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UNIFORM BUSINESS RATE: TRANSITIONAL ARRANGEMENTS

There are two issues to be resolved:

- (1) Should the treatment of gainers be changed to feed through the benefits of gains more quickly; and, if so, should this be financed by a premium on the business rate poundage (4p in year 1 reducing to 1p in years 4 and 5)?
- (2) Should the small business threshold be changed to increase the number of properties given added protection from large increases?

Treatment of Gainers

I believe John Major's instincts on this are correct.

The issue is not simply gainers v. losers. The big losers' protection remains unchanged. The issue is benefit for big gainers v. those currently in the middle (small gains or losses, or broadly neutral outcomes). All in the middle would lose out from greater benefit for big gainers.

Overall, the year 1 impact would be as follows:

	<u>Gainers in first year</u>	<u>Losers in first year</u>
Current proposal (on which Nick Ridley has consulted) (England and Wales)	40%	53%
Ridley's revised proposal (England)	32%	61%
Walker's revised proposal (Wales)	26%	68%

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The revised proposals thus increase the number of losers.

John Major estimates that broadly:

100,000 properties now standing to gain a little would stand still -

100,000 properties now reckoning to stand still will lose a bit.

Furthermore:

- to achieve this, a real increase in business rates of about 10 per cent in year 1 will be necessary, thus compromising in the eyes of the business community all the Government's assurances on no further real increase.

These effects look exactly like the additional complications (E(LF) last year was anxious to avoid.

Gainers' resentment at having their gains deferred is a real concern, but it can surely be countered by looking forward to their gains. Those in the middle who would lose from a premium would have nothing like this to look forward to, and which the Government could point to in order to deflect criticism.

There is a further point in the Treasury's mind, which they have kept in reserve. A premium on poundage would have direct implications for public expenditure through the Crown contribution to NNDR in lieu of rates on Crown property (CILOR). CILOR is currently about £600m and the Treasury estimate that Nick Ridley's proposal would increase it by £100m. This would be offset by lower revenue support grant.

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But ~~it~~ would still mean an increase in the New Planning Total and GGE, because payments of CILOR are scored twice: once as part of departmental running costs and once as part of the NNDR payment to local authorities.

For this reason alone, I would expect John Major to seek an E(LF) discussion if the general inclination was to go down the premium route. But this is secondary to the telling points in paragraph 3 of his minute against a premium.

Small business threshold

Here Nick Ridley is on stronger ground. What is at stake - capping annual increases at 15% rather than 20% - is fairly marginal in cash terms. But the issue is of great presentational importance. The small business lobby has pressed hard for a substantial increase in the threshold and to accept this would show the Government's readiness to respond positively to the consultation process.

I do not think John Major's concern to avoid special treatment for branches of big businesses is too important. Denying the benefit to a High Street building society branch would mean denying it too to the owner-occupied shops next door.

Treasury officials are fairly certain that John Major would not press his modest difference of view on this if the premiums on poundage issue was resolved in his favour. There is therefore scope for a compromise solution between DOE and the Treasury.

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Other Issues

There is no dispute on Nick Ridley's proposal to keep the caps on increases at 20 per cent (large properties) and 15 per cent (small ones).

Tony Newton has commented unfavourably on the proposal to limit transitional protection to existing occupiers of properties. He thinks it could distort the normal turnover of commercial property and create hardship if existing occupiers giving up leases found their leases reduced in value. But against this, the purpose of transitional protection is to help existing occupiers pay increased bills, and it seems to stretch a point too far to put a further constraint on gainers' gains by regard to such relatively marginal considerations.

RECOMMENDATIONS

I recommend that the Prime Minister:

on treatment for gainers:

endorses John Major's arguments against changing the basis of funding losers' protection, because:-

- of the decision in E(LF)(88)3rd that it was an added complication to be avoided if at all possible;
- it would actually increase the pool of losers next year;
- it would appear to mean a real increase in the business rate poundage which would be very hard to defend, given the Government's repeated commitments against further real increases. (The fact that the real increase was temporary would, in practice, be lost sight of);

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- the broad principles of a transition which caps gains and losses in broadly equal measure, and matches the phasing for losers with phasing for gainers, are readily understood and reasonably defensible against criticism from those whose benefits are deferred.

on the small business threshold

✓ endorses Nick Ridley's view that it should be doubled to £15,000 RV (London) and £10,000 RV (elsewhere).

- to meet the pressure from the small business lobby
- as clear evidence of the Government's responsiveness to the consultation process.

on limiting protection to existing occupiers

✓ endorses, on balance, Nick Ridley's proposal to limit protection.

- being mindful of possible distortion in the commercial property market
- but recognising that the purpose of the transition is basically to protect existing occupiers and that the impact of gains should not be dissipated any more than strictly necessary.

John Mills
JOHN MILLS

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YOU

AND THE

COMMUNITY

CHARGE:

SECOND HOMES



DEPARTMENT OF THE ENVIRONMENT

INTRODUCTION

This leaflet explains how the new community charge system will affect you if you have more than one home.

From 1 April 1990 domestic rates will be replaced by the community charge (sometimes wrongly called the "poll tax"). This will be a new way of helping to pay for the services which your local council provides. Each council will set the level of community charge for its own area, after allowing for help with its spending from Government grants and business rates. Almost all adults will pay a community charge.

If you have one home, you will pay the *personal* community charge for the area in which you live. But you may have more than one home. If so, you will pay the personal community charge for the area where you have your main residence. And you will pay a *standard* community charge for the area where you have your other home, provided no one else uses it as their only residence or main residence.

The other home may be a place where you live from time to time as well as at your main home. Or it may be a holiday cottage or a future retirement home, which other people may use for some of the year. Throughout the rest of this leaflet, the phrase "second home" includes all these kinds. The phrase "second home" also applies if you have more than two homes.

The standard charge will help pay for the cost of local authority services in the area of your second home. Many local services, such as the fire service, the police and roads are needed whether a house is used as a main residence or not.

The rest of this leaflet explains how the standard charge will work in practice. If you still have questions after you have read it, please write to FLT Division, Room N6/20, Department of the Environment, 2 Marsham Street, London SW1P 3EB.

HOW MUCH WILL THE STANDARD CHARGE BE?

Each district or borough council will be free to set the standard community charge for its own area. It will be linked to the level of the personal community charge for the area concerned. Your council can charge up to twice the amount of its personal community charge to second home owners. It cannot charge more but it could charge less.

Will rebates be available on the standard charge?

No.

Who will set the standard charge?

Your local council will decide the charge. It cannot ask more than twice the personal community charge and it must charge the same for all property of the same type in its area. In certain special cases, the Government has laid down particular rules.

How will the different types of property be decided?

The Government has decided them. Most properties fall within a general class of domestic property that is not normally used as a main residence.

What about empty property?

If you have domestic property that is empty for up to 3 months, you will not pay a standard charge. This would include the case, for example, where you have moved house but have not yet sold your old one. You may pay a standard charge if the house continues to be unoccupied after 3 months. This is on the same lines as the rating of unoccupied homes now.

Unoccupied properties which need structural repair work before they can be lived in will not incur a charge. No standard community charge will be payable in such cases until 6 months after the necessary structural repairs have been completed.

Your home may become empty because you go to live in a residential care home or hospital. You will therefore become exempt from the personal community charge and your home will remain free from a standard charge for *at least* 12 months after you leave it. Local authorities will be able to allow a longer period for such homes in their area, if they want to.

Other classes have been made, and will be made, for special types of

home. If you want to find out more about these your council will be able to tell you.

Who decides which is my main residence?

The Community Charge Registration Officers for the areas where you have your homes will decide.

Each local council will appoint a Registration Officer. He or she will draw up a list of all adults who will have to pay the community charge. This will include people who have to pay both the personal and the standard charge. The Registration Officer will send an inquiry form to each address in his or her area, asking for some straightforward information. When you fill in the form, you will be able to say whether you consider the address concerned is your main residence or not. The Registration Officers for the areas in which you have homes will decide which is your main residence and which your second home. You can appeal if you disagree with them. You can get a separate free leaflet on the appeals system from the address at the end of this leaflet.

Does the standard charge affect where I am registered to vote?

No. The electoral register is quite separate from the community charge register. If you have two homes in different areas, you may

be registered to vote in the areas of both homes, or in only one. The fact that you are registered to vote in an area does not mean you will automatically be registered there for the personal community charge.

Who pays what if someone else uses my second home?

This will depend. There are different rules for different circumstances.

If the home is *someone else's* sole or main residence, all adults living in it will pay a personal community charge. *You* will not have to pay any charge. You will only pay the personal community charge at your own main residence.

For example, you may live in a town during the week and your parents may live in your second home in the country, where you go at weekends. The Registration Officer for the town will probably decide that you should pay the personal community charge at your town home. The Registration Officer in the country area will probably decide that your parents should pay the personal community charge at the country home. If so, no standard charge would be payable by you or your parents.

Alternatively, you may own a home which is no one's only residence or main residence, but which someone else rents as a second home. If their tenancy was granted for 6 months or more, the standard charge will be

payable and your tenant will have to pay it. But if their tenancy was granted for less than 6 months (for example, the property is let on a monthly basis), you will have to pay the standard charge.

It follows that if you rent a home which is not your main residence, nor the main residence of anyone else, you will pay the standard charge if you have a tenancy of 6 months or more, but the owner will pay the standard charge if your tenancy is for less than 6 months.

Will the standard community charge apply to holiday caravans?

Most owners of holiday caravans will not pay the standard charge. Instead the site owner will pay business rates for the pitches where they stand.

If, however, you own a holiday caravan on a Protected Site, you will pay the standard charge. A Protected Site is one which provides permanent living facilities and which is covered by safeguards against eviction and harassment by the site owner.

If a caravan is your sole or main residence, however, you will pay the personal community charge

and not the standard charge. This applies whether the caravan is on a Protected Site or not.

What if I have already bought a new home but am having difficulty in selling my old one?

As explained above ('What about empty property?'), there will be a three-month period of grace for homes which are unoccupied and unfurnished. During this time you will not have to pay the personal or the standard community charge for the area where the empty house is. The local council may set a longer period for this class of homes if it wishes.

What happens if I let out a second home to holiday-makers for short periods?

Blocks and complexes of holiday-let self-catering accommodation will be subject to business rates. The Government is proposing, however, that individual properties, such as holiday cottages, should be treated in the same way as other second homes: i.e., that the standard community charge should be paid. A final decision on this will be taken shortly.

FURTHER INFORMATION

You can get a free booklet, called *You and the Community Charge: Your Step by Step Guide*. This describes the entire community charge system in outline.

You can also get free leaflets on the following aspects of the community charge:

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You and the Community Charge: Exemptions

—
You and the Community Charge: Appeals

—
You and the Community Charge: Rebates

—
You and the Community Charge: The Collective Community Charge

—
You and the Community Charge: Students

Please see order form on back cover.

If you still have questions, the following free leaflets may help you. Tick the boxes you want, fill in your name and address and send the coupon to:
Community Charge Leaflets, PO Box 622, Bristol BS99 1TR.

- Exemptions to the Community Charge
- The Rebate Scheme
- Students and the Community Charge
- The Community Charge and Second Homes
- The Collective Community Charge.....
- The Appeal System
- The Business Rate.....
- There is also a free booklet giving details on the whole of the community charge:*
- You and the Community Charge*

Name _____

Address _____

County _____ Post Code _____