hours  
1      2      3      4      5      Don't Know

I am likely to work fewer hours  
1      2      3      4      5      Don't Know

I am likely to work in a different location  
1      2      3      4      5      Don't Know

I am likely to change jobs to a different sector  
1      2      3      4      5      Don't Know

It will have no impact on my work patterns  
1      2      3      4      5      Don't Know

Other work impacts (please specify)

(Note: 1 is strongly agree and 5 is strongly disagree)

Work choices are easily affected by fiscal reward, including a change in tax.

These changes include the hours worked, job location, basic salary requirements and choice to return to work or work longer hours. The need for additional income is likely to be the driving force for working longer hours, a higher tax burden may decrease the quantum of extra work, but it is uncertain to what degree.

Individuals are more likely to leave work or to seek better paid jobs for reasons other than any impact on LIT payable.

Question 15 - On a scale of 1 - 5, where 1 is strongly agree and 5 is strongly disagree, how important is it that your local authority has the power to set a tax?

1      2      3      4      5      Don't Know

Question 16 - Please provide any comments you may have about local income tax and accountability and democracy.

Whilst local councils will retain control over how funds are spent, with the power to set a level for LIT unlikely due to complexity issues stated above, they will no longer be able to control the amount collected.

A flat rate of tax that is not linked to local councils' need for funding provides no incentive for councils to operate efficiently. Under a system, such as council tax, where the amount of local government tax collected from householders is set by their local council, there is a greater degree of accountability.

Whilst the local authority can control expenditure, we have concerns over how councils could be assisted where the amount provided to them does not meet their basic requirements.

Similarly, how will councils be held accountable if they have surplus funds? If a council succeeds in making efficiency savings there is no way of returning these savings to taxpayers other than providing more services.

We would welcome further research on how the LIT will perpetuate the efficient operation of councils and make them accountable to their local residents.

Where there is no direct connection between what is paid and the services provided, there is no financial incentive to provide good services.

Question 17 - If you have any specific comment about the impact of our proposals on equality issues, please tell us what these are.

The Scottish Government is trying to ensure equal opportunities for all and that no-one is unfairly impacted on because of race, ethnicity, disability, gender or sexual orientation, age or religion.

Not all groups within society are treated fairly in employment and the tax would follow suit. In some ways this is welcome – if women are paid less for a role at least paying a bit less towards LIT would be some compensation but this does not itself promote an equal system.

#### Section 4 - How will a Local Income Tax Pay for Local Authority Services?

Question 18 - Do you feel that the money raised from a Local Income Tax should be distributed to councils according to:

- > Need?
- > Population in each area?
- > The amount of local income tax raised in each area?
- > Don't Know
- > Other (please specify)

There is a need for further research on how much money should go to the relevant local authority. There are merits and inadequacies in the different bases:

- Need is subjective.
- Previous expenditure is a guide but perpetuates a level of service which may not match real need.
- Population doesn't reflect differing needs of cities against a rural area with low density population but large area to support. How would the relevant administration team keep track of changing demographics?
- LIT revenue basis will fail the fairer test in favour of wealthy conurbations with high employment.

Question 19 - To what extent do you agree that Scotland should receive equivalent monies to Council Tax Benefit, after the abolition of council tax? (where 1 is strongly agree and 5 is strongly disagree)

1      2      3      4      5      Don't Know

We would suggest the current policies and arrangements written at the time of devolution were based on Scotland participating in the current council tax system. Changes would require UK-wide consultation, **Tenet 1** refers.

More details are required on the dormant funding mechanism. Much further research and information is required in this area, including engagement with UK Government, to clarify this issue.

## Section 5 - How will empty and Second Homes be taxed?

Question 20 - To what extent do you agree that local authorities should play a part in setting a second homes tax? (where 1 is strongly agree and 5 is strongly disagree)

1      2      3      4      5      Don't Know

If there is to be a charge on second properties outwith the LIT system, it would seem logical that the responsibility remain, as now, with the local authorities.

Proper targeting is important to satisfy **Tenet 5**, we would question whether there is a logic to levying this charge if the owner is already taxed, and the assumption would be heavily charged, under LIT.

Question 21 - To what extent do you feel second homes tax should be collected by:

Her Majesty's Revenue & Customs (HMRC)?

1      2      3      4      5      Don't Know

A Scottish local collection agency?

1      2      3      4      5      Don't Know

A private collection agency?

1      2      3      4      5      Don't Know

Local authorities?

1      2      3      4      5      Don't Know

Again, if there is to be a charge on second properties, it would seem logical that the responsibility for collection remain, as now, with the local authorities.

We would agree that the main challenge in taxing second homes is to identify the properties, set a fair amount and collect the tax.

Where properties are owned by persons outwith the LIT system, but utilising the council services, however infrequently, then a contribution should be made towards those services. The rate could be set at an amount similar to the existing council tax liability and collected using the non-domestic rates system.

Before considering these options in great detail it is important to identify how many properties will be subject to this Second Home charge. In particular, how will second properties be identified, how the existing ownership data held may be kept up-to-date, how much tax will be raised on these properties together with the practicalities of collection of a fair liability.

## **Section 6 - How will Domestic Water Charges be affected?**

Domestic water rates are currently included within council tax. They do not vary by local authority area. Domestic water rates will require a review if council tax is abolished. We question whether the local authorities continue to do this or whether Scottish Water should undertake this task, perhaps by utilising expertise of utility players. Water rates are collected separately in England so the framework already exists elsewhere.

We would question who will pay the costs for the new required systems and training, and whether these costs would be passed on to customers, in which case the LIT represents a further additional cost in what would be a higher level of water rates charged.

We would welcome further details on how water rates would be charged, and the amount customers may pay if council tax is abolished.

The current comparisons of amounts payable under LIT in the proposal document are based on the current level of council tax which includes water rates. For these comparisons to be fair and accurate the comparisons should calculate LIT against council tax less water rates or alternatively the comparison should calculate LIT and then add on potential water rates costs to gain a meaningful comparison.

Further consultations are proposed on water rates. To make a useful decision on LIT, the additional information on water rates outlined above is required at an early date.



## Section 7 - Are there other Taxation Systems that should be considered?

Question 22 - Which do you feel is the fairest approach to taxation? (select 1 only)

Council Tax  
Land Value Tax  
Local Income Tax  
Environmental Tax  
None of the above  
Don't Know

As stated above there are advantages and anomalies with all bases of taxation. Income does not necessarily equate to ability to pay nor to consumption of services. Property and land are similarly disconnected to owners' or occupiers' consumption.

There are many approaches which could be considered, including those mentioned above, and reviewing other alternative successful systems operated by other countries.

Improvements to the collection rate of council tax so local authorities receive the amount of income they are entitled to is an alternative option to LIT. This would be cost-effective, quick and should be easy to implement.

A form of property based charge with relief for those on lower incomes could be seen as fair.

Tax payers rarely feel fairly treated whatever the basis for calculation. It is important that whatever is provided can be seen as of value and that tax payers thus will feel less aggrieved.

A charge which allows for regional variations, reflects the consumption of services and uses property as a base starting point may be considered. There should also be a mechanism to assist those with very low income. Within this it would be possible to incorporate environmental incentives such as recycling and responsibility for the area immediately surrounding an individual's home, as used in some European countries.

Question 23 - Which approach do you feel will provide a more wealthy Scotland? (select 1 only)

Council Tax  
Land Value Tax  
Local Income Tax  
Environmental Tax  
None of the above  
Don't Know

The new proposals would suggest a less predictable, or secure, tax yield for the Government. People move much more regularly and easily than property. Using income as a basis for collecting the LIT could result in variations from aggressive tax planning and in an economic slowdown, such as we are currently experiencing. Where taxable income levels are reducing, then the subsequent tax yield will also reduce.

Question 24 - If a Local Income Tax is introduced, what would be the most significant factor (good or bad) for you? (select 1 only)

That the Council Tax will be abolished

I / my household shall be better off

I / my household shall be worse off

That a Local Income Tax system would be fairer than the Council Tax

That it will help to make Scotland a wealthier and fairer place to live and work

Don't Know

Other (Let us know what the significant factor is)

**Tenet 9** seeks a tax that is fair and reasonable, we would hope that individuals would be likely to seek a fairer system. In practice individuals are likely to be happiest if their personal liability is decreased.

## Appendix II

### ICAEW TAX FACULTY

#### THE TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.