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CABINET

STEERING COMMITTEE ON LOCAL GOVERNMENT FINANCE STUDIES

MINUTES of a Meeting held in Conference Room C, Cabinet Office on THURSDAY 7 NOVEMBER 1985 at 11.00 am

PRESENT

Mr P F Owen
Department of the Environment
(In the Chair)

Mr J R Jameson
Treasury

Mr I Penman
Scottish Office

~~Mr M G Jeremiah~~
~~Welsh Office~~

Mr I Yass
Department of Transport

Mr B Houghton
Inland Revenue

Mr A J Langdon
Cabinet Office

THE FOLLOWING WERE ALSO PRESENT

Mr J M Healey
Department of Trade and Industry

Mr A C S Alan
Treasury

Mr J V Dance
Home Office

Mr A Wye
Department of Education and Science

Mr D Brereton
Department of Health and Social Security

Dr D Slattery
Northern Ireland Office

Mr J Smith
Department of the Environment

Mr P D Ward
Department of the Environment

SECRETARIAT

Mr J E Roberts
Ms J Rutter

SUBJECT

THE LOCAL DOMESTIC TAX

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THE LOCAL DOMESTIC TAX

The Committee considered issues related to the local domestic tax.

Distributional Effects

MR SMITH (DEPARTMENT OF THE ENVIRONMENT) said that he had carried out further analyses of the effects on households and taxable units of the proposal to introduce a local charge comprising a property and person-based elements. As Ministers had now decided there should be a 'safety net grant' to ensure that there were no shifts in resources between areas when the new local government finance system was introduced, the distributional effects were much reduced. Only 2 per cent of households and 10 per cent of tax units would lose by more than 2 per sent of their net income. In general, single householders gained while multi-adult households lost. There were 144,000 large gainers, largely single householders on low incomes, while 220,000 tax units faced large losses, the majority being single non-householders, and predominantly unemployed but not qualifying for housing benefit.

He had also examined the implications for Housing Benefit workloads. The Department of the Environment (DOE) had estimated that an additional 750,000 claims might be made, while the Department of Health and Social Security (DHSS), who had started from different assumptions, put the fugure at 1.3 million. There would be negligible effects on marginal tax rates and replacement ratios, although there would be a slight reduction in the incentives for unemployed young adults to take work. The effects of the local government reform would be very much smaller than those implied by the Social Security Review, and very few people would lose from both reforms. In general, single pensioners and young single households, who would lose under the Social Security Review, would gain under the local government proposals. There were, however, some pensioner couples who might be adversely effected by both sets of proposals.

In discussion the following points were made -

a. Because of the decisions which had been made about the grant mechanisms, the level of the residents' charge for an equivalent level of service would vary between authorities according to the existing variation in rateable values.

b. The cost of the safety net grant would be found from the standard component of the block grant, so local authorities would still receive full compensation for variations in assessed need. No final decisions had been taken as to whether the safety net grant would be transitional or permanent, although it had been envisaged it might remain fixed in cash terms, thus effectively making it transitional but over an extended period.

c. Although very few people would see a loss of more than 5 per cent of their net income under the new charge, existing rates accounted on average for only 2.5 per cent of incomes. Some large households might pay twice the present level of rates.

d. Some form of special arrangement might be needed for London.

e. The Secretary of State for Scotland would be arguing that there should be no property element in the local tax.

f. It would be possible to introduce the new residents' component by fixing it initially at a relatively low value, with a corresponding reduction in the rates element. The rates element might then be frozen, so that all future increases in local tax would fall on the residents' component. Such a system would be compatible with a transition either to a combined tax or to one based on the residence charge alone.

THE CHAIRMAN, summing up this part of the discussion, said that there would be three key issues for Ministers to consider: the acceptability of the distributional effects of the proposed local charge; the need to introduce registration systems for all adults; and the political issues associated with the introduction of a new tax. It would be important to have the decision as to whether there should be a property element in the local charge on a continuing basis, as this would affect crucially the presentation of the proposals in the Green Paper. Ministers would have to consider the proposals likely to be put forward by the Secretary of State for Scotland, and would need to see exemplifications in due course.

The Committee -

1. Took note, with approval, of the Chairman's summing up of this part of their discussion.

The Valuation Base for Property Taxes

MR WARD (DEPARTMENT OF THE ENVIRONMENT) said that the second specification report had suggested that the property element of the local domestic tax might be assessed either on capital values or on floor space. The former alternative had been ruled out by Ministers. Ministers had also been keen to minimise the degree of turbulance associated with the introduction of the new regime, and while it was not possible to exemplify the effect of switching to floor space (because no data was available) it was clear that the better alternative would be to retain annual rental values. This did, however, raise the question of re-valuations. It was being proposed that 1973 should continue to be the base year for assessing rental values (ie there should be no general re-valuation) but that each time ownership changed there should be a re-valuation to take account of physical changes. This would avoid any increase in tax for existing owners on account of improvements to their properties.

The Government had announced in 1983 that it would be setting in train the work necessary for a non-domestic re-valuation. If the option was to be kept open of introducing new values in 1989 (the earliest date by which the general reform package could be introduced), it would be necessary to announce the start of work before Christmas.

In discussion the following points were made -

a. Under the proposals for re-valuation, changes in the property market would not be taken into account, except to the extent that those moving into the up-and-coming areas often made physical improvements to their homes.

b. On average ownership of homes changes every seven years. That would lead to about 1.5-2 million re-valuations a year.

c. It would be necessary to restrict the rights of appeal against valuations other than at times of change in ownership.

d. The application of the proposals to rented accommodation was an important issue that required further thought.

e. Potential buyers of property would need some indication of the likely rateable value, but in practice local estate agents should soon become skilled in giving reasonable estimates.

f. The Secretary of State for Scotland was likely to propose that turnover should be taken into account in fixing the rateable values of commercial premises. The aim was to assist small shopkeepers with only limited ability to pay rates, but this would have the effect of penalising the efficient use of property.

THE CHAIRMAN, summing up this part of the discussion, said that it was fully recognised that there would be difficulties with the DOE proposal, but all alternatives in this area gave rise to problems. Ministers would have to consider the alternatives at their forthcoming meeting.

The Committee -

2. Took note, with approval, of the Chairman's summing up of this part of their discussion.

Cabinet Office

8 November 1985