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CABINET

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ALTERNATIVES TO DOMESTIC RATES: NEXT STEPS

Memorandum by the Secretary of State for the Environment

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1. In my minute of 17 December to the Prime Minister I said that I planned to consult our supporters in Parliament about the Green Paper, "Alternatives to Domestic Rates" (Cmnd 8449). I thought it would be useful to put to colleagues the basis on which this consultation is about to proceed.
2. The present position is that we have invited comments on the Green Paper by 31 March, and that further interdepartmental work on "gainers and losers" under the alternative taxes should be available in April. In the normal course of work, I would therefore be coming forward to colleagues in May with conclusions based on this further work and an analysis of the results of the public consultation. The Green Paper of course points to one of the forms of Local Income Tax (LIT) and Local Sales Tax (LST), supplemented by poll tax or "reformed rates", as the front-running alternatives if we go for a new main local tax. The preliminary analysis of "gainers and losers" published in the Green Paper suggests that the better off would pay more with these alternatives than they do with the present system.
3. Our supporters however will expect us to act before the next General Election. This would point, at best, to enactment of legislation before the Election or, at the very least, the issue of a White Paper in 1983 based on detailed propositions followed, if possible, by the publication/introduction of a Bill before the Election.

ENACTMENT OF LEGISLATION BEFORE A GENERAL ELECTION

4. In considering a timetable for action, we should have in mind several considerations. The most important is the time which would elapse between the enactment of any legislation to provide for an alternative tax and its implementation. As the Green Paper explained, in the case of LST this would be well into the next Parliament (1987) and in the case of LIT well into the following Parliament (the early 1990s). In both cases, as set out in the Green Paper, progress with computerisation of Pay As You Earn and Value Added Tax is critical. But other considerations are that a major tax change needs a



long period of consultation in order to ensure a smoothly running system, in addition to working through the details; and that in this case there will almost certainly be complicated repercussions for the block grant system. For these reasons, legislation in 1982-83 would be impracticable. Legislation on LIT or LST even in 1983-84 would entail a dangerous risk of inadequate consideration, yet would not advance the starting date for the new tax. Given the time that would elapse between enactment and implementation, this would lead to serious embarrassment. (The timings are set out in the annex to this paper.)

5. If this analysis is correct, the only option discussed in the Green Paper on which we might be able to introduce legislation in 1982-83, if we put work in hand now in advance of the outcome of consultation on the Green Paper, is a reformed rating system based on capital valuation, which would be implemented about 1988 on completion of new valuations. This, however, would meet only one of the objections to the rating system, and in particular would not relate rates to ability to pay. I would add too that my own view is that such a proposal is politically unacceptable to our Party. It would also be possible to include in that legislation, if we wished to do so, some of the alternatives for redistributing the burden of rates a little more fairly. (Paragraphs 4.14-4.25 of the Green Paper.)

6. Colleagues, and, in particular, the Chancellor of the Exchequer and the Secretary of State for Education and Science, will wish to note that there may be some support for reducing rate bills by transferring some or all of the cost of education to the Exchequer, as discussed in paragraphs 5 and 6 of Annex B to the Green Paper. There are obvious difficulties: we would appear to go back on a Manifesto commitment; there would be an additional financial burden for the Exchequer requiring some tax or taxes to be increased; and our supporters in the local education authorities would not be happy with a diminution of their role.

#### A WHITE PAPER BEFORE A GENERAL ELECTION

7. An alternative to enactment of legislation before a General Election would be to set our sights on the issue of a White Paper next year, so that we enter the General Election with a convincing posture on an alternative tax. This would mean that we would reach a conclusion on a package in the summer, after we have completed further work on "gainers and losers" and analysed the response to the Green Paper.

#### NON-DOMESTIC RATES

8. In considering domestic rates, we must bear in mind that although non-domestic rates do not come directly within the scope of the Green Paper, discontent with them is growing steadily and that we shall come under increasing pressure to state our intentions as to their future form and scope. This discontent will diminish to the extent that inflation is brought under control.



Chapter 10 of the Green Paper makes clear, however, that the only reliable safeguard for the non-domestic sector following a move to a new domestic system would be to exercise control over non-domestic poundages in a way which would effectively turn non-domestic rates into an assigned revenue.

CONCLUSION

9. In the light of the timetables summarised in the annex, I invite colleagues' views on:

- a. whether to decide now to legislate in 1982-83 for "reformed" domestic rates (paragraph 5);
- b. whether to examine urgently the possibility of taking over all or part of financial responsibility for education from local government (paragraph 6);
- c. whether instead to proceed towards the issue of a White Paper in 1983 following consideration this summer of the outcome of consultations on the Green Paper (paragraph 7).

M H

Department of the Environment

1 February 1982

## ANNEX

## TIMING CONSIDERATIONS FOR REFORM OF DOMESTIC RATES

Scheme involving	Legislation possible in		Earliest implementation if enacted in	
	82/3	83/4	82/3	83/4
LIT	No	Doubtful	1991 <sup>1</sup>	1991 <sup>1</sup>
LST	No	Doubtful	1987 <sup>2</sup>	1987 <sup>2</sup>
Poll Tax	No	Doubtful	1985 <sup>3</sup>	1986 <sup>3</sup>
Reformed Rates	Yes	Yes	1988 <sup>3</sup>	1989 <sup>3</sup>

- Notes: 1 See Green Paper, paras 6.42 - 6.43  
 2 " " " , para 5.13  
 3 DOE/Treasury estimate