

ALTER

ACTION FOR LAND TAXATION & ECONOMIC REFORM

Pre-Manifesto Debate Briefing

The Pre-Manifesto Policy Paper says nothing about local taxation. A wide range of views support ALTER's position, which is that saying nothing about Council Tax reform is a serious omission: it is bad politics and also bad policy. Even those who want us to replace it with a Local Income Tax (LIT) agree that Council Tax needs scrapping.

In the 2010 Manifesto, we said:-

"Reform local taxation. The Council Tax is an unfair tax. Liberal Democrats believe that it should be scrapped and replaced with a fair local tax, based on people's ability to pay..."

It went on to refer to LIT – but only to "pilots" in "councils that put themselves forward to be involved".

There is no doubt that the experience of the 2005 General Election, when we found much opposition to LIT from working families, has cooled the Party's ardour on it.

Now that we have seen the success of our policy of raising income tax thresholds and are making great play of the need to "rebalance the tax system away from work and towards unearned wealth", LIT is a non-starter unless it taxes unearned income.

ALTER believes the answer is a return to taxing the 'imputed rent' or 'notional income' that owner-occupiers receive: what they *could* earn if they rented out their home instead of living in it. If - at the same time as re-introducing this through what used to be until the 1960s "Schedule A" income tax – we gave *only* owner-occupiers a 'Homestead Allowance' (tax-free element to LVT, linked to local rental values), plus allowing *councils* to set the rate of this part of income tax (which would be based on the *site* rental value only) to be collected by HMLR and then distributed to councils (like the 'precept' that goes to counties, police, fire etc. now) then we'd have managed to 'have our cake and eat it'! **We'd have LIT and LVT while 'rebalancing the tax system' by £22bn compared to Mansion Tax's £1.5bn!!**

The Tax Policy Paper endorsed last year at Glasgow said nothing about local taxes but that just means our policy hasn't changed since 2007. Then we made a "*long-term commitment to a system of land value taxation for domestic properties*" (as well as committing to reform of business rates within a single Parliament) which is reaffirmed in a similar phrase buried in the Pre-Manifesto.

ALTER's proposal is based on what happens now in Sweden (without LVT) and also similar to Estonia's LVT. It uses features that the 2013 paper described as making LVT seem fair to voters:-

- "*Exemptions or deferrals for the limited number of 'asset-rich, income-poor' individuals (e.g. pensioners on low incomes);*
- "*Exemptions for low value residential and business properties, (e.g. through a tax-free allowance); and*
- "*Using income tax / corporation tax systems to collect LVT, thus avoiding separate billing.*"