

## GREEN PARTY COUNCIL TAX BRIEFING

Why is there such an outcry about Council Tax at the moment?

Under Labour, levels of Council Tax have risen way above inflation. Many see this as an unjust <sup>3</sup>stealth<sup>2</sup> tax, because it doesn't properly reflect an ability to pay, and hits those with fixed incomes (such as pensioners) hardest. The issue came to a head in 2003 when the annual Council Tax increase in many parts of the country averaged around 15%.

So is that the fault of central government or local authorities?

Each blame the other, but more responsibility really lies with central government. They claim to have given local authorities generous annual increases, but in reality many of these increases are not enough to keep up with additional demands which central government has either directly or indirectly imposed on local authorities.

Such as?

New recycling targets for local authorities, for example, require significant financial investment. In addition, decisions like that to increase Employer's National Insurance, the National Minimum Wage or paid holiday time have an impact on costs for services such as education and social services, as do new regulations such the requirements to get police check for employees. Finally, of course, an increasing elderly population will add to the demands made on social services - which is not the fault of government at any level.

But many of these sound like good ideas in themselves.

They may be, but they all cost money. The Labour government, in trying to out-do the Tories on keeping direct tax rates (Income Tax and Corporation Tax) low, have been reluctant to sufficiently increase central government grants to local authorities, and have literally passed the buck onto local government. The additional cost has therefore fallen disproportionately onto Council Tax payers.

But does this really explain annual increases of around 15% in Council Tax? Surely this sort of huge increase must arise from massive over-spending by local authorities?

The way that local authority spending is funded acts as a multiplier on any shortfall in central funding. Only around 20-25% of local government funding comes from the Council Tax itself - i.e. from a source which local government can set independently. The rest comes from a central redistribution. If the levels of that redistribution fall short of requirements, then the gap can only be filled by increasing the Council Tax at a much higher rate than any spending increase. For example, if a local authority's spending increased by 5% but their central grant only went up by 4%, the Council Tax would have to increase by something like 9% in order to meet the shortfall.

(Illustration: LA spending goes up from £100m to £105m (5% increase). Central Grant goes up from £80m to £83.2m (4% increase). Shortfall of £21.8m has to be met by Council Tax - up from previous £20m, i.e. a 9% increase.)

## WHAT DO THE OTHER PARTIES SAY?

Labour: Recognises problems with current system, and is having a review of the policy in order to see what changes need to be made. In the meantime, has increased central government grant for this year which has enabled Council Tax increases to only average around 4% in 2005 - the lowest rate of increase in 11 years.

Our Response: Review is definitely necessary, but this year's grant increase is a one-off measure to try to ensure that this does not become a major issue in a General election year. Green policy would remove the ability of central government use the grant levels for its own political purposes. We would use an independent commission, including representatives from all levels of government, to

decide what increases were necessary in order to ensure local government was properly funded - taking into account any new responsibilities placed upon it.

Tories: Want to introduce a concession for pensioners, to give a 50% Council Tax discount to all households in which all occupants are aged 65 or over.

Our Response: We recognise the particular problems faced by pensioners on fixed incomes when faced with large Council Tax increases, and would be sympathetic to concessions made for them. We have already pledged to urge local authorities to peg any increase in Council Tax for pensioner households to the rate of inflation.

Lib Dems: Want to replace Council Tax altogether with a Local Income Tax.

Our Response: Although this seems attractive on the surface, as it would better reflect an ability to pay, there are administrative problems with levying Income Tax at a local level. People frequently move from one authority area to another, whilst property does not. Differing levels of Local Income Tax would result in a hugely more complicated system of PAYE for employers - with many having to use a number of different tax rates for different employees working at the same site. The final level of tax raised would only be known after the year of assessment (as is the case nationally with Income Tax) so local authorities may not have a clear indication of what their actual income could be at the time when they needed to set the tax rates. Significantly different tax rates across neighbouring authorities may lead people to register for taxes at a false address in order to take advantage of lower tax rates which becomes a problem because people's whereabouts are difficult to ascertain. For this reason, Income Tax is better levied at a national level. By contrast, taxing property is ideal for local taxation, because it doesn't move - the authority under which it is to be taxed is not in doubt. And sticking with a property based tax ensures that we can still tax second homes - an extravagant use of a vital resource which a Local Income Tax could not take account of.

#### GREEN PARTY POLICY:

Land Value Tax: Our long-term policy is to change to a system of taxing land values at a local level. This would help to encourage full use of existing properties, and penalise those who hold empty land or property for speculative purposes. Given the current housing crisis, this would be an important tool - and being land-based it is ideally suited for being set and collected at a local level.

An Independent Commission to Oversee Central Redistribution: This would ensure that central government could not squeeze local authority funding in order to take credit for keeping general income tax levels low.

Short-term Council Tax Reforms: As a transitional move towards a Land Value Tax, we would reform Council Tax by:

- ending reductions for underused properties (with the exception of the single person occupancy discount for pensioners).
- creation of new Council Tax bands for more expensive properties.
- reform the multiplier rates to make bills more proportionate to the value of the property. This could reduce Council Tax bills for 80% of dwellings, with particularly significant reductions for those in the lowest value houses - therefore likely to ensure the Tax better reflects an ability to pay.

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