



Scottish Council Tax reform proposal: who loses most?

Anouk Berthier
SPICE, Scottish Parliament

Nicola Hudson
SPICE, Scottish Parliament

Richard Marsh
4-consulting

Policy proposal

In March 2016 the Scottish Government proposed to raise Council Tax rates in the four highest bands (E, F, G & H) from April 2017 (Table 1). Households on net incomes below the Scottish median income for the household type, up to a maximum of £25,000. The reform is accompanied by changes to the Council Tax Reduction Scheme which are not modelled here. Overall, the reform would raise an estimated additional £100 million per year in revenue.

Effect on Council Tax and disposable income (2)

Table 2 - Average monthly household Council Tax by income decile

	1	2	3	4	5	6	7	8	9	10
Baseline	80.84	85.96	84.47	87.36	89.92	96.92	103.68	107.55	115.42	131.24
Scenario 1	83.00	88.75	87.03	90.47	93.05	101.06	108.82	113.37	123.06	141.97
Scenario 2	80.92	86.34	85.02	88.32	91.73	100.36	108.82	113.24	122.99	141.97

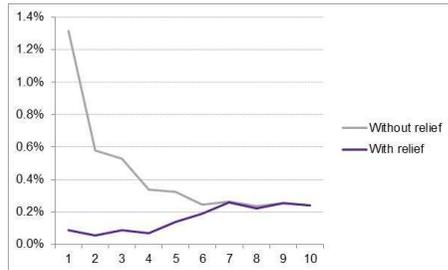


Figure 3 - Percentage point change in Council Tax as a share of equivalised household disposable income by income decile

Euromodelling

Two scenarios were modelled for 2016/17 using the FRS 2013/14 with uprated monetary variables according to the OBR's *March 2016 EFO*: one without the relief (S1), one with the relief (S2). Scottish median income was taken from *Poverty and Income Inequality in Scotland: 2013/14*, expressed in real terms in 2016/17 (July 2016 GDP deflators).

Main results

In S2, Council Tax increased by 10p/month on average for Decile 1 and £10.7/month for Decile 10 (Table 2). We find an additional £135.8million/year would be raised in S1, and £104.9 million/year in S2. The relief means that the first seven income deciles are much less affected by the proposal (Figure 1). The relief does not fully cancel the tax rise for the lowest deciles only because of the "under £25,000 condition." When the targeted relief is in place, the impact on disposable incomes is similar for all income deciles (Figure 2).

Effect on Council Tax and disposable income (1)

Table 1 – Proposed Council Tax changes by band (%)

A	B	C	D	E	F	G	H
0.0%	0.0%	0.0%	0.0%	7.5%	12.5%	17.5%	22.5%

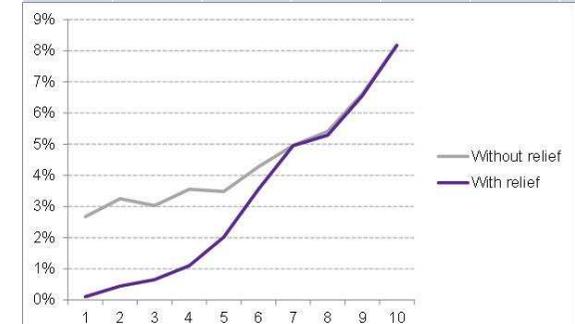


Figure 1 - Change in Council Tax by equivalised household income decile (%)

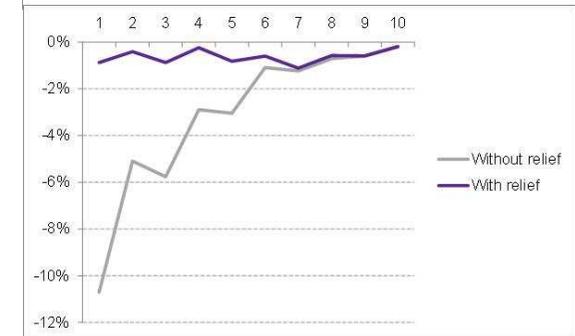


Figure 2 - Change in disposable household income by income decile (%)

Conclude

Tax progressivity is defined in relation to the tax base (i.e. house value). This variable is not included in the modelling. However the modelling does show a steady rise in Council Tax as equivalised household incomes rises in S2 (Figure 1). The targeted relief almost entirely cancels out the strong negative impact the reform would have on low income households' disposable income, with a decrease of over 1% for the seventh decile only (Figure 2). Council Tax as a share of household disposable income will rise most for the top four income deciles (Figure 3). To conclude, S2 appears to have a greater real impact on households in the higher income deciles than low and middle income deciles.

References

- Campbell, A. (2016) Scottish Government proposals for Council Tax reform, SPICE briefing, Scottish Parliament
- Scottish Government (2015) Poverty and Income Inequality in Scotland: 2013/14
- Scottish Government (2016) Council tax reform, Newsroom 02/03/2016

Contact details

Anouk Berthier
Scottish Parliament Information Centre (SPICE)
E-mail: anouk.berthier@parliament.scot
T: 0131 348 5380