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STEERING COMMITTEE ON LOCAL GOVERNMENT FINANCE STUDIES

A MODIFIED PROPERTY TAX

Note by the Secretaries

The attached report by the Inland Revenue sets out the results of work on a possible modified property tax. The Chancellor of the Exchequer is circulating copies to Members of the Ministerial Sub-Committee on Local Government Finance (E(LP)) together with his recommendations.

Signed J E ROBERTS
J RUTTER
P WALKER

Cabinet Office

16 September 1985

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MODIFIED PROPERTY TAX

A Preliminary Report

August 1985

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MODIFIED PROPERTY TAX

A PRELIMINARY STUDY

1. INTRODUCTION

1. The Chancellor was asked to develop and circulate details of the modifications to the domestic rating system which he outlined at the meeting of E(LF) on 21 May for the September meeting of that Committee. This report is in response to that remit. It reflects the views of an inter-departmental consultative working group under Inland Revenue chairmanship (the representatives on which are listed at Appendix 1), but it does not commit the other Departments concerned.

2. The modified property tax (MPT) package comprised a change from rental to capital values, a method of banding those values and then applying a non-linear unit assessment, the development of a rolling programme of continuous revaluation, the provision of transitional relief and the possibility of taking some account of occupancy. The report considers these elements in turn and identifies some other changes associated with them which could be introduced at the same time to improve the system.

3. The Report describes and analyses each of the components of the package. Resource and manpower implications are recognised as important factors. We have tried to quantify these as best we can but the complex interaction of the components of the package make for difficulties. These problems are separately considered in Section 10 of the Report. More work needs to be done on the redistributive effects of the proposals (described in Section 4).

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Summary of the Analysis

4. The present rating system has many acknowledged virtues, notably the capacity to raise substantial revenue simply and at low cost through a tax base within the tax authority's boundary, thereby inhibiting evasion and facilitating collection and distribution. Moreover its salient feature, the annual rate demand, reinforces perceptibility and accountability. Public resentment against rates has been fuelled by rising rate poundages levied by high spending local authorities. This has focused attention on the weaknesses of the system, mainly the continuing use of an outdated rental value base, while rental evidence is declining. But as recent Scottish experience shows, the effects of revaluation can also be painful. Other criticisms suggest more fundamental flaws. Rates bear insufficient relationship to ability to pay and to the demand made on local services; and the burden levied is unfairly shared between households differently composed and located (paragraphs 14 to 19).

5. Of the 5 main property-based alternatives to the present system, the adoption of a capital value base would command most general support. It would involve a method of valuation which would accord ^{with} the public's sense of market values, thereby establishing a credible basis for the new system. The publication of a Valuation List with values relating to a date 2 years earlier would ensure that it had no effect on current transactions (paragraphs 28 to 31). The intention to avoid any direct relationship between the ownership and value of individual property and liability to MPT would distance it from a wealth tax (paragraph 34).

6. The redistributive effects of a change to a capital values base are not ^{easily} specified. The impact on the final tax bill would depend on the interaction between the revised tax base and the system of central Government

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support. In particular a decision to discontinue the current practice of resource equalisation whereby the Exchequer acts as a proxy domestic ratepayer in rating authorities with deficient tax bases would redistribute the total MPT burden within taxing areas and would eliminate shifts in the MPT burden towards areas where capital values were high. But tax poundages would vary widely - they would be high in areas of low capital values and vice versa (paragraphs 23 to 27). While the available data are insufficient to support statistically valid conclusions (paragraphs 37 to 39), they nevertheless illustrate the random nature of the redistributive effects and the wide variations concealed within averages (paragraphs 37 to 44). A new data collection exercise is desirable (paragraph 45).

7. Quantifying the charge in a way which makes it unnecessary to defend a precise capital value for every domestic property could reduce manpower costs for valuation and appeals. Bands of value could be used into which individual properties would be grouped, then given a common assessment value. The choice between narrow and wide bands is finely balanced but either way it is likely that there would be public resistance to any system which refused information about the precise values placed on individual properties (paras 47 to 50). Banded capital values could be converted into taxable values for multiplication by a tax rate to produce the MPT bill. One possibility, unitisation, would involve ascribing to each band of values a precise number of taxable units which would determine the taxable value of all the properties within that band. The selection of the taxable units for each band could reflect the desired level of progression with respect to capital values (paras 54 to 56). Examples of possible scales are given at Appendix 6, but fixing the scale would require the fuller data base recommended in paragraph 45.

8. Revaluations help to maintain the credibility of property-based systems by updating the value base to reflect the irregular shifts in market values. Recent UK experience shows that infrequent revaluations lead to major and unpopular shifts in the tax burden (paragraphs 61 to 63). While a seamless change from the present rental base to a capital values base seems impracticable, the new system could be phased in by appropriate transitional arrangements (paragraphs 66 to 68). Once introduced, the new system could be continuously updated. This would involve annual revalorisation, preferably using a new property index to be published (subject to consultation) by the Government Statistical Service (paragraphs 72 to 83) with the option to update both property values and value bands (paragraphs 84 to 89). At periodic intervals valuation adjustments could be made to take account of the finer movements in relative values (paragraphs 90 to 93).

9. Transitional relief would be essential for an acceptable change from the old to the new system. It would probably be necessary for the first 3 years on the initial change and might best be given by a straight comparison between the former rateable value and the new unit assessment (paragraphs 94 to 102). While it should not be needed for the changes resulting from annual updating (paragraphs 103 to 104) the decision about its applicability to the change in a periodic valuation adjustment could be taken when such adjustment is seen to be necessary (paragraphs 105 to 107). The relief can be made self - financing (paragraph 108).

account

10. It would be feasible to take /of household occupancy in the new property tax, to reflect the widely held view that the demand for local services is related to the size of households. One possibility would be to levy a charge related to the unit assessment on larger

households (3 or more adults). This raises many of the problems arising on a residence charge - but for a smaller population. The alternative is occupancy relief. This could involve offering discounts to one or more defined categories of households and the possible options (paragraphs 119 to 120) raise similar administrative issues about the form of the discount, notification to the property tax payer and the definition of occupancy (paragraphs 137 to 144). The selection of the household category for levying the standard charge critically affects the administrative complexity of the scheme. The range of options include using the 2-adult household for the standard charge, with a premium payment from larger households and discounts to smaller households (paragraphs 124 to 130). A more straightforward option would limit relief to the one-adult and/or pensioner household (paragraphs 131 to 133). Options which seek to limit the relief to low income households increase the potential overlap with housing benefit (paragraphs 134 to 135). The simplest option for second homes would be to exclude them from any scheme of occupancy relief (paragraph 136).

11. Appeal rights under the present system are wide-ranging and impose a heavy burden on the Valuation Office and the Courts (paragraphs 147 to 148). These could be modified, along lines recommended by the Layfield Committee, to limit the timing of appeals to the first year after the initial change to a new system and subsequent periodic valuation adjustments, and to confine most hearings to Local Valuation Courts (paragraphs 149 to 151). As a general right of appeal against an indexed property value would be inappropriate, appeals against annual updating (by reference to the original valuation or the property category to which the updating factor had been applied) could be exercised in defined circumstances (change of owner, on entry into higher value band etc) (paragraphs 152 to 159).

12. The additional manpower requirements of the Valuation Office for producing by 1990 a straightforward revaluation based on capital values is estimated at 5,000 man years. Computerisation could reduce this substantially in the longer term (paragraphs 161 to 162). The requirements for the initial MPT valuation are broadly similar, while periodic valuation adjustment could take 2,500 man years, without computerisation. Annual updating would only require around 200 man years (paragraphs 162 to 164). Maintaining the present domestic rating requirement without a revaluation will become increasingly costly (paragraphs 166 to 168).

The system is well established and robust with a developed case law. Although aimed at local level there are no problems of confidentiality. Property is immovable and physically located within the area of the taxing authority, therefore valuation is difficult and the revenue collected is distributed automatically. The yield is predictable and the domestic system raises large sums of money - £3.7 billion in 1984/85 for England and Wales (4.3 billion net of rate rebates). Rates are also predictable. Although ratepayers may not pay by the month, payments are collected through council tax bills as annual instalments. The demand for information on the expenditure of the rating and major collecting authorities concerned. These matters have been well recognized, authoritatively and publicly - eg in the 1981 Green Paper "Attainment of Domestic Rates", in the Layfield Report, and by the Environment Select Committee.

13. Reserves

13. It is undesirable that there should be a wide range of rates and a desire to see some radical changes introduced. The problem is that the rates are

2. THE PRESENT RATING SYSTEM

13. A rating system has operated in Britain since 1601. England and Wales have a common system, Scotland and Northern Ireland systems are rather different. The differences are briefly described in Appendix 2.

Its Strengths

14. The present rating system has many solid virtues. The structure is simple, administration is comparatively easy and the costs of collection are low. The system is well established and robust with a developed case law. Although raised at local level there are no problems of confidentiality. Property is immovable and physically located within the area of the taxing authority, therefore evasion is difficult and the revenue collected is distributed automatically. The yield is predictable and the domestic system raises large sums of money - £5.7 billion in 1984/85 for England and Wales (£4.5 billion net of rate rebates). Rates are also perceptible. Although ratepayers may now pay by ten monthly instalments, all (now including council tenants) receive an annual rate demand with supporting information on the expenditure of the rating and major precepting authorities concerned. These merits have been well recognised, authoritatively and publicly - eg in the 1981 Green Paper "Alternatives to Domestic Rates", in the Layfield Report, and by the Environment Select Committee.

Its Weaknesses

15. But it is undeniable that there exists a widespread dislike of rates and a desire to see some radical reform introduced. The problems include its rental value

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basis, the difficulties of revaluation and the pressure high local spending imposes on the system.

16. There is some truth in the criticisms. Rental evidence is in decline, at least in England and Wales. Sixty three per cent of the housing stock in England and Wales is now owner occupied and the proportion is growing as the Government's "Right to Buy" policy proceeds. At the time of the Layfield enquiry an exercise based on the last revaluation (in 1973) indicated that useful rental evidence was only available for some 1.7 per cent of the housing stock and the position is probably worse now. Moreover the operation of the Rent Acts produces "fair rents" established by Rent Officers, rather than the unrestrained operation of market forces, and these are of little evidential value for England and Wales.

17. The recent revaluation in Scotland illustrates the difficulties of updating, in that case only since 1978, and redistribution, and the cost of providing some relief. Uncertainty about the future of the present rating system has resulted in a deterioration in the quality of survey information about properties and there are some localities where modernisation has proceeded which has not been reflected in present assessments. Further, there are about two million dwellings which enjoy Section 21 relief and neither of the alternatives for continuing that relief (by further delaying a revaluation or of righting the position by increasing the assessments, following legislation) is attractive.

18. It is the rising poundage that has recently crystallised ratepayer resentment, and the increasing expenditure of local authorities has been the major factor here. Rating authorities have taken advantage of the flexibility given by the rate poundage element. At the same time the changes to grant distribution have been

designed to increase public perception of that increased expenditure. This is something of a conundrum. On the one hand, a high profile unpopular tax enhances accountability in that it seeks to exercise a discipline through the democratic process on those who propose increased expenditure. On the other hand, it is this very enhancement of accountability which makes the tax unpopular and therefore a candidate for replacement.

Further Objections

19. The 1981 Green Paper mentioned two other objections to the present system that have again attracted public comment. They were:

- 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; and
- that rates bear too little relationship either to ability to pay or to the use made of local government services.

20. The first of these objections has to be considered in the context of an evidential base that would establish a satisfactory relationship between different property types and value localities, insofar as property can be taken to be a measure of the benefit people derive from occupation. That is considered in Section 3 of the report. The suggestion that more regard should be had to the type of household, ability to pay, and the consumption of services is considered in Section 8.

21. The various elements in the MPT are designed to displace these objections. The change to capital values

is designed to put the tax on a more satisfactory basis, which ratepayers can more readily understand and to which they can react. The banded and unit based approach, together with transitional relief, is aimed at modifying the distributional shifts on the change of system. A continuous programme for updating values would alleviate the disruptive effects of quinquennial revaluations and ensure that the tax base was maintained automatically. Occupancy relief attempts to take some account of the concern that there is a lack of identity between the charge levied on a property and the local services enjoyed by all the members of the household.

22. It is also relevant that most Western industrialised economies have some form of property based tax. Appendix 2 describes these in broad outline.

Equalisation

23. Under the present rating system there is equalisation of both need and resource. The latter is relevant to this study because it affects the amount of tax to be collected locally. Under present arrangements central Government stands as it were in the shoes of domestic ratepayers in those rating authority areas where resources in terms of rateable value per head are deficient.

24. A separate working group has been considering the future of resource equalisation and we have seen their provisional conclusion that if a property tax were retained for local government finance it would not be essential to retain machinery to compensate for differences between authorities in domestic rateable value per head. Detailed consideration of that topic is outside our remit but we have looked at the consequences for MPT of abandoning or retaining resource equalisation.

25. With no resource equalisation a capital value based

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system would redistribute the total rate burden within a local authority but not between different authorities so the average local tax bill in each authority would be the same for a tax based on capital values and for a poll tax. It would follow that rate poundages would be high in low resource areas and vice-versa, but average tax bills would be identical for a given level of spending relative to need. This would stress the local nature and the charge aspect of the payments demanded. But the result could be a greater potential buoyancy in some areas than in others. There is some risk that authorities in high resource areas would spend more on the grounds that their residents could afford a higher poundage; and there would certainly be presentational problems in explaining why poundages were much higher in, say, Gateshead than Guildford for the same level of spending. But the abandonment of resource equalisation would tend to focus attention on the size of MPT bills.

26. By contrast the retention of resource equalisation would result in a redistribution of rate burden both between and within areas. The redistribution between areas would tend to reinforce rather than offset the distributional effects of the rest of the LGFS package: in particular, London would lose even more and shire districts would gain even more (though there would be some other areas where the effects went the other way). This reallocation of resources would emphasise the new arrangements as a tax on property (perhaps as an offset to the otherwise favourable tax treatment of domestic property). Someone living in an area where property values are high would pay more for the same level of service than in a low resource, low value, area. This would also draw on a national link between property values and ability to pay, although the national variations in property prices are much larger than the national variations in incomes.

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27. Whether MPT should be regarded primarily as a tax or a charge is considered again in paragraph 112 under occupancy relief, another aspect which raises resource equalisation considerations. There are further complications with the future operation of precepting, and the timing of any changes to the present grant structure which could have a redistributive effect. These questions clearly need further thought. At this stage we have thought it best to take as our main assumption that the equalisation of needs would continue but that resource equalisation would not be retained. Where relevant we have however noted the effects of a decision in the contrary sense.

have to be on the basis of capital value for domestic property.

the Green Paper (1981) considered: "capital revaluation will have the advantages of providing comparators compared with the market value of available market rents".

the Environment Committee report (1981) referred to the evidence heard about the advantages of capital value and added: "Under views were expressed by the overwhelming majority of Committee witnesses and even the single witness, who supported the abolition of the domestic rating system, accepted that capital values would provide a more realistic basis".

Definition

18. If capital valuation were adopted for domestic properties the basis of value, including common assumptions to be made, would need to be specified by statute. By way of illustration the Department of the Environment

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3. A CAPITAL VALUES BASE

28. Five main property based alternatives to the present rating system have been considered for England and Wales in recent years. These are: floor area valuation, site value, a points system, a modified rental basis and capital value. The first four have been carefully examined on a number of occasions but have not commanded general support. They are considered briefly in Appendix 3. It is the fifth alternative, capital value, which has emerged the clear favourite from recent studies:

- the Layfield Committee (1976) concluded "that the rating system, if it is to continue, will have to be on the basis of capital value for domestic property";
- the Green Paper (1981) commented: "Capital revaluation will have the advantage of plentiful comparators compared with the scarce evidence of available market rents";
- the Environment Committee report (1982) referred to the evidence heard about the advantages of capital value and added: "Similar views were expressed by the overwhelming majority of Committee witnesses and even the single witness, who supported the abolition of the domestic rating system, accepted that capital values would provide a more realistic basis".

Definition

29. If capital valuation were adopted for domestic properties the basis of value, including common assumptions to be made, would need to be specified by statute. By way of illustration the Department of the Environment

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provided the Layfield Committee with a possible definition for capital value and that is reproduced as Appendix 4.

Its Advantages

30. Capital values have obvious advantages as an evidential base. Assessments would be based on the price at which a dwelling might reasonably be expected to sell at a prescribed date; sales evidence should therefore be plentiful. The system would be more readily understood by the MPT payer, would be more accurate and would thus lead to greater uniformity and fairness. The use of a fixed valuation date, perhaps pitched two years before the new values came into force, would remove the complaint that a published list of capital values might adversely affect current sale prices. It would also lessen the inclination to appeal on the sale or purchase of a dwelling. As Appendix 4 illustrates other factors would also affect the relationship between current sale prices and ascribed values. Adjustments would be needed to equate leasehold tenure to freehold and to eliminate development potential. For the ascribed capital value would be a measure of the actual enjoyment derived from occupation, not of the potential benefit. However, it will also be necessary to provide for a notional state of reasonable repair as it would be undesirable to create a tax system with a built-in incentive to allow properties to fall into disrepair and thus obtain a reduced tax assessment.

31. The aim would be to establish a uniform pattern of assessment related to the size, quality, situation and amenities of residential property which rested on the available market evidence but took account of special situations, eg the special price paid by one member of the family to purchase a property adjoining their relatives .

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Its Disadvantages

32. There are four main criticisms of the use of capital values:

- the additional manpower requirements and resource costs;
- the time lag likely before the new system could be operational;
- the allegation that it constituted a disguised wealth tax; and
- the redistributive effects of switching to a new system.

33. The resource implications are considered in Section 10. If a decision to proceed with a change to capital values were taken in 1986 it would come into effect at the earliest by 1990. This timescale may not, however, be out of line with the timescales for alternative options and will give time for ratepayers to become used to the idea of the new basis of assessment.

34. The suggestion that capital value constitutes a kind of wealth tax is based on the perception that regard is being had to the freehold value of the property by comparison with the present system which equates directly with annual value. There would be some strength in this argument if there were a direct relationship between the value prescribed and the MPT bill levied eg a very small poundage applied annually to a defined capital value. That is not the intention of this package which, as will be seen (in Section 5), first bands capital values and then relates the band to a non-linear unit of assessment thus lessening the conceptual link with the

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underlying value. The aim is to follow closely the Layfield Committee view of capital value as the best measurement of the benefit derived from occupation. To that end it is intended to retain the concept of the occupier, not the owner, as the chargeable person and to continue with a locally determined rate of charge not one national rate. If rate equalisation ceases (paragraph 24) the enhanced localisation of the tax will also reduce any apparent similarity to a wealth tax.

15. A change to any new value base will have some disruptive effect, whether being rental or capital value or one of the alternatives earlier mentioned. Previous work indicated that the redistributive effects of capital values would be less than for a change to floor area, site value or a points system. But the impact would still be considerable. Scotland illustrates how disturbed taxpayers can be about a change of assessment even when higher rateable values may be offset by lower rate bands. In Scotland the authorities are required to notify ratepayers of the new values in advance of the rate demand notices, whereas south of the border the valuation lists are merely put on deposit with the rating authorities and only a minority of ratepayers go to the trouble of discovering their assessments in advance. A change to a different value base may, however, create greater interest and it is possible that attention will focus on value changes rather than on the rate bills themselves.

The Available Data

16. Bills under a property tax based upon capital value will depend upon the interaction between the increase in the tax base, caused by changes in capital values, and the grants system. There could

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4. CAPITAL VALUES: REDISTRIBUTION EFFECTS

35. A change to any new value base will have some disruptive effect, whether using rental or capital values or one of the alternatives earlier mentioned. Previous work indicated that the redistributive effects of capital values would be less than for a change to floor area, site value or a points system. But the impact would still be considerable. Scotland illustrates how disturbed ratepayers can be about a change of assessment even when higher rateable values may be offset by lower rate poundage. In Scotland the authorities are required to notify ratepayers of the new values in advance of the rate demand notices, whereas south of the border the valuation lists are merely put on deposit with the rating authorities and only a minority of ratepayers go to the trouble of discovering their assessments in advance. A change to a different value base may, however, create greater interest and it is possible that attention will focus on value changes rather more than on the rate bills themselves.

The Available Data

36. Bills under a property tax based upon capital values will depend upon the interaction between the increase in the tax base, caused by the change to capital values, and the grants system. There could

be shifts in the tax burden between, for instance, districts within a county, and there would be such shifts between properties within each local authority area. We are unable to illustrate the possible shifts between districts as sufficiently detailed data are not available. We consider the within-area shifts later. First we look at the size of increases in the value upon which tax would be charged under a tax on capital values and the likely public reaction to them.

37. The available data consist of

(i) the results of an exercise carried out in 1982 to compare capital values with gross rental values (rates are charged upon the rather lower net rental values - rateable values - and gross values have approximately been converted into rateable values for the purpose of the present report);

(ii) information about sales in two Valuation Office areas (Southampton and Northampton) in the first half of 1984.

38. Both sets of data have their limitations. With regard to the 1982 exercise:

- it combined valuer judgment with a very limited sample of recent sales evidence and was therefore rather more an impressionistic presentation than a statistical analysis or modelling of the conventional type;
- uncertainties exist about how closely such impressionistic analyses can simulate a capital revaluation;
- the data as collected (nine property types

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involving eight recent sales for each) cannot be considered a representative random sample which can be weighted reliably to get quantified net effects by property types within or between regions or localities.

The limited coverage of the 1984 data makes it impossible to draw general conclusions and the use of sale prices in place of capital values is not always appropriate. Nevertheless the available data illustrate the kind of difficulties that will arise.

39. The 1982 data suggest that capital values were then approximately 120 times rateable values. The regional variation was from 100 times in the West Midlands to 137 times in the South West. These averages, however, conceal much wider variation for individual properties. There was one property where the multiplier was below 20 and one where it approached 400. In all regions rural properties had higher multipliers than urban properties.

40. Different types of properties had different multipliers, ie ratios of capital values to rateable values as shown in Table 1 (overleaf).

41. Here again the averages conceal wider variation. For most types of property, examples are available of properties where the ratio exceeds 188, the highest of the above averages. All of the property types contain examples where the ratio is less than 100.

Top End Properties

42. Some of the most extreme increases and variations may be crudely illustrated by comparing actual sale prices and present rateable values on a number of properties in and around London in the most volatile and individual upper end of the housing market. In the £500,000 to

TABLE 1

CAPITAL VALUE BASED DOMESTIC REVALUATION
 INCREASE IN VALUE COMPARED WITH RENTAL VALUE

Type (1)	Average ratio of 1982 capital value to 1973 rateable value (2)	Approximate percentage of housing stock (3)
1870 unmodernised terraced house	117	6
1875 modernised terraced house	141	7
Early 1960s first floor flat	102	6
1930s semi-detached house	117	12
Post-1953 semi-detached house	112	34
Late 1960s detached house	141	4
Post-1945 high quality detached house	145	0.3
1930s high quality detached house	169	0.3
Modernised high quality country house	188	0.1
		70

NOTES

1. These are abbreviated descriptions which indicate the type of property included but do not always show the full range of properties covered.
2. Calculated from the survey data which as mentioned in paragraph 38 are not necessarily fully representative of their property types.
3. Based upon a recent sample exercise by the Valuation Office.

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£1m range the average increase that might have been expected in taxable value over a sample of six 1982 sales was double the overall national average for all property types (ie about 240 times rateable values). But within these six examples a pre-1900 terraced house in Kensington (£548,000) would have increased by 180 times compared with a 320 times increase on a particular eleven bedroomed detached house in North Surrey (£960,000). The sparse information currently available suggests an expectation of even more extreme increases and variation for houses in the over £2m category.

43. These effects are largely a function of the vagaries of the rental market (for good houses) that underlies current assessments. Some houses considered desirable for owner occupation would have aroused little interest in the letting market of 1973 (the current list valuation date). However, even in the South East houses over £500,000 in value form an extremely small proportion of the housing stock.

44. The 1984 sales data from Southampton and Northampton for the whole range of domestic properties have been used to illustrate the wide variation that may be expected in the ratio of capital value to rateable value for individual properties. The overall ratio for the 3,700 properties covered by the survey is about 170, higher, as might be expected, than for the 1982 data shown in Table 1. Again there is a wide variation from less than 100 to over 400. While the ratio tends to increase with the sale price, there is substantial variation at all price levels (see Table 2, overleaf). It is likely that the use of unadjusted sale prices exaggerates the variation that would be found with capital values, eg similar properties might have the same capital value but their sale prices might differ because of differences in the state of repair. Nevertheless it is clear that substantial variation will occur in the ratios of capital value to rateable value.

Number of SalesRatio of Sale Price to Rateable Value

Range of Sale Price		Less	Ratio of Sale Price to Rateable Value							Over	Total
£	£	than 50	50-100	100-150	150-200	200-250	250-300	300-350	350-400	400	
0	10,000	2	54	13	1						70
10,000 -	20,000	1	220	529	134	24	12	9	8	4	941
20,000 -	30,000		75	567	372	64	34	13	10	9	1,144
30,000 -	40,000		12	172	260	85	31	18	6	11	595
40,000 -	50,000		4	84	152	58	43	13	10	8	372
50,000 -	60,000		3	66	85	37	31	15	9	6	252
60,000 -	70,000			28	45	26	16	9	5	5	134
70,000 -	80,000			20	26	19	6	4	3	6	84
80,000 -	90,000			1	10	9	3	3	3	3	32
90,000 -	100,000			1	6	6	9	2	0	2	26
100,000 -	110,000			1	4	4	6	2	0	1	18
110,000 -	120,000					4	2	1	1	0	8
120,000 & over		1	0	1	4	5	3	5	3	2	24
All ranges		4	368	1,483	1,099	341	196	94	58	57	3,700

A New Exercise

45. The available time and the restraints of confidentiality have made it impossible at this stage to undertake a new data collection exercise. We have done what we can with the present information and data to illustrate the randomness of the value changes that can be expected to occur and the orders of magnitude of the likely shifts of value. Ministers will, however, want a better basis for firm judgments and we recommend that a full analytical exercise should be mounted with a proper data base to simulate more closely both the likely redistributive changes and the mitigation mechanisms available. This implies going "public" on the project and this may involve difficulties of presentation to which further thought will have to be given. Appendix 5 describes the desirable coverage of such an exercise.

Summary

46. In spite of their limitations, the available data illustrate that by the time MPT could be introduced the change to capital values would mean increases in value which were on average about 200 times greater than present rateable values. For many properties the increases would be greater. The presentation of these large increases could be difficult; in Scotland the changes were of a much smaller order and the reductions in rate poundage cushioned the impact on rate bills. A new data collection exercise is required to give a better picture of the likely redistributive effects. But the present illustrations will serve to test the extent to which the other parts of the MPT package, especially unitisation and transitional relief, can moderate the increases in taxable value and facilitate the presentation of the new arrangements.

5. QUANTIFYING THE CHARGE

Previous Suggestions

47. Several ways of avoiding the necessity of ascribing a precise capital value to every domestic property have been previously suggested. These have been aimed at reducing manpower costs for the valuation work and the appeal burden, for the more precise the values purported to be the more there is for challenge. One possibility proposed was to employ a beacon system. This would involve the selection of a number of representative properties (beacons) in each rating authority with which other properties would be associated for assessment purposes. Another was the use of bands of values into which properties would be grouped for a common assessment value.

48. The idea of beacon properties was found to be unattractive, not least because of the difficulty of relating properties to the most likely beacon. But banding is a much more attractive approach. It would be necessary to value every property to ascertain the appropriate value band, and the householder could be notified only of the band in which his property fell or of the precise value ascribed to it. The wider the band, the greater the advantage of succeeding in an appeal the effect of which is to put the value in the next lower category. But, on the other hand, unless the value was in the lower part of the band there would be little prospect of success. Thus, wide bands may result in greater step effects and more pressure at the margins, either as an incentive to appeal or as a deterrent against property improvements (a problem considered further at Appendix 9 paragraph 4 et seq).

49. A system of narrow bands in principle would tend to discourage appeals because the step change effect

of succeeding in moving to a lower band would be smaller. But the narrow band would appear to attribute a more precise degree of value to the property which might encourage MPT payers to test their judgments against the valuers' on appeal. A narrow band system could therefore require more valuation effort both in ascribing more precise values to properties initially and defending them later.

50. The behavioural effects are far from simple and it is likely that precise values would need to be published - not least because it would be difficult for MPT payers to exercise proper rights of appeal otherwise. But for charging purposes there are advantages in banding property values to provide a graduation system. And the appeal rights available could be against the band of values ascribed, not the particular valuation of the subject property.

A Graduation System

51. Possible methods of converting banded capital values into an assessment that would then be multiplied by a poundage to produce the MPT bill include the following:

- a straight percentage;
- varying percentages
- a unit approach.

52. A straight percentage of capital value was the method featured in earlier studies into banded capital values. Banding itself implies that all properties falling within the prescribed range of value will be treated equally and given the same assessment, possibly the lowest capital value. This, however, could be converted into a taxable

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value by the application of the standard percentage factor. For example, a £59,000 house falling into a value band from £50,000 to £60,000 might have an assessment of £50,000 which, if the factor were 2½% would become a taxable value of £1,250. The same value would be given to all other properties within that band.

53. To introduce a measure of flexibility into what would otherwise be a linear relationship which varied only according to the chosen band widths, the percentage could vary for different value bands. Under the Swedish system each property is first reduced to 75 per cent of its market value before 1½ per cent of the resultant figure is used as the tax base. That produces an annual charge based on 1.125 per cent of the capital value and the use of the two stage percentage appears little more than cosmetic. But a set of calculations for different value bands could produce significantly varied assessment patterns. For example, 2½ per cent for the £50-60,000 band results in an assessment of £1,250, 2 per cent for the £100-120,000 band produces £2,000, and 1½ per cent for the £250-300,000 an assessment of £3,750. At the mid points of the bands the result would be a charge on 2.3 per cent, 1.8 per cent and 1.4 per cent of the capital value respectively. Obviously the approach could be much more sophisticated involving devices like value slicing. But if the object is simply to mitigate or taper the charge a simple formula will suffice.

Unitisation

54. Unitisation involves associating with each band of capital value, a certain unit value (or number of taxable units) so that each property within the band is taxed on unit value. The unit value for each band may be chosen to give whatever degree of progression with respect to capital values is desired. It could

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be derived as a percentage of capital value as in the previous paragraphs; or bands and units could be related to average capital values, either nationally or locally. Taxable values, however, need not be related to capital values although higher capital values would normally be expected to have higher taxable values also. It would be possible to reduce the progressivity of the tax by allocating smaller amounts of taxable value in proportion to capital value as that value increases. Equally progressivity could be increased by allocating larger amounts as capital value increases. For that reason, Ministers will wish to keep the determination of the unitisation scale for their own decision rather than giving that power to the local authorities.

55. Banding itself involves a cut-off since the single value for the top (open) band is used for all properties whose value exceeds the lower limit of the top band. This feature is carried into unitisation. At the bottom of the capital value scale it would be desirable either to have a nil taxable value band or to abandon unitisation in the lowest band, charging on a percentage of capital value within that band.

56. In order to reduce the incentive for taxpayers to question the banding of their properties by capital value it would be desirable that the steps in taxable value between bands should be small so that the benefit to be gained from a successful appeal which results in a move from one band to the next would itself be small.

57. It is not possible at this stage to say what unitisation scale would produce an appropriate distribution of tax liability by amount of capital value. This would require the fuller investigation of the distribution of capital values suggested in paragraph 45. Some examples of possible scales are, however, given in Appendix 6. They have been applied to the sales data from Southampton

and Northampton to provide an indication of how tax liability might be redistributed, compared with simply banding.

58. The onus for justifying the graduation implied by the new unitisation scale would fall upon central Government and could be controversial. The sort of guidelines that might be used are illustrated in Appendix 6. These include equalising total rateable values with total units of assessment; moderating the largest impacts of the charge on the higher valued properties, the justification being that the demand on services does not increase proportionately to value.

Gainers and Losers

59. The pattern of gainers and losers depends upon the unitisation scale ultimately adopted. Appendix 7 shows on an illustrative basis for the Southampton and Northampton data and the Appendix 6 unitisation scales, the proportion of properties that would have a higher liability than under present rateable values and the proportion that would have a lower liability. The proportion of losers is substantial in these illustrations and the change to capital values, even with banding and unitisation, would produce some large increases in tax liability. Some form of transitional relief would thus be needed and this is considered in Section 7.

Summary

60. There are attractions in banding capital values rather than relating the charge to precise figures ascribed to all properties. Wide bands would provide an incentive to appeal at the bottom end of the band, but not elsewhere, and could result in greater step effects between the bands. Narrow bands would present a more precise value

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for appeal purposes but smaller step effects. Banded values could be converted into assessments in several ways, the most attractive being a unit approach. Unitisation could be used to vary the degree of progressivity of MPT if desired. It offers some flexibility in adjusting the burden of the tax but the burden of defending the graduation implied by the unitisation scale would fall upon central Government and while there are principles which can be cited in support of particular scales (eg for those which abate the charge on the higher valued properties by reference to the relative services consumed) this could be a controversial area.

It is possible to keep a historic base (possibly for many years). Since 15 January has had only one revaluation (in 1964). Our only limited experience in England and Wales, where the last revaluation was in 1971, suggests that our system becomes progressively more difficult to administer. Graduated shifts of value, for example, between town and country, within localities of one town or city, or between property types, such as houses and flats, cannot be effectively taken into account without a revaluation. With the points made in para 16 and 17 in mind, the view is taken by some of those professionally concerned that the present valuation lists cannot be satisfactorily defended without revaluation for more than a further five years at the most.

The longer the gap between revaluations the greater the relative adjustments and resultant shifts in rate burden. A recent decade (1964-1971) between revaluations would have been large (1964, 1967 and 1971 in England and Wales, 1961, 1965, 1971, 1972 and 1973 in Scotland). Revaluations were therefore become synonymous with major shifts in the rate burden which had political implications which were expensive to defend.

Showing to a new system

There are attractive... 27. ... in being able to... a new system without a nationwide 'big bang' change

6. A CONTINUOUS ADJUSTMENT PROGRAMME

Revaluations

61. The purpose of revaluations is to update the value base and to take account of the changing value patterns of the property market. They also re-establish the credibility of the system which becomes increasingly strained if the base values ossify and are perceived to be increasingly unreal.

62. It is possible to keep a historic base operating for very many years. Since 1935 Germany has had only one revaluation (in 1964). But our more limited experience in England and Wales, where the last revaluation was in 1973, suggests that our system becomes progressively more difficult to administer. Wholesale shifts of value, for example, between town and country, within localities of one town or city, or between property types such as houses and flats, cannot be effectively taken into account short of a revaluation. With the points made in paras 16 and 17 in mind, the view is taken by some of those professionally concerned that the present valuation lists cannot be satisfactorily defended without revaluation for more than a further five years or so.

63. The longer the gap between revaluations the greater the relative adjustments and resultant shifts in rate burden. In recent decades gaps between revaluations have been large (1956, 1963 and 1973 in England and Wales, 1961, 1966, 1971, 1978 and 1985 in Scotland). Revaluations have therefore become synonymous with major shifts in the rate burden making them politically unattractive and expensive to defend.

Changing to a new system

64. There are attractions in being able to phase in a new system without a nationwide "big bang" change

of values and we have considered that possibility. It might be done by reference to:

- defined localities (existing rating authority areas or Regions),
- types of property,
- levels of value.

65. Using geographical localities has initial attractions. The work could be spread around so that the staff requirement at any one time was kept to a minimum. As each rating authority was converted on to a capital value based system adjustment factors would be used for those remaining on the rental base, for remaining grant equalisation purposes, and the two systems would co-exist until the new property tax had been implemented nationwide. That would be much more straightforward than either a changeover involving property types or value levels. Using property types would lead to arguments about those properties at the margins (depending on whether the new basis was favourable or unfavourable). Using value levels would bring into question the current, and in many cases less than satisfactory, levels of value at present in use.

Rolling-in Problems

66. But even the use of defined localities has major disadvantages. The need to run two different systems in parallel would lead to feelings of incomprehension and unfairness. Householders would be confused. The work of local authorities, the Valuation Office and the Courts would become significantly more complex as they dealt with two codes and two sets of procedures.

67. Those householders who were being converted to

the new system and who were losers thereby would suffer the full effects of the change to a new value base. They would understandably demand transitional reliefs which would be a further complication to the phasing-in process. Where ratepayers in adjoining rating areas, and it is not uncommon for rating area boundaries to separate identical properties in the same street, saw beneficial results from the new system they would press for a change of basis. Where the result was a higher tax burden the penalised MPT payers would complain that adjoining householders were not included. Local authorities would either be displeased at the prospect of a relative fall in total taxable value or at their temporary exclusion from a system that offered the prospect of an increased value base. Some of these difficulties might be overcome by the entire recasting of the process of grant allocation, on a transitional basis, but the level of confusion, complexity and public dissatisfaction and apparent unfairness is likely, in our view, to be very considerable. The introduction of a new element such as occupancy relief or charge would further complicate the change and make the difference between those areas converted to the new system and those not even more perceptible.

68. Even though it may not be feasible to move imperceptibly from the old system to the new, there are ways of moderating the impact of the change. Effective transitional phasing provisions (which are considered in Section 7), coupled with the softening effects of unitisation should moderate adverse reactions. There would thus be a clean break with the old, and now unpopular, rating system in favour of a new system of property taxation.

Updating the new property tax

69. Once the new tax had been introduced, it would

obviously be beneficial if periodic revaluations which had marked redistributive effects could be avoided. We have looked at the following ways of achieving that aim by reference to:

- geographical localities,
- point of sale, and
- annual updating.

70. A selective programme could be devised related to defined localities, eg by grouping local authorities together then revaluing one group of authorities at a time. Assembling five groups would result in 20 per cent of all dwellings being updated in any one year thus spreading any resistance. There would be some resource and cost advantages as the entire process would be staged and repeated over five year cycles. As noted in Appendix 2, this approach is used in some other countries. But many of the disadvantages mentioned earlier (in paragraph 67) would apply.

71. Point of sale is another possibility. When a property was sold the opportunity could be taken to update its value (having some regard to the sale price) and a charge levied at the new value. As about 10 per cent of British householders move each year the process would be an effective way of updating a large proportion of the housing stock over several years in a way that allowed little argument about the value to be adopted. But this arrangement would be criticised as rather arbitrary and would undoubtedly be resented by incomers. The incoming purchaser would have to estimate his future MPT bill in relation to the bid he anticipated making for the property. This arrangement would do little to revalue adequately those properties housing less mobile residents and it could have a deterrent effect on mobility at a

time when employment policy requires more movement rather than less. Nor would it adequately cover tenanted properties held as long term investments. It would result in similar properties having different assessments because of widely separated valuation dates. Comparison with nearby properties would become impossible unless they happened to sell at similar times. For if the unsold properties were indexed to keep approximate pace, comparison would be only between valued and indexed assessments.

Revalorisation

72. In terms of maintaining the tax base, the ideal would be to revalue domestic property every year. Changes in relative value in any one year would be small so that adverse public reaction and appeals would be kept to a minimum. The tax base would be maintained. But this is not feasible as matters stand - not least because of the resource cost of the operation. Computerisation when considerably developed in its application to valuation techniques may ease the burden. Work is advancing in this area but there is no immediate prospect of achieving annual revaluations economically. There is however a possibility of developing this approach in the longer term.

ANNUAL UPDATING

73. One way of achieving some of the advantages of annual revaluations, but without the resource cost, would be to introduce a rolling programme of annual updating using indices. There are a number of ways of doing this. A general index applied to all types of property throughout the country would be crude and unselective. It could fail to take account of relative value shifts and would store up redistributive stresses while conveying an

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impression of a buoyant tax base. The alternative would involve the application of factors to particular property groups to reflect the main changes in relative value between property types. A more precise mechanism would then be needed at regular intervals - the periodic valuation adjustment - to pick up any price movements that had not been caught by the annual property value factors.

74. The index used and its application would have a critical impact on the quality of the annual updating process. A scheme tailored to individual local authority areas with a detailed break-down of property types would seem to offer a reasonable prospect of approximating to the actual movement of individual property prices. The timing of a valuation adjustment exercise would be directly related to the adequacy of the index used.

75. The use of officially published statistics such as the DOE five per cent weighted index series of UK House Price Statistics has the advantage of objectivity and independence. But the quality of the updating would only be as good as the general nature of the available property statistics and might not adequately take account of the wide range of fluctuations in the market. Many of the house price indices available relate to dwellings bought on mortgage only. The level of detail measured and the robustness of the measurements also seems inadequate for MPT updating purposes.

76. The alternative would be the use of an MPT index preferably produced under the auspices of the Government Statistical Service from data within the Valuation Office, (by computer analysis of property sales). This could be a sophisticated analysis of the local property market, related to local authority districts or defined regions. Properties could be divided into a number of different categories by reference to eg:

- age; pre-1919, inter-war, post-1945
- type; house/bungalow or flat/maisonette
- detachment (house or bungalow only); terraced, semi-detached, detached
- size range; 0 to 80 square metres, 80 to 150 square metres, over 150 square metres.

77. Such indexation could be expected to keep relativities closely in line with movements in the housing market so that most MPT payers would be affected little more by the periodic valuation adjustment than by the process of annual updating. Provided that the index was produced in a way which satisfied the public that the measurements were objective, it should be acceptable. There would be a time lapse, to allow for the receipt and analysis of the information, but as the original values would be pitched some two years before the valuation lists came into effect, annual updating would be able to keep step.

78. This is an area which would require more detailed study, by statisticians, valuers, and operational researchers to determine the various options available and their respective merits and costs. But in principle it would seem reasonable to expect an indexed system to operate adequately.

Particulars Delivered

79. The MPT index would be derived from confidential sales information notified on Particulars Delivered. Whenever an interest in real or leasehold property in England or Wales is transferred on sale, or a lease is granted for 7 years or more, the transaction has to be

notified to the Stamp Duty Office.(1) Without this information source (or a close substitute) the necessary data would be lacking to run a capital values system and to update it. It avoids the need for blanket issue of enquiry forms at regular intervals. Because Particulars Delivered inform the Valuation Office which properties have been sold (and at what prices) the collection of information in a form that could later be disclosed as evidence in appeal proceedings could be related specifically to the properties in question, keeping the issue of forms to reasonable proportions.

80. The position in Scotland is once again rather different because different arrangements exist for the notification of sale prices. There they are on public record and their use as evidence would be rather more straightforward, just as their use in appeal proceedings would be easier for MPT payers.

Using the Index

81. Once an index had been devised or adopted it would be necessary to consider how it was to be used. If related to the unit assessment of each property the resulting adjustments would be reflected in changes for all properties in the valuation list. But there would be difficulties. Dwellings would remain fixed in one value band regardless of whether they had originally been at the top or bottom of the range of values covered by that band. Underlying values would remain unchanged and when the periodic valuation adjustment took place the change would be very noticeable even though the unit assessment might be little altered because of the annual

(1) About 1½ million Particulars Delivered are forwarded to Valuation Offices each year and, under a phased computerisation programme, are held on computers in about one third of England. This information source would keep down the production costs of the MPT index, which might also have a commercial value for other purposes.

updating. It would be difficult to counter the buoyant effects of wholesale increases.

82. By contrast the application of an indexation factor to the capital value of each property would be more satisfactory. The property would first move within the value band and would only be affected by the process of annual updating when its value moved to another band with a different unit of assessment. Capital values would thus be seen to be increasing and the necessary periodic valuation adjustment would be that much more acceptable.

Buoyancy

83. Under either system - the indexation of units or values - the result would be an increasing tax base as year by year assessments crept up. This has implications for tax poundages (as mentioned in paragraph 25). There would however appear to be a buoyancy in the new arrangements which the present rating system (without revaluations) lacks.

Indexing the Bands

84. If it were felt desirable to counter this buoyancy effect and to concentrate attention on relative value shifts, the value band element of each unit of assessment could also be updated annually. The factor to be used would be another matter to be considered in developing the indexation approach (paragraph 78). There could be one national factor, or several regional ones. In either case the indexation process would have regard to the available sales evidence but this time it would be analysed merely on an average basis for all properties, not by reference to changes between property types.

National Factor

85. Using one national banding factor for the value

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bands ^{reduce but} would not eliminate buoyancy in those areas where property values were rising faster than the national average. It may assist to give an example of how a national factor could operate:

On the initial revaluation a property is valued at £28,000 and falls within a value band of £20,000 to £30,000. All properties in that value band in that area are attributed 400 assessment units.

The following year the property group factor for that property for the annual updating is 1.15 taking the indexed "value" to £32,200. The banding factor for the year is 1.10 so that the 400 unit band range changes from £20,000 - £30,000 to £22,000 - £33,000. The property therefore retains its original assessment of 400 units.

86. Where the range of property group updating factors was close to the national banding factor, few properties would change bands. Where they were generally above the national factor properties would tend to move up and change bands but at a much slower pace than if no national banding factor had been applied. In areas where local property group factors were generally below the national banding factor, properties would actually tend to go down into lower bands, reducing assessments and the MPT area tax base.

87. The disadvantage of this arrangement is that although some authorities would see their tax base diminish (where property values were increasing at a slower rate than the national average), others would retain an element of buoyancy (where values rose more than the average). This might create pressures on the system.

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The retention of rate equalisation (paragraph 25) would redress the balance between regions. Without it, the impact of this buoyancy would be moderated by the effect of unitisation; many properties although their values would rise on the annual updating would remain in the same band of value and the unit assessment would not change.

Appeals

88. Annual updating will only be viable if it can be made compatible with the sense of fairness which MPT payers would expect from the system. One important aspect of this is the appeal arrangements. There would be no scope for appeal rights to be given in respect of the banding factor, whether it was national or regional. It would either be based upon published statistics or a tailor-made factual analysis. But there would be other aspects of the updating process that could be appealable and these are considered at Section 9.

PERIODIC VALUATION ADJUSTMENTS

89. Although annual updating by indexation would ensure that assessments were kept in line with broad market trends it would still be necessary to undertake periodically an individual valuation adjustment exercise to pick up the finer movements in relative values. This process would be necessary because eg of shifts in relative values within particular localities that could not be reflected by the broad indexation of property groups. Similarly, the relative values of different properties within the defined group might be moving at different rates due to circumstances affecting individual properties.

Frequency

90. In considering the frequency of such periodic

adjustments it would need to be borne in mind that they would require significantly more resources than annual updating (see paragraph 164). The valuation adjustment process would be more obvious to MPT payers than annual updating first because of the number of sales enquiry forms to be sent out (probably about one million) and then because of the greater number of changed assessments that would result. There could therefore be a desire to delay the process of adjustment as long as possible.

91. The length of the period between valuation adjustments would be determined by the quality of the annual updating system and its associated appeal provisions. If the updating were a refined exercise, valuation adjustments could be less frequent. If, however, the updating mechanisms were cruder, the case for more frequent valuation adjustments would be stronger. The range of choice could be between three and ten years and it may be considered that a period of six years was the optimum for the sort of system envisaged. It would be possible to run the annual updating exercise for a year or two before having to take a view on the timing of the periodic valuation adjustment. This view could be based on a judgment of how effective the annual updating was proving to be - established by test sampling specifically selected areas.

Presentation

92. The rolling programme of annual updating and valuation adjustment would be presented as a necessary feature to keep pace with changes in relative values and maintain fairness between individuals. Because the number of changes in particular assessments in any one year would be small, adverse reaction should be minimised particularly if adequate appeal mechanisms provided reassurance about uniform treatment. Annual updating

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would be rather less perceptible than periodic valuation adjustments when banding and unitisation patterns might also be changed.

Summary

93. The change to a new system could not be managed imperceptibly, but its impact could be modified by the combined effects of unitisation and transitional relief. Updating could then be achieved in two ways. First, the values could be revalorised annually by the use of a property index and the application of factors to both property values and value bands. Then, at periodic intervals an individual valuation adjustment could be made to pick up the finer movements in relative values.

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7. TRANSITIONAL RELIEFS

94. A revaluation can produce a wide variety of relative shifts in rate burden even when the value base is not being altered. As Scotland recently demonstrated the result can be dramatic both as between the commercial and domestic sectors, and within them. Sudden increases in rate bills can have serious effects on householders and commercial occupiers alike.

95. With the modified property tax there are two separate occasions when a shift in tax burden could occur:

- (i) on the initial change to the new system,
- (ii) on the annual updating, and
- (iii) on the periodic valuation adjustment.

(i) Initial Change

96. At the last rating revaluation arrangements were made enabling transitional relief to be given by local authorities (DoE/WO circular issued on 13 March 1973). In addition to increasing the domestic element of rate support grant, to restrain the average increase in domestic rates, there was a scheme to limit individual rate bills. This involved each rating authority in the calculation of a factor which represented the increase in rates which would have arisen because of changes in expenditure had there been no revaluation. Relief was thus precluded when the increase was not a result of the revaluation but of additional rate poundage. Any domestic ratepayer whose rate bill exceeded his previous bill multiplied by the factor for the rating area, was entitled to relief equal to half the excess. That relief was then payable in full to domestic ratepayers, but only half the

appropriate relief was payable to the occupier of a mixed hereditament (such as a small shop with extensive living accommodation above), and only one-third to a ratepayer in receipt of full rate rebate, not on supplementary benefit and receiving the maximum fraction of rates assistance under the rate rebate scheme as it then existed.

97. A working party set up by DoE in 1977 to devise means of cushioning the change to straight capital values came up with one scheme that was based on the change of rateable values. Account was to be taken only of that part of the variation in value that arose from the change in the method of valuation. Again some consideration was given to alternatives which might, for example, have provided longer periods of transitional help for those properties affected by the greatest change.

98. On a change to MPT, although some of the more extreme effects of the change could be ameliorated by unitisation, there would still be cases where the rate bill was considerably increased. The avoidance of those steep step changes would necessitate transitional relief which might operate with regard to the following differences:

- rate and MPT bills,
- part of the variation between rateable values and unit assessments,
- a straight comparison between those two.

Alternatives

99. The simplest approach would be to link transitional relief to actual MPT bills not to rateable value/unit increases. This would be straightforward to operate and readily comprehensible provided there was no adjustment

to be made for items such as errors in present rating assessments, Section 21 items,⁽¹⁾ or excessive local authority spending. Yet this last factor argues against such an approach for if local authorities tried to maximise their income and were not restrained from doing so the concept of accountability suggests that the local taxpayers should not be shielded. For that reason the 1973 scheme of domestic relief (paragraph 96) incorporated a factor which was tailored to the spending patterns of each authority.

100. In the recent Scottish revaluation it was not appreciated that the redistributive effects were likely to be so severe and therefore no transitional relief arrangements had been prepared. The rescue operation took the form of an adjustment to the overall balance between the industrial and domestic sectors by additional domestic rate relief and providing direct help for the worst affected ratepayers. Relief was confined to those who experienced a rateable value increase of 200 per cent or more (a multiplier of 3).

101. Any scheme which applied only to part of the variation in rateable values and unit assessments would now be extremely complicated to operate. First, a revaluation not only takes account of shifts between property types and localities, but also has regard to errors that have to be corrected, or structural alterations like extensions that may not previously have been included in the assessment. Because of the impact of Section 21 (paragraph 99), any attempt to adjust the relevant rateable value for any scheme of relief would be very costly in resource and manpower terms. A Valuation List could

(1) Since the introduction of Section 21 of the Local Government Act 1974, there has been a sharp increase in the number of central heating installations and small extensions which have been excluded from domestic assessments during the currency of the present valuation lists. It is estimated that there are now two million properties where such small alterations will only be reflected as a result of a full revaluation.

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be produced which included a series of transitional assessments, either to take account of steep increases, or to adjust for other factors, such as Section 21. But that would be a major additional complication to the system, computerisation notwithstanding.

102. Transitional relief for the initial change of system would therefore appear to be most suitably related to a straight comparison of present rateable values and future units of assessment. But before illustrating such a scheme and considering matters such as the timing of the relief and its funding, it is necessary to consider whether any relief would be necessary on the other occasions when a shift in the tax burden could occur.

(ii) Annual Updating

103. Applying adjustment factors to a large number of properties in the different property types, and to the bands of value, should result in broad adjustments which would move a number of properties into new bands. But if the system works properly there should be little need of transitional relief as the changes will be moderated by the averaging process inherent in the statistical exercise (paragraph 76).

104. Any scheme based on a relationship between rateable values and unit assessments would moreover be made more complicated by the annual updating process. Transitional arrangements which spanned several years would need to take account of the fact that the original unit assessment could be updated during the period when relief was being enjoyed.

(iii) Periodic Valuation Adjustments

105. Annual updating will be aimed at making sure that any periodic value changes will only have a limited

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impact on most rate bills. But there will be some property types and value localities where the cyclical valuation adjustment process has a relatively greater impact than for the majority of properties. How many properties would be affected would depend entirely upon the flexibility given by the updating arrangements. If, for example, it were decided that any factorisation had to be restricted to large regions and very broad property types, making use of published property statistics, it is likely that the periodic adjustments for individual properties, at say six yearly intervals, could produce some quite significant value shifts. By contrast, if the updating were more closely tailored to rating authorities and a detailed set of property types, there might be very little adjustment necessary and therefore no transitional relief on updating needed. The wider considerations about the choice of a system of annual updating are contained in Section 6.

106. If the updating system operates as expected, there should be little call for transitional relief at the periodic valuation adjustment stage. The possibility cannot, however, be ignored that there could be greater changes of assessment than presently expected as some categories of property within a defined group are adjusted upwards. At this stage it may only be necessary to have a system which includes the possibility of transitional relief at the periodic valuation adjustment stage, if it should prove necessary.

107. If, however, it were desired to assure MPT payers that the new tax would not involve large and unexpected changes then it may be desirable in principle to extend the transitional relief arrangements to cover the periodic valuation adjustments. Any transitional arrangements would cost comparatively little to run for the benefit of the few taxpayers affected and would represent a reassurance for ratepayers in the presentation of the scheme.

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MECHANISMS

Funding the Relief

108. Transitional relief can in principle be self-financing. The gainers forgo gains and the losers are protected correspondingly from increased charges. But such a scheme may have a limited life because of pressure from gainers. Two or three years might be the limit. If transitional relief of this kind emerged as the preferred option and its financing were contained within the local authority concerned, the grant of relief could be at the direct expense of not just the gainers but also the comparatively smaller losers in the locality. For that reason previous schemes have operated through central government grant, when relief has been borne indirectly over the entire country. Such relief, as Scotland illustrates, can however be expensive and represents a subsidy from taxpayers to ratepayers. This kind of cross subsidisation is better avoided if possible and the better course would be to phase in both increases and decreases over a set period. This has its presentational difficulties, but they may be overcome by the early announcement of Government intentions, namely that henceforth in the interests of a smooth transition from one system to another and then from one cycle of values to another it would become standard practice for such changes to be phased in, whether to the advantage or the detriment of the MPT payer.

Timing

109. The duration of any transitional reliefs would need to be considered in relation to the preferred cycle of periodic valuation adjustments (discussed in paragraphs 90 and 91). It might be felt that a three year period of relief was about right for the initial change to the new system, to take account of the large

movements there might be for some properties. If, once into the new system, the valuation adjustments occurred at five yearly cycles there would then be two years in which the full assessment was the basis of charge. The changes would be modest when the periodic valuation adjustments were made because the annual updating would smooth the adjustment process. If a permanent scheme of transitional relief was required once the new system was operational it might well be adequate to provide relief for only the first year of that five yearly cycle. But provided the machinery is flexibly enough designed it would not be necessary to take firm decisions on the duration of transitional relief far in advance of the event.

Summary

110. Transitional relief would be necessary on the initial change to the new system and it could best be given by a straight comparison between the former rateable value and the new unit assessment. It could be needed for an initial three years, but would not then appear necessary for the changes resulting from annual updating. Whether or not a limited form of relief would be needed when the periodic valuation adjustment occurred could be finally decided much nearer the time of the first such adjustment.

111. Transitional relief would combine an assurance to all householders that there would be adequate machinery to shield them against sudden changes in liabilities with a means of reaching the full tax base for local authorities after an initial period of three years. The relief could be revenue neutral. An illustration of how such a transitional scheme might operate is given at Appendix 8.

8. OCCUPANCY RELIEFRationale

112. Dissatisfaction with the present rating system often centres on the unfairness which it is claimed to exist in that the one-adult householder making little call on local services might incur the same rate bill as the household with several earners. The question which underlies this complaint is whether rates are a personal tax or a charge. If the former then ability to pay is the prime consideration; if the latter the services enjoyed should be related to the contribution made. Under the present rating system there is no direct income relationship (except for the means-tested housing benefit). Nor is there necessarily a direct link between the nature of the occupation and the services consumed. Thus an aged and incapacitated widow in receipt of housing benefit may be making more demand upon local services than a household of four income earners. It is possible to maintain that occupancy has income connotations (although national variations in property values are considerably larger than income variations) and that rates therefore lie closer to a tax than a charge. But there is no doubt that many ratepayers perceive rates primarily as a charge.

113. It is not easy to build up an argument on the basis of a clear view of the nature of rates or of a successor tax. There may however be virtues in imprecision. If it is desired to recognise the widely held view that there should be some relationship between household numbers and deemed benefit from occupancy it may indeed be desirable to stress the charge dimension in a property tax. It may go some way to reducing resistance to change.

114. It is also in our minds, as Ministers have already recognised, that there may be the possibility that a property tax could be introduced together with some other local tax - a residents' charge for instance. But the objection to this course of action, attractive though it is from some points of view, is the burden of multiple administration. If the two taxes could be combined this objection would be alleviated. It is certainly possible to contemplate a property tax combined with an occupational charge. This could take the form of an occupancy related premium added to the MPT unit value (if that were the system adopted) - with a linear or non-linear progression as desired. The problems of setting up such a system are among those which have to be solved for a residents' charge. These are being examined by a separate working group and rather than attempt to duplicate their activities, we limit our comments to noting the attractions of combining a property tax with an occupancy charge.

115. An important consideration here is that such a combined charge would be household related. The occupier would remain the person liable to pay the assessment including the occupancy element. It would then be for him to take a view on the impact of that charge on the other members of the household who contributed to the occupancy element in the charge. It is not self-evident that that element should not be passed on either implicitly or explicitly in the financial adjustments between the occupier and occupants.

Earlier Work

116. We have therefore concentrated our attention on occupancy relief. The link between occupation and services has been examined in earlier studies. The Ministerial Group on Local Government Organisation and

Finance (MISC 79) recommended to Cabinet (in January 1983) that there should be a scheme of discounts for single person households. When the Cabinet reconsidered the issue in May, views were divided on the merits of the suggestion. It was argued that the rate rebate scheme provided all the assistance necessary and that further relief would create new difficulties. More work was undertaken but with rate capping in prospect it was felt that the context had altered sufficiently to warrant no further action.

117. Since then there has been the Fowler review of housing benefit as well as more public debate about occupancy. It is therefore timely to review the arguments that have been advanced in the past and to re-examine the possibilities in the context of a new property tax.

118. A preliminary question is the impact which it is desired that occupancy should have on MPT assessments. Another way of expressing this question is to relate it to the so-called 'property' and 'people' elements of the tax. With an occupancy charge the relationship is immediately obvious; the charge element itself represents the 'people' element. But with occupancy relief the effect is indirect. The charge on the unrelieved households is increased by the reliefs going to the relieved households. The 'people' charge element is thus less perceptible for the large adult household; the mechanism is seen primarily as a discount reflecting eg a lesser call on the rating authorities' services. The size of the discount and the numbers qualifying for it determine the burden transferred to the unrelieved householders. Consideration is given later to the financial implications of this mechanism (paras 142 to 144), and whether the discounts should be centrally or locally determined.

Possible Options

119. All discount schemes depend upon reducing the

MPT bill and therefore conferring relief upon the taxable occupier. This is fundamentally different from any arrangement which might levy a charge upon additional occupants which would be a proxy for a residents' tax.

120. This paper discusses four discount options:

- (i) a discount for all but large households;
- (ii) a single earner discount;
- (iii) a single adult discount;
- (iv) a pensioner household discount.

121. All these alternatives raise similar administrative issues - the form of the discount, the means of notifying the MPT payer, and the definition of occupancy. Those problems are mainly considered later but one practical aspect is crucial at the outset. To avoid the need for a register of residents and all the attendant costs and complications, it would be possible to issue MPT demands on the basis of a standard occupancy assumption leaving occupiers to apply for the discount to which they were entitled. If the MPT demand were structured in a way which made self-assessment possible and the claim were supported by an occupancy declaration, an appreciable amount of administrative complexity and cost of taking account of occupancy could be saved. There would be scope, particularly after the social security reforms emerging from the Fowler review, for treating claims for housing benefit as a simultaneous claim for occupancy relief in appropriate cases, although this would only pick up some of those who would be entitled.

122. The question is at which level could the standard assumption be pitched? Dividing households into categories

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broadly, though not absolutely, parallel to the four main options suggested above would produce the following broad percentage split (children under sixteen being ignored):

	<u>England</u>
(i) Large adult households(three or more adults):	30%
(ii) Two adults:	50%
(iii) One person households:	20%
(iv) Pensioner households, included in (i) to (iii):	30%

123. Where several households lived together in one property it would be necessary, for ease of administration, to treat them as one large adult household. The alternative, where the accommodation was self-contained, would be for an alteration to be made to the MPT assessment, following which regard could be had to the precise circumstances of each separately assessed household. But such an approach would make for administrative difficulty.

(i) All but large households

124. If the standard charge were pitched at the level of the multiple household (ie three or more persons aged sixteen or over) 70 per cent of occupiers would be entitled to occupancy relief, a formidable administrative prospect for local authorities, and a great deal of disturbance for occupiers (who would have to claim - more forms! - or lose their relief). It would be a particularly disturbing exercise for some of the householders concerned, especially the elderly, who might feel harassed by the enquiries being made and the declaration which would

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be necessary. But it would allow the possibility of granting graduated relief, eg for couples at one rate, single occupiers at another. Once the claiming process was over the number of satisfied occupiers would be increased and the link between the cost of providing services and the number of occupants who might consume them would be strengthened.

125. There are considerable advantages in adopting the two adult (50 per cent) band as the standard charge, and offering discounts to one person and pensioner households and levying an occupancy charge on the large households. This takes us back to the question of an occupancy charge (see paragraph 114). The combination of an occupancy charge and occupancy relief may be a useful way of reducing the administrative problems associated with a residents' charge. In this combination only the larger households give rise to these problems - a valuable simplification in concept and in the potential resource costs. This is not to say however that the path would be suddenly smooth. It would, for instance, often not be possible for the occupier to act as an intermediary to recover payment from the qualifying occupants. They might be dependants, aged or infirm. For example, the householder might be a widow with no alternative but to give shelter to her unemployed and unmanageable offspring.

126. To take account of multiple occupations such as properties broken up into bed sitters there would need to be an occupancy charge, yet it would be difficult to administer. Because the occupancy pattern would be constantly altering, policing of occupation would be haphazard. Rates are often levied upon the landlord because of that mobility and recovered as part of the rent. However, many such multiple occupations

are already rated either as separate hereditaments or as non-domestic properties (boarding houses, guest houses or houses let in parts). As such they are excluded from domestic rate relief, as presently structured, and it may be concluded that a part of this most difficult category of occupation would therefore be removed from consideration for the purposes of either occupancy charge or relief.

127. If 70 per cent of households qualified for relief it would follow that the remaining larger households would be liable to increased MPT bills. Yet the larger households might often be the least well off and there would be pressure for a system of exemptions and reliefs which would add to the difficulties of administration. But again this is a problem which must fall for consideration first in the context of a residents' charge.

(ii) A single earner discount

128. To minimise the burden of an occupancy test it might appear attractive to focus on those households where there was only one earner. This would span the first three of the categories previously mentioned (including the large adult household).

129. About 60 per cent of all households have only a single earner (or no current earner) and would be eligible for relief. The scale of the relief is compounded by the additional complication of defining and then policing the "earner" qualification. To avoid a register of earners, self-assessment would again be necessary. But it might not be possible or practical to require the householder to provide the relevant information. He might not know, or be able to find out, about earnings of other occupants especially if unearned income were included. There might be no way for the local authority

to cross check any information provided. The definition of "earner" would need to specify full time or part time work, and it would be a source of irritation if unemployment occurred but no relief from MPT were immediately available.

130. The introduction of the concept of earner would be an invitation to seek an earnings limit. Without this there would be no relationship between the earning capacity of a household and ability to pay. It is difficult to see any scheme of this kind emerging which did not have an income ceiling above which full rates were payable. It is also difficult to conceive of a situation in which income other than earned income could be excluded from qualification. This would create compliance problems and introducing an income limit would vastly increase the problems of disclosure and administration, and result in the charge on non-qualifying households being significantly increased if a worthwhile discount were to be given to those entitled to relief.

(iii) A single adult discount

131. For these reasons the earlier studies concluded that the only manageable option was one which conferred relief upon the 20 per cent or so of single adult households. The amount of discount involved would not result in prohibitive increases to the other MPT payers and there would be no problems about defining earners or the level of income.

132. Nevertheless some difficulties would remain. The claimant for the relief and the occupier would be identical. There would be no possibility of a conflict of interests (as might arise in the two-adult case). There would, however, almost certainly be pressure to extend the relief to qualifying dependants other than

children - the aged, infirm, disabled or unemployed. There would be no obvious correlation between ability to pay and single adult status. Some two parent families with children might, on income grounds, be significantly more deserving of relief. Further, over half the households who would become eligible for a discount are at present already in receipt of housing benefit.

(iv) The Pensioner Households

133. There is no particular rationale for basing occupancy relief on whether or not the householder is a pensioner. Pensioners who need assistance with their rates can get it through the housing benefit scheme: supplementary pensioners normally get a full rebate (although the Fowler review has proposed that everyone should pay a minimum of about 20% towards their rates in future) and many poorer occupational pensioners get a partial rebate. Overall, nearly 60% of the households getting help through housing benefit are pensioners.

Other Considerations

(a) Housing Benefit

134. In general terms, any attempt to limit the qualifying category for occupancy relief to particular groups according to low income increases the potential overlap with housing benefit. But extended to all single adult households occupancy relief would be a means of establishing a closer link between MPT paid and services consumed, and of removing the grievance felt by single householders, especially for those who did not qualify for housing benefit - leaving the latter with a distinct role as a means of assistance for those unable to pay their MPT bills. It should be recognised, however, that such a limited category of occupancy could be criticised

as resting more upon emotional and presentational considerations than upon rational analysis.

135. A further point needs to be made in relation to housing benefit. The proposed changes to the scheme resulting from the recent review, in particular the minimum contribution of about 20%, will significantly reduce assistance with rates. Occupancy relief could be presented as a way of reducing the impact of these changes if Ministers wished, although given the likely timing (with the housing benefit changes being introduced perhaps two years earlier), it is possible that restructuring the present rating system will to an extent undermine the benefit changes. This issue will need further consideration in the light of Ministers' decisions.

(b) Second Houses

136. The question will arise whether occupancy should affect the assessment on a MPT payer's other properties. The choices are:

(a) to provide the same measure of occupancy relief as runs for the principal residence;

(b) to relate the relief to the occupancy status of the second house itself (eg if the husband lives mainly in the one and the wife mainly in the other to treat each as in single occupation (even though the husband continues as ratepayer for both);

(c) to provide no occupancy relief for the second house.

The last option has simplicity to commend it. It would cut down administration, put a slight loading on second

houses the ownership of which may well be thought to imply income to meet it.

(c) Administration

137. A method of issuing MPT demands on a standard occupancy assumption has already been suggested. Eligible occupiers would claim any relief and support the claim with a suitable declaration. That approach would suggest as straightforward a scheme as possible with few, if any, exemptions, apart from dependants under a qualifying limit. The minimum age (eighteen would be the most appropriate - possibly also the over-18s continuing in full time education or training) could be related to a certain date without difficulty, but the test of occupancy itself would be more difficult.

138. A qualifying date alone as used for most census purposes or for the electoral roll, would be unreliable. Occupants might quite genuinely be away on that date: or they might arrange deliberately to be away - perhaps abroad or at a hotel - or they might claim to have been away. It might be difficult to prove the facts. Any scheme which depended upon adjustment of liability whenever occupancy changed during the period of charge would be equally difficult to administer.

139. A scheme might be developed which combined the use of a qualifying date with a qualifying period. The occupier would then be asked to declare all occupants actually and ordinarily resident on a certain date (say 5 April). The definition of "ordinarily resident" could be by reference to a period of say three months during the preceding year, either a general period (anyone who was resident for more than three months out of the last twelve) or a specified period (anyone who was resident for the period 1 January to 31 March, excluding continuous

absences of less than say three weeks during that period).

140. The difficulty would remain that however the concept of occupancy was defined there would be cases where a single resident was denied occupancy relief during the period of charge because of circumstances prevailing during the qualifying period which had subsequently changed. It might therefore be necessary to look back either at the six monthly interval (when often another rate demand is sent) or at the end of the cycle of charge and make any retrospective adjustment, although this would be an undesirable complication. As extra adults in a household reduce any housing benefit available, there is already an obligation for qualifying householders to notify any material change of circumstances. That rule might need to be extended to single adults who qualified only for occupancy relief.

141. We are conscious that the problem of defining occupancy will also present itself in the context of a residents' charge. The work on the two definitions will need to be considered as a whole. It has not been possible because of the different work phasing of the groups to integrate the work on the definitions to produce an agreed analysis and this will fall to be done in the light of Ministers' decisions on the general direction of change which they wish to see followed.

Financial Implications

(a) Form of relief

142. Flat rate relief could be given to qualifying occupants or a percentage discount made to MPT bills. Unitisation affords the opportunity of discounting a certain number of units for the relief which when multiplied with the local poundage would produce a variable amount, either x number of units or x per cent of the units being discounted for a qualifying category of occupation.

143. A percentage discount would be perceived as more equitable and it would strengthen the existing link between the size of the dwelling and the amount of services consumed. In earlier work a 35 per cent discount was contemplated when it was estimated (in 1982) that over 90 per cent of households would gain or lose less than 1½ per cent of gross household income and virtually all gains and losses would be less than £4 per week. The gains were seen to be concentrated to a large extent at the lower end of the income scale. If this relief were thought worth further development more work would need to be done on gainers and losers at a range of different percentages and with regard to the post-Fowler housing benefit regime. The potential impact of the forthcoming personal tax Green Paper will also be relevant.

(b) Funding

144. Much turns on the arrangements for funding and the level of the relief conferred. It could be expensive in those areas with a high concentration of qualifying occupiers and could have the effect of narrowing the local tax base.

Summary

145. The larger the relative number of beneficiaries, the greater the burden on non-relieved households if there is no central funding. Thus if the objective is to make the large households (3 adults or more) pay more, the relieved categories should be as wide as possible (in effect all the rest - with graduated discounts). But this adds greatly to the complexity of administration and to the compliance burden on householders and rating authorities. It would be possible to contemplate an occupancy charge for large households, a standard charge for the two adult household and graduated discounts for the rest but this depends in part on the problems of

a residents' charge being solved and in part on the administrative implications of a mixed system.

146. Occupancy relief is not without its problems. For simplicity, it could best be limited to the one adult household (there are sub-categories: the widow/widower or the single aged) preferably without exemptions (except for children and perhaps students) or to the pensioner household, or to both. There would be pressure to allow exceptions which would need to be resisted in the interests of sensible administration. There would be some overlap with housing benefit arrangements and some criticism that it either duplicated that relief or helped those who merited no relief. But it would serve as recognition of the criticism of a system which otherwise levied the same charge on similar properties irrespective of the number of occupants, their combined incomes, and the demands they placed upon services.

NUMBER OF PROPOSALS MADE FOLLOWING REVALUATIONS
(England and Wales)

1966 List		1967 List		1971 List	
1966/67	1967/68	1966/67	1967/68	1971/72	1972/73
287,252	287,796	287,283	287,797	288,124	288,637

148. After the 1971 revaluation the number of appeals declined until 1976/77 when 125,000 were received. They then rose steadily until 1983/84 when the number was

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9. APPEALS

Appeal Rights

147. The Layfield Committee Report coupled its recommendation about the use of capital values with suggestions on several other rating matters, the foremost being the need to limit the right of appeal against assessments. At present a ratepayer in England and Wales may appeal at any time and for whatever reason against his own rating assessment, a right which can impose a heavy workload on the Valuation Office and the Courts. The Layfield Report illustrated the scale of the problem by incorporating the following table of proposals made by ratepayers following revaluations, the 1974/75 figure being the product of high poundages in April 1974:

NUMBER OF PROPOSALS MADE FOLLOWING REVALUATIONS
(England and Wales)

1956 List		1963 List		1973 List	
1956/57	1957/58	1963/64	1964/65	1973/74	1974/75
967,892	99,796	881,183	84,797	786,124	224,617

148. After the 1973 revaluation the number of appeals declined until 1978/79 when 125,058 were received. They then rose steadily until 1983/84 when the number was

164,074. In 1984/85 they dropped to 160,637.

Limited Right of Appeal

149. The Committee observed that if revaluations in the future were regular and frequent that should itself reduce the number of appeals, since the process would be better understood and value shifts would be less dramatic. But to take some strain off the appeals machinery they concluded:

"We consider that it would be justifiable to limit the ratepayer's rights to make a proposal beyond the first year following revaluation to cases where there had been a material change in circumstances affecting value, or a change of occupier. This procedure, which obtains in Scotland, should discourage appeals stimulated by rate poundage increases without depriving anyone of a legitimate opportunity to test the validity of his assessment." (Paragraph 88).

150. The report made one other relevant recommendation to modify the appeal process - that the great majority of cases should in future be heard and resolved by local Valuation Courts and that appeals to the Lands Tribunal should generally be limited to cases involving points of law or precedent, except by leave. This simplification may not be unwelcome to ratepayers for it would avoid costly litigation.

Other Possible Reforms

151. There are further possibilities which might rationalise the appeal process without reducing the individual's legitimate rights. At present a ratepayer may not only make a proposal seeking a rate reduction in respect of his own property but also to reduce or increase the assessment

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of any other ratepayer in the same rating area or within the area of a precepting authority. This has led to such peculiarities as a domestic ratepayer contesting the assessment of Arsenal football ground, and a determined crusader making several hundred proposals in respect of neighbouring property. This is hardly an appropriate use of an appeal machinery and could be considered in a composite recommendation to rationalise it. If it were decided to initiate public consultation on the new property charge it would be difficult to avoid including this proposal.

Appeals Against Updating

152. If the process of annual updating followed by periodic valuation adjustment (described in Section 6) were to be introduced, the question of the appropriate appeal rights would arise. For even when both property group and value bands were indexed (paragraph 84) some MPT payers would move into higher bands as a result of updating. In view of their historic rights, those occupiers might well feel that any increase in assessment from whatever cause should be accompanied by a right of appeal.

153. If it were considered desirable to provide such a right of appeal when the updated property value moves into a higher value band, the right could be related to:

- the property group updating factor (whether national or local),
- the original valuation,
- the property category being used, or
- some combination of these possibilities.

154. An appeal against the group updating factor would

be difficult to contemplate. First, there would be the scale of its application. If it were limited to one locality (eg Middlesbrough) then an occupier might be able to form a view about the annual increase appropriate for a certain property type. If the factor related to a region (eg Cleveland) it could be more difficult to assemble relevant information. A nationwide factor would be unassailable without co-ordinated information retrieval.

155. Moreover, the intention is that the factor would be entirely factual. It might be derived from separately published property statistics (paragraph 75). Otherwise, and preferably, it would be the product of a large-scale computer analysis of sales for different property types. Whatever the method adopted, the aim would be to produce and apply an indexation mechanism which served to adjust valuations broadly in line with the average movements of the market for a whole range of property types. The result would be a proxy for a new valuation.

156. For that reason it would be inappropriate to allow occupiers a general right of appeal against indexed property value. It would be possible to allow a limited exception to what would be the general rule (as suggested by Layfield - no proposal beyond the first year after a revaluation). This might take the form of a right of appeal against the original valuation, that resulting from the initial change to the new system or thereafter by the valuation adjustment process, and/or against the property category into which the property fell and to which the indexation factor was being applied.

157. Adapting the Layfield approach, an MPT payer would have a right of appeal against the original valuation:

- in the first year following the determination of a new value,

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- when there had been a material change of circumstance,
- on a change of occupier, and
- when the application of the annual updating factor had lifted the property value into a higher value band.

158. If it were decided to adopt an arrangement using many different factors for different localities and/or property categories it might also be necessary to extend the right of appeal to the categorisation of the property in question. But provided the categories were essentially factual (as indicated in paragraph 76) resolving such an appeal should be relatively straightforward. However, any final decision about appeal rights could only be made once the updating arrangements had been decided.

159. There are a number of organisational matters that require attention, most prominently that of Section 21 of the Local Government Act 1974 - which has been referred to several times in this report. Those are considered in Appendix 9.

Summary

160. Adequate appeal rights will be necessary if the MPT is to be acceptable to ratepayers who are accustomed to wide ranging rights under the present system. The opportunity could be taken to modify the rating appeal process upon the occasion of the change of system and subsequent periodic valuation adjustments both with regard to time (one year following the event) and place (the Local Valuation Court). Appeals against annual updating could be limited to the original valuation or the factual property category.

10. ADDITIONAL RESOURCES

161. Appendix 10 indicates the estimated Valuation Office manpower requirement for a conventional capital value based revaluation if it were to take effect from 1990. But this presentation of the requirement as an additional need implies that we could continue with the existing system. Short of abolition, some changes would be unavoidable. The reintroduction of continuous referencing would be necessary. If the system were to be retained in anything like a tolerable shape. A retype of the domestic valuation lists, which are disintegrating, would have to be undertaken and it might be impossible to maintain the present exclusions conferred by Section 21 Local Government Act 1974, because of their increasingly disruptive impact.

162 If account is taken of these factors the picture is substantially changed. Paragraphs 166 to 168 suggest the additional costs likely to arise simply on maintaining the present system. Moreover, computerisation offers the prospect that the total requirement of 5,000 man years might be reduced by around 2,500, and further work into this possibility is proceeding. But the initial transfer of information onto a computer system would probably require about 1,400 man years so that computerisation really offers longer term resource savings together with the prospect of a system that could be more frequently and economically updated. It is also necessary to consider how the costs of some of the elements of the proposed package compare with the resource need for a conventional capital value based revaluation as set out in Appendix 10 .

Banding and Unitisation

163. At the revaluation stage the manpower requirement

for a narrow banded scheme is likely to be similar to that for a conventional capital value based system. Some savings might be possible with a wide-banded system but as the effects on the appeal burden are uncertain it is not possible to predict potential savings. However, if carefully operated, a narrow or medium banded and unitised scheme could reduce the redistributive effects of a change to capital values and thus ease the transition and reduce the number of appeals. An appellant could either be given the right to challenge the value band appropriate to the property, or the precise capital value. The first could reduce the appeal workload of the Valuation Office (and of the local Valuation Courts) compared with the second, but there may be administrative reasons why the determination of the actual value would be more satisfactory. There would be no appeal against the unit to be applied.

Periodic Valuation Adjustments and Annual Updating

164. Periodic valuation adjustment will require much the same resource commitment as a conventional but computerised domestic revaluation, ie about 2,500 man years although longer term development of computer processes might make inroads into this. The annual updating process should be significantly more economical, requiring no more than 150 to 200 man years.

Occupancy and Transitional Reliefs

165. It is not possible to cost these arrangements at this stage but they could be sensitive because the charge might fall on rating authorities.

Additional Resources Requirement in the Absence of a Revaluation

166. Continuous referencing: If some form of property

tax is to be retained it will be necessary to recommence the continuous referencing programme whether or not there is to be a revaluation. This would entail a long term need for at least 300 staff in post. The revaluation staff estimates make provision for limited re-referencing and in the event of a revaluation the start of any additional continuous referencing programme could probably be delayed until the new valuation lists were in force.

167. Replacement of existing lists and summaries: Copies of existing valuation lists and summaries of valuation details are now in a very poor physical state. They were only intended to last for five years but due to successive revaluation postponements have already been in constant use for twelve years. In the absence of a revaluation these documents will have to be replaced at some stage. If the task is done manually about 2,650 man years of work will be involved although about two-thirds could be done by casuals. Computerisation might reduce this requirement by some 45 to 50 per cent.

168. Section 21 Local Government Act 1974: Appendix 9 outlines the problems to which Section 21 gives rise. In the absence of a revaluation it seems inevitable that the growing feelings of unfairness caused by this provision will be manifested in increasing dissatisfaction with the provision. At a revaluation the problem would be readily resolved. First, as the proscribed items added since 1974 would be reflected in the updated valuation list, the costs would in effect be subsumed into the revaluation costs. Secondly, the opportunity could be taken to cancel the provision by legislative action at a time when there would be no immediate losers. Action without a revaluation is much more difficult. The manpower required is in the region of 2,650 man years making it a major task. Some properties would require re-inspection after the lapse of time involved, and a large volume of appeals is likely. There would be about two million

recipients of proposals for increased rates - all of them losers - and some of the increases would be in respect of alterations carried out ten years ago, in many cases by previous owners.

Summary

169. The costs of maintaining the present domestic rating system, without a revaluation will inevitably rise. Changing to a conventional capital values system would require substantial additional manpower and resources and the change to MPT is likely to be broadly comparable. Computerisation could have a substantial impact, but requires further development as the preferred scheme takes firmer shape. Periodic valuation adjustments will require broadly similar resources to those required for a revaluation. Annual updating would be significantly more economical.

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MODIFIED PROPERTY TAX SUB-GROUP

MEMBERS

Mr B T Houghton (Chairman)	Inland Revenue
Mr O T Morgan	
Mr W Gonzalez	
Mr R Quinn	
Mr C J Thompson	
Mr L E Jaundoo (Secretary)	
Mr D B Hardy	Inland Revenue, Valuation Office
Mr M S Capon	
Mr P Fletcher	Department of the Environment
Mr P Ward	"
Ms J Rutter	"
Mr A Allan	HM Treasury
Mr M Haigh	"
Mr B Philp	Scottish Office
Mr C Forsyth	"
Mr G Morgan	Welsh Office
Mr D Brereton	DHSS
Mr M Rigby	Northern Ireland Office

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APPENDIX 2

(see paragraphs 13 and 22)

OTHER PROPERTY TAXES

Scotland and Northern Ireland

1. Scotland uses a rating system that is fairly close to the present rating system in England and Wales, though there are some differences. The main ones are that revaluations are statutorily quinquennial (though they may be postponed to a later specified date); valuation is undertaken by assessors who are employed by the local authority, not by the Inland Revenue; and valuations for domestic property use different assumptions (eg that of a notional balanced market).
2. Northern Ireland's rating system is different from the rest of the UK. Following the reorganisation of local government in the Province in 1973 many local authority-type functions such as education, housing, personal social services, roads and water were transferred to Northern Ireland Departments and appointed public bodies. Central Government strikes a rate - the Regional Rate - at a uniform amount throughout the Province to ensure that ratepayers continue to contribute towards the cost of these local authority-type services. The 26 District Councils continue to strike the District Rate fixed individually to cover the cost of such functions as recreation and refuse collection and disposal. The District and Regional Rates are both collected by the Department of the Environment for Northern Ireland.

Other Countries

3. Most Western industrialised economies have some form of property based tax comprising an annual levy on land and buildings. Information in this Appendix is based primarily on a 1983 OECD report on member countries. The attached table illustrates the main features of those taxes and the relative proportion of property tax to the national tax take. It is significant that in general these are not taxes that raise a large proportion of the total tax and the proportion raised by UK rates (in 1979 it was 9.51 per cent).

4. Although annual rental value is still used (notably by France), the majority of countries use the capital value of land and/or buildings or the site value (the latter mainly in New Zealand and the Netherlands). In fact Local Authorities in New Zealand are able to choose any of these three bases of valuation and the current preference is for site values. It is unclear whether any form of banding or unitisation features in the valuation process. But a number of countries (Germany, Japan, Sweden and several states in the US) reduce the impact of the underlying values of properties by converting the assessment to a percentage of the capital value. For example, in Sweden each property is given a valuation equal to 75 per cent of its market value, and the local authorities use 1½ per cent of the resultant figure as the base to which a tax rate is applied.

5. There is no evidence to indicate that an occupancy charge is a significant feature in any of these overseas residential property tax systems. This may be a consequence of the preference (except in France) for

making the owner rather than the occupier liable for the tax. Nevertheless, it is possible to construe the rudiments of an occupancy charge from the German system under which single family houses are assessed at 0.26 per cent of their value and two-family houses at 0.31 per cent of their value. The available information does not define either category of house, and it may be that the criterion is size rather than the number of occupants.

6. There is no commonly favoured period for revaluations and it is apparent that both France and Germany have failed to keep pace with the requirement for six yearly revaluations. Instead there appears to be a trend towards making valuation a continuous process. The French appear to have adopted a process with four constituent parts:-

- (a) an annual update to take account of physical changes to the property;
- (b) a fixed annual increase to values based on a crude index;
- (c) "trending" every three years based on calculated co-efficients, and
- (d) a general revaluation every six years.

7. Some countries have been able to make use of computerised systems and Denmark hopes to have annual revaluations from this year (1985). In other cases, notably some states in Australia, Canada and the USA, cyclical revaluation procedures have been adopted whereby a proportion (say $\frac{1}{4}$) of the housing stock is revalued each year and the value of the remainder is adjusted by reference to an index, perhaps derived by calculating a general rate of change for the revalued properties.

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SUMMARY OF ANNUAL TAXES FOR LOCAL GOVERNMENT FINANCE LEVIED ON RESIDENTIAL PROPERTY

Country (State)	General Basis of Assessment	Revaluation Periods	Liability for Tax	Special Reliefs	Yield as % of National Tax Revenue*
AUSTRALIA (NEW SOUTH WALES)	Site value	2 - 3 yearly	Owners	Pensioners	3.99
DENMARK	Site value]]]	Update yearly General review 4 yearly	Owners	-	3.22
FRANCE	Annual value]]]]	Update 3 yearly General review 6 yearly (last 1970)		Pensioners and the needy	1.3
GERMANY	Percentage of capital value	6 yearly (last 1964)	Owners	-	1
GREECE	Capital value	Not known	Owners	-	Not known
JAPAN	Percentage of capital value	3 yearly	Owners	Recipients of public welfare payments	4.58
LUXEMBURG	Gross rental of land and buildings	Not known	Owners	-	Not known
NETHERLANDS	Mainly site value rest - surface area	5 yearly	Owners and Occupiers	Cases of severe financial difficulty	1.28
NEW ZEALAND	Mainly site value (85%) Rest - capital value (10%) - annual value (5%)	5 yearly	Owners	Cases of hardship	7.12
SPAIN	Annual value	3 - 5 yearly	Owners	-	0.64
SWEDEN	Percentage of capital value	5 yearly	Owners	-	0.80
SWITZERLAND (SOME CANTONS ONLY)	Capital value	Varies with Canton	Owners	-	0.59
USA (WISCONSIN)	Capital value	1 - 4 yearly	Owners	Low income households	9.29
USA (CALIFORNIA)	Capital value at 1975-76	Part adjustments for inflation	Owners	-	"

* includes tax on non-domestic property. % based on 1979 data.

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ALTERNATIVE FORMS OF PROPERTY TAX

1. The following alternatives to capital values have been considered, and discarded, over the past few years. Each scheme is briefly described and analysed.

1. FLOOR AREA

2. There are a number of variations for a charge on the physical size of property - floor area, plot area, number of rooms, cubic measurement. The most commonly taken example is by reference to floor area. Assessments would be based upon the quantity but not quality or value of domestic accommodation. Those occupying a given floor area would have the same rating assessment regardless of location, type or quality of dwelling, or the level of amenities enjoyed.

Advantages

3. It would be simple and cheap because no valuation would be involved, only measurement. Revaluations would therefore never be needed, for the tax base would be kept up to date merely by noting any extensions to, or demolitions of, dwellings. Ratepayers would easily understand the system.

Disadvantages

4. Ratepayers have become accustomed to a system which, for all its alleged faults, takes account of quality, amenity, age, type and disabilities, as well as size. A system which took no account of these, or bore very

little relation to the ability to pay, might not command wide support.

5. There would be a major redistribution of rate burdens. Recent studies indicate that pre-war houses in Richmond, for example, with the same approximate area range between £144 and £278 Rateable Value. Flats of a similar type in Newcastle upon Tyne range between £87 and £293. These differences are attributable to differences in significant aspects as situation, quality and location.

6. The Layfield Report concluded:

"The benefit which people derive from their housing - and what they are prepared to pay for it - is not proportional to its size. So a system based on measurement would be even less well related to income than the present one. Any attempt at refinement to take account of factors other than size would lead rapidly to all the difficulties of a points system" (Cmnd 6453, Chapter 10, paragraph 69).

2. POINTS SYSTEM

7. This would be a refinement of the floor area basis. In addition to a fixed price per square metre, statutorily fixed lump sums, percentages or factors would be allotted to other features or facilities such as garages, central heating, etc.

Advantages

8. The system would be relatively cheap to administer for assessment would be a simple factual process. It could also be developed into a more complex system which would produce broadly similar effects to a very crude form of valuation.

Disadvantages

9. The weighting of the various items would be subjective and probably perceived as arbitrary. The system would become more complicated as the number of value-significant factors increased, and consequently more expensive to administer. The simpler the system the worse would be its redistributational effects. The more refined the system the less comprehensible it would become.

10. The Layfield Committee commented:

"In our view there would be insurmountable difficulties in deciding the weight to be attached to the less tangible factors. We have no evidence which promises any satisfactory solution" (Chapter 10, paragraph 69).

3. SITE VALUE RATING

11. Assessments would reflect the value of the site of each dwelling but would ignore the value of the dwelling itself. The site value could be measured either in terms of its most valuable potential use when cleared of buildings or on the assumption that the site was only available for development for its existing use.

Advantages

12. It might encourage the effective use of land whilst not discouraging improvements to property. Although the initial change of system would be expensive, revaluations would be straightforward. The system would be simple and easy to understand.

Disadvantages

13. Site value rating implies a tax levied on owners rather than occupiers and as there are fewer owners than occupiers the number of direct ratepayers would be reduced as would be accountability. There would be technical difficulties as regards evidence of value (which would be very scarce in many areas) and with the planning system (which for a "most valuable use" system would need to provide detailed indications of permissible development).

14. The biggest problem however, as with the other systems, would be the redistributive effects. On a change to site value rating there would be massive and arbitrary shifts in the rate burden as between individual domestic ratepayers. There would be very considerable rough justice with poorer houses on good sites suffering appreciably by comparison with better houses on small sites.

15. These major drawbacks were all identified in the Layfield Committee Report (Annex 21 paragraphs 17 to 18).

4. MODIFIED RENTALS BASIS

16. The present rental valuation basis in use in England and Wales would be modified so that regard could be had to rents charged by local authorities and other public sector landlords. Alternatively the basis would be redefined so that both scarcity and oversupply were excluded from valuations (as in Scotland) enabling regard to be had to those private sector "fair rents" fixed in accordance with the Rent Acts.

Advantages

17. There would be more rental evidence available which, together with valuer opinion, might suffice to allow

the retention of the present rating system including a domestic revaluation.

Disadvantages

18. Rents charged in the public sector do not generally reflect open market value. They can be influenced by extraneous factors like historic costs, local authority budgets and political considerations. The result is a lack of uniformity and thus comparability between different areas.

19. Fair rents in England and Wales are fixed by Rent Officers. There are problems about uniformity between different areas and with circularity; in the past some Rent Officers have had regard to rating assessments in fixing fair rents. It would be undesirable to use those rents in turn to fix new rating assessments.

20. Any modified rental basis would conflict with the general trend towards more owner occupation. It would be unlikely to be welcomed as the radical reform which is now expected.

**A POSSIBLE DEFINITION OF CAPITAL VALUE FOR
RATING PURPOSES CONTAINED IN THE LAYFIELD REPORT
ON LOCAL GOVERNMENT FINANCE**

"The value of the hereditament shall be the amount which the hereditament might reasonably have been expected to realise if sold by a willing vendor in the open market freehold with vacant possession at the relevant date with the benefit of any easement or other right inuring for the benefit of the hereditament and subject to any easement or other right subsisting for the benefit of other land and to any other restriction statutorily imposed upon the hereditament and on the assumptions that the use of the hereditament would be permanently restricted to that existing at the time of the valuation, including any change of use for which no planning permission would be required, that no alteration to the hereditament would be made other than any alteration for which no application for planning permission would be required, and that the hereditament was in the state of repair at the time of valuation which might reasonably be expected by an occupier of the particular property having regard to its character, its environment and to the neighbourhood in which the hereditament is situated." (Cmnd 6453 Annex 22.)

NEW DATA COLLECTION EXERCISE

1. If it were decided to mount a full analytical exercise to simulate more closely both the likely redistributive consequences of a change to capital issues and the mitigation mechanism available in the MPT, the exercise would be on the following lines.

COVERAGE

i. Sales data

2. In recent months computers have been introduced into about one third of the district offices of the Valuation Office. They are used, inter alia, to record information about property transfers which has to be supplied for stamp duty purposes (see paragraph 79). So far the only detailed information from these computers available centrally is the data from Southampton and Northampton used in this report.

3. We would propose to set up a data base of sales information from the district office computers. This would enable us to perform similar analyses to those in this report but with a wider coverage and in more detail. With regard to coverage, the district offices concerned are well spread out throughout England except in the London area. Data from London will not become available until early 1986. With regard to detail, analyses will be possible for individual local authority areas and for different types of properties.

ii. Numbers of different types of properties

4. Properties sold are unlikely to be representative of all properties in an area since certain types of

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properties are sold more frequently than others. If the sales data are to be effectively used we need to know the numbers of different types of properties existing in each area so that appropriate weights may be applied to the sales data. We would obtain estimates of the required numbers by sampling the lists of properties held in the district offices of the Valuation Office.

iii. Differences between sale prices and capital values

5. Sale prices may differ from the capital values that would be the basis of a modified property tax for a number of reasons - state of repair, lack of vacant possession, only a leasehold interest may be sold, etc. Information held on the district office computers may enable us to identify and exclude many cases where substantial differences arise but we need to know how the remaining differences affect our results. We would ask District Valuers for their opinion of the capital value for a sample of the sold properties in our data base.

iv. Relationship with demographic and income statistics

6. None of the above will provide information about the liability to modified property tax by size of household or by characteristics of the occupants of the property, e.g. age, income, etc. The Family Expenditure Survey (FES) is often used for analysis of this kind but it does not contain information from which capital values can be estimated and the confidential nature of the FES returns would prevent us ascertaining the addresses of the households so that the properties could be valued. We would hope, however, to obtain access to data from the House Condition Survey carried out in 1982. It obtained information on household characteristics and addresses should be available. The information will be slightly out of date but nothing

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similar will become available until 1987 at the earliest.

COST

7. If authority to go ahead is given by the end of September we would expect to have preliminary results from the sales data by the end of the year and to complete the rest of the work during the first quarter of 1986. The cost should not exceed £100,000. A more serious implication would be the delay in necessary improvements to other statistical systems if statistical staff were diverted to this new exercise.

Scale A converts Scale B into a unit scale. The unit values are all the same proportion of the taxable values of Scale B. The proportion was chosen so that for the Southampton and Northampton data the total unit value is approximately equal to the total taxable value. The same rate of tax applied either to the unit values or to the taxable values would produce the same total amount of tax although the amounts payable on most properties would be different.

Scale C uses the same bands as Scale B but assumes that the reduction in the unit value is moving down

UNITISATION

This appendix contains examples of unitisation scales (Table A) and illustrates their effects on the distribution of tax liability for the properties covered by the sales data for Southampton and Northampton (Table B).

TABLE A

2. **Scale A** represents simple banding with the mid-point taken as the taxable value for each band. Nearly half of the 3,700 properties covered by the sales data lie in the bands between £20,000 and £40,000 and the bands between these values have been selected so that the changes in taxable value between them are about 10 per cent or less. The aim is to reduce the incentive to appeal for the majority of cases. A nil taxable value is given to the lowest band and the cut-off at the top is at £200,000, all properties above that value being given a taxable value of £210,000.

3. **Scale B** converts Scale A into a unit scale. The unit values are all the same proportion of the taxable values of Scale B. The proportion was chosen so that for the Southampton and Northampton data the total unit value is approximately equal to the total rateable value. The same rate of tax applied either to the unit values or to the rateable values would produce the same total amount of tax although the amounts payable on most properties would be different.

4. **Scale C** uses the same bands as Scale B but ensures that the reduction in the unit value in moving down

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from one band to the next does not exceed 5 per cent. The total unit value for the Southampton and Northampton data is again approximately equal to the total rateable value.

5. Scale D uses much wider bands and restricts the steps in the unit values to 10 per cent. It gives approximately the same total unit value when applied to the Southampton and Northampton data.

TABLE B

6. Table B shows the percentage distribution of tax liability for each of the scales in Table A when applied to the Southampton and Northampton data. The percentage distribution for a tax on the rateable values of the same properties is shown for comparison.

7. Compared with rateable values, Scale A (banded capital values) and the equivalent unit Scale B increase the proportion of liability of the higher value properties. Scales C and D both moderate the progression with respect to capital value reducing the liability of the higher values and increasing that of the lower values. Although Scales C and D look very different they produce very similar overall distributions although the distribution within the bands differs.

8. The figures in Table B are only intended to illustrate what can be done with unitisation. They do not show what would be the result of unitisation either nationally or even, since the properties are not a representative sample, in Southampton and Northampton.

UNITISATION SCALES

Range of Taxable Value £	Scale A	Scale B	Scale C	Range of Capital Value		Scale D
	Taxable Value £	Unit Value £	Unit Value £	£	£	Unit Value £
0- 5,000	Nil	Nil	Nil	0- 5,000		Nil
5,000- 6,000	5,500	34	115	5,000- 6,000		106
6,000- 8,000	7,000	43	121	6,000- 8,000		115
8,000- 10,000	9,000	55	127	8,000- 10,000		127
10,000- 12,000	11,000	68	133	10,000- 14,000		139
12,000- 14,000	13,000	80	139	14,000- 18,000		153
14,000- 16,000	15,000	92	146	18,000- 22,000		168
16,000- 18,000	17,000	105	153	22,000- 26,000		186
18,000- 20,000	19,000	117	161	26,000- 30,000		204
20,000- 22,000	21,000	129	169	30,000- 40,000		224
22,000- 24,000	23,000	142	177	40,000- 50,000		248
24,000- 26,000	25,000	154	186	50,000- 70,000		275
26,000- 28,000	27,000	166	195	70,000-100,000		304
28,000- 30,000	29,000	179	205			
30,000- 33,000	31,500	194	215	100,000-150,000		337
33,000- 37,000	35,000	216	226	150,000-200,000		372
37,000- 41,000	39,000	240	237			
41,000- 45,000	43,000	265	249	200,000 & over		413
45,000- 50,000	47,500	293	262			
50,000- 60,000	55,000	339	275			
60,000- 70,000	65,000	401	289			
70,000- 80,000	75,000	462	304			
80,000-100,000	90,000	555	319			
100,000-120,000	110,000	678	335			
120,000-140,000	130,000	801	352			
140,000-160,000	150,000	924	370			
160,000-180,000	170,000	1047	389			
180,000-200,000	190,000	1171	409			
200,000 and over		1294	430			

PERCENTAGE DISTRIBUTION OF TAX LIABILITY
SOUTHAMPTON AND NORTHAMPTON DATA

Range of capital value		Rateable Values	Scale A	Scale B	Scale C	Scale D
<u>£</u>	<u>£</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
0 -	10,000	0.7	0.4	0.4	0.9	0.9
10,000 -	20,000	15.9	11.6	11.6	18.0	18.5
20,000 -	30,000	24.7	21.5	21.5	26.2	26.6
30,000 -	50,000	30.8	32.5	32.5	32.1	31.8
50,000 -	100,000	23.8	28.2	28.2	20.3	19.9
100,000 and over		4.1	5.8	5.8	2.5	2.4
TOTAL		100.0	100.0	100.0	100.0	100.0

GAINERS AND LOSERS

1. This appendix contains a first attempt at showing what the pattern of shifts in tax liability might be on a change from rateable values to capital values or unit values. It should be read in conjunction with Appendix 6 on unitisation scales.

2. The unitisation scales in Appendix 6 have each been applied to the 3,700 properties in Southampton and Northampton covered by the sales data and the ratio of the unit value to the rateable value has been calculated for each property. Since the scales were designed to give a total unit value approximately equal to the total rateable value, these ratios indicate which properties would pay more or less tax if the same tax rate were applied to produce the same total tax as from rateable values. With a ratio of 1 the same tax would be paid, a ratio of 2 indicates twice the amount of tax, and a ratio of 0.5 that the tax bill would be reduced to half its previous amount.

3. TABLE C shows the percentages of the properties in each band of capital value which under Scale B have ratios of unit value to capital value in a number of bands. It also shows the percentage in each band which would pay less tax (gainers) and the percentage which would pay more (losers). Overall percentages are also shown.

4. For 61 per cent of properties the tax would be reduced under Scale B. It would increase on 39 per cent. All of the properties under £10,000 in value would be gainers

and nearly all of those over £100,000 would be losers. The proportion of losers increases with capital value and some of the increases in tax would be very large. 20 per cent of properties over £100,000 would have their tax bill more than doubled.

5. The percentages in table C would also apply to Scale A provided the tax rate was adjusted to produce the same total tax. A very similar result would be obtained if tax were charged upon the capital values themselves.

6. TABLE D gives the percentages for Scale C. The gainers are reduced to 43 per cent and there are substantial proportions of losers in the lowest ranges of capital value. The proportion of losers now decreases in line with capital value. There are some extreme effects. One property which was a gainer under Scale B has a ratio of more than 2.5 under Scale C.

7. TABLE E considers the effect of Scale D. As in Table B of Appendix 5 there is little difference from Scale C but these very summary tables conceal some larger effects within the bands of capital value which would have to be investigated if a scale such as Scale D were to be considered further.

8. The tables should only be regarded as illustrative. They are valid, subject to some qualifications, for the 3,700 properties covered, but similar results would not necessarily be obtained if the analysis were extended either nationally or to all properties in Southampton and Northampton.

Percentage of number of properties in each range of capital value
Southampton & Northampton Data

Ratio of unit value to rateable value

Range of Capital Value	Less than 0.5	0.5-1.0	1.0-1.5	1.5-2.0	2.0-2.5	Over 2.5		Gainers	Losers
£ £									
0 - 10,000	55.7	44.3						100.0	
10,000 - 20,000	8.2	78.6	9.6	1.9	1.0	0.6		86.8	13.2
20,000 - 30,000	1.3	67.3	25.4	3.8	1.5	0.7		68.6	31.4
30,000 - 50,000		43.7	40.9	11.0	2.5	1.9		43.7	56.3
50,000 - 100,000		30.1	41.7	18.2	6.8	3.2		30.1	69.9
100,000 and over	2.0	4.0	38.0	36.0	14.0	6.0		6.0	94.0
All Ranges	3.6	57.4	27.5	7.7	2.5	1.4		61.0	39.0

Ratio of unit value to rateable value

Range of Capital Value		Less than 0.5	0.5-1.0	1.0-1.5	1.5-2.0	2.0-2.5	Over 2.5		Gainers	Losers
£	£									
0 -	10,000	1.4	21.4	64.3	11.4	-	1.4		22.8	77.2
10,000 -	20,000	0.3	30.1	52.2	12.0	2.2	3.2		30.4	69.6
20,000 -	30,000	0.1	41.3	47.2	7.3	2.1	2.0		41.4	58.6
30,000 -	50,000	0.2	43.8	41.8	9.9	2.1	2.2		44.0	56.0
50,000 -	100,000	2.5	64.6	23.3	7.6	1.1	0.9		67.1	32.9
100,000 and over		12.0	72.0	16.0					84.0	16.0
All Ranges		0.7	42.5	43.5	9.2	1.9	2.2		43.2	56.8

Ratio of unit value to rateable value

Range of Capital Value	Less than 0.5	0.5-1.0	1.0-1.5	1.5-2.0	2.0-2.5	Over 2.5		Gainers	Losers
£ £									
0 - 10,000	1.4	22.9	64.3	10.0	-	1.4		24.3	75.7
10,000 - 20,000	0.2	27.1	54.3	12.6	2.4	3.3		27.3	72.7
20,000 - 30,000	0.1	38.1	49.0	8.4	2.4	2.0		38.2	61.8
30,000 - 50,000	0.3	45.6	40.7	9.1	2.4	1.9		45.9	54.1
50,000 - 100,000	2.8	65.3	22.3	7.4	1.3	0.8		68.1	31.9
100,000 and over	18.0	68.0	14.0					86.0	14.0
All Ranges	0.8	41.3	44.2	9.4	2.2	2.1		42.1	57.9

Illustrative example of the use of a taxable
value based scheme of
TRANSITIONAL RELIEF

		Poundage	Charge
Existing Rateable Value	£300	£2	£600
New Unit Assessment			
Year 1	900	£1	£900
Year 2 (updated) no change	900	£1.05	£945
Year 3 (updated)	925	£1.10	£1017

Average National Factor 2.3

Transitional Relief: 50% (first year) 25% (second and third years).

Year 1

$$900 - (300 \times 2.3) = 210$$

$$210 \times 50\% = 105$$

$$105 \times £1 = £105 \text{ Transitional Relief}$$

MPT Bill reduced to £795 (Increase over previous year £195)

Year 2

$$900 - (300 \times 2.3) = 210$$

$$210 \times 25\% = 52$$

$$52 \times £1.05 = £54 \text{ Transitional Relief}$$

MPT Bill reduced to £891 (Increase over previous year £96)

Year 3

$$900 - (300 \times 2.3) = 210$$

$$210 \times 25\% = 52$$

$$52 \times £1.10 = £57 \text{ Transitional Relief}$$

MPT Bill reduced to £960 (Increase over previous year £69)

(see paragraphs 159 & 168)

FURTHER REFORMS

1. In addition to the changes to appeal rights considered in Section 9 there are other areas that will require attention, the most prominent being Section 21.

Section 21 Relief

2. The Local Government Act 1974 introduced a measure designed to limit the number of occasions when rating assessments would be increased for relatively minor structural alterations. Increases were proscribed for the addition of a new central heating system (post-April 1974) and the addition of any structural alteration with a gross value of £30 or less. By now there are some two million dwellings where such alterations have been undertaken but no proposals can be made.

3. The section has been administratively unsatisfactory. Although the number of proposals issued has been reduced all the other work of inspection, updating, valuation and recording has been necessary. Other ratepayers have alleged unfair treatment when they have made comparison with properties where central heating and/or other structural alterations have been excluded from assessment. This has led to complications in Court hearings which have been exacerbated by the attempts of the Lands Tribunal to interpret the provisions. One result has been the finding that alterations may be taken into account on a proposal to reduce rate assessments, but not on one to increase them - a result which ratepayers find difficult to accept.

Section 21 Substitute

4. It is for consideration whether a Section 21 type relief would be needed on a switch to capital values. The provision was designed to limit small rate increases which might act as a disincentive to minor structural improvement to the housing stock. Banding capital values would build in some measure of protection within the bands, the extent depending upon the band widths used. For example, a ten thousand pound band would confer a reasonable degree of protection in the short term provided the property was at the bottom end of the band. But if it were right at the top end a very small addition (like the extension of central heating from a partial to a full system) could trigger a steep increase of assessment, again depending upon the unitisation changes between value bands.

5. If it were decided that some protection was necessary to cushion occupiers against the immediate effect of property improvements, in those circumstances where banding was of no assistance, the possibilities include:

- proscribing increases between rate demands,
- delayed action rate demands, and
- blunting.

6. At present a valuation officer may issue a proposal at any time, to take account of increases or decreases. It then has retrospective effect for rate charging purposes either to the commencement of the financial year or, if later, to the date of the event which occasioned the proposal. Rating authorities issue rate demands at yearly or half yearly intervals and it has already been suggested (1) that the valuation officer proposal system

(1) Rayner Project: Review of Rating Procedures (April 1980).

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be replaced by notification through rate demand. However, the relief resulting from proscribing increases between MPT demands would be merely dependent upon the interval between the completion of the works and the eventual MPT demand. To confer that relief the demand would have to take effect for charging purposes only from the date of issue. It would therefore be necessary to maintain the proposal process at least for reductions, if retrospective relief were to be preserved, where justified.

7. A less complicated solution would be to provide that where a proposal was served to take account of a structural improvement which lifted the property into a higher band of value, it could only take effect for MPT bill purposes after a prescribed interval. This would constitute a delayed action MPT bill. For example, where the increase was up to £5,000 the actual date of completion could be delayed by three months, and when between £5,001 and £10,000 the delay could be six months. The specified capital values, which could be reviewed from time to time, would need to equate to the sort of small improvement now covered by Section 21, where the present relief is limited to £30 gross value for structural alterations. Larger alterations are at present immediately brought into assessment and then billed. The relief could be expressed as a percentage of the present capital value, although that might unnecessarily benefit the very expensive properties. The delayed charge would not be the subject of a supplementary MPT demand but would be taken account of when the next periodic demand was served, making allowance for the deferment relief allowed.

8. Another possibility is the use of what has been previously called blunting. This is an arrangement which could be adapted so that assessments which had been established (either on the initial change of system or on valuation adjustment) could not be increased unless

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the alteration exceeded a prescribed value or percentage. Although the occupier would only be notified of the appropriate value band, the Valuation Officer would have assessed each property individually. When notified of an addition he would assess its additional value and only take account of the alteration if it either exceeded a stated amount or a prescribed percentage of the capital value. Blunting would therefore be a much closer equivalent to Section 21.

9. On balance it may therefore be concluded that some form of delayed charge would be the simplest means of reducing any disincentive effect to improving property, without also creating tensions and grievances for other ratepayers who enjoyed no such relief.

Other Reliefs and Allowances

10. If this package is to be further developed there are other problem areas that would need to be considered. Property occupied by the disabled is one such category. As the domestic relief for qualifying disabled residents is presently constituted a person may claim a rebate of rateable value according to the type of facility included in the assessment. For example, an additional bathroom installed merits a £20 reduction, sufficient floor space to permit the use of a wheelchair £30, and special facilities provided may require a valuation certified by the valuation officer.

11. It would clearly be undesirable to replicate this approach for capital value purposes where the apportionment of value would be more difficult and the range of values considerably wider. Any new arrangements would be for discussion with interested parties but even at this early stage it is clear that a scheme could be devised which discounted a number of units for prescribed facilities.

12. Among other categories of property warranting further investigation are parsonages, vicarages and rectories which when occupied by an incumbent in the course of his duty have to be assessed at a proportion of the income of the benefice. And there is charitable relief which is now partly mandatory and partly discretionary, so that treatment differs considerably between rating areas.

Summary

13. A range of options exists for simplification by reducing the existing problem areas of domestic rating. The change to a new system would present an obvious opportunity to look again at these difficulties. Consultation with interested bodies would be desirable but the scope for reform is self-evident.

MODIFIED PROPERTY TAX

CAPITAL VALUE BASED DOMESTIC REVALUATION

ADDITIONAL MANPOWER REQUIREMENTS FOR A 1990 REVALUATION

TABLE 1

MANPOWER

Months commencing Oct 1986	12 months commencing			Total man years
	1 Jan 1987	1 Jan 1988	1 Jan 1989	
350 man years 1400 in past	1650	1600	1400	5000

TABLE 2

STAFF IN POST

Additional staff in post as at	1 April 1987	1650
	1 April 1988	1600
	1 April 1989	1400
	1 April 1990	1400

There will be further staff costs after the revaluation to deal with appeals against new assessments.