

# SAACT Newsletter

Issue 12

[www.saact.org.uk](http://www.saact.org.uk)

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## Misconceptions and Lies About LIT

**S**cottish Action Against Council Tax is a non party-political pressure group dedicated to the abolition of the **present system of Council Tax**.

SAACT, while autonomous, has historical links with, and corresponding aims to, the Isitfair group in England and Wales. i.e. Scrap this tax in favour of a fair system.

We believe that the Council Tax is grossly unfair. We contend that the whole basis of this regressive tax is flawed and therefore no amount of tinkering with the system, aimed at giving it a veneer of fairness for short term political gain, can be justified.

### Where Are We Now?

Our previous Newsletter dealt mainly with the stated opposition of the Scottish Parliamentary Labour Group (and others) to changing the basis for assessing liability for local taxation from property value of the home to ability to pay. After singularly failing to come up with their own reasoned proposals for a fair revised system, they have now apparently settled for support of the continuation of the Council Tax freeze for a further two years.

This Newsletter addresses a few of the popular misconceptions and deliberate falsehoods put about by many of those who oppose LIT.

### Misconception 1 – Tax Levels.

**Fiction.** - That the implementation of LIT would result in greatly increased tax levels and in Scotland becoming one of the highest taxed countries in the world.

**Fact.** - Council expenditure budgets, including the local taxation derived element, are independent of the method of collection of the local taxation except insofar as the cost of collection is concerned. It follows that, contrary to mischievous propaganda, the total amount of required taxation would not be affected by the method by which the local taxation is levied, except that more efficient collection would reduce the overall requirement.

It is true, however, that under a properly administered and progressive LIT system, those with very high incomes would be required to pay more of their fair share and thus would cease to be subsidised by those of lesser means. It is also true that those with more modest incomes would consequently be required to pay less than at present, or nothing.

### Misconception 2 - LIT Would Only Affect Earned Income.

**Fiction.** - That income derived from shares, (dividends, free issues etc.), investments, capital gains and other forms of unearned income would not be subject to LIT.

**Fact 1.** - As we spelled out in our response to the government consultation of 2008 - "As a matter of principle, we feel that LIT should apply to all forms of income – including savings and investment income". There is no reason why LIT cannot be levied in exactly the same way as HMRC deals with income tax applying to dividends etc., at present. This system would be extremely cost effective to implement as it has existed for many years and would require minimal set-up cost.

**Fact 2.** - Notwithstanding the above, it is a well established fact that taxation loopholes for the wealthy costs the nation many billions of pounds in tax avoidance. It is even estimated by some that the overall extent of this loss of revenue is comparable to the UK national debt. Be that as it may, there is little doubt that the loss of this revenue has a very serious effect on the UK's financial problems and successive governments have not had the courage or political will to address this vital problem.

While this loss of revenue has a much larger effect on national income tax revenue than on the proposed LIT (probably a factor of 8 or more) it nevertheless should not be ignored from any perspective. **Lack of political will to address this national scandal should not be used as an excuse to criticise proposed LIT.**

### Misconception 3 – Tax Diversification

**Fiction.** - That it does not make sense to eliminate Council Tax and substitute LIT, as this is in some

ways like “putting all of our eggs in one basket”

**Fact.** - For those who claim to agree with or to champion a welfare state, blatantly to favour regressive taxation over a progressive system is almost unbelievable hypocrisy. We have even heard it put forward, by a politician who should know better, that potential loss of LIT revenue due to a greater number of unemployed is a reason for retaining a property based tax. We will not dignify that point of view with an answer.

In the interests of fairness and justice it must make sense to eliminate regressive taxation wherever possible and it is most certainly possible in the case of local taxation. This is especially important in a nation where income inequality has grown at such an alarming rate.

In any case, there already exist many other national taxes, of which at least one could be termed progressive but most are suitable only as national taxes. An income-based tax is the only fair and viable local tax.

#### **Misconception 4 – Tax Avoidance**

**Fiction.** - We have already dealt with income tax avoidance which is rife among the wealthy. What is fiction, however, is that council tax evasion is not prevalent and that collection rates and costs are satisfactory.

**Fact.** - There is more than ample evidence to prove that council tax is very easy to evade and therefore extremely difficult and costly to collect. Unacceptably low collection rates, ever since the introduction of Council Tax in 1993, has meant that massive amounts of council tax have never been collected or have even been written off over that period. In Glasgow, for example, collection rates have even been as low as 78%. Although collection rates have improved recently, there is still a shortfall of at least 8%. The latest statistics which cover the period 2007-10 indicate that the number of council tax cases passed to debt agencies was almost 250,000. This comes with a hefty price tag. Also, we must not forget the cost of the very large number of court cases regarding council tax benefit fraud.

#### **Misconception 5 – PAYE Problems.**

**Fiction.** - Companies would have great difficulty in assessing the tax liabilities of employees living in different council areas.

**Fact.** - Some politicians who claim this to be a difficulty should recognise the analogy regarding cross-border differential income tax proposals from Calman or those in the Scotland Bill.

In this context, well established relational data base technology renders tasks like this entirely practical using available attribute keys such as NI numbers, postcodes, tax codes, etc.

#### **Misconception 6 – Local Accountability**

**Fiction.** - Were LIT to be set nationally, there would be no local accountability.

**Fact.** - A former local councillor stated recently: “On the accountability issue, I know of no local authority which has lost an election due to the level of Domestic Rates, Community Charge or Council Tax it levied. Council administrations lose elections due to policies they implement in relation to the delivery of services”.

Potentially, LIT would be levied on a much wider tax base, than just householders. This would lead to more people taking an interest in local services and, if they were dissatisfied with the performance of their councillors, they could vote them out.

There is, in any case, no proven connection between local accountability and local tax raising powers. The Scottish Parliament has, at present, few tax-raising powers of its own, and so far has declined to use the limited tax-raising powers that it does have. And yet on many issues Scottish Governments have implemented different policies from Westminster Governments. It is at least arguable that local accountability comes from the electorate’s perception of how Councils **use** their money, not how they **raise** their money.”

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#### **Membership of SAACT**

We hope you have found this issue of the SAACT Newsletter both interesting and thought provoking. If so, please pass it on to your friends and consider joining our mailing list or even taking a more active part in our campaign. Send your e-mail and/or postal address to the Secretary to receive future issues.

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