FAIRER SHARE
The Proportional Property Tax

Written Evidence to The Senedd's Local Government & Housing Committee

About Fairer Share

Fairer Share is a cross-party campaign group fighting to raise attention to the problems of Council Tax in England and Wales. We believe that replacing both Council Tax and Stamp Duty / Land Transaction Tax with a Proportional Property Tax (PPT) provides a fiscally responsible and progressive measure that would provide needed relief for low and middle-income families and help create a fairer and more efficient property market. Stamp Duty is maintained for buy-to-lets, second homes and foreign-owned homes. There is a PPT surcharge rate for those fortunate to own a second or holiday home. To prevent any unfairly high tax increases, no one will have to pay more than £100 a month more than they currently do in Council Tax.

1. The potential impacts of council tax revaluation and revised council tax bands on Government finances and administration

To assess the feasibility of our proposal we have commissioned two reports looking into the practicalities of moving to a PPT. A necessary stage of this is revaluation and assessment of the impact on local government finances and revaluation.

The move to PPT would create a new source of revenue. There are three arguments in favour of councils receiving a direct share of the PPT revenue raised in their area. It would mean that:
• voters could hold local councillors to account for local tax and spend decisions;
• councils do not give-up revenue-raising power to national politicians; and,
• councils have incentives to pursue local growth so as to increase local tax revenues.

Significantly, with revenue based upon annually updated house prices, councils would retain a share of the uplift in house prices that their policies create.

These arguments can all be recognised within the design of PPT, along the following lines:
• PPT revenues are split into a council allocation and a central government allocation. A council and central government would each "own" a share of the PPT rate. The council allocation would ideally be large enough to encourage councils to pursue local growth initiatives.
• Councils are given power to flex the rate of PPT that gives them their PPT allocation. Councillors could make decisions to increase or decrease the rate on their PPT allocation, much like councillors can make decisions to vary Council Tax now.

Stability in PPT revenues would be desirable at both a local and national level. Should there be times when revenues from PPT drop significantly, the Government could step in with grants to fill the gap

Valuation was last completed in Wales in 2003 resulting in taxes failing to be proportionate to means. Yet in many places around the world including the Netherlands, USA, Canada and Australia revaluations take place on a regular basis. This would ensure that those who have benefited from higher house prices shall pay taxes proportionate to that increase.

Since PPT would decrease the size of the deficit, then it provides fiscal space to local authorities to either lower rates, or to increase funding elsewhere. This increase will be particularly helpful in addressing Wales' speculative property boom as it will discourage using housing as an investment, as opposed to a home. This means that there is no risk of hurting council finances by implementing a PPT.

Fairer Share's numbers for England indicate that 8.7 million households would be removed from property tax altogether, as the obligation to pay is transferred to the landlord. This would save tenants time and local councils £400 million in annual administrative costs. We would expect a commensurate saving in Wales.

2. The potential benefits and disadvantages of regular property revaluations on local government administration, and the impact on those liable to pay council tax.

Fairer Share's modelling has focused on councils in England and would lead to a 0.48% PPT rate in order to recoup the foregone revenue from Council Tax and Stamp Duty. The equivalent PPT rate for Wales would be 0.62%. There is a 1.24% surcharge rate for those who own second homes or holiday homes in Wales. This is designed specifically to protect holiday communities.

Alarmingly, the tax base for Council Tax has not been revised in Wales since April 2003. Since then the average house has risen in value by 167%, equivalent to a 9% annual rise. However, this increase has not been distributed evenly. Where the average home in Gwynedd has increased in value by 173% (9.1% p.a.), in neighbouring Conwy the average house price has risen by 142% (7.5% p.a.). Given these differences are not accounted for in the tax rates, then a comparatively wealthier family in Gwynedd will likely be underpaying on their Council Tax relative to a less wealthy family in Conwy.

Perhaps more alarmingly is that Band I houses pay just 3.5x more than Band A homes, despite their properties now being at least 9x as valuable. This clearly points to an unfairness in the way Council Taxes are calculated, and ends up with the most vulnerable paying a higher share of their wealth than the most well-off individuals.

3. The effectiveness of the framework for council tax discounts and exemptions, and how the system could be developed and improved.

The current system of council tax discounts is not fit for purpose. Take-up of Council Tax Reduction Scheme (CTRS) is likely to be as low as 55% of eligible households. This number continues to decline. There is also evidence that when households receive universal credit, they become less likely to access CTRS even though they likely remain eligible. By placing the burden on potentially vulnerable individuals to access support, rather than providing it automatically it will always be a failed system with too many people falling through the cracks.

There are steps that can be taken to improve this. For example, some councils in England have put on all council tax documentation that help may be available. However, this will not ever amount to universal uptake, and people will always fall through the cracks. Only through fundamental reform to the regressive nature of Council Tax can a significantly fairer system be created.

Fairer Share's PPT would decriminalise non-payment of council tax, and introduce a system allowing individuals to defer their payments until they are in a more stable financial position. Given the PPT is already significantly more progressive than Council Tax, consequently resulting in tax cuts for most low-income families, then this would result in a substantial improvement from the current approach.

4. The case for changing the Council Tax Reduction Scheme which supports the most vulnerable low-income households, and scope for improving the system.

The problem with relying on Council Tax reduction schemes is that where they are opt-in they will never be sufficiently well distributed, and they also create additional administrative burdens on local Governments. It would be much more efficient to simply provide a single tax on property values, requiring little intervention on a case-by-case basis to ensure equitability. Moreover, the PPT removes the need for anything to exist given it would see much larger cuts to Council Tax than what is provided to those who do manage to access the reduction scheme.

Furthermore, by taxing holiday homes and investment properties fairly, at 1.24% of their property value, additional revenue will be raised allowing councils to provide even more targeted cuts and better funded welfare schemes to relieve poverty much more effectively than is currently done.

For example, an investment property worth £500,000 in 2003 in Monmouthshire would pay just £3,445.84 in Council Tax. Since then the average house has risen in price by 183% in Monmouthshire and we can assume that house is now worth £1,415,000. Under PPT's surcharge rate of 1.24% that property would pay £17,546 annually.

This additional revenue would go towards supporting vulnerable low-income households, support for the local community and encouraging a fairer distribution of wealth that works for local residents. If the owner does not wish to pay the additional tax, he or she can sell the property, thus facilitating a more efficient housing market.