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Prime Minister

CPRS are looking at this. Subject to any comments are you content with the draft Green Paper? MCS 13/11

Yes mt.

S.V A.D A.W

1

Prime Minister

9 November 1981

At E Committee on 16 September I was asked to produce the attached revised draft Green Paper on Alternatives to Domestic Rates. In order to avoid arousing unrealistic expectations without prejudicing the Government's commitment to reform, E Committee decided that a reformed system of domestic rates should be considered on the same terms as alternative forms of revenue. This has called for structural changes, which are summarised in the attached note. Otherwise, in spite of extensive drafting changes, content and structure remain broadly the same.

I should draw attention to some further points:-

(i) In the Preface I have suggested 1 April 1982 as the date by which comments should be submitted.

(ii) I was asked to include a reference to the Chief Secretary's suggestion of direct control over local government revenues or expenditure. Chapter 1 includes a contribution from his officials which I have shortened. The reception of the Green Paper will not be helped if it is too provocative to local government.

(iii) Because of problems with a high poll tax rate, and of the tax's regressivity in particular, I consider that poll tax could almost certainly not replace domestic rates on its own; and that its most likely function would be to supplement a "lumpy" major tax such as sales tax. The drafting of the paper reflects this view.

(iv) The validity of the contention in paragraph 7.4 that eligibility to vote and liability to poll tax ought to be coterminous is obviously open to argument and I have put the sentence in square brackets. But I think the point should be made and I hope that the present draft is acceptable to all views. However, we should be aware that such an arrangement would exempt foreign nationals (other than citizens of the Commonwealth and the Republic of Ireland) from contributing directly to the cost of local services.

(v) Local development land tax does not seem significant enough to merit specific mention and it has been deleted from Annex A (rejected options).

(vi) I propose, if George Younger and Nicholas Edwards are content, that we should publish the Green Paper jointly.

(vii) When we publish I see no need for an oral announcement in the House, since we are not making firm proposals. I think that a written answer might be appropriate. There will need to be a press conference which I suggest I co-ordinate with George Younger and Nicholas Edwards having informed other colleagues.

The draft must be with the printer about 2 weeks before the proposed publication date. We should aim to publish as soon as possible. I should therefore be most grateful for early comments, or notice of comments, and for these to reach me by Friday, 20 November.

I am copying this minute and the draft paper to all Members of Cabinet, the Paymaster General, the Chief Whip and to Sir Robert Armstrong.

MH

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Local Gov

file

10 DOWNING STREET

From the Private Secretary

24 November 1981

Dear David,

Green Paper on Alternatives to Domestic Rates

The Prime Minister was grateful for your Secretary of State's minute of 9 November which enclosed a draft Green Paper on alternatives to domestic rates.

The Prime Minister is content with this draft. As I told you on the telephone this afternoon, the Prime Minister at Question Time committed the Government to publication of the draft Green Paper during the course of December.

I am sending a copy of this letter to the Private Secretaries to other members of the Cabinet, the Paymaster General and the Chief Whip; and to David Wright.

Yours sincerely,

Michael Scholar

D.A. Edmonds, Esq.,
Department of the Environment.

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GREEN PAPER ON ALTERNATIVES TO DOMESTIC RATES

CHANGES SINCE 16 SEPTEMBER IN THE STRUCTURE OF THE PAPER

CHAPTER 1: THE CONTEXT OF THE GREEN PAPER

Shortened since 16 September and made more general. Some material on economic effects has been moved to Chapter 13 and some on the rating system to Chapter 4.

CHAPTER 2: THE MAIN REQUIREMENTS

Shortened and redrafted in general terms to allow the criteria for assessment to be applied to domestic rates on the same terms as to the alternatives.

CHAPTER 3: THE POSSIBILITIES FOR CHANGE

A new linking Chapter explaining the structure of what follows.

CHAPTER 4: DOMESTIC RATES

Brought forward in the structure to give a frame of reference for the ensuing discussion of the other alternatives on common criteria.

CHAPTER 13: FISCAL AND ECONOMIC EFFECTS

Now incorporates some economic material formerly in Chapter 1. Links with distributional annex (Annex C).

PREFACE

1. For some time there has been dissatisfaction with the way in which local people contribute to the cost of local services through the present system of domestic rates. Some domestic ratepayers believe that they pay too large a share of that cost, pointing out that other local people who are not householders are not required to pay rates at all. Many of those professionally concerned with rating and valuation matters believe that the technical basis of the domestic rating system is no longer satisfactory in some respects.

2. The Secretary of State for the Environment said on 2 June 1981 "The Government have ... to consider ... the extent of the inequities in the way in which local revenue is raised through the rates. The Government therefore intend to issue a consultation document on the alternatives to domestic rates in the autumn".

3. This Green Paper therefore offers for public discussion the results of a review by the Government of possible local revenues. The paper considers ways in which the domestic rating system might be improved and describes a number of possible alternative systems. It considers what the consequences of the adoption of these alternative might be for local and central government, for the taxpayers who contribute towards the cost of local government services through various forms of exchequer support, and for those who pay domestic rates at present. It also considers implications that changes to the domestic rating system might have for non-domestic ratepayers (alternatives to non-domestic rates as a tax are not within the scope of the present review).

4. This paper deals with the situation in England, Scotland and Wales. The Government will want to consider separately its implications for the rather different arrangements for local government-type services in Northern Ireland. The Government's intention in publishing the Green Paper has been to set out the alternatives and draw attention to the considerations involved in each of them, and to suggest ways in which difficulties could be met, without at this stage setting out a preferred strategy or firm proposals. Comments are invited from local government, professional bodies, commerce and industry and the public on the green paper and the issues that it raises: in England they should

be sent by [1 April 1982]

The Secretary of State for the Environment
Room A105
Romney House
43 Marsham Street
London SW1P 3PY

In Scotland and Wales respectively, they should be sent to:

The Secretary
Local Government Finance Division
Central Services
Scottish Office
New St Andwers House
Edinburgh EH1 3SX

The Secretary of State for Wales

Y Swddfa Gymreig
Parc Cathays
Caerdydd CF1 3NQ

Welsh Office
Cathays Park
Cardiff CF1 3NQ

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CHAPTER 1

THE CONTEXT OF THE GREEN PAPER

THE SCALE OF LOCAL GOVERNMENT

1.1 Local government in Great Britain is expected to spend about £30 billion in the financial year in 1981/82. About 16% of this expenditure will be covered by rents and various other fees and charges. The balance, of some £25 billion, will be borne by rates and Government grants; this will be a quarter of all public spending, and represent 6½% of the gross domestic product. Currently, local government has a capital debt of £31 billion and employs some 2.3 million people, or about one tenth of the work force.

THE SOURCE OF LOCAL REVENUE

1.2 Of the £25 billion of local rate and grant borne expenditure in 1981-82, nearly 60% will be provided from the Exchequer by central government in the form of rate support grant, specific and supplementary grants, rate rebate payments and payments of rates through the supplementary benefit system. Of the remainder, 40% is expected to be contributed by domestic rates and 60% by industry, commerce and other non-domestic ratepayers.

1.3 The wider issues of local government finance have been thoroughly examined before, most notably by the Layfield Committee of Enquiry into Local Government Finance, chaired by Sir Frank Layfield QC which reported in 1976. This Green Paper concentrates on one particular area which is important and complex: the £4,700 million (before deduction of rebates) which will be contributed to local revenues in 1981/82 by domestic rates.

CRITICISMS OF THE RATING SYSTEM

1.4 There has been a good deal of criticism in recent years of the way in which the domestic rating system operates.

1.5 A common criticism is that the burden of domestic rates is unfairly shared as between different types of household or as between people occupying property of a similar kind in different local authority areas.

1.6 Another frequent complaint is that domestic rates bear too little relationship either to ability to pay (because, for example, earners who are not householders do not contribute directly to domestic rates) or to the use that is made of local government services.

1.7 The basis of the present system of domestic rates has also been criticised on technical grounds by those professionally involved in its operation. In particular, the professional bodies concerned with rating and valuation told the Layfield Committee that there was insufficient market information available to allow a further rating revaluation to be carried out in England and Wales on the present basis of rental values (see paragraph 4.23).

WIDER CONSIDERATIONS

1.8 This Green Paper considers ways in which these criticisms could be met either by improvements to the existing rating system or by new forms of local taxation. Chapters 4 - 7 examine the possibilities in the light of the requirements for any satisfactory system of local taxation discussed in Chapter 2.

1.9 The remainder of this chapter sets out the broad political and economic background against which the alternatives must be considered.

1.10 Local government has traditionally enjoyed a degree of discretion on the amount of local revenue it raises and the amount of expenditure it incurs. It is obviously desirable that authorities should be able to tailor local revenues and expenditure to the provision of a level of services on which they decide, provided that, on the one hand, the levels of revenue raised and expenditure incurred to not prejudice the Government's objectives for the national economy; and on the other, that local services are provided to acceptable standards.

1.11 The Government, however, has overall responsibility for all public services, including those provided by local authorities, and for national economic objectives. Neither local government nor local.

taxpayers are in a position to assess either the relative claim of local services as a whole to national resources or the overall economic impact of local expenditure. These are matters on which central government must take a strategic view in the course of its management of economic policy. For all these reasons, it is essential that Government should be able to influence local revenue-raising and local expenditure.

1.12 Some new local taxes and other revenues which have been suggested in place of domestic rates would make it easier for the central government to influence the decisions of local authorities about revenue-raising and expenditure; others would make it more difficult. This is one of the factors dealt with in the chapters of this green paper which discuss possible alternative new forms of revenue. The Government believes that the retention of an appropriate central influence over the amount of public expenditure incurred by local authorities must be a feature of any system of local taxation.

1.13 The Government is already acting, as described in paragraph 4.11, to modify the present rating system so as to increase local incentives to restrain public expenditure and to protect the interests of ratepayers. Those ends could also be served by a different kind of approach: placing statutory limits on local authorities' income or expenditure. Such a limit might be expressed as a maximum permissible tax rate, or a ceiling on tax increases along with appropriate borrowing controls; or as a restriction in terms of local authority expenditure. By any of these means local taxpayers could be protected from very high tax increases, and local authorities would effectively have to plan their expenditure within a centrally prescribed upper band.

1.14 The balance between shielding the local taxpayer and modifying local authorities' freedom to determine their expenditure would need to be struck with care. In particular, it would reflect any discrepancy between local authorities' budgets in aggregate and the government's public expenditure plans.

ECONOMIC CONSIDERATIONS

1.17 Given the scale of local government expenditure and revenue the system of local taxation cannot fail to be an important influence on economic behaviour. The Government will therefore need to give careful consideration to the economic implications of changes in the present arrangements and in particular, to the economic effects of replacing domestic rates - which are a tax on housing - either wholly or partially with a wider-based tax on consumers' expenditure, or a local tax on personal incomes. Some of these effects are discussed in the chapters dealing with each alternative tax. They are also brought together in chapter 13.

EFFECTS ON HOUSEHOLD INCOMES

1.18 Any major change in the system of local taxation would be likely to result in significant redistributions of the tax burden between individuals and householders and to some extent between areas. Some of these effects are touched on in chapters 4 to 7. They are also dealt with in chapter 13 and Annex C. The Government will, of course, take careful account of the effects of any new system on poorer households.

CHAPTER 2

LOCAL TAXATION: THE MAIN REQUIREMENTS

INTRODUCTION

2.1 Chapter 1 outlined the origins of the Government's present consideration of alternatives to domestic rates and set out the broad political and economic background against which the alternatives must be considered. This chapter discusses the requirements which any system of local taxation must be capable of meeting.

2.2 The Government considers that the following criteria are the most important:

i. Is it practicable?

ii. Is it fair?

iii. Does it make those who take decisions on local expenditure properly accountable to local people who pay?

iv. Can the costs of administration and collection incurred by the tax-gathering authorities and businesses be kept within acceptable limits?

v. Are the implications for the rest of the tax system acceptable?

vi. Does it encourage proper financial control?

vii. Is is suitable for all tiers of local government?

PRACTICABILITY

2.3 This is an essential requirement. To be practicable as a source of revenue for local government any local tax must, either on its own or in combination with other taxes:

a. be capable of producing a yield similar to the £4,700 million raised at present by domestic rates;

b. provide each local authority with a potential yield sufficient to meet an appreciable part of its expenditure;

c. enable each local taxpayer's liability to be determined with reasonable certainty in a way which commands general acceptance.

2.4 The base for any new local tax need not necessarily be evenly distributed among local authority areas: some differences can be compensated for by Government grants. But the local tax base in each area must be large enough to enable the local authority to fix a tax rate sufficient to meet a reasonable proportion of its expenditure if it is to be accountable to its electorate both for the rate of local taxation and the expenditure it helps to finance.

2.5 Domestic rateable values are used for a number of purposes in addition to the rating system itself. For example, they form the basis for charging virtually all domestic premises in Great Britain for water and sewerage services, as well as for a number of other legal and administrative purposes. Alternative ways of achieving these purposes would have to be found it domestic rates were abolished.

FAIRNESS

2.6 Any system of local taxation which is to command a wide degree of public support must be seen to be broadly fair. Judgements about the fairness of any one tax or another inevitably tend to be somewhat subjective. But any assessment of alternative forms of local taxation is bound to have regard to considerations of coverage, or how many of the people who benefit from local services pay local tax; individual capacity to pay; and perceived fairness between people who may live in different areas, but whose circumstances are broadly similar and who enjoy broadly similar levels of service from their local authorities.

ACCOUNTABILITY

2.7 Public authorities should be accountable to their electorates for what they spend and for the revenue they raise. To encourage efficiency and safeguard against extravagance by local authorities local electors need to be aware of decisions about expenditure and revenue and the effects of those decisions on the level of local taxes that they pay.

2.8 To foster accountability a local tax should:

i. be clearly perceptible to local electors and taxpayers, who should be aware of how much tax they are paying, which authority they are paying it to and what services it provies; and

ii. as far as possible be paid directly by as many as possible of those who benefit from the services provided by the local authorities.

COST OF ADMINISTRATION

2.9 Any local tax or combination of taxes must be capable of being collected reasonably cost-effectively. It must not impose an unacceptable burden of administration either on the taxing authorities or on the rest of the community, including employers or traders who may be required to incur additional ~~compliance~~ costs in collecting and accounting for such a tax.

FISCAL DIMENSIONS

2.10 Local taxation is an important component of the United Kingdom tax system. This year local authorities are expected to raise from domestic rates about as much as the central Government receives in corporation tax or from the exise duties on hyro-carbon oils, or from the the taxes on North Sea oil and gas production. The yield is also equivalent to more than one third of the revenue from VAT and one sixth of that from income tax. Consideration of any changes in the system of local taxation must have regard, therefore, to the implications for the balance of the tax system and for the distribution of the tax burden between different individuals and households. This applies particularly to any changes that involve introducing new local taxes, such as a local income tax or a local sales tax, which overlap with existing national taxes, but also to reforms of the present rating system.

FINANCIAL CONTROL

2.11 To budget sensibly and tightly, local authorities need to be

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able to predict their income and their cash flow with reasonable precision. An unpredictable yield from local taxes would weaken financial control because local authorities might have to maintain large balances to avoid the possible need to borrow to make up shortfalls. The problem could perhaps be lessened by arrangements under which the risk of shortfalls was shared out among all local authorities in some way. It might even be possible for central government to take on a share of the risk - though no administration would be keen to take on a commitment of this sort if other solutions were available.

2.12 The bouyancy of the yield from local taxation also has implications for financial control. If the local tax revenue can be expected to keep pace with the growth of prices or earnings more or less automatically, local authorities are more likely to be able to support the volume of goods and services financed by the tax at the same level without varying the nominal rate of tax. For a tax that is not buoyant the nominal rate has to be increased (in a time of inflation) even if the level of services provided stays the same. This has the advantage of increasing the perceptibility of local authorities decisions to local taxpayers.

2.13 Problems for financial control also arise if the yield of a local tax is lumpy. If the minimum practicable change in the tax rate produces a large variation in tax revenue, local authorities may find it necessary to run high balances, or a tendency may develop for local authorities to gear their spending to the yield of the tax rates that are predictable. This could restrain expenditure growth in some areas and make expenditure increases easier in others.

2.14 Central Government's concern with these issues is not, however, confined to its role as paymaster. As Chapter 1 points out, the Government has a direct concern with the claims of local services on national resources and the overall economic impact of local expenditure For these purposes, too, it is necessary for it to be able to foresee the consequences of local actions in time to exercise an influence over the course of events, and to respond as appropriate in its own fiscal and other decisions.

2.15 If a local tax were were both buoyant and lumpy, many local authorities could leave their tax rates unchanged for many years at a stretch and would be tempted to do so. A decision to change the tax rate, even by the smallest available step, could therefore assume significant importance in local politics. Conversely, small variations in expenditure levels might not be immediately appreciated by local taxpayers.

2.16 The degree of predictability, buoyancy and, particularly, of lumpiness of a local tax may also have a considerable impact on the shape of exchequer grant to local government. This question is considered further in chapter 9.

SUITABILITY TO ALL TIERS OF LOCAL GOVERNMENT

2.17 Any system of local taxation needs to be capable of providing an independent source, or sources, of income for each of the tiers of local government. The level of expenditure of authorities in each tier varies between different parts of the country. The expenditure levels of shire counties in England and Wales, for example, are higher than those of metropolitan counties: this reflects differences in their statutory functions. Authorities in both tiers at present draw on domestic rates to finance the services they provide and would need to have similar recourse to any alternative local tax or taxes.

2.18 Parish and community councils in England and Wales, as well as the two main tiers in Great Britain as a whole, also need access to a local tax or taxes if they are to retain their freedom to determine their own levels of expenditure.

Chapter 3

THE POSSIBILITIES FOR CHANGE

3.1 In the light of the considerations set out in chapter 1 and the requirements for a viable system of local taxation described in chapter 2, the remainder of this Green Paper examines the criticisms that have been made of domestic rates and ways in which they could be met either by modifying the present system or by introducing new forms of local taxation.

3.2 Chapter 4 looks at ways in which the existing system of domestic rates could be changed so as to make it more generally acceptable.

3.3 Chapters 5, 6 and 7 consider three possible new forms of local taxation: a local sales tax, a local income tax, and a poll tax. The Government has examined a range of other suggested new local taxes but has concluded that they do not merit further serious consideration. They are:

local duties on petrol, alcohol or tobacco;
local vehicle excise duty;
charges for licences for the sale of alcohol or petrol; and
local payroll tax.

The reasons for rejecting these options are discussed in Annex A.

3.4 An alternative approach would be to replace the yield from domestic rates with an assigned share of a national tax or taxes. The implications of this alternative for the relationship between central and local government are discussed in chapter 8.

3.5 This Green Paper does not consider new revenues to replace the proportion of the rate fund revenue provided at present by non-domestic rates. Chapter 10, however, discusses the implications for non-domestic rates of the replacement of domestic rates by a new form of revenue and looks at the arrangements which could be made to ensure that at a minimum the relative burden of taxation on commerce and industry was not increased.

3.6 A number of the possible alternatives to domestic rates would have implications both for the amount of exchequer grant made available at present to local authorities and for the way in which it is paid. At one extreme, it could be possible to make arrangements for financing local government services under which local authorities could be self-sufficient and which therefore required no exchequer grant to be paid at all. On the other hand, there could be a need for an increase in the total amount of exchequer grant paid to local government if new local taxes were set at a level which did not raise as high a revenue as that yielded at present by domestic rates. Corresponding adjustments to the total of central government taxation would then be necessary. Exchequer grant is discussed in Chapter 9.

3.7 Chapters 11 - 13 discuss some other matters which are relevant to the theme of the Green Paper. Chapter 11 deals with the fees and charges that local authorities levy for some services and the contribution that they make to local government revenues. Chapter 12 discusses how more than one local tax could be combined to replace the present domestic rating system and the implications that such composite solutions could have. Some fiscal, economic and distributional questions are discussed in Chapter 13.

CHAPTER 4

A REFORMED DOMESTIC RATING SYSTEM

4.1 The rating system has operated in the British Isles since 1601. The £4,700 million which it is estimated that domestic rates will raise in 1981/2 is equivalent to about 16% of expenditure incurred by local authorities.

This chapter describes the present system of domestic rating, considers it against the main requirements identified in Chapter 2 for any system of local taxation and reviews a number of suggested ways in which it might be possible to make it fairer and more generally acceptable.

DOMESTIC RATES

4.2 The present basis of domestic rating is that each local authority sets a rate poundage (expressed as a number of pence per pound per year) which is applied to the rateable value of each property in its area. In England and Wales that rateable value is assessed by the Valuation Officer (an officer of the Inland Revenue who is independent of the local authority) and is based on annual rental value at the date of the last revaluation (1973 in England and Wales, 1978 in Scotland). In Scotland the assessment of rateable values is carried out by Assessors who, though employed by local authorities, are answerable only to the courts for the level of their valuations and thus operate independently. Principles of valuation in Scotland differ in some respects from those in England and Wales. Relative rate burdens in different parts of the country are shown in Table 1.

TABLE 1

DOMESTIC RATE BILLS BY REGION 1981/2

	Average domestic poundage	Average domestic rateable value	Average unrebated domestic rate bill
Northern	144p	£141	£204
Yorkshire & Humberside	129p	£135	£175
North West	129p	£171	£221
East Midlands	104p	£168	£174
West Midlands	120p	£202	£242
East Anglia	112p	£185	£207
Greater London	124p	£284	£353
Rest of South East	112p	£232	£259
South West	110p	£181	£199
ENGLAND	119p	£200	£239
WALES	125p	£122	£153
SCOTLAND	106p	£235	£250
GREAT BRITAIN			£236

4.3 The impact of domestic rates is modified in three major ways:

(i) Domestic rate relief reduces the poundage charged to all domestic ratepayers, compared with that for non-domestic premises. The reduction amounts to 18½p in the pound in England (though larger reductions apply in parts of Inner London), 36p in Wales and 3p in Scotland. The relief is paid by the Exchequer to local authorities as the domestic element of Rate Support Grant, amounting to £720m in 1981/82, or 7% of total RSG. In money terms, the value of domestic relief increases with rateable value (in England, for example, it is worth £37 a year on a house of £200 rateable value, and £74 on a house of £400 RV). As a proportion of the rate bill, it favours those living in areas with relatively low rate poundages. The proportion varies in England from 8% of the rate bill in areas with the highest rates to 19%; in Wales from 18% to 28%; and in Scotland from 2% to 4%.

(ii) Rate rebates are a form of rate relief intended to reduce the burden that domestic rates impose on those on low to moderate incomes. The amount of rebate depends on the size of the rate bill, the income of the ratepayer and his or her spouse, and on the type of household. The cost of rebates in England and Wales in 1981/82 is likely to be some £300m, 90% of which is met by central government and 10% from local authority rate funds. There were 2.68m recipients in 1979/80 amounting to 14% of all English and Welsh households and to about 70% of those eligible. The cost of rebates in Scotland is estimated at £50m in 1981/82; there were 383,000 receipients in 1979/80.

(iii) Supplementary benefit takes account of the rates payable by a claimant as part of his or her housing costs. Housing requirements are added to the claimant's normal requirements and any additional needs, such as extra heating costs. The Claimant's income (less some disregards) is subtracted from his requirements to arrive at his or her entitlement to SB. The benefit is not available to those in full-time work, or to those whose income exceeds their requirements, or to those with more than £2,000 in capital. It is estimated that rate bills for SB households will amount to £450m in 1980/81. The number of households in 1980 was 2.45m, an estimated take-up rate of 75% among those eligible.

4.4 Figure 1 illustrates the distribution of the rate burden as a proportion of gross household income both before and after allowance has been made for rate rebates and Supplementary Benefit. It shows that unrebated rates take a higher proportion of the incomes of less well off households than of wealthier ones. When rebates and SB are taken into account, this effect is slightly reversed for those on low-to-middle incomes, but it persists for those on higher incomes.

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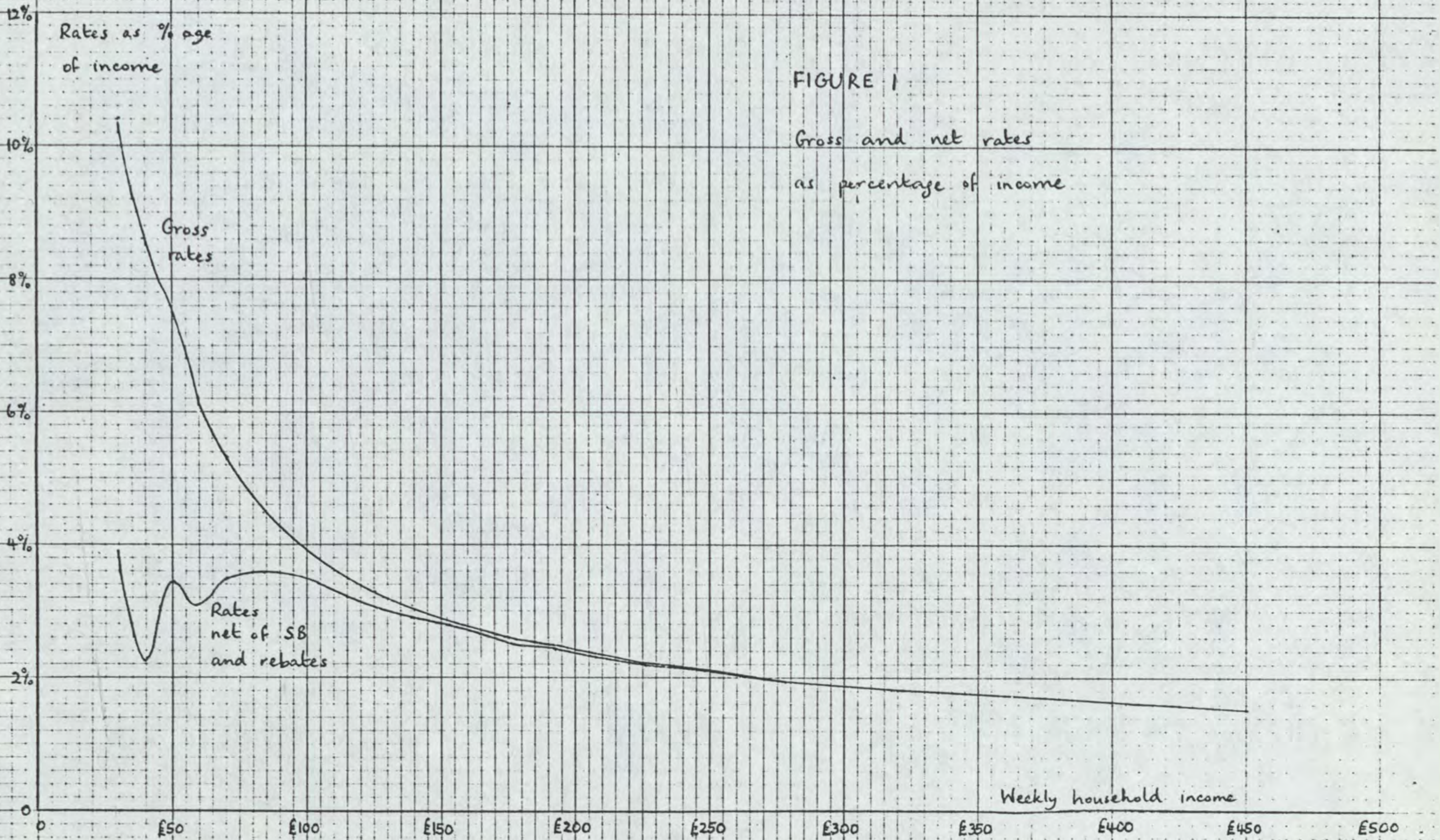

FIGURE 1

Gross and net rates as percentage of income

PRACTICABILITY AND COST OF ADMINISTRATION

4.5 The present system of domestic rates is workable and reasonably well-understood by the public. There is therefore no doubt about the system's practicability, though a number of technical criticisms have been levelled against it in recent years. These criticisms and ways in which they might be met are discussed later in paragraphs 4.15 - 4.26. Although there are wide variations between areas in rateable value the tax base is sufficiently large to support revenue requirements. The cost of administering domestic rates (including rate rebate administration and valuation costs) is estimated at £120m in 1981/82 (2½% of yield). There is little scope for avoidance or evasion because rates are a tax levied on fixed property. There is a great deal of administrative experience with the present system and a highly-developed body of statute law.

FAIRNESS

4.6 As discussed in Chapter 1, a major criticism of domestic rates is that they bear little relationship to ability to pay for those on middle to high incomes, although rebates and supplementary benefit relate rates to income for the worse off. The illustrative examples in figure 2 show that there is a wide variation in the amounts that households with similar incomes pay in rates.

4.7 A related point is that non-householders are not required to make any direct contribution to domestic rates. A household which consists of a single person therefore pays the same amount as a household with several incomes. Table 2 shows, as one would expect, that the higher the number of earners in a household, the smaller the proportion of household income taken by rates. This effect is not eliminated by rate rebates, though it is lessened by them, and many would argue that it was inequitable.

4.8 A further point is that the base on which rates are levied is unevenly distributed across the country, and this distorts the principle of equalisation which is applied in distributing rate support grant. In ensuring that a similar rate poundage is needed to provide the local contribution to a similar level of services across the country, the tax burden varies from area to area. For example, rateable values in SW England tend to be rather lower, as a proportion of net disposable income, than rateable values in the South East and especially in London. Rates paid for equivalent levels of service from the local authorities tend to be correspondingly lower. The effect is that rates, even with the equalising effect of the Rate Support Grant, produce a more general variable local tax burden than woul a tax based on a more general expenditure or income basis.

TABLE 2

AVERAGE RATIO OF RATES TO INCOME BY NUMBER OF EARNERS

Number of earners	Gross rates	Net rates
	as a percentage of gross income	
0	5.72%	3.14%
1	3.11%	2.77%
2	2.28%	2.24%
3 or more	1.67%	1.64%

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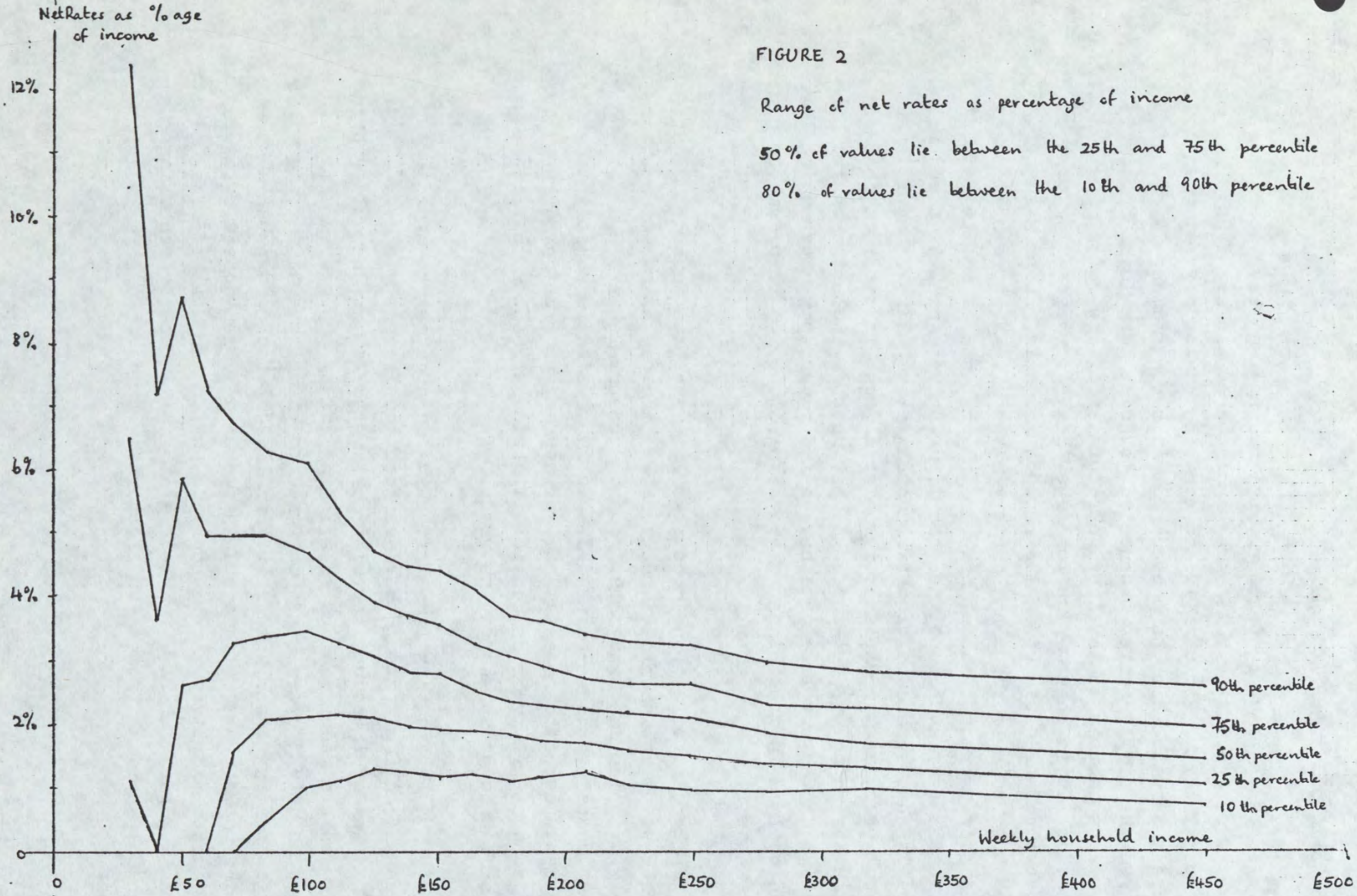

FIGURE 2

Range of net rates as percentage of income

50% of values lie between the 25th and 75th percentile

80% of values lie between the 10th and 90th percentile

PERCEPTIBILITY AND ACCOUNTABILITY

4.9 Because rate poundages are not buoyant and have to be reset every year, domestic rates are highly perceptible. This perceptibility, although it has contributed to the criticisms of domestic rates which have been made in recent times, is one of the strengths of the system because it tends to make local authorities more responsible to the local electorate for the level of expenditure they decide to incur. The poundages levied by each tier of local government are set out in the rate demand note, which must be accompanied by further explanatory material. Most council tenants and many private tenants, however, pay rates as an inclusive charge with their rent and do not necessarily receive a single demand which spells out the amount of their annual rates bill. Council tenants should receive the explanatory material sent to other ratepayers with demand notes, but those who pay rates - inclusive charges for accommodation are likely to have a lower perception of rating levels, and charges in them, than ratepayers who receive rate demands direct from their local authority.

4.10 Perceptibility and accountability are both somewhat reduced in the case of recipients of rebates, who may pay a small proportion only of rates due; and those receiving Supplementary Benefit, who in most cases pay no rates at all. As the system is constituted at present, domestic rates do not, of course, provide any direct link of accountability or perceptibility between local authorities and non-householders, who pay no rates.

4.11 Pending any long-term changes which may be made to the domestic rating system, the Government has recently announced its intention to introduce legislation for 1982/83 which would provide for certain modifications to existing rating procedures. The Government's proposals are designed to bring home to individual high-spending local authorities in 1982/83 the consequences of their policies, to afford some protection to non-domestic ratepayers in such authorities and to increase the accountability of authorities planning particularly high levels of expenditure by requiring them to seek approval from their electors by means of a referendum.

FINANCIAL CONTROL

4.12 The tax base is relatively constant, since rateable values generally vary little from year to year between revaluations. This means that the yeild of domestic rates is highly predictable. Rate poundages can be varied in steps of 0.01p, so that the yeild is not lumpy. Owing to this combination of predictability and flexibility, domestic rates compare favourably with alternative forms of taxation from the point of view of financial control.

FISCAL DIMENTIONS

4.13 Although rates are entirely a local tax, they affect the aggregate amount of taxation levied in Great Britain as a whole, as well as having important consequences for the level of total public expenditure. Since the abolition in 1963 of the old Schedule A income tax, rates have been the only tax in this country applying specifically to the occupation of domestic property. These characteristics of domestic rates are reflected in the overall balance of the present taxation system.

SUITABILITY FOR ALL TIERS

4.14 Rates provide revenue for county, district, parish and community councils in England and Wales; and in Scotland for regional, district and islands councils.

REFORMS OF THE RATING SYSTEM

4.15 A number of possible reforms of domestic rates which would be capable of being implemented in the short - or medium-term are listed below. Most of these reforms have been suggested as ways of achieving greater fairness in the distribution of the rate burden. Others are ways of reducing the overall impact on households and of removing technical difficulties associated with the present system.

Earning non-householders

4.16 A levy on all earners, rather than limiting liability to householders, has often been proposed as a means of improving fairness and widening the rate base. A scheme could be devised to add a fixed amount to the rate bill for each non-householder who had some income during a given period. Since the levy would be relatively small it would almost certainly not be cost-effective to relate the amount to income, though consideration could be given to excluding income from part-time or occasional work. There could nevertheless be scope for evasion, which could be difficult to counter. A more easily workable version of the proposal might involve a discount for households containing only one earner.

4.17 A levy of this kind would on average result in a relative reduction in rates for those on lower incomes, but at the expense of creating some anomalies. A family with a single earner, for example, would pay less in rates than another where both husband and wife worked, even if their combined income was no greater than the single earner's.

OFFSETTING RATES AGAINST INCOME TAX

4.18 Another means of improving the position of ratepapers in relation to non-householders would be tax relief for those who pay rates. The relief could take the form of an additional allowance, either at a fixed level or varying according to actual rate payments. The benefit would vary according to the ratepayer's income level. It would provide no benefit for ratepayers whose incomes were below the tax threshold; and the greatest benefit would go to those paying the higher rates of income tax. There would be substantial administrative costs in identifying those income tax payers entitled to the relief, and the amount due to each if it were based on actual rate payments. A large part of the cost of domestic rates would be shifted on to the Exchequer, and, other things being equal, this would need to be recovered by an increase in national taxes.

Restructuring domestic rate relief

4.19 It might be possible to make the rating system in England and Wales fairer without increasing the cost by changing the form of domestic relief from a flat poundage to a different basis. (In Scotland domestic rate relief is too small to contribute to a significant redistribution of the rates burden). Some alternatives are set out below.

4.20 A discount on rateable values at a rate of £25 would cost about the same as the existing domestic relief in England. It would be of most benefit to people living in low rated houses and in areas with high poundages.

4.21 A percentage reduction in domestic rate bills of 14% could replace the poundage discount in England. It would favour areas with high ratéable values or charging above-average poundages.

4.22 The relief could instead be related to rate bills on standard houses. A standard house would be a national composite of several well-defined house types for which valuations had been made thoughout the country. This would be a way of paying a similar amount of relief in respect of properties of similar quality wherever they might happen to be in the country: it would even out differences in the rateable values of similar properties caused by differences in the relative desirability of their locations. The relief could take the form of a percentage reduction in rate bills, so that the average relief of 14% in England would apply in areas where the standard value was the same as the national average, a 28% reduction applying where the standard RV was twice the national average, etc. A further possible refinement would be to take account of regional income variations in calculating the extent of relief.

CAPITAL VALUATION

4.23 The Layfield Committee recommended that the next revaluation of domestic property should be carried out on the basis of capital values, ie sale prices on the freemarket, rather than on the present basis of the rent which the property would command on the free market. Capital valuation would have the advantage of plentiful comparators compared with the scarce evidence available of market rentals in in England and Wales owing to the decline of the private rented sector and the wide influence of rent control in what remains of it. (The position is somewhat different in Scotland). This scarcity makes it difficult for householders to form a view on the fairness of a rating assessment, because changes in the renting market have made the assumptions on which rateable values are assessed more and more notional, whereas it should be possible for them to reach a better informed opinion on the reasonableness of a capital valuation of their homes.

4.24 The introdcution of capital valuations for the domestic sector would cause some redistribution of the rate burden between households. It appears likely that the main effect would be a slight increase in the relative values of both large and small houses compared with the middle range of properties.

4.25 Any revaluation for rating purposes of the domestic sector, which comprises some 20 million hereditaments, would take some time to complete, whether on a rental or capital basis. It might be thought desirable to introduce some simplifications into the valuation process. These might include a system of banding, so that properties lying within a certain range of values were allocated the same valuation for rating purposes. There would inevitably be some rough justice involved in such a scheme, but it could be argued that this would be a reasonable price to pay in order to achieve valuations based on up-to-date and easily understandable information.

4.26 A further possibility would be the introduction of a "beacon" system. This would involve the valuation in each district of a very limited number of properties chosen to be representative of broader types of domestic property. These properties would be linked to the most appropriate "beacon" and would be assigned that beacon's rateable value. Such a system could save time and money, though it would be even more rough and ready than a system of banding and would require thorough investigation and analysis before it could be considered feasible.

CONCLUSION

4.27 The Government believes that domestic rates should be abolished if an alternative can be found, which commands sufficient support.

The well-tried practicality of the system and its qualities from the point of view of accountability and financial control nevertheless give a reformed domestic rating system a claim to consideration along with the other alternatives. The Conservative Party manifesto at the 1979 general election made clear that the abolition of domestic rates could not take precedence over other changes in the national system of taxation and it is clear that, in any event, it will not be possible to replace domestic rates overnight. However, some of the changes described in paragraphs 4.15 - 4.26 could be considered as transitional measures, rather than necessarily as long-term alternatives to the present system.

CHAPTER 5

LOCAL SALES TAX

5.1 The possibility of a local sales tax has been canvassed from time to time in recent years. It was considered, in particular, by the Layfield Committee, which identified a number of strong arguments against local sales tax as a means of raising revenue for local authorities. Nevertheless, the Government considers that it would be inappropriate to exclude such a tax from the present review. For reasons explained in paragraph 5.21, however, a sales tax would not be a suitable sole replacement for domestic rates and it would almost certainly have to be complemented by some more flexible form of revenue.

TYPE OF SALES TAX

5.2 The Government has looked at the possibility either of a single-stage sales tax or a multi-stage tax akin to VAT. Theoretically, a local sales tax could take the form of a full-scale value added tax levied locally on all the transactions currently subject to national VAT. The Government believes, however, that this possibility is not worth pursuing. A value added tax is charged not only on supplies of goods and services to the final consumer, but at each preceding stage of the process of manufacture and distribution. There is provision (the input tax deduction system) to allow businesses to reclaim tax on purchases of goods and services for business purposes. If local authorities were free to set their own local rate of tax, an item might incur tax in a number of different areas at a number of different rates during the process of manufacture, distribution and sale. This would impose a considerable burden on traders in producing an appropriate analysis of their input tax deductions in their tax return, and it would entail a major responsibility for central Government in allocating input tax deductions to local authority accounts. The Government considers that in practice such a system would prove unworkably complicated.

5.3 In any case, any new form of sales tax would have to be compatible with the European Community rules relating to indirect taxes. Existing Community rules require that VAT should be charged uniformly throughout each Member State, and they prohibit the introduction of turnover taxes in addition to VAT. This of itself probably means that it would be preferable to introduce any local sales tax in the UK in the form of a single-stage tax which it would be more difficult to characterise as a turnover tax. Nevertheless, there would still be a number of common features between local sales tax and VAT.

5.4 The Government has therefore concluded that any local sales tax should be of the single-stage variety. In examining the options the Government have considered two basic models:-

Model I:

A single stage tax administered and collected in conjunction with the Value Added Tax system by H M Customs and Excise on behalf of local authorities; the single-stage tax would be applied to all goods and services currently subject to VAT but local authorities would be given freedom to set the rate of tax, possibly within limits to be set by Parliament.

Model II:

A single stage tax with an entirely separate system of collection administered by local authorities themselves; as with model I, local authorities could have the freedom to set their own rate of tax. It would be for consideration whether they should also be given the power to decide which goods and services should be taxable.

DEFINITION OF A SALES TAX

5.5 A major problem with a sales tax would be that of defining the transactions to which it applied. Since it would be a replacement for domestic but not for non-domestic rates, it should in theory be limited in its application to goods and services purchased by households. In this sense a sales tax is often thought of as a tax on retail sales. However, such an approach would run into two immediate difficulties. First, the concept of a retail sale is essentially related to goods; special rules would still be required for services. Secondly, there would be no readily identifiable group of "retailers" or those making retail sales. For example, of the 1,350,000 businesses registered for VAT, about one-quarter make the bulk of their supplies to other businesses, about one-quarter to domestic households and about one-half make supplies to both businesses and domestic households. Considerations of equity would suggest that/all

under a Model I sales tax/

those supplies of taxable goods and services to domestic households which already bear VAT should also be subject to sales tax. At the same time it would be difficult totally to exclude all business purchases, especially at the retail level.

Further examination would be required of the best way of overcoming the difficulties of definition while minimising the anomalies.

RATE OF TAX AND TAX BASE

5.6 Assuming for the purposes of illustration that a local sales tax were to be levied on the same range of goods and services to which VAT currently applied, and that a way could be found to exclude most business purchases, an average rate of 7% would be required to raise the £4,700m at present raised by domestic rates when the effects on demand are taken into account. The rate of sales tax providing a partial replacement for domestic rates would obviously be lower and would depend on the way in which it was combined with other taxes.

5.7 The question of the interaction of a local sales tax rate and the VAT rate would need careful examination. At present, European Community rules require that VAT should be levied on a base including all other taxes, duties, levies and charges. Hence, VAT would have to be charged on a tax base which already included local sales tax. This would mean that, for example, a 7% rate of local sales tax and a 15% rate of VAT would produce a composite rate of 23.05% on basic price. To achieve a composite rate set in whole percentage points would require rates of local sales tax to be set to several decimal places. Either alternative could pose difficulties for retailers, who have found VAT easiest to operate when set at "convenient" round rates of tax, and would be difficult for the general public to understand. It is possible that, if a local sales tax were introduced, the Government would have to consider seeking a derogation from Community rules to enable sales tax and VAT to be charged in parallel on a common base, which, taking a 7% rate of local sales tax and 15% VAT would entail a readily understood composite tax rate of 22%. Even this, however, would not be free from difficulties for the retailer who worked from tax-inclusive prices.

Registration threshold

5.8 A further problem would be to decide which traders should be included within the local sales tax net. The present VAT registration limit is £15,000; this is considerably higher than in other EC countries and has been deliberately maintained at such a level in order to reduce the administrative and compliance costs of collecting very small amounts of tax from a large number of small businesses. Because of the way the VAT system works, the resultant revenue loss and the trading advantage enjoyed by unregistered traders are in practice related only to their value added, not to the whole of the tax apparently at risk. In the case of a local sales tax, on the other hand, because all the tax would be levied at the retail stage, exemption from registration would mean the loss of all the potential revenue involved while the competitive advantage gained by the traders concerned would be much greater than with VAT. On the other hand, the adoption of a lower limit for the local sales tax would involve the registration of a large number of traders who have been purposely kept out of the VAT system, and would considerably increase both the administrative costs of the tax authorities and compliance costs for the small businesses concerned. Notwithstanding the revenue and other arguments, the operation of different registration rules for sales tax and VAT could lead to anomalies and increased accusations of inequity.

CROSS-BORDER SHOPPING

5.9 A quite different problem which was identified by the Layfield Committee as a significant consideration in the case of sales tax is cross-border shopping. There has been a growing tendency with the increase in private transport and the development of supermarkets and hypermarkets for large towns and cities to become the shopping centres for surrounding regions. Generally speaking, a large proportion of domestic purchases are no longer made in the village or suburban shop, but in stores in urban centres. The revenue from a sales tax might therefore tend to accrue to different local authorities in a distorted fashion; unduly favouring those accommodating popular shopping centres near their borders at the expense of neighbouring authorities where consumption actually took place. Any such trend would, of course, be expected to divert trade, particularly in the more expensive consumer durables, to areas where the rate was low. In the particular case of a Model II system under which local authorities were allowed to vary the coverage of the tax, there would be a further problem. The incentive to cross-border shopping would be greatly increased if the difference was not just a matter of a percentage point or two on the rate of tax but the difference between the item being taxable or tax-free.

5.10 Two further aspects of cross-border trading would pose particular problems. The first would be the question of where services should be treated as being supplied, and the rate of tax to be charged when the trader lived in one local authority area and the customer in another. To charge tax at the rate of the trader's local authority could risk significant distortion of competition; to charge it at that of the customer's local authority would involve the trader in additional, possibly substantial, compliance costs. The other problem would be the position of mail-order traders. Unless special arrangements were made for charging the tax according to where customers lived, which again might greatly increase traders' costs, there would be a considerable incentive for mail-order companies to establish themselves in low tax areas, and these areas would gain.

COSTS

5.11 It is not possible to give any detailed estimate of the additional administrative costs incurred by the taxing authority or of the operating costs for business of compliance with a sales tax without a much more detailed study of the form such a tax might take. The costs of a taxation system depend very much on its complexity. The costs of a local sales tax would, therefore, depend on the extent to which it could be tailored to fit in with the existing VAT system and whether such difficult matters as determining the rate of tax on imports and the exclusion of business purchases from the incidence of the tax would be dealt with satisfactorily without unduly complicating the tax structure. If in the light of this Green Paper it were decided to proceed with further considerations of a sales tax option, some qualification of cost would clearly be necessary before any final decision could be taken. However, preliminary study suggests the following conclusions:

(a) Administrative costs. Under a Model I tax administered in conjunction with the VAT system, costs could be significant, but would be likely to be substantially less than the estimated £120m cost of domestic rates. Under a Model II tax each local authority would have to set up a separate tax gathering force. This would greatly increase costs of administration and could approach more closely, or could even exceed, the present cost of collecting domestic rates.

(b) Compliance costs. Quantification is again impossible. However, experience with VAT suggests that even under a Model I system, there would be some substantial additional costs which would tend to bear disproportionately heavily on small businesses who would make up the bulk of those traders operating a sales tax system. A Model II sales tax which differed from the VAT system would greatly increase compliance costs because retailers would have to apply two different sets of rules to their sales and possibly have to keep a separate set of records in addition to their VAT accounts.

5.12 It is also important to note that, even if a sales tax were introduced only as a partial replacement for domestic rates, control and compliance costs would remain much the same as for a rate of tax which provided for total replacement. In terms of cost per £ of revenue collected, the effect of partial replacement would therefore be that a sales tax would become a much more expensive tax to collect.

TIMETABLE

5.13 The Government does not consider that a local sales tax on either model could become operative before 1987/8 at the earliest. In the case of model I this is because Customs and Excise are engaged in replacing their VAT computers, which are coming to the end of their operational life. This involves major re-programming prior to the changeover of computer systems and the introduction of a sales tax could not be contemplated until the new computers were fully operational. A Model II tax would require local authorities to set up their own tax administrations, which would almost certainly need to be computer-based. This would require a great deal of detailed planning and it would be unlikely that these could be completed much earlier than five years from a decision to proceed.

FAIRNESS

5.14 At present, VAT is charged on about 50% of consumer expenditure and it does not apply to necessities like food, heating fuel, housing, and public transport.
In general a local sales tax that was levied on the same

items as VAT should tend to take a higher proportion of the income of richer households than of poorer ones because richer households, generally speaking, would tend to spend a higher proportion of their incomes on taxable items, while most necessities would reamin non-taxable. However, those on low incomes could be expected to lose from a change to a local sales tax unless some new form of support were to be introduced to replace rate rebates and (payments of rates in) supplementary benefit assistance with rates.

The introduction of local sales tax might go some way to meet the criticism, often made against rates, that a tax should be distributed to fall broadly equally on individuals or households of similar means. It would also widen the incidence of tax to include all domestic consumers, compared with the 20 million heads of households who pay domestic rates at present.

5.15 The fairness of a Model II tax in which local authorities were allowed to vary coverage would be strongly influenced by the resulting shape of the tax. It is unlikely that the progressivity of VAT could be significantly improved by adding to the present reliefs, while reducing the extent of reliefs (in order, for example, to lower the rate at which tax needed to be charged) could make the tax regressive. A sales tax charged on all goods and services would certainly be regressive.

ACCOUNTABILITY AND PERCEPTIBILITY

5.16 As noted in paragraph 5.9 above, the sales tax that an authority received would not necessarily be paid only by those living in its area, with the result that local accountability would not be complete. The perceptibility of a local sales tax would clearly depend on the extent to which its effect could be separately identified by the customer when a purchase was made. A high degree of perceptibility could probably only be achieved if traders could be required to show the tax as a separate item on bills and receipts. Such a requirements would, however, add significantly to traders' costs, particularly for those traders who do not normally issue receipts and might find themselves having to purchase new and possibly more sophisticated cash registers. Moreover, the requirement would probably be inconsistent with the operation of the special accounting schemes for retailers which already apply to VAT and would need to be extended to local sales tax.

5.17 An alternative might be to place local authorities under a duty to write annually to each household with an explanation of their rate of tax and other financial information on similar lines to the publication of performance information to be published in connection with rate demands by virtue of section 2 of the Local Government, Planning and Land Act 1980.

FINANCIAL CONTROL

5.18 There could be real problems in predicting the yield of a local sales tax each year. Experience with VAT suggests that the national outturn of a local sales tax would vary from its estimate for each year. In most years the variation in the VAT outturn has been of the order of 2% or a little more, but in 1980/81 it approached 10%. For sales tax this margin of error would itself very between individual authorities. For example, revenue receipts would be particularly susceptible to change from year to year in local authority areas with small populations which were visited by large, but fluctuating, numbers of tourists. Furthermore, accurate predication might be difficult if varying levels of tax in neighbouring authorities led to a significant increase in cross-boundary shopping.

5.19 The substitution of a tax with an unpredictable yield for domestic rating, the yield of which is highly predictable, would raise problems of financial management. This is inevitable although (as with local income tax) the unpredictability could be made to fall either on local or central government.

5.20 The yield of a local sales tax would be more buoyant than that of domestic rates, so local authorities would probably not have to change their tax rates frequently unless it were necessary to do so because expenditure had gone up or down in real terms. This would be particularly true if sales tax were supplemented by some other more flexible local revenue. Adjustments to the tax rate could be necessary, however, even without real changes in the level of local authority's expenditure if local authority costs, which mainly comprise wages, salaries and loan charges, increased more quickly or slowly over a period of time than the price of goods and services on which the tax was levied. Where an authority's need to spend on local services was declining, there could be a danger that caution and a desire to budget for a sufficiency of income over a number of years might tend to make it slower to revise its rate and local sales tax downwards than it would have been with an alternative form of tax whose yield was more accurately predictable.

5.~~20~~ 21 Changes in the tax rate by local authorities would have to be limited by consideration for the impact on traders, many of whom already experience difficulty in operating VAT correctly. The Government thinks that this would mean that steps of the order of 1% would be the minimum acceptable, but the actual position would depend on the way the local sales tax rate was combined with the VAT rate (paragraph 5.7 above). Steps of whole percentage points, however, would cause a problem for local authorities because of the extreme lumpiness of the yield. A 1% change in the average tax rate would change the yield by about 10% - 15%. Because of this problem, the Government believes that a sales tax would be inappropriate as a complete replacement for domestic rates, and that it would need to be supplemented by some other more flexible source of income (see Chaps 12 and 7). Even a hybrid solution would not eliminate all the local authorities' budgeting problems.

5.~~21~~ 22 A local sales tax would in any case imply restrictions on local authorities' freedom to make frequent changes of rate, because any rate change would cause problems for businesses. For example, stock repricing would be an onerous task in shops with a large range of low unit-price goods. Where advance bookings and orders were concerned, identifying the rate of tax to be charged could become difficult. Moreover, if local sales tax accounting were to be integrated with VAT accounting, those businesses which use the VAT retail schemes could have to carry out certain accounting adjustments or possibly an extensive stock-taking. Larger traders with computer-based accounts, such as the major retailing chains, would have to carry out reprogramming, as would other concerns who produce all their accounts from a single central source - (telephone bills, for example).

5.23 For the reasons set out in paragraphs 5.18 - 5.20 the Government believes that among the leading options a local sales tax would cause local authorities the greatest difficulties for stable financial planning.

FISCAL DIMENSIONS

5.24 A local sales tax designed to replace entirely the present yield from domestic rates and running in parallel with national VAT would produce a combined sales tax/VAT rate of about 22% (paragraph 5.7 above) and even a partial replacement would be likely to result in a high combined rate, perhaps of the broad order of 20%. This would obviously have implications for prices and for the demand for taxed goods. It would be bound to constrain the freedom of central Government in relation to changes in the rates or rate structure of VAT. Future Chancellors would also have to bear in mind that the impact on patterns of consumer expenditure of any change in the VAT rate could have a significant effect on local authority revenue. So, too, could any changes in national VAT coverage (eg changes in zero-rating or exemptions) if the local tax were to be levied on an identical base.

5.25 Conversely, decisions by local authorities about their tax rates would have an impact on Government revenue, especially if the tax rates were set at a higher level than expected. In any case, if local authorities set their tax rates before the Budget each year, the Government would have to take these decisions into account in framing the Budget judgment.

5.26 These problems could be mitigated to some extent if there were some formal constraint on the freedom of local authorities to levy sales tax at whatever level they chose. On the other hand, such a constraint would, of course, have implications for the independence of local government and its accountability to local electors.

SUITABILITY FOR ALL TIERS OF LOCAL GOVERNMENT

5.27 The Government's view is that a local sales tax with independently variable rates could not reasonably be operated at any level below that of the 66 authorities in the upper tier of local government - counties in England and Wales, regions and the islands authorities in Scotland. The Government considers that to vary the tax rates at the level of the 450 or so local authorities in the lower tier would be disproportionately costly to operate both for the tax collecting agency, whether the central government or the local authorities, and for traders (especially multiple traders). The Government further considers that the divergence of tax rates at district level could tend to stimulate an undesirable amount of cross-boundary shopping.

CONCLUSIONS

5.28 The Government considers that a local sales tax might conceivably be capable of providing a source of local revenue to replace in the upper tier of local Government a substantial part of the local authority income at present raised by domestic rates. Devising a workable system, however, would involve finding solutions to a diverse range of important problems. For both local and central government, a local sales tax would bring financial control problems which would have to be surmounted. Because of the unpredictability of the yield, local authority budgeting would become more difficult; while the "lumpiness" of the yield would mean that even relatively small changes in the rate would produce considerable variations in income. The high combined effective tax rate of national value added tax and the local sales tax could have implications for the government's overall fiscal policy and its freedom for manoeuvre, while the interaction of the two taxes would almost certainly impose some restrictions on local authorities. For these reasons the Government does not believe that a sales tax could be a satisfactory sole replacement for domestic rates. It would be more effective if combined with some other form of local revenue.

5.29 Even as a partial replacement, a local sales tax would present a number of problems. It would be necessary to attempt the difficult task of producing a scheme based on a definition of a taxable supply which ensured that as far as possible all goods and services consumed by households bore the tax, while those consumed by businesses (who would still be paying non-domestic rates) were excluded: or, alternatively, the scheme might be widened to include businesses, with a corresponding reduction in business rates. The

Government would still need to take a view on the extent to which local authorities could be given an unfettered ability to vary local rates of tax. It would also be necessary to minimise the extra costs of compliance for businesses, especially for the smaller retailers who would form a large proportion of those accounting for the tax. Questions of accountability and perceptibility would also require consideratio Any new incentive to cross-border shopping would not only further reduce the predictability of the yield, but could mean that more people would be paying tax outside their own local authority area. In any case it might be difficult to make the local population properly aware of the incidence of a local sales tax without either imposing onerous burdens on traders or additional administrative requirements on the authorities themselves. The perceptibility and accountability of a local sales tax would not necessarily therefore be very high, although it would have the advantage that its incidence would on the whole be seen to fall more equitably than that of the present rating system.

5.30 Any system of local sales tax would have to be compatible with the United Kingdom's continuing obligations to the European Community.

5.31 Of the two possible models of a local sales tax the Government has considered, Model I seems preferable on the grounds of lower administrative cost and lesser burden on traders. On the other hand, Model II would offer the advantages of being more obviously locally based and administered.

Chapter 6

LOCAL INCOME TAX

6.1 The feasibility of a local income tax has received close attention in recent years. In particular, the Layfield Committee gave qualified approval to one form of local income tax as a supplement to domestic reates in the context of their proposals for a clarification of the relative responsibilities of central and local government. The Committee recognised, however, that it would not be without its problems and that the cost of operating it would be substantial. They did not recommend that local income tax should be a substitute for domestic rates.

6.2 The main arguments advanced for a local income tax are that it would significantly widen the local tax base by bringing in all national income tax payers, and the relative burden of each would be more clearly related to ability to pay. The possible distributional effects of a local income tax replacing domestic rates are discussed in chapter 13 and Annex C.

6.3 On the other hand any form of local income tax would be administratively complicated, would require a substantial public sector staff to run it, and some of the variants would involve additional work for employers. A local income tax would also increase the level of taxation of incomes - by about the equivalent, on average, of 5p on the basic rate if domestic rates were wholly replaced by the tax. Proposals for a local income tax therefore need to be considered in the wider context of Government policies for simplifying the tax system, reducing public sector manpower, easing administrative burdens on businesses, and the balance between direct and indirect taxation.

6.4 A local income tax could take a number of different forms. This chapter looks first - and in most detail - at a local income tax fully integrated with the present income tax system, the kind of local income tax the Layfield Committee favoured. It then goes on to consider how a local income tax might operate if the national system were radically changed so that an assessment was made on each taxpayer every year; and two schemes involving collection of local income tax by local authorities themselves are discussed. Finally, a local income tax is considered against the criteria identified in Chapter 2.

LOCAL INCOME TAX FULLY INTEGRATED WITH THE NATIONAL INCOME TAX SYSTEM

6.5 After detailed discussions with the Inland Revenue, the Layfield Committee recommended that, if a local income tax were to be introduced, it should be fully integrated with the national tax system. This would be the most straightforward way of operating a local income tax. But it would impose a number of important constraints on the form of a local income tax, and the timing of its introduction. In particular, as explained below, it would probably be suitable only for the 128 major spending authorities, and could not be introduced until the 1990s.

Tax base

6.6 A local income tax of this kind would be charged on the same tax base as the national income tax. It would thus be levied on income from earnings and pensions, investment income and the profits of unincorporated businesses, but not on company profits.

Residence

6.7 As the Layfield Committee recognised, the most appropriate link between an individual taxpayer and the local authority levying a local income tax would be the taxpayer's place of residence. The rate of tax payable would thus be determined by the local authority area in which the taxpayer lived. The Layfield Committee preferred a tax based on place of residence (rather than, for example, place of work) mainly because the services which local authorities provide are generally related to where people live.

6.8 For national income tax purposes, however, a taxpayer's place of residence within Great Britain is of limited significance; in general, the tax system is not organised on the basis of where the taxpayer lives. In particular, for PAYE, the tax affairs of all the employees of the same employer are handled together usually by one tax office. A local income tax would thus entail a new requirement of establishing the place of residence of every taxpayer (some 25½ million in Great Britain) before the start of each tax year, so that the appropriate rate of local income tax could be charged, and the tax paid over to the right authority. Information to determine place of residence for this purpose could be included in the income tax return forms, but at present these are received by only about one-third of taxpayers each year. Some other means - such as a separate enquiry - would therefore have to be used for the others. In most cases there would be little difficulty in establishing the area of residence, but special rules would be needed for those who have more than one home, or who move frequently. Also - for the reasons explained in paragraph 14 - it would be necessary to establish the position well before the beginning of the tax year. Given the number of people who move house each year, this would mean that in any particular tax year a large number of people would not be paying tax to, or at the rate levied by, the authority in whose area they then levied.*

PAYE

6.9 Since under an integrated system local income tax would be collected by the same machinery used to collect national income tax, it is necessary to consider in particular the implications for PAYE, which brings in about 85 per cent of the yield of national income tax. The PAYE system collects the tax due from wage and salary earners and from occupational persioners, a total of about 24 million taxpayers in Great Britain.

6.10 The aim of the PAYE system is to obtain an accurate match in as many cases as possible between the tax deducted in the course of the year and the taxpayer's ultimate liability so that no adjustment is required at the end of the tax year. At present this result is possible for the large majority of cases - about 5 out of 6. To achieve this, there is a system of codes which mainly reflect the taxpayer's allowance and reliefs. These codes are notified to employers who can then calculate the tax to be deducted from the earning of each taxpayer from official tax tables.

6.11 For a local income tax to operate as part of the PAYE system,

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* The number would depend on how far before the start of the tax year the residence position had to be determined, and the number of levying authorities. If the place of residence was determined on the factsat the beginning of the previous tax year, and if, as suggested in paragraph 13, only the 128 major spending authorities could levy local income tax, this number might be as many as 2 million.

this system of coding and tax tables would have to be elaborated to enable employers to deduct local income tax at the appropriate rate for each employee. An additional element would have to be added to each code - a local authority tax rate indicator - and additional tax tables would be needed to cover the various combinations of local and national tax rates. These changes would considerably complicate the operation of PAYE for employers as well as for the Inland Revenue. Codes would be more complex, and liable to more frequent changes; and tax tables would be more elaborate, with different tables often necessary for different employees.

6.12 If these additional complications to the operation of PAYE, including the burden on employers, were to be kept within bounds, some limit would have to be placed on the number of tax rates which local authorities could use. This would mean that the rate of tax would have to be set in fairly broad steps, which would have implications for the lumpiness of the yield. At present, it seems unlikely that it would be practicable to operate a system with steps of less than ½p; but if automated methods of calculating tax deductions became more widespread amongst smaller employers, or if the total spread of rates for a local income tax was limited to a fairly narrow band, somewhat finer graduation - say by ¼p - might be possible.

6.13 Even with this limitation, however, there would be substantial practical difficulties in adapting PAYE to accommodate local tax rates set independently by the 458 lower tier authorities, and the Layfield Committee considered that such a scheme would be impracticable. A local income tax on these lines would therefore probably have to be restricted to no more than the 128 major spending authorities - the County Councils (in Scotland, the Regions and Islands Authorities) plus the Metropolitan Districts and, perhaps, the London Boroughs.

6.14 Tax codes have to be notified to employers before the start of the tax year. If they are to include an indicator of the appropriate local rate for each taxpayer, it would be necessary to start to determine, perhaps 12 months before a tax year began, the area to which the taxpayer belonged for local income tax purposes for that year. Local authorities would have to bring forward their budget cycle and determine their tax ratetowards the end of the calendar year so that the right tax rate for each of their taxpayers could be passed on to employers before the start of the new tax year. This would involve some difficulties for local authorities in their budgeting, and for central government in determining the total level of Exchequer grant.

Profits of the self-employed

6.15 Tax on the profits of self-employed people is collected by means of individual assessments. Local income tax could be collected as part of the national income tax assessment.

Investment income

6.16 Applying different rates of local income tax to investment income would be difficult because of the variety of tax collection arrangements which are used for collecting national income tax on this type of income. Income tax at the basic rate is deducted at source from many types of interest. Tax on interest paid by building societies is not deducted at source, but is paid by the society at a composite rate under special arrangements. Separate arrangements also apply to the collection of tax in respect of company dividends which carry a tax credit covering the shareholder's liability to the basic rate of income tax. Other investment income - such as bank interest and rents - is generally paid gross, and the tax due collected individually in various ways by the Inland Revenue.

6.17 It would be impracticable for the various institutions which pay investment income to deduct tax at rates which varied according to the recipient's place of residence. Equally, it would not be possible, except at unacceptable cost, for the Inland Revenue to collect, by direct assessment, the small sum of local income tax which would be due on the large number of mainly small amounts of income, when the national tax liability had already been collected, in most cases, without the need for an assessment. Other arrangements would therefore be needed. One possibility might be a uniform surcharge levied, at a single rate, by central government on investment income and distributed to local government; and deduction of tax at source (at a rate which included a standard local authority rate) might have to be extended to types of income to which it does not a present apply.

Costs

6.18 A detailed costing for a local income tax integrated with the existing national income tax system was made for the Layfield Committee. The estimate then was that about 12,000 to 13,000 extra staff would be needed in the Inland Revenue. This would cost about £110m at 1981-82 prices. Additional cost falling on employers are very difficult to estimate, but could be of a broadly similar order. The costings prepared for the Layfield Committee assumed that the scheme would be integrated with PAYE operated on the present mainly manual basis. The nationwide computerisation of PAYE is now under way but at this early stage it is not possible to say by how much this would reduce the costs as estimated for the Layfield Committee. If a local income tax replaced domestic rates entirely there could be a saving of around 1800 staff in the Valuation Office of the Inland Revenue and possibly further savings in local authorities. It would be for consideration whether any additional costs to the Inland Revenue of administering a local income tax would be deducted from the yield so that they were borne by the authorities levying the local tax.

Timing

6.19 As well as representing a major organisational change in its own right, for which careful planning would be needed, the introduction of local income tax integrated with the national tax system would require extensive changes in the design of the computerised PAYE system. The time needed to introduce both local income tax and to computerise PAYE would inevitably be greater than for either alone and there would be a high degree of risk involved in trying to do both at once. It would therefore be a question of suspending computerisation of PAYE to introduce local income tax on a manual basis or postponing local income tax until computerisation was complete. The first course would delay the substantial staff savings and other benefits of computerisation while running local income tax at greater cost manually: the second would make it unlikely that this form of local income tax could be effective before the end of the decade, since PAYE computerisation is not expected to be completed before 1988.

OTHER FORMS OF LOCAL INCOME TAX

6.20 As explained above, a local income tax integrated with the national tax system would be suitable only for the major spending authorities, and could operate only with a limited range of local income tax rates. If local income tax were to be available to a large number of local authorities, and to offer a wider range of tax rates, it would be necessary either to introduce important prior changes in the national tax system, or to collect local income tax separately from national income tax.

A LOCAL INCOME TAX LINKED TO A NEW NATIONAL SYSTEM OF UNIVERSAL END-YEAR ASSESSMENT

6.21 In some countries the system of collecting tax from wages and pensions is radically different from PAYE. Instead of deductions which are designed to represent the final liability in most cases, so minimising end-year work, these systems provide for a less precise system of deduction during the year, coupled with the assessment of every taxpayer (following receipt of an annual return) each year to establish any further liability or the amount of any refund due. If such a system were introduced for the national income tax, it could be more easily modified to include a local income tax. The level of deductions would need to take account of the general run of local income tax rates, and information about residence would need to be included in the return every taxpayer would make each year. The local tax position would be finalised in the end of year assessment which under such a national system would need to be made in every case.

6.22 For local income tax, such a scheme would present a number of advantages. It would enable local authorities down to the level of the 450 or so lower-tier bodies to set their own rates of local income tax. For employers, the codes and tax tables would be simpler because tax deductions would be more provisional and would not attempt to be exact. Variation of tax rates under this scheme by steps of less than ½p would not add to the burden on employers since a single average rate of local income tax would be built into the deduction system. It would therefore be possible to vary local rates down even to one or two decimal points, which would eliminate lumpiness in the yield and make financial planning by local authorities easier. Local authorities could also determine their budgets, as now, in February to March.

Investment income could be taxed at the appropriate local rate instead of at a national standard rate, as this would be included in the normal end of year assessment procedure. The cost of adding a local element to a national tax scheme of this kind cannot be estimated at present, but it seems likely that it would be less than the cost of a scheme integrated with the present national income tax system.

6.23 Adopting such a system for national income tax would, however, be a profound change with wide implications going well beyond questions of local government finance. Major issues of tax policy and administration would be raised which would need to be examined thoroughly and in detail on their own merits before any change of this kind could be made. Moreover, a restructuring of the tax system on this scale would need to be spread over a number of years and would call into question the present programme for the computerisation of PAYE. A restructured system incorporating local income tax would probably need to be computer-based, and it seems unlikely that such a system could be introduced before the end of the decade.

ASSESSMENT AND COLLECTION MY LOCAL AUTHORITIES ON INFORMATION ABOUT INCOMES PROVIDED BY INLAND REVENUE

6.24 Under this hybrid system, the taxable income of each taxpayer would be determined by the Inland Revenue, who would notify it to the local authority for the area in which the taxpayer lived. The local authority would then be responsible for assessing the local tax at its own rate, and collecting it direct from the taxpayer.

6.25 Like the previous scheme, this system would allow local income tax to be levied on the basis of a year-end assessment. For that reason, and because PAYE employers would have no extra tasks, a tax on these lines could be levied at rates which could vary at the level of the lower-tier local authorities, and which could be adjusted by steps of less than ½p. It would therefore have the same flexibility and benefits for local authorities' financial control as the previous scheme.

6.26 There would, however, be some substantial difficulties. The tax base on which local authorities operated would be out of date, sometimes seriously. A taxpayer's taxable income during Year 1 would be determined in arrear by the Inland Revenue and notified to the local authority generally at some time during Year 2. In some cases, however, the final amount of all sources of income is not settled until well after the end of Year 2, in which case the local authority would either have to wait for its local income tax, or make a provisional assessment on the basis of some extra notification from the Inland Revenue. Even in a straightforward case, the assessment of the taxpayer's liability for Year 1 could not be made until well into Year 2, by which time he might have moved out of the local authority's area. This would mean that local authorities would be faced with recovering their tax anywhere in the country - or arranging to transfer responsibility to the authority in whose area the taxpayer now lived.

6.27 At a practical level, however, the main problem would probably be the sheer volume of information which would have to be exchanged each year between tax offices and local authorities. The transmission of information about 25½ million taxpayers to 458 local authorities by about 700 local tax offices of the Inland Revenue would be an additional and highly complex task. It would also require the Inland Revenue to determine - again a substantial additional task - the place of residence for local income tax purposes of each taxpayer for the year in question.

6.28 This transfer of information from central to local government would also raise potentially difficult issues of confidentiality. Information held by the Inland Revenue about individual incomes is not at present disclosed outside the Department, even to other branches of central government, except in certain strictly limited circumstances which are specifically authorised by statute. The introduction of the necessary powers to enable the Inland Revenue to disclose such information on a regular and widespread basis to local authority officials of the area in which the taxpayer lived could prove highly contentious.

6.29 As with the other schemes, the cost of a local income tax in this form is difficult to establish. It is tentatively estimated, however, that its costs might be double that of a scheme integrated with the present national tax system; that is about £220m*. This

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* There would be some off-setting savings if local income tax replaced, rather than supplemented, domestic rates - see paragraph 18.

higher cost is due partly to the complex arrangements required for transfer of data, and partly to the heavy collection cost, since there would be no possibility of deducting tax from pay at source, nor - as with rates - any link with the occupation of property. Since this scheme would involve major additional tasks for the Inland Revenue the problems described in paragraph 19 would again arise, and it could probably not be effective before the end of the decade.

LOCAL INCOME TAX ADMINISTERED INDEPENDENTLY BY LOCAL AUTHORITIES

6.30 The final possibility would be for each revenue-rasing authority to run its own income tax system quite separately from the national system. This would require each authority to be responsible for issuing tax returns to its own residents, establishing their taxable income, assessing it, and collecting the tax due. Whether a completely separate tax base was used or the national rules were adopted, this would be an extremely expensive operation as each authority (or each group of authorities if a grouping arrangement were found preferable) would be separately responsible for the application of a complex legal code. All taxpayers would have to make returns to two authorities, national and local. It would be very burdensome to ask employers to operate two separate PAYE schemes, and the tax would therefore probably have to be paid after the end of the income tax year in a lump sum or by instalments, like rates at present.

6.31 A system of this kind would be cumbersome to operate, confusing to taxpayers and expensive in staff. If the local authorities between them needed no more staff than the Revenue have at present administering income tax, the numbers required would be around 55,000 costing roughly £500m* a year. A local income tax on this basis could be planned and introduced without regard to the computerisation of PAYE but it is doubtful whether it could be effective in less than 5 years.

FAIRNESS

6.32 Local income tax would apply to everyone in a local authority area whose income was above the tax threshold (there are currently

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* See footnote on page 50.

about 25½ million individuals liable for income tax in Great Britain, compared with the total adult population of our 40 million, and about 20 million domestic ratepayers). Liability would - unlike rates - be directly related to income, which is widely regarded as a more apt measure of ability to pay. It could be argued, however, that in practice this advantage would be eroded because the scope for avoiding or evading liability would be greater than with rates. If it was necessary for administrative reasons to tax investment income at a unform rate set nationally, a local income tax would favour taxpayers with investment income living in areas with higher rates of local tax compared with those living in areas with lower rates.

6.33 The position of unincorporated businesses would also need to be considered. If such firms remained liable to non-domestic rates, and the proprietors were charged local income tax on the whole of their profits, it could be argued that they were at a disadvantage compared with companies, which would not be liable to local income tax, and whose proprietors would only pay local income tax on amounts withdrawn from the business which formed part of their own taxable incomes.

6.34 The possible distributional effects of replacing domestic rates by a local income tax are considered in Chapter 13 and Annex C. For the illustrative household types used there a local income tax would generally tend to reduce the burden that domestic rates impose at present on those with low incomes, while the burden on those with high incomes would correspondingly increase. As might be expected, the tax burden would be shifted towards households with two or more earners.

PERCEPTIBILITY AND ACCOUNTABILITY

6.35 It is unlikely that many local government electors would find a local income tax integrated with the present national tax system very perceptible. Some taxpayers might give closer attention to their tax deductions, but national and local tax rates would probably have to be combined in composite tax tables if the employers' job in operating PAYE was to remain manageable, and local and national components of the tax deducted from the taxpayer's earning would therefore probably not be readily distinguishable, except, perhaps, in his annual statement of pay and tax. Because the Inland Revenue would be responsible for the administration of both national and local income taxes, central government would tend to be seen by man people as being responsible for the rates of local tax levied. To try to overcome this local authorities could be required to send out annual statements to each taxpayer explaining and justifying the rate of tax they had set. A local income tax based on a recast national tax system involving end of year assessment might be little more perceptible that one integrated into the present tax system. The local tax would be highly perceptible, however, under the two schemes in which it would be collected directly by the local authority.

FISCAL DIMENSIONS

6.36 The introduction of a local income tax would increase the total burden of direct taxation. This would run counter to the Government's policy of switching more of the burden of total taxation away from personal incomes and on to personal expenditure. In principle it would be possible to offset this increase in the burden of tax on income by a corresponding reduction in national rates of income tax coupled with increases in other taxes. In practice the scope for a change of this kind might be limited.

6.37 The use of a single tax base for both central and local government income tax would lead to problems. On the one hand, the Chancellor's Budget decisions on personal allowances and other tax reliefs would have direct repercussions on the yield of local income tax to local authorities after they had set their local rate of tax for the year in question. On the other hand, a local income tax would raise the marginal rates of tax for all income taxpayers and could be an important constraint on a Chancellor's budgetary freedom of manoeuvre. Such considerations might make it necessary for central government to limit local authorities' powers to set local tax rates, with implications for relations between central and local government. Whether such limits would in practice be necessary would depend in part on whether a local income tax would be likely to be preceptible - that is how far it would encourage local accountability and discourage high expenditure and consequent high tax rates. On this score, a local income tax collected by local authorities would be likely to do better than one collected by the Inland Revenue.

FINANCIAL CONTROL

6.38 Any local income tax would give rise to problems of predictability of yield broadly similar to those already discussed in relation to local sales tax (see Chapter 5.18). The yield of local income tax might vary by a s much as 5 per cent from the level predicted by the local authority in its budgeting - more if it were affected by subsequent budgetary changes in the national income tax base.

6.39 The yield of local income tax would be buoyant, and normally it would be unnecessary for local authorities to change their tax rates often except when there was a change in the real levels of expenditure to be financed from local resources. On the other hand, in contrast to rates, it would probably not be possible to increase the yield from local income tax part way through the year by increasing the rate of tax.

6.40 The lumpiness of yield of local income tax has already been mentioned in paragraphs 12 and 22. Although a local income tax integrated with the present national tax system would pose problems of lumpiness, the difficulties would be less than those associated with a local sales tax (see Chapter 5.21) and, there could be scope for mitigating these problems by combining a local income tax with some less lumpy source of income for local authorities. This possibility is dealt with further in Chapter 12.

SUITABILITY FOR ALL TIERS OF LOCAL GOVERNMENT

6.41 As explained in paragraph 13, a local income tax integrated with the present national tax system would probably have to be restricted to shire counties in England and Wales, and to regional and island authorities in Scotland, plus metropolitan districts and, perhaps, the London Boroughs. A local income tax system operating on the basis of end year assessment, or collected directly by local authorities, could be operated down to district level, though not down to parishes.

CONCLUSION

6.42 Compared with domestic rates, a local income tax would be seen to spread the tax burden wider, and an individual's tax liability would be related more closely to his ability to pay. The most straightforward means of introducing a local income tax would be to integrate it with the present national income tax system. But this would entail adding significant extra tasks to an already complex system, which could call for substantial additional staffing requirements in the Inland Revenue, as well as additional work for employers. Because of the programme for computerising PAYE, such a scheme could probably not be introduced until the early 1990s. There would be difficulties arising from central and local government sharing the same tax base, and for local authorities there would be problems of budgeting and financial control caused by the unpredictability and lumpiness of the tax yield. Such a system would be suitable only for the major spending authorities, and would not be very perceptible to taxpayers as a local tax.

6.43 Alternative schemes linked to end of year assessment for national income tax, or to a system under which the local tax was collected by the local authorities themselves, would overcome some of these drawbacks. The first of these alternatives would, however, require major changes to the national tax system which would have to be decided on their own merits, and could not be implemented until well into the 1990s; while the second would involve much higher administrative costs. Both the Royal Commission on the Constitution and the Layfield Committe considered that a local income tax system under which the tax was administered by local authorities was not worth further examination, and it seems doubtful whether the high cost of a completely independent system could be justified. A system under which the Inland Revenue gave details of income to local authorities, and they collected their own tax, could make local income tax available to both tiers of local government, with comparatively few problems of financial control. It would be less expensive than a fully independent system, but much more costly than integrated schemes because of the duplication of the assessing and collection machinery, and the complex arrangements required for the transfer of information about incomes from the Inland Revenue to local authorities.

CHAPTER 7

POLL TAX

7.1 A fixed annual charge could be levied on individuals living in a local authority area as a contribution to the cost of providing local services. A capitation charge, or poll tax, of this kind has not been operated in Britain for some centuries but is employed in some countries. It has not, however, been given much consideration in previous examinations of possible reforms of local authority finance.

PRACTICABILITY

7.2 A poll tax could, in principle, be levied according to a number of different criteria. For example, it could be levied on every adult, every elector or every person with an income. In general, the higher the proportion of the adult population liable for the tax, the more evenly it would be spread among the recipients of local government services. The more universal the coverage of the tax, also, the smaller the costs incurred in providing the exceptions and differing methods of assessment.

7.3 There are about 40 million adults in Great Britain. In order to raise £4,700 million annually it would therefore be necessary to levy a poll tax of about £120 per head on average if all adults were liable. If there were any significant exemptions the tax might have to be significantly higher. These figures would not be very different if electors, rather than all adults, were taxed; but if only those with incomes were to pay, then the yield would be nearly halved (or the average tax rate nearly doubled). The Government believes that a flat-rate annual capitation charge of this order of magnitude would almost certainly not be a practical proposition. If a poll tax were used to supplement another tax, however, the tax rate would obviously be lower, and it is in this way that poll tax is most likely, in practice, to be able to contribute to a system of local revenues.

7.4 There is much to be said in principle for making the liability to pay poll tax coterminous with the eligibility to vote. [Even although there will be some rough edges - eg foreign nationals will not be liable to pay - such an identity of liability and eligibility best serves accountability.] A Major objection is that such a scheme could be interpreted as paying for the right to vote. If, however, it is accepted, the principal evidence for liability to pay would be the electoral register and there is a real danger that people might be deterred from registering. To prevent evasion there would need to be some possibility of catching those who had deliberately avoided registration as well as cases where, for example, people had moved across boundaries after registration but before paying tax.

7.5 Evasion and mobility would also present difficulties if a separate poll tax roll were to be compiled. However, a separate roll would have the advantage that it could include adults not on the electoral register and exclude individuals in groups it was desired to exempt. But it would cost at least as much as the electoral register to compile (£21m per annum), and probably a good deal more if local authorities thought it necessary to run cross-checks with lists maintained for other purposes such as the electoral register. Cross-checks could also increase under-registration on these other lists.

7.6 A new poll tax, even at a comparatively low level, would require a new statutory code of enforcement and penalties. Administration could well cost at least as much as that of domestic rating, since mobile individuals are harder to trace than occupiers of fixed property. Enforcement might be helped by making heads of households responsible for the tax for which all members of the household were liable. But this could work unfairly in some cases, eg where people living in the household were not all of the same family.

7.7 As a flat rate payment a poll tax would represent a higher proportion of a lower income than a high one, but whether particular households would be better or worse off than paying domestic rates would also depend on the number of adults they contained; and on any other components of the new system. If poll tax were combined with another tax the rate per head could be much lower than the £120 per adult that would be needed to replace the entire present yield of domestic rates - perhaps £25 or £30. It is interesting to compare these figures with other lump sums: the average quarterly electricity bill is £43, a colour television licence is £34 a year and the vehicle excise duty on a car is £70 a year, for example. Television licences and vehicle excise duty can be paid for by stemps which can be bought at post offices, and rates can be paid by monthly instalments. There would be a case for providing similar schemes to help people to budget for poll tax, particularly if at a high level, but this would inevitably add to the cost of running the system. As well as easy-payment arrangements of this sort, it would be possible to retain arrangements similar to the rate rebate system. This also would increase the cost of administration. The rebate scheme could be financed either by putting up the nominal rate of poll tax or, like the present rate rebate scheme, mainly out of general taxation.

7.8 The position of individuals who had no incomes of their own would have to be considered. A decision would have to be taken on whether housewives and students should be exempted or whether they should pay.

COST OF ADMINISTRATION

7.9 It is not possible to estimate with any degree of certainty the cost of administering poll tax; this depends on the system adopted. The simpler the system, the lower the cost. As explained in paragraph 7.7, however, enforcement problems would probably make the tax at least as expensive as domestic rates to collect. If there were a separate register, the cost of maintaining it would be additional. The cost of administering a rebate system would depend in part on the size of the tax (whether it were a supplement to other taxes or free-standing), but could be as much as the present rate rebate system.

PERCEPTIBILITY AND ACCOUNTABILITY

7.10 A poll tax would be highly perceptible - possibly even more so than domestic rates. This should tend to strengthen the accountability of authorities to their electorates.

FINANCIAL CONTROL

7.11 Like rates, poll tax would produce a predictable yield. Also like rates, it would lack buoyancy and annual re-setting of the tax rate would be necessary. This would make the tax even more perceptible. The tax rate could be altered in comparatively small steps, however, so the yield would not be lumpy. A poll tax could provide a stable and predictable source of income and would be readily adaptable for use in conjunction with an equalising Exchequer grant.

FISCAL DIMENSIONS

7.12 As an entirely new tax, a poll tax would have rather different implications for the shape and structure of the total tax system than alternative local taxes, like a sales tax or a local income tax, which would overlap much more directly with existing national taxes. Their effects would also depend on how much of the revenue currently produced by domestic rates the poll tax was made to levy.

7.13 Poll tax could be made to provide revenue for both main tiers of local government. It is particularly suitable for use as a supplement to other taxes. It is the only option discussed in this Green Paper which would clearly be capable of operating at parish level.

CONCLUSION

7.14 A poll tax would have a very broad base and would be suitable for all tiers of local government. It would be possible to take advantage of these desirable features while minimising enforcement difficulties and the effect of the tax on those on lower incomes if a poll tax was used only to supplement a major revenue-raising tax. A flat rate poll tax at an average rate of, say, £25-£30 a head a year, for example, could raise £1,000-£1,200 million. The cost of enforcement could not be expected to be proportionately reduced, however, although a scheme of poll tax at low rates would be somewhat cheaper to enforce than a scheme operating at higher rates because of the diminished incentive for evasion. Possible combinations of poll tax with other sources of revenue are discussed in Chapter 12.

CHAPTER 8

AN ALTERNATIVE APPROACH: ASSIGNED REVENUES

8.1 One radically different alternative would be to replace the yield of domestic rates, not with a new local tax, but with an assigned share of the revenue from a national tax or taxes. This solution could be very much less complicated, and therefore cheaper to run, than any of the possible new local taxes. It would also give central government a much stronger and more direct influence over local government revenue. The division of financial influence over local government services might tempt some local authorities to irresponsibility and the incentives to efficient management would be greatly reduced. The structure of the relationship between central and local government would be fundamentally altered: eventually local authorities might cease to enjoy any effective autonomy.

THE ROLE OF THE CENTRAL GOVERNMENT

8.2 Central government would, in practice, be able from year to year to vary the amount of revenue to be assigned to local government. The central government's responsibility for the oversight of public expenditure and for the management of the economy generally would make the pressure to take decisions of this sort practically impossible to resist. To replace domestic rates with assigned revenues would therefore be to replace a revenue whose annual yield is determined locally with a revenue whose annual yield would, in practice, be decided centrally. It would not be possible to make arrangements which would prevent such intervention. A government could not bind Parliament or its own successors: even legislation which provided for assigned revenues to be determined each year on a fixed basis free from central government control would be subject to annual review by Parliament.

8.3 Even if the central government did not nominally vary the total of assigned revenues from year to year, it would still be able to influence total revenues more directly than at present because exchequer grant could smoothe out any variations. In effect, there would be little practical difference between finance by assigned revenue supplemented by grant and 100% exchequer grant.

8.4 In either case, the only way in which local authorities could influence the size of the revenue that they received in lieu of domestic rates would be by bidding for the maximum exchequer resources to be made available each year, either through assigned revenues themselves or as grant.

CENTRAL/LOCAL GOVERNMENT RELATIONSHIPS

8.5 A system of this sort would have implications for the existing constitutional relationship between central and local government. Even if local authorities had another source of revenue whose yield they were free to determine locally, assigned revenues would reduce considerably their present freedom to take decisions about overall revenue and expenditure and about what level of local services should be provided. If local authorities were dependent on assigned revenues and non-domestic rates but no longer free to determine their non-domestic rate poundages (see paragraphs 10.5 - 10.6), their income would be determined entirely by the central government. This could, at the extreme, call into question the justification for elected local authorities as they are constituted at present. The effect of assigned revenues on accountability of authorities to their electorates is further discussed in paragraph 8.10 below. The implications of assigned revenues for the relationships between central and local government, and between local authorities and local electors, would therefore have to be weighed very carefully before and decision to adopt them was made.

DISTRIBUTION

8.6 It may be that the yield of the assigned local tax would be distributed in proportion to the yield of assigned national revenue in individual local authorities' areas, though this would depend on the availability of adequate information on the geographical distribution of tax yields. Depending on the source of national revenue chosen, this could produce distribution between local authorities and assignment itself would be a complicated operation. If the scheme operated in conjunction with an equalising grant, however, the most practical and convenient method of distribution would, for the reasons outlined in paragraph 8.3, be to merge the arrangements for distributing assigned revenues with those for distributing grant and to distribute the combined amount according to some sort of needs assessment.

PRACTICABILITY

8.7 If the second approach were adopted, the administrative arrangements needed to operate a system of assigned revenues could be much simpler to make than those for any of the local tax options.

FAIRNESS

8.8 The fairness of the system would depend on the distribution of the national tax or taxes which yielded the revenues to be assigned. The local effects would be no more nor less fair than those of the national tax or taxes concerned.

COST OF ADMINISTRATION

8.9 Costs would be negligible compared to those of other options.

PERCEPTIBILITY AND ACCOUNTABILITY

8.10 The substitution of assigned revenues for domestic rate income would break the present link of accountability between authorities and their electors. The system would not be at all perceptible locally because there would be no separate collection of local revenues from those who now pay domestic rates. Local authorities would no longer have the discipline of accounting to domestic ratepayers for rate poundages that they were free to set. Their freedom to decide their responsibility to local people for the level of those services, would also be affected. Such changes would be likely to lead to pressure for central government to seek more control over the level of services provided by individual local authorities and the degree of value for money they represented. The constitutional significance of these effects has already been touched on in paragraph 8.5.

FINANCIAL CONTROL

8.11 Assigned revenues would allow local authorities to budget for the coming year on the basis of a definite figure which should be known in good time beforehand. On the other hand, the ability of central government to influence the amount of assigned revenue payable from year to year would in practice make revenue unpredictable for more than one year ahead.

8.12 There would also be problems for authorities if their income from assigned revenues and other exchequer sources fell short of the levels which had been budgeted for. Because replacing domestic rates with assigned revenues would reduce the freedom of authorities to increase their revenue such shortfalls would be more difficult to make up. If authorities' freedom to decide the level of revenue to be raised through non-domestic rates were also to be constrained in some way as discussed in paragraph 8.5, authorities could conceivably find themselves without any means of making up such shortfalls.

FISCAL DIMENSIONS

8.13 Whilst this option would not involve the levying of separate local taxation, it would require a corresponding increase in other taxes to make good from central revenues the yield now provided by domestic rates.

SUITABILITY FOR ALL TIERS OF LOCAL GOVERNMENT

8.14 Provided that central assessment of local spending needs could be satisfactorily taken down to district level, a system of assigned revenues could provide a source of revenue for either or both main tiers of local government. It would leave parishes in England and Wales without an independent source of revenue, however, and some other means of financing them would have to be found. One possibility would be for parishes in England and community councils in Wales to be financed by grant from one or both main tiers of local government.

CONCLUSION

8.15 A system of assigned revenues would be administatively simpler and cheaper to run than a new local tax. These advantages give assigned revenues a claim to serious consideration. But the system would be less flexible for local authorities than the present system of domestic rates. It would also very significantly reduce the extent to which local authorities were accountable to local people for the revenue they raised, and would change the relationship between central and local government in a way which would raise constitutional issues which went wider than questions of finance alone.

CHAPTER 9

EXCHEQUER GRANTS TO LOCAL AUTHORITIES

9.1 Exchequer grants from central Government currently provide local authorities in England and Wales with more than half their rate fund income (£12½ billion out of £22 billion in 1981/82.

Specific Grants

9.2 Some of the total of Exchequer grants is paid in the form of specific grants to support expenditure by local authorities on particular services. Such grants typically involve a fairly close degree of central government involvement and oversight of the particular programmes on which the money is spent. The police grant and the urban programme grant are two examples of such grants. For the purposes of this Green Paper it is assumed that the reasons for existing specific grants would not in general be affected by a change to a new tax base for local government, and that they can therefore be assumed to continue essentially unchanged. It might however be appropriate to consider a more extensive use of hypothecated grants, particularly if any system adopting in place of domestic rates was not readily capably of raising the full £4,700m that they yield at present. One possibility which might merit further consideration would be the reintroduction of a general grant in support of education. Clearly there are a number of forms which this could take. The main possibilities are examined in Annex B.

Rate Support Grant

9.3 The major part of Exchequer support to local government is given in the form of an unhypothecated rate support grant for the support of local authority expenditure in general. Rate Support Grant accounts for £9.8 billion out of the total £12½ billion of all Exchequer grants in 1981/82. Rate Support Grant in its present form is intricately interwoven with the rating system, and a major change in the local tax base would therefore make it necessary to review this grant system.

Purposes of a General Grant System

9.4 The present rate support grant system serves three main purposes:

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(i) Transferring a major part of the cost of providing local authority services from rates onto the wider and more equitable range of national taxes which are drawn on to finance the rate support grant (along with all other central government expenditure);

(ii) Equalising the cost to ratepayers of receiving a similar standard of local authority service in different areas;

(iii) Enabling central government to influence the general level of local authority expenditure while maintaining the freedom of individual authorities to make their own budget decisions, and to decide priorities between services.

In considering the need for a new grant system to support a new local tax base it would be necessary to consider how each of these three objectives of the present grant system might feature in the new situation. In addition it would be necessary to consider how a grant system might assist in partially overcoming some of the problems identified in relation to some of the possible alternative taxes, notably

- lumpiness;
- unpredictability of yield; and
- how a grant system would work in a system with more than one local tax.

This Chapter sets out some considerations on these problems, though a deeper study would be needed before any new local taxation system could be adopted.

9.5 Although the details of the present system in Scotland differ significantly from that in England and Wales,(eg more direct means are available to influence local authority expenditure), the aim is the same and is achieved by pursuing a similar principle of equalising local needs and resources up to accepted standards. Introduction of a new local taxation system in Scotland would entail grant considerations broadly similar to those applicable to England and Wales.

Transferring the Cost of Local Services to Central Government

9.6 Whether it would be necessary to continue to transfer a major part of the cost of local services from local to central government would depend on the capacity of the new local tax or taxes to generate income in an acceptable and equitable way. A poll tax might not be sufficiently equitable to provide more than a small part of the income needed by local government so that a comparatively high level of grant might be needed if poll tax were the sole tax. On the other hand a local income tax or a local sales tax might, in principle, be capable of producing sufficient local revenue to make it unnecessary to have a large Exchequer grant.

9.7 In reaching a decision on this it would however be necessary to consider how far central Government was continuing to draw on the same tax base. For example, to make room for a local income tax levied at an average to say 10p, and producing £9½ billion for local government, it would no doubt be necessary to reduce the level of national income tax, which would raise much larger questions about the Government's overall fiscal strategy. In deciding on the level of grant it would also be important to note that a high level of grant tends to cushion local authorities from taking resources into account when taking expenditure decisions.

Equalisation

9.8 Different local authorities face different problems, and their areas and populations have different characteristics and different <u>needs</u>. The cost per head of population of providing a similar level of service therefore varies between local authority areas. The <u>resources</u> of different local authority areas measured in terms of rateable value per head of population also vary substantially. Successive Governments since the war have considered it right to compensate authorities for these differences by means of Exchequer grant.

9.9 The form of the grant, and the extent of the compensation for such differences has been changed several times. The present block grant, introduced in England and Wales in 1981, is intended to provide virtually full equalisation between authorities in respect both of differing needs and of differing resources (as did the system it replaced).

It aims to do this by distributing grant in such a way that local authorities are able to provide similar standards of service by levying a similar rate in the pound.

9.10 The introduction of a new tax base cannot alter the fact that the cost per head of providing similar standards of service varies between authorities. Moreover, it is virtually certain that whatever new tax or taxes are chosen there will still be significant differences between the resources per head of authorities as measured in terms of the tax base for the new tax (eg the average income per head of the residents of each local authority area if a Local Income Tax were adopted). There is therefore likely to be a continuing case for equalising needs and resources under any new local tax system.

9.11 The present block grant system in England and Wales provides a mechanism for achieving this kind of equalisation in conjunction with rates. The essential feature of this system is the rate poundage schedule which lays down a tariff of the "grant-related rate poundages" that an authority is assumed to levy in order to provide any particular level of services. The amount of block grant to be paid is then determined as being the difference between the total expenditure of an authority, and the amount assumed to be raised locally by the levy of the notional "grant-related poundage" for that level of expenditure.

9.12 Exchequer grant is a convenient means of achieving equalisation. It is not however essential. In theory it would be equally easy to achieve equalisation by means of a rate pool or equalisation scheme without any central grant. Under such a scheme high resources or low need authorities would have to contribute some of their local revenue to a central pool for redistribution to areas of low resources or high needs. The calculations involved would be essentially similar, though there might possbily be more difficulty in practice in persuading the taxpayers of contributing authorities of the equity of the arrangements.

9.13 With a different local tax base equalisation could in principle be achieved in a similar way, either by means of an Exchequer block grant distributed on equalising principles, or by means of a revenue pooling or sharing arrangement.

Grant as a Means of Influencing Local Authority Expenditure

9.14 In order to be able to manage the national economy and the levels of public expenditure central Government needs means of influencing the overall level of local authority current expenditure. At the same time however successive Government have wanted local authorities to have a wide measure of independence and local autonomy over the budgets and priorities, and to be accountable to their own electorates for their decisions on these matter rather than to central government.

9.15 An unhypothecated grant has for a number of years provided the main means of reconciling these objectives. The level at which the grant is set, and the way in which it is distributed, can exert a considerable influence on the general level of local authority expenditure. This has been enhanced by the new block grant system which enables central government to exert greater pressure on high levels of spending by making each increment of "high" expenditure more expensive for local authorities in terms of the rate poundage they must levy to pay for it. Individual authorities remain free , however, to determine their own level of expenditure, provided they are prepared to levy the necessary rates; they also have freedom to determine their own priorities as between their different services.

9.16 Under a new structure of local taxes, it should in principle be possible for central government to use a block grant system to exercise a similar degree of general influence over the level of local authority spending while leaving individual authorities with full freedom over their own expenditure decisions and priorities. Alternatively, if it were decided to reduce or eliminate Exchequer grant, and to use a revenue-pooling arrangement for equalisation, the revenue pooling system could be set up in such a way as to exert a similar degree of pressure on high-spending; this could be achieved by making high-spending authorities contribute more to the pool for each additional increment of expenditure than lower-spending authorities.

Lumpiness

9.17 The lumpiness of some of the alternative sources of local revenue has been identified as a problem in previous Chapters (paragraphs 2.13-2.16, 5.21, 6.12 and 6.22). In the case of a sales tax for example the average rate might initially be 5% on all sales, and for practical reasons the tax might be variable in steps no smaller than 1%, so that the authority's revenue from the tax would change by 20% at a time. It would be possible to use a block grant system to overcome this problem but only at the price of distorting the equalisation objective to some extent. This would be achieved in the block grant calculations by assuming a notional sales tax of say 5% for all levels of expenditure from an initial level up to an expenditure level 20% higher, when the notional tax rate would go up to 6%. Throughout each step of this 20% expenditure increase, block grant would increase progressively to take up the full extra cost, but would reduce again when expenditure reached the level at which the notional tax rate moved up to 6%. In this way the authority would be assured of a smoothly increasing revenue as its expenditure increased. But the equalisation objective would be seriously distorted, and the influence of grant on expenditure levels would be perverse in that all increases in expenditure in the 20% range discussed would be paid for 100% by the grant.

9.18 An alternative approach would be to make the block grant calculations using the assumption for this calculation alone that the new tax would vary in much smaller steps. This would then preserve the influence of grant on expenditure. For these reasons it would probably be preferable. It would however leave the authority itself to deal with the consequences of a lumpy revenue source. They might do this by running much larget balances as a matter of course.

9.19 Alternatively, it would be possible to overcome this difficulty if each authority had a package of local revenue sources that included at least one that could be varied by small amounts - say increments of 3% of the authority's expenditure or £1 per head of population. In a system like this, as discussed elsewhere in this paper, lumpy taxes might perhaps provide the bulk of the income, but more finely-adjustable taxes would provide scope for adjustments at the margin. (Poll tax might fill the role of the less lumpy tax; see Chapter 7).

Predictability

9.20 Paragraph 2.11 discussed how a tax whose yield could not be predicted accurately each year could cause local authorities to maintain higher levels of balances as ways of guarding against the possibility that revenue might, in some years, be lower than expected. It would be possible to avoid these effects by using exchequer grant to make good any shortfall of yield from the predicted levels. This would be a new function, which the present grant system does not fulfil. In practice, local authorities might receive grant payments, or contributions from pooling arrangements which not only performed an equalising function, but also compensated for differences between authorities' taxation and prior estimates of them.

More than One Local Tax

9.21 At present, local authorities have only one kind of local tax: rates. Because abolition of domestic rates would make local authorities dependent on more than one tax - non-domestic rates plus one or more new local taxes, for example - the mechanics of any exchequer grant system would have to cater for the complications that this would cause. In practice, this would mean that notional "exchange rates" would have to be established between the different taxes for the purposes of calculating grant. In other words, it might be necessary, for example, to calculate a level of non-domestic rate poundage which was notionally equivalent to a rate of 1% on the new tax: it would then be possible for any combination of levels of different taxes to be expressed as an equivalent level of a single tax against which the grant schedules could be constructed. For example, a level of non-domestic rate poundages might be set which was notionally equivalent to a rate of 1% on the new tax. It would

then be possible for any combination of levels of different taxes to be expressed as an equivalent level of a single tax against which the grants schedules could be constructed. Such an "exchange rate" between domestic and non-domestic supplementary rate poundages is a feature of the interim measures mentioned at Chapter 4.11.

CHAPTER 10

NON-DOMESTIC RATES

10.1 There are some two million non-domestic ratepayers in Great Britain. Rates are paid, not only by private industry and commerce, but also by nationalised industries and undertakings, entertainment and recreational concerns, educational, medical and cultural institutions and many others (including the Crown). Non-domestic rates will provide an estimated 24% of local government rate fund revenue in 1981/82, compared with the 19% contributed by domestic ratepayers and the 57% which will come from exchequer sources in one form or another. In cash terms, their estimated yield is £6,000 million for the current financial year. They thus make a large and important contribution to the cost of local services.

10.2 Over the last two years the Government has received a number of pressing representations from industry and commerce arguing for a reduction of the burden imposed on them by non-domestic rates, which in some areas may be particularly substantial. It has been suggested that industrial property should be derated, as it has been at certain times in the past, and as agriculture is at present. Alternatively, it has been suggested that a measure of rate relief should be provided for non-domestic ratepayers by means of a similar arrangement to that under which relief is provided at present in the domestic sector. It has been suggested that this relief should apply either generally or, more specifically, to premises, plant and machinery which have been temporarily "mothballed" owing to reduced production.

10.3 These suggestions are not without difficulties. Derating of industry would mean a considerable change in the contribution that firms make through local taxation towards the cost of the local services from which they benefit, often substantially All of the measures mentioned above would lead to decreases in local revenues which, to the extent that they were not made good from national taxation, would fall on the local domestic sector. The Government will nevertheless keep under review the contribution that industry and commerce make through rates to the cost of local services, and does not rule out the possibility of measures to reduce that contribution if it should become essential to do so.

10.4 There are various ways, however, in which the abolition of domestic rates and their replacement by some alternative form of revenue could have repercussions for non-domestic rates. All of the alternatives to domestic rates discussed in this Green Paper involve changes in the overall national pattern of taxation which, unless preventive measures were taken, could result in a shift in the balance of taxation between those who currently pay domestic rates and others, including industrial and commercial firms, who pay non-domestic rates. In particular, if domestic rates were replaced by assigned revenues, or by some other form of local taxation which authorities were not free to use to increase revenue at their own discretion, there would be a temptation to finance higher levels of expenditure by increasing non-domestic rate poundages.

10.5 The scope of this Green Paper does not extend to alternatives to non-domestic rates. That is a question which goes beyond the issues raised by the possible alternatives to the domestic system. It may nevertheless be necessary to consider separately whether, in the long run, the national taxation system should continue to include a local tax on non-domestic property; and in what form and from whom, alternative revenues might be raised. For the present, the Government will pay close attention to the implications for non-domestic ratepayers of all the alternatives proposed to replace domestic rates. In particular, the Government is concerned that any new arrangements should not increase the relative burden of taxation on commerce and industry, which in some high spending local authorities, is seriously damaging employment and development prospects.

10.6 It is conceivable that this objective could require some constraint to be imposed on the present freedom of local authorities to decide their own non-domestic rate poundages. This is the more likely because, particularly since the abolition of the so-called business vote in 1969, there has been no direct link of accountability between local authorities and their industrial and commercial ratepayers similar to that which exists between authorities and domestic ratepayers, who are able to vote in local elections. The legislation which the Government is promoting in the current session of Parliament would afford some protection to non-domestic ratepayers (see Chapter 4.11).

CONTROL OF NON-DOMESTIC POUNDAGES

10.7 One possible means of controlling the demands of local government on commerce and industry through non-domestic rates would be for the central government to bring forward legislation which would give it the power to determine each year, by order, a single, national non-domestic rate poundage which would apply equally to each local authority in the country either in Great Britain as a whole or separately in Scotland, Wales and England.

Orkneys? Shetlands? Sullom Voe? Flotta

10.8 This approach would allow the Government to safeguard the interests of non-domestic ratepayers. It would ensure that local authorities would not be able to finance excessively high levels of expenditure by increasing non-domestic rate bills. When prescribing the rate poundage each year, central government would no doubt take account, as it does in determining the total of exchequer grant, of its own expectations about inflation, the expenditure plans of local government and the revenue which it estimated would be available to local authorities as a whole from other sources. A national standard poundage, in eliminating the possibility of excessive demands on commerce and industry and the rest of the non-domestic sector, would clearly affect the financial flexibility that the rating system as a whole gives to local authorities at present. In effect, it would turn non-domestic rates into a nationally-determined tax whose collection and use was delegated to local authorities: an assigned revenue, in fact. This would mean that local authorities would be wholly reliant for the rest of their income on whatever new form of revenue they were given in place of domestic rates, coupled with any continuing system of exchequer grant. Another effect would be that local authorities would not be able to use small variations in their non-domestic rate poundages to compensate for the lumpiness of another local tax such as sales tax. Central control of non-domestic rate poundages would therefore mean that any reformed domestic system relying largely on a lumpy tax would have to include a less lumpy tax of some sort to allow the necessary compensation to be made.

NATIONAL ADMINISTRATION OF NON-DOMESTIC RATES

10.9 As an alternative to providing for non-domestic rates at a centrally-prescribed poundage to be collected locally by each authority, it would be possible for the national revenue from the tax to be collected by the central government and redistributed to local authorities either through the grant system or as an assigned revenue. The extent to which the effects of such an arrangement differed from those of a system under which a centrally-set poundage was levied locally would depend on the way in which any exchequer grant arrangements operated and how far they resulted in a redistribution of resources between authorities.

LINKAGE OF NON-DOMESTIC RATES WITH LOCAL TAX RATES

10.10 It might also be possible to preserve a fair balance between the interests of non-domestic ratepayers and those of domestic ratepayers, who would pay any new local tax or taxes, by linking non-domestic rate poundages in some way with the new local tax rates.

10.11 This would be more complicated and administratively difficult than either of the possibilities discussed in paragraphs 10.7 - 10.9. If different taxes were chosen to provide revenue in place of domestic rates for the different tiers of local government, for example, and a linkage was thought desirable, then poundages would have to be linked to the type and rate of tax levied by each tier. Assume, for example, that counties were given a local sales tax and the districts a poll tax, and that both tiers continued to levy non-domestic rates. In this situation, the rate poundages that the counties levied would have to be linked to their rates of sales tax, and the poundages that the districts levied would have to be separately linked to their poll tax rates. Complicated linkages of this sort would be feasible, but would require a difficult judgement by central government on the appropriate balance to be established between non-domestic poundages and the levels of the different taxes at the different tiers.

10.12 Such linkages would obviously also bring considerable technical difficulties. The new local tax - local sales or income tax, for example - might be buoyant, while non-domestic rates are not. This would make periodic adjustments to the linkage necessary, perhaps by means of indexing.

10.13 Also, if the new local tax were lumpy - sales tax, for instance - then a direct linkage would make non-domestic rates similarly lumpy. This might be overcome by allowing the ratio of the two sources of revenue to vary within a stipulated range, rather than being fixed absolutely, but that in turn could reduce the protection that the linkage gave to non-domestic ratepayers: because the levels of the lumpy tax could not often be changed, it would be tempting for local authorities to use non-domestic rates as far as possible to make any marginal adjustments to their income which might be necessary from year to year.

REINTRODUCTION OF THE BUSINESS VOTE

10.14 It has been suggested that the interests of non-domestic ratepayers could be protected to some extent even without the introduction of controls on non-domestic rate poundages if something like the so-called business vote were reintroduced. This arrangement was not really a business vote as such: it was a non-residential vote exercised by the owner of property in an area where he was not a resident. Incorporated companies did not have votes. It is argued, however, that enfranchising businesses might make local authorities accountable to the industrial and commercial community in their areas in the same way as they are accountable at present to domestic ratepayers, who are able to vote in local elections. The difficulties of providing for a business vote in a way which could produce a real degree of accountability, however, would be daunting. This would be particularly true if it were desired to find ways of enfranchising large industrial and commercial concerns and retail chains which may have interests very widely spread over the areas of many local authorities. Of the two million business ratepayers in England and Wales, only 150,000 were entitled to vote before 1969. The view of the present Government has therefore been that the interests of business ratepayers can be more effectively represented to local authorities through the influence that central government itself brings to bear on local government's revenues and expenditure levels and through direct representations to local authorities by individual firms and representative bodies than through a business vote.

A NON-DOMESTIC REVALUATION

10.15 While the non-domestic rating system continues in its present form, it is necessary to consider a revaluation of the rate base. The last revaluation took place in 1973 in England and Wales and in 1978 in Scotland: since 1973 there have been some quite large changes in the relative values of some categories of non-domestic property. The effect of these changes is that some categories of non-domestic ratepayer are paying larger rate bills than would be the case if the values of all non-domestic property were brought up to date. Effectively those ratepayers subsidise other categories of non-domestic ratepayer whose burden would, at present-day values, be higher. Present indications suggest that a revaluation of non-domestic property in England and Wales might possibly produce the following broad effects:-

(i) Substantially reduced comparative rate burdens for:

- larger, older, labour-intensive factories in the Midlands and the North;
- older steelworks.

(ii) Slightly reduced comparative rate burdens for:

- newer steelworks;
- local shops;
- older offices in some cities outside London.

(iii) Slightly increased comparative rate burdens for:

- new offices in more prosperous centres;
- small factories on modern industrial estates.

(iv) Substantially increased comparative rate burdens for:

- shops in primary locations; and
- modern oil refineries.

These indications must, however, be treated with caution, as it would not be possible to forecast the effects of a revaluation with precision until one was well under way.

10.16 The Government is considering separately from the issues in this Green Paper whether non-domestic revaluations should be held in both Scotland and England and Wales: decisions will be announced shortly.

10.17 The revaluation of non-domestic property would not affect the relative rate burdens borne by the domestic and non-domestic sectors while domestic rates remained in existence. The powers under which the Secretary of State may require a partial revaluation (that is, in this instance, a revaluation of non-domestic, but not of domestic, property) to be carried out oblige him to make an order prescribing a "multiplier" whose effect would be to preserve the ratio which obtained before the revaluation between the aggregate of the values of those categories of property which had been revalued and those which had not. In other words, a revaluation of non-domestic property which took place while the present domestic rating system remained in existence would not shift any of the present proportional burden of rates from domestic onto non-domestic ratepayers or vice-versa.

CHAPTER 11

FEES AND CHARGES

THE CONTRIBUTION OF RENTS, FEES AND OTHER CHARGES

11.1 A number of local authority services are expected to be financed primarily from charges. These are the Trading Services which account for about 21% of total current expenditure in England and Wales. They include public passenger transport, local authority ports and aerodromes, civic halls and theatres, and a number of other services. Sales, fees and charges within the trading services yielded £400m in 1979/80, covering 65% of costs.

11.2 The largest single source of revenue from charges is local authority housing rents. In 1979/80 rents totalled £1,400m, and covered 38% of local authorities' current expenditure on housing. The proportion of authorities' costs met by rents is, however, rising, following changes in the subsidy system which have the effect of concentrating Government assistance where it is most needed.

11.3 The remainder of local authority services, referred to as Rate Fund Services, cost £21,000m in 1979/80, which was 83% of total local authority expenditure in England and Wales. These services are financed primarily by central and local taxes; sales, fees and charges yielded £1,700m and covered 8% of total costs. The main sources of revenue were fees for adult and further education, school meals and milk, and charges for personal social services.

11.4 In all, rents, fees, sales and other charges amounted to 14% of total current expenditure in England and Wales in 1979/80. This proportion is likely to increase to around 16% in 1981/82 - a similar contribution to that made by domestic rates.

THE ARGUMENTS FOR AN EXTENSION OF CHARGING

11.5 It has been suggested that charging for a wider range of local authority services, or increasing the levels of existing charges, could provide some or all of the revenue currently raised by domestic rates. The main argument for financing a higher proportion of local authority spending from charges is that it would make users pay a greater contribution to the cost of the services they consume than they do at present. There is also an argument that an increased level of charging would help to achieve a more efficient use of resources by relating the provision of services to the prices that users were willing to pay for them.

11.6 Many local authority services have features which make it either impracticable or inefficient to try to charge consumers the economic cost of the services that they consume. This applies to a considerable extent in the case of services such as the cleaning and lighting of streets, highways, the provision of public open space and the police and fire services, which are all provided by the community for the public good. Although it is possible to charge users for some of the functions that the police perform, for example, it is hard to imagine how charges could be made for the whole range of their activities, including the prevention and prosecution of crime. Any system which sought to achieve this would be so cumbersome, and the logic of its operation would be so far from evident, that it would be unrealistic and uneconomic to try to devise one.

11.7 Other local services, though the mechanics of systems of charges for them would be less problematical, are intended to be redistributive: that is, they are financed in a way which deliberately prevents the worse off from having to bear their full cost. Charging consumers the full economic costs of these services would often defeat the redistributive intention of the services themselves. The public financing of education, for example, is very largely redistributive in its intentions, though charges are made for some parts of the service (school meals, for example). Full economic charges for education, combined with a statutory responsibility on parents to send their children to school up to the age of 16, could clearly impose an intolerable strain on the finances of less well-off families. Similarly, although charges are levied in respect of some of the personal social services - home helps, for example - the purpose of the social services as a whole would be defeated if their full economic cost was recovered from beneficiaries by means of charges.

11.8 Education, law and order, highways, and the social services together account for 70% of current rate fund expenditure and offer little scope for additional charging. This suggests that it would not be possible to replace a significant proportion of the revenue currently raised through domestic rates with an extended system of fees and charges.

11.9 Nevertheless there are, particularly within local environmental services, a number of individual services where charges may have a very considerable role to play. The Government have recently received a report from consultants about charging in this area which shows, if the sample of authorities considered is representative, that there is room for very substantial improvement in practice. Not only do some authorities not seem to have a policy in relation to charging at all, but many of those that have ignore major questions which should be taken into account, such as the true financial cost of uneconomic charging, the wishes and needs of the clientele of the service and the effect on the service as a whole of indiscriminate subsidisation. The Government will be discussing this report with the local authority associations shortly.

CHAPTER 12

COMBINATION OF NEW LOCAL TAXES

12.1 Though they have been discussed individually in this Green Paper, the five main possible sources of local revenue identified - local sales tax, local income tax, poll tax, assigned revenues and a reformed domestic rating system - can be treated as components which could be combined to produce, along with non-domestic rates, various systems of revenue having different characteristics. The variables which would have to be taken into account in building up a system which depended on more than one local tax are:-

- different tiers of local government;
- different new local taxes;
- different models of each local tax;
- different quantities of exchequer grant; and
- if appropriate, the continued existence of a (modified or unmodified) system of domestic rates.

12.2 The number of possible permutations is very large, and it would not be practical for this Green Paper to try to identify and discuss them all. One important general point, however, is that many permutations would be expensive to run because more than one set of administration and compliance costs would be involved.

HOW THE TAXES MIGHT BE COMBINED

12.3 Each of the major candidates for a new local tax has characteristics which affect the way in which it could fit into an overall structure of local revenues. Some of the possible types of combinations are set out in the table and then discussed against the criteria on which the individual taxes were assessed in earlier chapters.

TABLE Examples of schemes combining more than one source of revenue.[1]

			Comments
(A)	SALES TAX		
(1)	Sales tax for counties and Scottish regions[2]	Poll tax or reformed domestic rates for districts[2], boroughs and parishes	Level of sales tax would vary considerably between metropolitan and shire areas; counties' tax would be lumpy
(2)	Sales tax supplemented by poll tax or reformed domestic rates for counties and Scottish regions	Assigned revenue from sales tax and poll tax or domestic rates for districts and boroughs. Poll tax or domestic rates for parishes	Problem of allocating sales tax among districts within each county
(B)	INCOME TAX		
(3)	Income tax for major spenders (shire counties, metropolitan districts, London boroughs, Scottish regions)	Poll tax or reformed domestic rates for minor spenders (districts and metropolitan counties) and parishes	Lumpy tax for major spenders if income tax is integrated with existing PAYE system
(4)	Income tax and poll tax or reformed domestic rates for major spenders	Poll tax or reformed domestic rates for minor spenders and parishes	
(C)	POLL TAX		
(5)	Poll tax at low rates for all tiers, augmented by sales tax or income tax as in A and B above, by higher levels of Rate Support Grant or by assigned revenues (or as a supplementary source of revenue if domestic rates[3] were retained).		

Notes:

1. Non-domestic rates (either at fixed poundages or at poundages linked with the rates of other taxes or unconstrained) would continue to be available to both county and district tiers.

2. Taxes proposed for either tier elsewhere could generally be suitable for Scottish islands authorities as well as districts or regions.

3. The Layfield Committee's preferred solution was one based on income tax plus rating for major spenders and rating alone for other authorities - though this was seen as a way to enlarge the share of local taxation in local revenue, rather than as a revenue - neutral replacement for the existing system of domestic rates.

SALES TAX SCHEMES

12.4 A sales tax could be levied only by English and Welsh counties and Scottish regions and islands, and it would be a lumpy tax (see paragraph 5.21). Counties would therefore need a further tax in order to make marginal changes in income, and districts and London boroughs would have to be allocated a separate tax.

12.5 This would create difficulties for combined schemes involving a sales tax. Since the metropolitan counties are responsible for much lower levels of expenditure than shire counties, they could manage with a relatively low rate of sales tax. The yield of sales tax in shire counties close to metropolitan areas would therefore tend to be low and difficult to predict, since goods subject to the tax could be bought at lower prices in neighbouring areas. Furthermore, a combination of revenues which required counties to rely on sales tax could tend to be confusing for local people, since these differences in tax rates would reflect not only decisions taken by authorities about the level of services to be provided, but also differences in the services for which shire and metropolitan authorities are statutorily responsible.

12.6 To avoid this problem it might be possible to arrange for both major tiers of local government to receive a share of sales tax although it would be collected only by the counties. If so, there would need to be a formula determining how much of the sales tax revenue should be allocated to districts or boroughs within each county and how it should be shared out between them. The allocation might be related to each district's desired spending level, or to a standard assessment of need to spend (such as the grant related expenditure assessment used for block grant) or to the estimated yield of sales tax in the district. However, there would be objections to any of these methods of distributing the tax, and practical problems as to how any shortfall in expected yield would be shared between the tiers.

12.7 There are doubts, therefore, as to how well a sales tax would work if shared between both tiers. If it were to be a source of revenue for counties only, the tax would score badly against the criteria of accountability and fairness, since the rates of tax would be quite different in metropolitan and shire areas. Either version of a sales tax scheme would require a further tax to be available to both tiers - perhaps either a poll tax or, possibly, domestic rates at a reduced level. Financial control would be more difficult in relation to sales tax than income or poll taxes owing to its lumpiness and unpredictability of yield. For the reasons given in paragraph 5.11, it is not possible to quantify the cost of schemes including a sales tax precisely at this stage. If it were decided to pursue these schemes further some quantification would clearly be necessary before any final decision could be taken. Nevertheless, it is clear from preliminary examination that sales tax schemes, because they would probably have to include poll tax or some other non-lumpy revenue, would cost more than domestic rating does at present. The cost would vary with the method of running the sales tax: a poll tax and a sales tax run independently of the VAT system would be particularly expensive.

INCOME TAX SCHEMES

12.8 A local income tax integrated with the existing national income tax system would be suitable for the major spending authorities - shire counties, metropolitan districts, Scottish regions and islands and, perhaps, the London boroughs. Since the services provided by these authorities are of the same order of magnitude, differences in income tax would largely reflect the level of services provided. As this type of income tax would be somewhat lumpy, it would have to be supplemented by a further source of revenue for the major spenders; either poll tax or domestic rates as well as non-domestic rates. The remaining authorities - shire districts, metropolitan counties and Scottish districts - would need to have access to poll tax or domestic rates, as well as non-domestic rates.

12.9 A combined scheme involving local income tax integrated with the present national system plus poll tax or rates would have the potential to replace the present yield of domestic rates. Administrative cost would be high, however, since two new local taxes would be involved - about £110m for the income tax alone, plus more than as much again for the rating or poll tax component.

12.10 The other variants of local income tax - if they proved practicable - could be made available to both main tiers of local government, and so have the advantage that they could stand on their own as a replacement for domestic rates. Since they are not lumpy, they could work in combination with non-domestic rates set at either a fixed or variable poundage. There would remain the problem of how parishes would raise their revenue if neither domestic rates nor poll tax were available.

12.11 It would be feasible for any of the variants of local income tax to be combined with poll tax or domestic rates if it were decided that they should not replace domestic rating on their own. It would be possible for a scheme similar to that discussed in paragraphs 12.14 - 12.15 to be implemented, or different revenue sources could be assigned to different tiers, so that the major spenders would levy income tax and the minor spenders, plus parish councils, have access either to poll tax or possibly to a reformed system of domestic rates.

12.12 The degree of perceptibility of local income tax would depend on whether its collection was integrated in the national tax system or whether separate assessment was carried out by local authorities. In the latter case, if the tax were collected only by one tier of authorities, it would be difficult for the taxpayer to identify separately to himself the respective demands of county and district authorities. Since some local electors would not be income tax payers, a second local tax in addition to local income tax would tend to ensure greater accountability to the electorate as a whole.

12.13 From the point of view of financial control, the retention of a predictable form of revenue such a poll tax or a reformed system of domestic rates would be preferable to reliance on income tax alone. Such a combination would also have a smaller impact on central government's freedom to set appropriate national rates of tax, since the local income tax rate - and hence the overall national level of taxation of incomes - would be correspondingly lower.

POLL TAX SCHEMES

12.14 The use of poll tax as an adjunct to a local sales or income tax has been discussed earlier in this chapter. Alternatively, it could perhaps be levied at a relatively low level, the gap being made up by additional Exchequer grant or by assigned revenues. In either case, all tiers of local government could be given access to poll tax.

12.15 The characteristics of a poll tax were discussed in Chapter 7. It should be added that if domestic rates were to be replaced by a low-level poll tax in combination with an increased level of exchequer grant there would be an obvious loss of accountability. A scheme of this sort would run the danger of increasing the overall contribution of industry and commerce to the cost of local services through the national tax system if the grant or assigned revenues were financed from general Exchequer revenues. (Non-domestic rates would, as explained in Chapter 10, continue for the immediate future.) These criticisms would not apply if the poll tax were operated in conjunction with a reformed domestic rating system rather than with grant or assigned revenues.

CONCLUSION

12.16 A local income tax (unless integrated with the present national tax system) could be used on its own as a replacement for domestic rates. Sales tax, however, could almost certainly not function without the aid of a secondary source of revenue and it might also be considered desirable to combine a local income tax with either poll tax or domestic rates retained at a lower level of yield.

CHAPTER 13

SOME FISCAL AND ECONOMIC EFFECTS

13.1 Earlier chapters have examined the background to the Green Paper and the present examination of the alternatives to the existing system of domestic rates. They have also:-

- discussed various general consequences for central and local government and individual and corporate taxpayers of replacing the present system with alternative revenues;
- looked at the more promising alternatives; and
- examined how far the individual alternatives could stand on their own and how far they would have to be combined with other forms of revenue or local taxation to produce the income currently yielded by domestic rating.

This chapter compares the tax rates which would probably have to be levied if any of the new local taxes discussed in chapters 5 - 7 replaced the whole of the present yield of domestic rates on its own; and draws together some of their fiscal and economic implications.

LOCAL TAX RATES AND THE NATIONAL TAXATION SYSTEM

13.2 A local sales tax which was levied on the "retail" transactions which are currently liable to national VAT would have to be set at an average rate of 7% to raise the same revenue as domestic rates: a local sales tax on all goods and services, including those zero-rated or exempt from VAT, would have to average 3 - 4%. A local income tax would have to average five pence in the pound to raise the same amount nationally, and a poll tax would have to average £120 a head to produce the same revenue.

13.3 Domestic rates can be regarded as a tax on expenditure, at least in their effects. In the absence of any compensating changes in the level of national income tax, the replacement of domestic rates by a local income tax would therefore alter the balance in the present taxation system between taxes on income and on expenditure by increasing overall marginal rates of taxation of personal incomes. It might be necessary in those circumstances to consider making offsetting adjustments in national tax rates in order to restore the overall balance of the taxation system with, of course, consequential adjustments elsewhere to make up for any loss of revenue from national income tax.

13.4 The replacement of domestic rates with a local sales tax would similarly increase the total level of taxation on the range of goods and services involved. This would not alter the overall level of taxation on personal expenditure as a whole, but it would alter the relative rates of taxation which would apply to housing on the one hand and other goods and services on the other.

13.5 Because it would be an entirely new form of taxation in modern times in this country, a poll tax might be thought to have less direct implications for other taxes than either a local sales tax or a local income tax. Nevertheless it would be important, in judging the case for a poll tax, to consider its impact on the shape of the tax system as a whole.

ECONOMIC EFFECTS

13.6 The economic effects of changes in the system of local taxation would depend on the tax or taxes involved, how far those changes affected the prices of goods and services and the way in which they altered the distribution of real disposable incomes for individuals and households. The following paragraphs discuss in broad terms some of the more general considerations.

HOUSING

13.7 Rates are the only tax charged at present specifically on the occupation of housing. Even if the present revenue of domestic rates were raised in alternative forms of taxation, therefore, their abolition ought to increase the attractiveness of housing in comparison with other goods and services. Such changes would give an initial shock to relative prices reflected - probably after some delay - in a change in relative levels of demand. These effects could be sharply felt

EFFECTS ON DEMAND

13.8 More generally, if the abolition of rates could affect relative prices, so too could the introduction of an alternative source of revenue. This effect would probably be most marked with a local sales tax, as this would increase the prices of those goods on which LST was levied relative to those goods which were untaxed. A LST with the same coverage as VAT would increase the relative price of goods and services that currently account for about half of consumers expenditure. This change in relative prices could be expected to lead to an increase in demand for the goods not subject to LST and a decrease in demand for the taxed goods with, in time, a shift in the pattern of output, employment and investment. These changes however might take a long time to work through.

EFFECTS ON PRICES

13.9 The effect on the general level of prices would depend on the alternative tax chosen to replace or supplement domestic rates. Abolishing rates would directly reduce the Retail Prices Index by about 3 per cent. A LST with the same yield as domestic rates would raise the RPI by about the same amount. A local income or poll tax would not affect the RPI directly, so that replacing rates by one of these would lower the RPI, though the more comprehensive Tax and Prices Index would not be affected. (However any rise in house prices or rents would be reflected in both indices.)

13.10 The alternative taxes would in principle have somewhat different effects on incentives to work. For instance an LIT would raise the marginal rate of tax on income, while a poll tax would not. But the effects on incentives, whether due to changes in marginal or average effective rates, cannot be reliably quantified.

DISTRIBUTIONAL EFFECTS

13.11 Where alternative local taxes were intended to raise an equal amount of revenue to domestic rates, households as a group would experience no change in income. However, particular households and individuals would have gains or losses of income from the change to the alternatives. These distributional effects are discussed in the following paragraphs.

13.12 No estimate can be made, at this stage, of how many households would gain or lose, or by how much, by the adoption of the alternative local revenues described in this Green Paper. It is possible, however, to illustrate some likely financial effects of alternative taxes on some notional but representative households of differing composition and income. Estimated savings from the abolition of domestic rates can be set against estimates of what such households might be expected to pay under the alternative forms of new taxation. Assumptions and results of some such comparisons are set out in Annex C.

13.13 Comparisonson this basis cannot of course show the full range of possible gains or losses to particular households; nor do they show the numbers of potential gainers or losers. As pointed out in Chapter 4, Figure 2, rate payments differ widely among households of the same type: and there will also be differences in, for example, tax allowances and expenditure patterns which would affect payments of LIT or LST. All this individual variation is inevitably suppressed in comparisons made between 'representative' households. The limitations of the present analysis should therefore be kept in mind.

13.14 Estimates are made in the Annex of the gains and losses to representative households in London and the South East, the rest of England, Scotland and Wales. It is assumed for the illustrations that the amount of tax revenue to be raised in each country within Great Britain would equal the total that would be raised by domestic rates, but there would be shifts in the tax burden; the shift from London and the South East to the rest of England in the illustrations is an example. There would also be substantial variations between local authority areas within these broad regions. These reflect in part the variation of rate payments against income noted in Chapter 4.

13.15 It is important to note that no allowance is made in the comparisons in Annex C for support to low income households to replace rate rebates and rate payments in supplementary benefits. The absence of such allowance is purely a working assumption made for the technical purposes of the calculations: it does not imply a view on the part of the Government that no analogous forms of relief would be made available. The provision of any relief of this kind would of course modify the distributional effects as set out in the Annex. Various alternative schemes might be envisaged but the total cost and the relative gains to low income households would depend on the nature of the schemes and cannot be allowed for in any general way.

13.16 Illustrations in Table 2 in the Annex show a range of effects on disposable household incomes from a gain of nearly 4% to a loss of 4.8%, with about three quarters of the cases lying between a gain of 2% and a loss of 2%. Variations for low income households would be greater, as Table 3 shows. However, each of the cases illustrated is itself a stylized mid-point of a range that would be found in reality, in particular because of the variability of rate payments already noted.

13.17 For most of the household types in the illustrations, a local income tax would be the most effective means of reducing the burden that domestic rates impose at present on those with low incomes, though it would correspondingly increase the burden on those with higher incomes. Those on low incomes but not in receipt of supplementary benefit might gain slightly. The omission of mortgage interest relief and some other tax relief from the estimates somewhat exaggerates these effects but this is unlikely to affect the overall conclusions. It is also notable in the illustrations that with either a local income tax or a local sales tax the burden of taxation, as one might expect, would be shifted towards households with two or more earners.

13.18 With low income households, in general pensioner households not on Supplementary Benefit would tend to gain from replacement of domestic rates by either a local income tax or a VAT-based local sales tax. Very low income households with children would experience little change with the introduction of a local income tax.

13.19 The relative effects of a local sales tax on those on high and low incomes are more uncertain than those of a local income tax because the composition of household expenditure tends to vary with income. With a VAT-based tax those with higher incomes would bear a higher tax burden, but this would not be the case with a more widely-based tax.

13.20 With a poll tax gains and losses would depend mainly on the number of adults in the household. A poll tax is assumed for the calculations in this Annex to fall on adults who are not necessarily earners in general. It would impose a higher relative tax burden than domestic rates on households with lower incomes, and a lower relative burden on those with higher incomes. On the assumption of no new relief, low income households would lose heavily.

CHAPTER 14

CONCLUSION

14.1 In publishing this Green Paper, it has been the Government's intention to identify the range of realistic alternatives and to put them in a common context with domestic rates for public discussion. Although it is not possible to quantify precisely the effects that each possible change would have on the whole range of the personal and family finances of those who would contribute, the Green Paper has sought to give a broad indication of what those effects would be likely to be. Equally, it has sought to bring out the nature of the implications that either new systems of local revenues or a reformed domestic rating system would have for the interests of central and local government and of the taxpayer generally.

14.2 The Government will consider very closely all representations. Its aim is to produce proposals for a system which would remedy as fully as possible the shortcomings of the existing system of domestic rating and which would command the widest possible acceptance in the country as a whole.

ANNEX A : THE REJECTED TAX OPTIONS

INTRODUCTION

1. Paragraph 3.3 listed a number of forms of local taxation which the Government considers can be eliminated at this stage as possible alterations to domestic rates. They are:

local duties on petrol, tobacco or alcohol;
local vehicle excise duty;
charges for licences for the sale of alcohol or petrol; and
local payroll tax.

This Annex explains the Government's reasons for rejecting each of these possibilities. In most cases, the reasons are related to practicability and cost.

LOCAL DUTIES ON PETROL, ALCOHOL AND TOBACCO

PRACTICABILITY

2. In order to simplify administration and because the very high proportion of tax in price provides an obvious incentive to evasion, the excise duties currently levied on petrol, alcohol and tobacco are collected at an early point in the distribution chain - either when they enter the country or when they leave specially approved and controlled premises for distribution to the UK market. But to be used as local revenues, duties on these goods would have to be charged at the final point of sale. If a duty were charged at the wholesaling stage or earlier, the distribution of the tax base between local authority areas would be seriously distorted. Levying duty through individual petrol stations, off-licences or corner tobacconists would require very high rates to tax to be collected at single points of retail sale. This would lead to formidable problems of accounting and control for the taxing authority and would greatly increase accounting costs for traders, who would have to keep a second set of tax records in addition to those kept at present for VAT. The Government believes that these

problems are so great as virtually to rule out local duties on grounds of impracticability.

3. Locally variable rates of duty could result in prices being higher in some local authority areas than in others. Where this happened, consumers would tend as far as possible to stock up on alcohol, tobacco and petrol from low tax areas, and firms would tend to buy petrol in bulk in low tax areas. This movement of trade towards low-tax areas would handicap traders in high tax areas, and particularly those whose businesses were close to local authority boundaries. It would also tend to weaken the accountability of local authorities to their electorates for their decisions about spending.

4. Local duties would fall on a narrow range of goods and would tax individuals in the population very unevenly - only about 50% of households have a car, for example. They would have to be levied at very high rates to recoup a significant part of the revenue forgone by the abolition of domestic rates. Their yield would be unpredictable, since demand for drink, tobacco and petrol varies more within any given area than other possible tax bases such as, for example, income or total retail sales. This unpredictability would be substantially increased by the effect of cross-border trading between high and low-duty areas.

5. Duties on alcohol, tobacco and petrol are important sources of central government revenue and can be used between budgets, via the regulators, to vary Government income. Their usefulness to the Government would be diminished to the extent that local authorities shared any of their yield or reduced overall demand by imposing supplementary local rates of duty.

6. The Government believes that the problems of accounting, collection, enforcement and financial control rule out local duties on grounds of impracticability for both local authorities and traders.

LOCAL VEHICLE EXCISE DUTY

7. The collection of a local vehicle excise duty would be

expensive and administratively burdensome. Even if the local duty was collected by the Department of Transport's Driver and Vehicle Licensing Centre at Swansea on behalf of the local authorities, its introduction would inevitably give rise to administrative complications and higher costs than the present system. The Centre's computers are being replaced between 1983 and 1985 and a local duty could not be introduced until after that.

8. Accounting and control would present major practical problems. Variable local duties would encourage firms to register company vehicles in low-duty areas, and private motorists would do the same if they could. At present, there is no direct link between the registration of a vehicle and the owner's place of residence. The registration system would have to be changed to introduce such a link in order to prevent the evasion of duties in more highly-taxed areas. (Increased evasion would decrease the reliability of the vehicle register, on which the police rely heavily). The problems of compiling a register based on residence and keeping it up to date would be comparable to those of compiling a poll tax register (see Chapter 7). There would be a shift in the burden of local taxation from the domestic sector to industry and commerce if a local duty applied to goods vehicles and to the two million cars owned by businesses.

9. About a half of all households own cars, so that local vehicle excise duty would tax the local population fairly unevenly. It is hard to see how a duty could be related to the ability of the car-owner to pay: the duty would therefore bear much more heavily on poorer households than on the better-off (except to the extent that wealthier households might own, and pay duty on, more than one car). Some business car-users might, in practice, have the duty paid for them by their employers. This would be seen as unfair by private motorists who paid their duty from their own resources. By tending to cushion some business motorists against the effects of decisions by local authorities about spending, it would also reduce the perceptibility of the tax and the accountability of the local authority to its electorate.

10. The Government considers that vehicle excise duties (whose

present yield is £1,600m, substantially less than half of the yield of domestic rates) could at best do no more than provide a partial replacement for the domestic rating system. Because of this limitation, taken together with the narrow base of the tax and the problems of accounting, accountability, control and enforcement, which it would present, the Government considers that local vehicle excise duty can be disregarded as a possible alternative local tax.

CHARGES FOR LICENCES FOR THE SALE OF ALCOHOL OR PETROL

11. It would be possible to impose a tax on any type of premises which had to be licensed for any purpose. There would be a substantial and prohibitive cost in setting up any entirely new licensing system, however. The most widespread existing systems of licensing apply to premises used for the storage of petrol and the sale of alcohol.

PETROL

12. In the case of petrol, the main reason for licensing is to ensure its safe keeping: all premises where petrol is stored are licensed, not only those where it is sold. It would therefore be difficult for a licence fee based on the present licensing system to be levied only on premises selling to domestic customers. It is also doubtful whether a system designed for public safety should be used as a base for revenue collection because of the incentive this would give for illegal and potentially unsafe storage. Moreover, such a licensing system would have only a small yield: a flat rate charge of £1,000 for a licence for a year would raise some £130m. For these reasons the Government considers that petrol licensing can be ruled out as an alternative to domestic rates.

ALCOHOL

13. About 150,000 premises are licensed for the sale of alcohol; clubs, hotels and restaurants as well as pubs and off-licences. It should be possible to devise practical and enforceable method of charging but, like petrol licensing, this tax could produce

only a small yield. To yield £150m a year at a flat rate, each retail outlet would have to pay £1,000 a year for its licence. This would be a substantial burden for traders and would raise alcohol prices to the consumer.

Substantially higher tax rates than this would penalise small retailers and could produce other economic distortions and encourage the setting-up of illegal outlets.

14. Although the Government might expect the full cost of the tax to be passed on to consumers, traders would see a licence as a new tax on their businesses in addition to the business rates that they would continue to pay; and would consider that the narrow base of the tax singled them out for unfair treatment. If levied at a flat rate, the tax would affect large traders less than small ones and could affect the competitiveness of the latter. The cost of collection would be high in relation to yield. Although charges might be substantially passed on in consumer prices, marginal charges in licence charges (reflecting local authority budget changes) would seldom be apparent to the consumer. For this reason, licence fees would be largely imperceptible to most of the local electorate and local authority accountability would be affected accordingly.

15. The Government considers that licence charges for premises selling alcohol can be dismissed as an alternative to domestic rates because of their very limited yield, the additional tax burden they would impose on traders, their adverse effect on the competitiveness for small business and their low perceptibility to the consumer.

PAYROLL TAX

16. A local payroll tax of 4 per cent levied on the same basis as the National Insurance Surcharge could raise sufficient revenue to replace local rates, but that would mean replacing a tax on individuals with a new tax on businesses, which would continue to pay non-domestic rates. The Government is concerned that any new local system of taxation should not increase the proportion of the burden borne by industry and commerce. On these grounds alone, the Government considers that payroll tax must be ruled out as an alternative to domestic rates.

ANNEX B: FINANCING THE EDUCATION SERVICE

1. Chapter 9 touches upon the possibility of reorganising the distribution of Exchequer grant in support of local authority services. One kind of change would be to pay a high specific grant in support of one service or services, leaving the remainder of the Exchequer grant as an equalising grant to be distributed among local authorities without hypothecation to services. This would require local authorities (and their taxpayers) to meet a much higher proportion of the cost of the remainder of the services than they do at present. Local taxpayers might then be more concerned that their elected representatives sought and obtained proper value for their money, with beneficial results for local authority efficiency.

2. The natural candidate for separate Exchequer grant is the education service - indeed such an arrangement existed until 1958. The education service accounts for about half of all expenditure by local authorities, and it is more than four times the size of any other single local authority service.

3. To put the scope for change in perspective, at present in England the costs of education might be said to be borne about equally by local taxpayers and by the Exchequer through block grant. The cost of other local authority services in aggregate could therefore be said to be borne about 60% by the Exchequer (because the two major specific and supplementary grants are for non-education services, police and transport), and 40% by the local taxpayer. If the Exchequer were to bear the whole cost of education and to deduct the cost of the service from the present level of block grant, aggregate Exchequer support for the remainder of local authority services might fall to under 25%. Variations part way along the road would also be possible. For example, an 80% specific grant for education could lower aggregate Exchequer grant for remaining services to under 40%. The figure would, of course, be somewhat different in Scotland and Wales.

4. There are various possibilities for alternative ways of financing the education service. Only the major alternatives are outlined here.

5. Financial responsibility for the education service could be removed altogether from local authorities. This would involve a radical change from the present position. Central government would become responsible for supplying the funds to support any given level of education expenditure; and would in practice have to determine the budget and monitor the performance of each authority with educational responsibilities. Local accountability, whether by the continuation of the present local authorities' education committees, or otherwise, would have to be reconsidered.

6. Other options would leave some financial responsibility with local authorities while supplying a substantial tranche of central government funds to meet more of the cost of the education service. One possibility which has been raised from time to time is that central government should become responsible for meeting the cost of teachers' salaries, which currently account for more than half of local authority expenditure on education. It might then be necessary to return to the old practice of fixing teaching complements centrally, since otherwise the Exchequer grant would be open-ended. At the same time major areas of responsibility for the education service would remain with the local authority, which would nonetheless have greatly reduced discretion. In practice the division of responsibility would probably prove unsatisfactory.

7. A further option would be to pay an education "block grant" in support of education expenditure by local authorities. Payment of specific elements of this grant could, if desired, be made conditional on their being devoted locally to specific items of education expenditure. The cash limit on the grant could be set at a level which was high enough to remove most of the financial burden of the service from local authorities while still retaining a sufficient local financial stake to allow the partnership between central and local government to continue. An assessment could be made of each authority's need to spend, comparable to the grant-related expenditure (GRE) assessment under the present English system; grant would be paid as a percentage of actual expenditure up to this level, and could be tapered on expenditure above it.

8. An education block grant regime of the kind outlined in paragraph 7 above would have attractions as a means of adjusting the local taxpayer's stake in other local services, and of encouraging a greater degree of consistency in standards of educational provision across the country. There would, however, be costs: any option involving an hypothecated grant for education would reduce the freedom that local authorities have at present to determine their own spending priorities between local government services: it would also require an increase in central government manpower, probably without any offsetting reduction in local authority staff.

ANNEX C: THE DISTRIBUTIONAL EFFECTS ON HOUSEHOLDS OF ALTERNATIVES TO DOMESTIC RATES

This annex sets out in greater detail the assumptions and methodology used in calculating distributional effects of alternative taxes summarised in Chapter 1.., together with a fuller account of the distributional effects by tax, by region and by household type.

2. The effect on households of replacing rates by an alternative tax will depend on a variety of household circumstances - their rate payments, income tax allowances, expenditure patterns etc. A full analysis taking all these factors into account is beyond the scope of this Green Paper.

3. As a first step, the approach adopted here is to set up a number of household types which differ in composition, income etc and for 'representative' households of each type to estimate the gain from the abolition of rates, the loss from the imposition of each of the alternative taxes, and the overall gain/loss from these two changes, expressed as a percentage of the household's net income.

4. The household types are described in Table 1. Three income levels were used for each household type in the main analysis: $^2/_3$, average and 1½ times regional average household income for that household type (as estimated from the Family Expenditure Survey). This range of incomes covers the great majority of households .

5. Estimates of the rate payments of 'representative' households of given composition and income level can be derived from the FES. Estimates of VAT payments - as a basis for calculating payments of LST - can be derived from the same source. There is of course

a great deal of variation in practice among households of a given type and income level in both rates and VAT payments. Thus the full range of possible gains and losses cannot be shown in comparisons between 'representative' households with stylised (though typical) expenditure patterns. This limitation of the method should be kept in mind.

6. Estimates of household net income (the denominator of the comparisons) and of liability to LIT have been derived in a stylised way by applying 'standard' tax allowances and assumptions about national insurance contributions for each household type. These are set out in Table 1. This will overestimate taxable income and LIT payments since other tax allowances eg mortgage interest relief and work expenses are not included.* Payments of poll tax are determined by the number of adults in the representative households (from Table 1) multiplied by the appropriate tax per head from paragraph 14 .

7. This approach is not satisfactory for households with incomes above about 1½ times the average for that type because of data limitations, and they have not been considered. Such households are a small proportion of the total number of households. For households on Supplementary Benefit, and with low incomes, a modified version of the main approach was used.

Low Income Households

8. Two groups of low-income households were considered: those on SB and those not on SB, but with gross household income (including benefit income) less than half the national male average earnings. For each of these groups a limited number of household types were chosen including pensioner households, and one-parent families. (Table 3).

* A more accurate 'representative' calculation would however require mor detailed estimates of tax allowances etc by region, by household type and by income level, than are currently available.

9. Data from the FES were used to derive for each household type, and region, average payments of rebated rates, LST, LIT and poll tax. The gain to these households from the abolition of rates was limited to the net rebated rate payments; for SB households this was assumed to be zero. SB households were assumed to pay no LIT; they would therefore be unaffected by the replacement of rates by LIT. The effects shown for replacement of domestic rates by LST or poll tax make no allowance for any scheme of assistance to low income households to replace rate rebates.

10. Given the small sample sizes on which the overall gains/losses are based, the results on low income households in Table 3 should be treated with considerable caution and be seen as indicating direction rather than precise magnitude.

For these illustrations, the poll tax rate is equivalent to an entire replacement of domestic rates with poll tax. Chapters 7 and 12 point to poll tax as possible partial replacement for domestic rates only; the effects of poll tax on disposable income if it were levied to replace any proportion of domestic rates would be proportionally lower than those illustrated.

Local Tax Rates

11. To provide these illustrative effects of the change to the alternative taxes some broad assumptions have been made about their form. It has been assumed that the LST will be a tax on all retail sales liable to VAT (thus restricting its coverage to around a half of total consumer expenditure). LIT is assumed to be a flat-rate addition to all ratesof tax levied on the whole of a household's taxable income (which is calculated as for national income tax). Poll tax is assumed to be paid at the specified rate by all persons aged 18 and over, without any exemptions.

12. The local tax rates are set for England, Scotland and Wales at levels which would yield approximately the same revenue (in 1981/2) as domestic rates in each country (ie to be revenue-neutral). They are based on (somewhat rough) estimates of the alternative tax yields in each country.* Thus households in each country would as a whole be paying about the same in the alternative local taxes as they pay in domestic rates and there is no redistribution between households as a whole in England and households in Scotland or Wales.

* The LST rate makes some allowance for the possibility that households may switch expenditure away from taxed goods and services, thus eroding the tax base .

13. There may however be significant redistribution between local authority areas within a country due to the exchequer support grant arrangements. A change in the tax base would redistribute central government grant and change the tax burden on households in some areas. Local variation in rate poundages will also be reflected in the rates at which alternative taxes are levied. It has not been possible to analyse this element of distribution between local authority areas, though a broad distinction is made in the figuring between London and the South East and the Rest of England.* Thus households in Scotland, Wales and the two 'regions' of England are treated as 'typical' of the country or region as a whole, though in practice households in some parts of a country may fare less well than similar households in other parts of a country.

14. The calculated rates of income tax, sales tax and poll tax have been expressed, respectively, to the nearest ½p, ½% and £1 per head per annum. These tax rates are illustrative of the sort of local tax-rates that might be faced, on average, in an area. For 1981-82, the rates at which the new taxes would have to be levied to approach revenue neutrality are :-

	Wales	Scotland	London and SE	Rest of England	GB (av)
LIT	4½p	5½p	5p	5p	5p
LST	5½ %	7%	7%	7%	7%
Poll Tax	£77 pa	£117 pa	£118 pa	£121 pa	£120 pa

15. Apart from the replacement of domestic rates, it is assumed that there is no further change to the taxation system, nor to the overall level of exchequer support grant. The alternative local

* The tax rates are set in proportion to rate poundages in these two broad regions of England.

9

tax arrangements considered here do not include any mechanism to provide assistance to low-income households. Such assistance would modify the distributional effects in Table3, but the total cost of assistance and the gains to particular (low income) households would depend on the nature of possible schemes and cannot be allowed for in any general way.

Results

16. Results for a selection of representative household types with incomes of $^2/3$, 1 and 1½ times average household income are shown in Table 2. This gives their overall gain/loss from the replacement of rates by each alternative tax expressed as a percentage of household net income. It should be remembered that the overall gain/loss is based on an 'average' rate payment for the household type and income level, and other stylised assumptions about tax allowances, expenditure patterns etc. The figures in Table 2 thus cannot show the full variation in gains/losses that may result for particular households.

17. Figures 1-3 give a diagrammatic presentation for GB as a whole showing how the gains/losses as a percentage of net household income vary for the representative household over a range of gross household incomes. A downward-sloping line indicates that the tax change is progressive for that household type: a greater slope indicating greater progressivity.

Local Sales Tax

18. Over the range 2/3 to 1½ times average household income, payments of VAT increase rather more than proportionately to household income, while rate payments increase less. Replacing domestic rates by a local sales tax on goods and services subject to VAT thus substitutes a progressive tax for a regressive tax. Households on 1½ times average household income gain less (or lose more) than households on $^2/3$ average income. [See Table 2.] The number of children in the household makes little difference to the proportionate gain or loss. (Compare, for example, representative household type 2 with 4 and 6 or 3 with 5 and 7), but Table 2 does not assume take up of rate rebates. For the single earners with dependents who to take up rate rebates, the charge in their disposalbe incomes would be more distributed that that shown in Table 2. These cases are asterisked in the Table.

19. Most representative households at the bottom end of the income range (Table 3) however lose substantially. Rate payments are low because of rebates or supplementary benefit receipts, so that they gain little from the abolition of rates, while paying more on taxed goods.

Local Income Tax

20. Since income tax is even more progressive than VAT, replacing rates by a local income tax till tend to give a wider range of gains/losses between lower and higher income households than the local sales tax. The number of children again makes little difference to the pattern of gains and losses.

21. At the bottom end of the income scale,(Table 3) households not on supplementary benefit may gain (though both their rate payments and income tax payments are likely to be small). The illustrative households on supplementary benefit are not affected since they are assumed to pay neither rates nor income tax.

A Poll Tax

22. A poll tax is asssmed to be levied on all adults in the household irrespective of income. For any given household type therefore the poorer households would pay a higher proportion of their income in tax than the richer. Moreover, since domestic rates increase with income - though less than proportionately - replacing rates by a poll tax will mean that the richer households gain more or lose less (in £/wk) than the poorer households of the same type. But note that in some circumstances, the gain to a poorer household may be larger <u>in relation to its income</u> than the gain to a richer household of the same type, even though the gain in £/wk is less. (See for instance the percentage gains and losses for 'representative' single adult/earner households in Table 2.).

23. Figure 3 suggests that (within the limitations of the methods of comparison used here) the range of gains and losses for households between 2/3 and $1\frac{1}{2}$ times average is smaller, when rates are replaced by a poll tax rather than a local sales or income tax. A poll tax thus alters the progressive/regressive balance of taxation (for those not taking up rate rebates) less than a local income or sales tax.

24. Not surprisingly, the 'representative' households with many adults tend to lose and single adult households to gain. The notable exception here is households at the bottom end of the income range who save little on rates (because these are rebated or covered by supplementary benefit) but become liable for poll tax at the full rate, and whose losses may be as much as 10 per cent of their net income (in the absence of support system for low incomes).

TABLE 1

HOUSEHOLD TYPES CONSIDERED: ASSUMPTIONS ABOUT COMPOSITION, INCOME AND ALLOWANCES

HOUSE-HOLD TYPE	COMPOSITION	AVERAGE INCOME (£ per week)	EXTRA INCOME	PERSONAL ALLOWANCES AVAILABLE AGAINST TAX	NATIONAL INSURANCE CONTRIBUTIONS
1	Single adult: earning	£115	-	Single person's allowance: £1,375	NIx1
2	Two adults: one earning	£149	-	Married man's allowance: £2,145	NIx1
3	Two adults: both earning	£203	-	Married man's allowance plus single person's allowance: £3,520	NIx2
4	Two adults: one earning 1-2 children	£163	Child (2) benefit x 2	as for 2	NIx1
5	Two adults: both earning 1-2 children	£194	CB x 2	as for 3	NIx2
6	Two adults: one earning 3 or more children	£174	CB x 4	as for 2	NIx2
7	Two adults: both earning 3 or more children	£200	CB x 4	as for 3	NIx2
8	3 or more adults: two earners	£242	-	as for 3	NIx2
9	3 or more adults: 3 or more earners	£306	-	as for 5 plus single person's allowance: £4,895 in total	NIx3

(1) based on 1978 and 1979 Family Expenditure Survey gross household income dat for Great Britain revalued to 1981-82 levels.

(2) £5.25 per week per child (non-taxable)

(3) National Insurance contributions at contracted-in rate of 7¾% on earnings up to £200 per week (but no contribution on earnings below £27 per week)

TABLE 2 GAINS AND LOSSES BY HOUSEHOLD TYPE AND INCOME LEVEL

Gain or loss as percentage of net household income

	HOUSEHOLD TYPE 1 Single adult earner			2 Two adults, one earner			3 Two adults, both earning			4 Two adults, 1-2 children, one earner		
	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average
LONDON & SOUTH EAST												
Local sales tax	4.0%*	1.6%	-0.1%	3.5%*	1.8%	0.6%	1.4%	-0.1%	-1.3%	3.0%*	1.4%	0.0%
Local income tax	2.0%*	-0.9%	-3.0%	2.0%*	-0.6%	-2.5%	1.0%	-1.5%	-3.4%	1.5%*	-0.8%	-2.5%
Poll tax	3.0%*	2.3%	1.7%	0.9%*	1.0%	1.0%	0.6%	0.5%	0.5%	0.8%*	0.9%	1.0%
Gross household income	£85	£127	£190	£114	£171	£256	£148	£222	£333	£120	£179	£269
Net household income	£61	£87	£126	£83	£119	£176	£112	£159	£228	£97	£135	£196
REST OF ENGLAND												
Local sales tax	3.7%*	1.3%	-0.5%	2.5%*	1.0%	-0.2%	0.5%	-1.3%	-1.5%	2.3%*	0.7%	-0.6%
Local income tax	1.8%*	-0.9%	-2.9%	1.7%*	-0.9%	-2.7%	0.9%	-2.2%	-3.4%	1.3%*	-0.8%	-2.8%
Poll tax	1.7%*	1.4%	1.1%	-1.4%*	-0.7%	-0.2%	-0.7%	-1.0%	-0.1%	-0.6%*	-0.2%	0.0%
Gross household income	£72	£108	£162	£92	£137	£206	£129	£193	£290	£102	£153	£229
Net household income	£53	£75	£109	£69	£98	£141	£100	£141	£201	£86	£118	£168
SCOTLAND												
Local sales tax	1.9%*	0.4%	-0.6%	1.9%*	1.1%	0.4%	0.3%	-0.8%	-1.6%	1.5%*	0.6%	-0.2%
Local income tax	0.5%*	-2.0%	-3.9%	0.3%*	-1.9%	-3.4%	0.2%	-2.1%	-3.9%	0.0%*	-2.1%	-3.5%
Poll tax	1.2%*	1.1%	1.0%	-0.9%*	-0.1%	0.4%	-0.7%	-0.2%	0.2%	-0.1%*	0.3%	0.7%
Gross household income	£74	£111	£166	£106	£159	£239	£132	£198	£297	£121	£182	£273
Net household income	£54	£77	£111	£78	£112	£164	£103	£144	£205	£98	£136	£199
WALES												
Local sales tax	3.0%*	1.0%	-0.4%	1.7%*	0.1%	-1.0%	-0.4%	-0.9%	-1.3%	1.6%*	0.4%	-0.6%
Local income tax	0.3%*	-1.8%	-3.3%	0.1%*	-1.8%	-3.3%	-0.2%	-2.1%	-3.6%	0.2%*	-1.6%	-3.0%
Poll tax	1.1%*	1.0%	0.8%	-0.9%*	-0.4%	-0.1%	-0.6%	-0.3%	-0.1%	-0.1%*	0.1%	0.2%
Gross household income	£69	£103	£155	£92	£138	£207	£125	£188	£282	£100	£150	£225
Net household income	£51	£72	£104	£70	£98	£142	£98	£137	£196	£85	£116	£165

TABLE 2 GAINS AND LOSSES BY HOUSEHOLD TYPE AND INCOME LEVEL (continued)

Gain or loss as percentage of net household income

	HOUSEHOLD TYPE 5: Two adults, 1-2 children, two earners			6: Two adults, 3+ children, one earner			7: Two adults, 3+ children, two earners			8: Three or more adults, two earners			9: Three or more adults, three or more earners		
	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average
LONDON & SOUTH EAST															
Local sales tax	1.8%*	0.5%	-0.4%	2.6%*	1.1%	-0.1%	1.7%*	0.8%	0.0%	1.2%	-1.8%	-0.8%	0.3%	-0.9%	-1.6%
Local income tax	1.5%*	-0.8%	-2.6%	1.2%*	-1.0%	-2.6%	1.6%*	-0.5%	-2.4%	-0.1%	-2.1%	-3.6%	-0.2%	-2.3%	-4.0%
Poll tax	0.8%*	0.9%	0.9%	1.0%*	1.0%	1.0%	0.9%*	1.0%	1.0%	-0.8%	-0.2%	0.3%	-0.7%	-0.3%	0.0%
Gross household income	£141	£212	£318	£127	£191	£287	£140	£210	£316	£186	£278	£418	£216	£324	£487
Net household income	£119	£163	£229	£113	£152	£219	£129	£172	£238	£136	£194	£282	£163	£230	£331
REST OF ENGLAND															
Local sales tax	1.0%*	-0.2%	-1.1%	1.6%*	0.6%	-0.1%	0.8%*	-0.2%	-0.9%	0.4%	-0.7%	-1.6%	-0.5%	-1.5%	-2.2%
Local income tax	1.3%*	-0.9%	-2.8%	0.6%*	-1.2%	-2.6%	0.9%*	-1.1%	-2.9%	-0.1%	-2.3%	-4.0%	-0.7%	-2.6%	-4.2%
Poll tax	-0.4%*	-0.1%	0.1%	-0.6%*	-0.1%	0.3%	-0.3%*	-0.1%	0.1%	-2.7%	-1.8%	-1.2%	-1.9%	-1.2%	-0.7%
Gross household income	£123	£185	£277	£109	£164	£246	£131	£196	£295	£149	£223	£334	£197	£295	£443
Net household income	£107	£146	£203	£101	£135	£190	£123	£164	£225	£113	£159	£228	£151	£212	£304
SCOTLAND															
Local sales tax	1.3%*	-0.1%	-1.2%	2.3%*	0.7%	-0.7%	1.8%*	0.4%	-0.7%	1.3%	-0.5%	-1.8%	0.0%	-1.4%	-2.3%
Local income tax	0.9%*	-1.6%	-3.6%	0.7%*	-1.6%	-3.3%	1.7%*	-0.7%	-2.8%	-0.4%	-2.8%	-4.7%	-0.8%	-3.0%	-4.8%
Poll tax	0.1%*	0.2%	0.2%	0.7%*	0.7%	0.7%	0.7%*	0.7%	0.7%	-1.5%	-1.0%	-0.6%	-1.1%	-0.7%	-0.4%
Gross household income	£133	£200	£299	£123	£185	£277	£127	£190	£285	£167	£250	£375	£207	£310	£466
Net household income	£114	£155	£217	£110	£148	£212	£120	£160	£219	£124	£176	£254	£157	£221	£318
WALES															
Local sales tax	0.2%	-0.5%	-0.9%	0.9%*	-0.1%	-0.9%	0.0%*	-0.6%	-1.0%	0.0%	-1.0%	-1.6%	-0.7%	-1.4%	-1.8%
Local income tax	-0.3%	-1.7%	-3.0%	-0.1%*	-1.3%	-3.0%	-0.2%*	-1.6%	-2.8%	-1.4%	-2.9%	-4.1%	-1.3%	-2.8%	-4.0%
Poll tax	-0.4%	0.1%	0.5%	0.0%*	0.1%	0.3%	-0.3%*	0.2%	0.5%	-1.6%	-0.9%	-0.5%	-1.1%	-0.6%	-0.3%
Gross household income	£130	£195	£293	£110	£164	£247	£132	£198	£296	£162	£243	£364	£198	£297	£446
Net household income	£112	£152	£213	£102	£136	£190	£123	£164	£226	£121	£172	£247	£152	£213	£306

* indicates households eligible for rate rebates. If rebates were claimed, gains would be lower and losses higher

TABLE 3 SUPPLEMENTARY BENEFIT AND LOW INCOME HOUSEHOLDS

Gain or loss as percentage of net household income

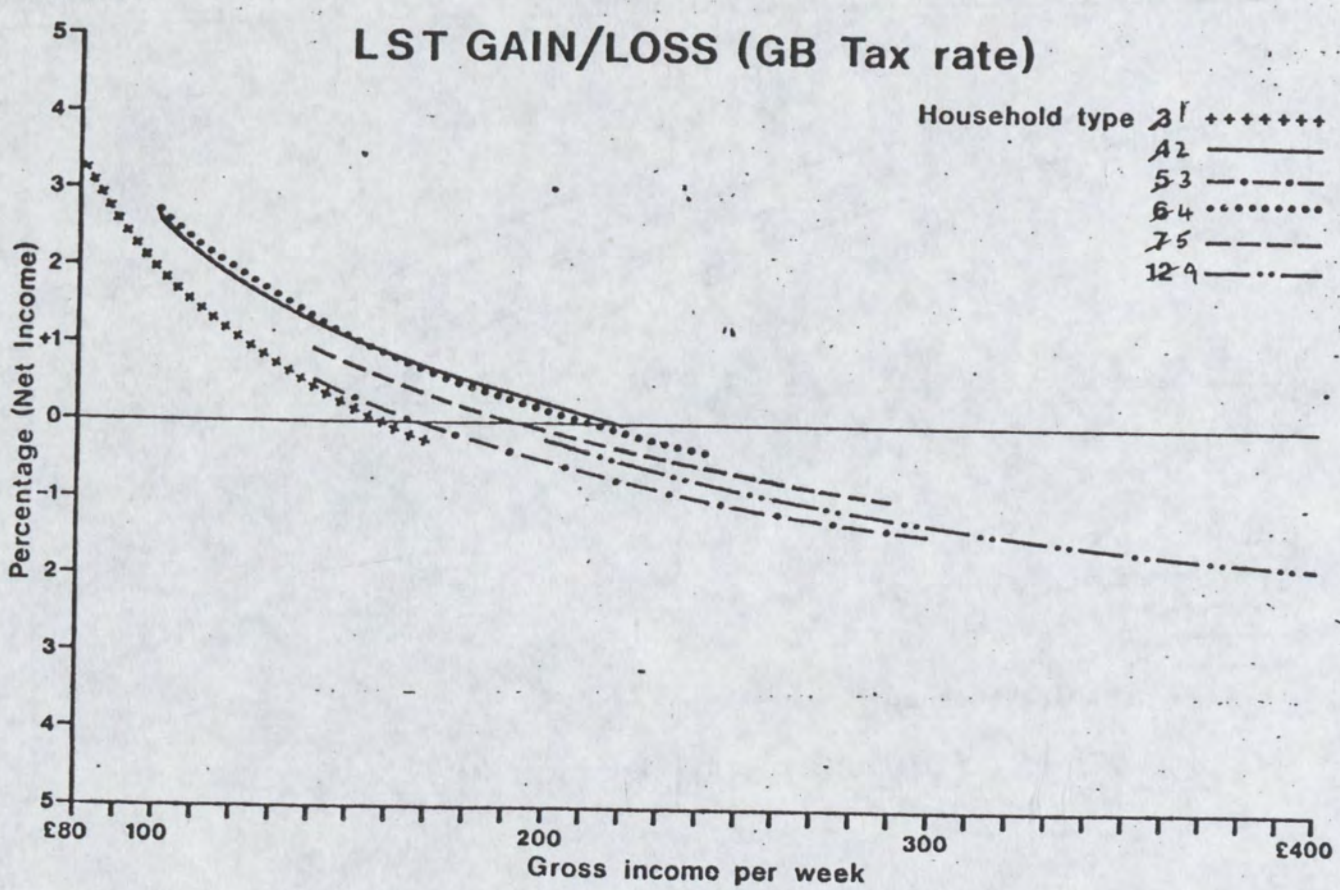
	HOUSEHOLD TYPE												
	Single adult, retired		Two adults, retired		Single adult, non-retired		Two adults, non-retired		Two adults, with children			Single parent household	
	SB	Not SB	SB	Not SB	SB	Not SB	SB	Not SB	SB	Not SB 1-2 children	Not SB 3+ children	SB	Not SB
LONDON & SOUTH EAST													
Local sales tax	-1.9%	1.9%	-2.0%	0.6%	-3.0%	-1.0%	-6.0%	-4.8%	-5.2%	-4.4%	-6.6%	-3.5%	-5.3%
Local income tax	0.0%	3.9%	0.0%	3.4%	0.0%	1.6%	0.0%	1.9%	0.0%	0.8%	0.0%	0.0%	0.6%
Poll tax	-6.8%	-3.0%	-7.8%	-4.6%	-5.8%	-2.7%	-10.5%	-8.2%	-9.5%	-7.3%	-9.0%	-5.9%	-6.0%
REST OF ENGLAND													
Local sales tax	-1.6%	0.8%	-1.8%	0.0%	-3.1%	-1.3%	-6.0%	-3.9%	-4.4%	-5.8%	-6.2%	-2.9%	-4.2%
Local income tax	0.0%	2.9%	0.0%	2.3%	0.0%	1.0%	0.0%	1.1%	0.0%	0.4%	0.2%	0.0%	0.5%
Poll tax	-7.0%	-3.5%	-8.0%	-5.3%	-6.9%	-3.8%	-12.1%	-8.7%	-9.2%	-7.8%	-8.3%	-5.7%	-5.8%
SCOTLAND													
Local sales tax	-1.6%	1.2%	-1.9%	-0.1%	-3.8%	-0.6%	-5.8%	-3.9%	-4.2%	-7.1%	-7.0%	-3.4%	-5.5%
Local income tax	0.0%	3.0%	0.0%	2.9%	0.0%	1.4%	0.0%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Poll tax	-6.9%	-2.7%	-7.5%	-5.1%	-8.2%	-3.2%	-11.2%	-9.1%	-8.4%	-8.1%	-8.4%	-6.2%	-8.7%
WALES													
Local sales tax	-1.3%	0.2%	-1.5%	0.1%	-2.3%	-0.6%	-3.9%	-3.1%	-4.2%	-3.5%	-5.2%	-2.7%	-3.5%
Local income tax	0.0%	2.2%	0.0%	2.3%	0.0%	0.8%	0.0%	1.0%	0.0%	0.8%	0.0%	0.0%	-0.1%
Poll tax	-4.5%	-1.9%	-5.0%	-2.8%	-4.2%	-1.1%	-6.3%	-5.3%	-6.9%	-5.2%	-5.9%	-4.2%	-4.0%

Note

SB - Household in receipt of Supplementary Benefit

Not SB - Household not receiving Supplementary Benefit but having an income less than 50% of national male average earnings (New Earnings Survey basis)

FIGURE 1



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112

FIGURE 2

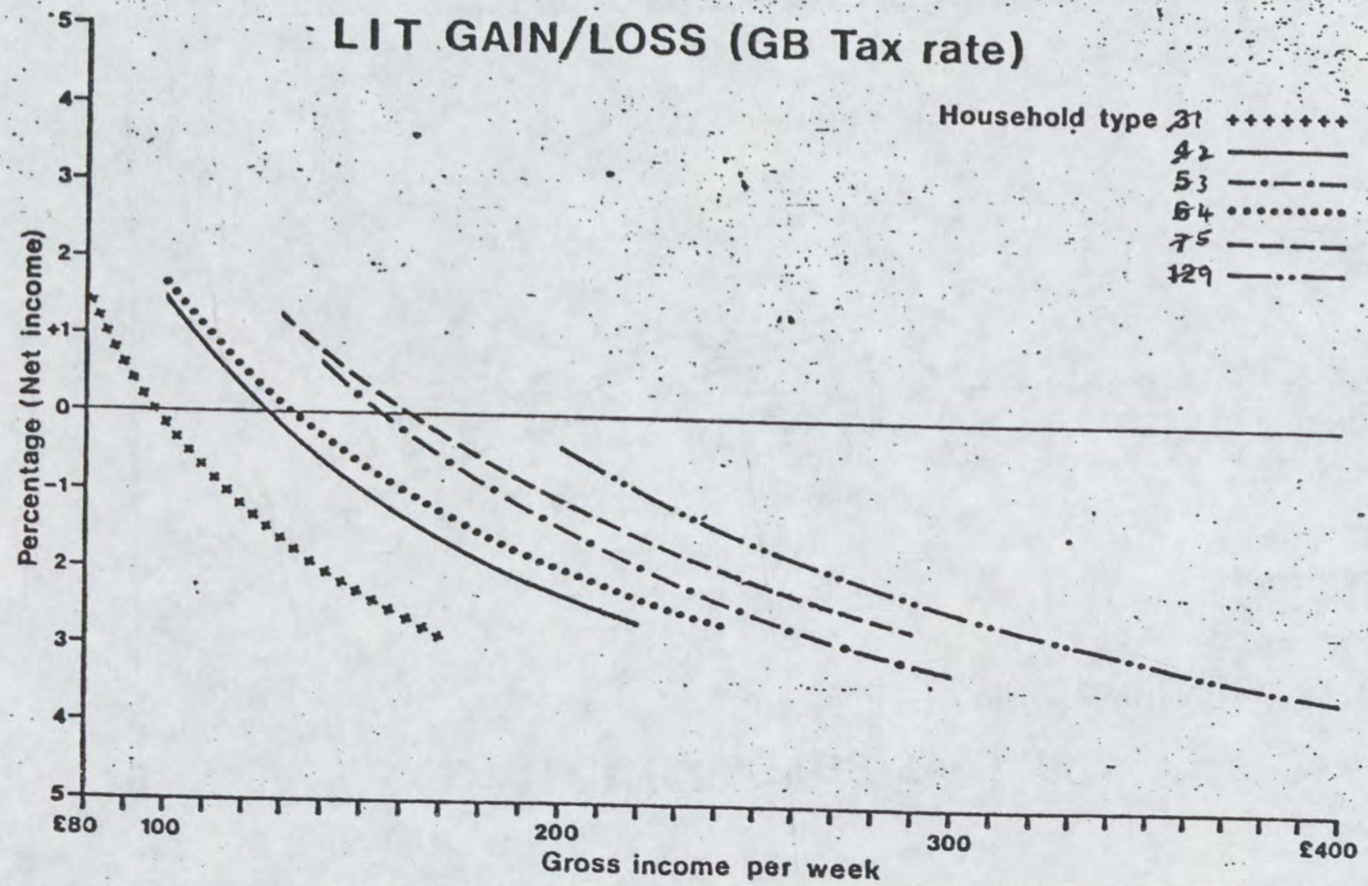
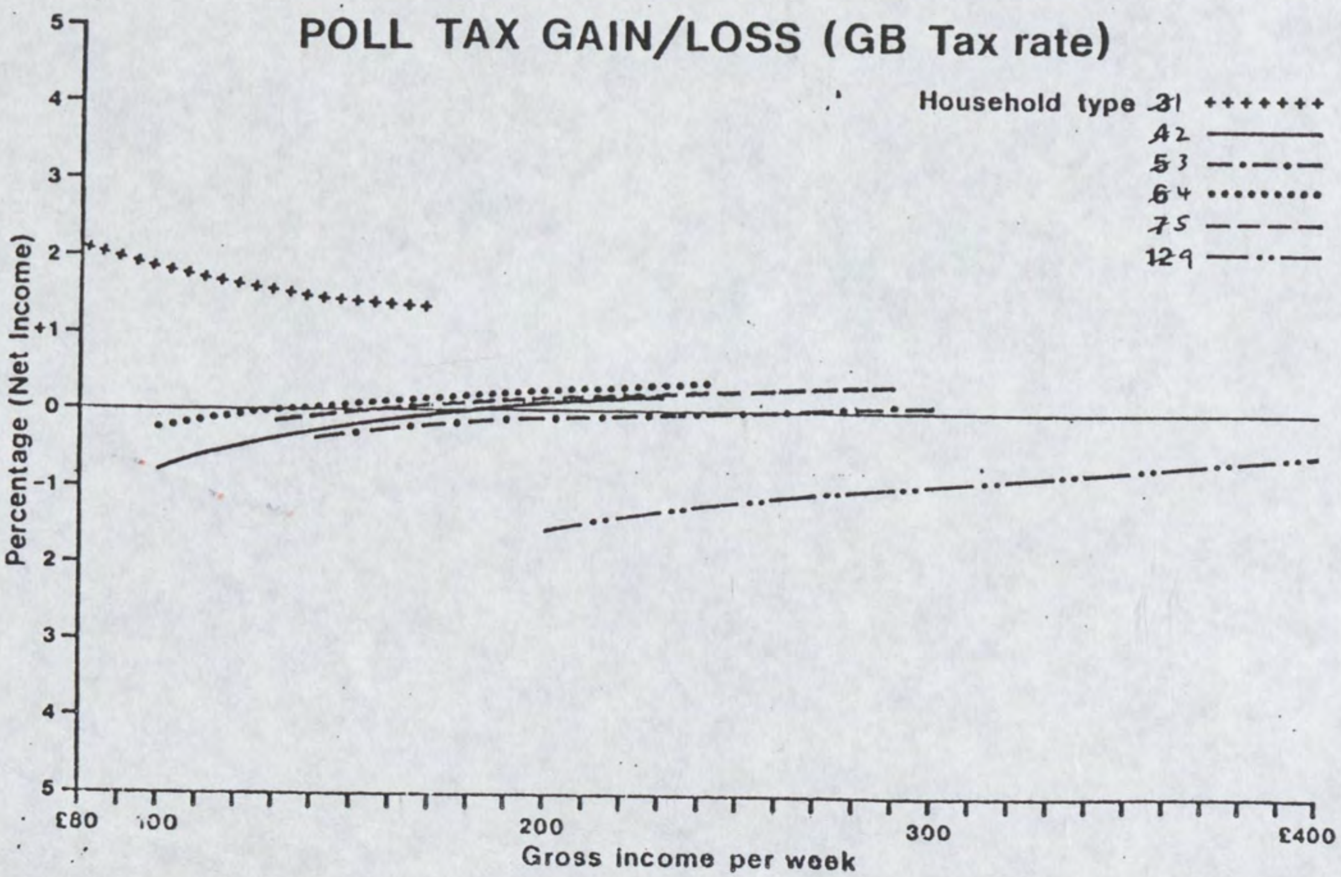

LIT GAIN/LOSS (GB Tax rate)
Household type 3 1
4 2
5 3
6 4
7 5
12 9
Percentage (Net income)
5
4
3
2
+1
0
-1
2
3
4
5
£80
100
200
300
£400
Gross income per week

FIGURE 3



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113