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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

COMMUNITY CHARGE: POSSIBLE RELIEFS AND TAX CONCESSIONS

Memorandum by the Secretary of State for Scotland

1. At their meeting on 19 June the Sub-Committee, in considering the section of E(LF)(86)1 dealing with reliefs from the community charge, agreed that the Government should start from the proposition that the community charge should be a universal obligation with no scheme of reliefs. Following the meeting the Chief Secretary's letter of 20 June set out his views on possible concessions, through exemptions or tax relief, for those living in tied houses. This paper reviews the position and recommends that, in view of the likely pressure for some measure of relief for certain categories, I should prepare on a contingency basis provisions allowing a scheme of reliefs to be prescribed in regulations.

Background

2. The present arrangements for rating reliefs, and for tax concessions in relation to rate payments on behalf of people living in tied accommodation, were summarised in paragraphs 49-60 of the report by officials attached to E(LF)(86)1. Briefly, rate reliefs, whether mandatory or discretionary, are available in respect of premises occupied by a charity for charitable purposes, the residences of full-time Ministers of Religion, almshouses, several types of accommodation occupied by the disabled, and (an important category in the Highlands of Scotland) croft houses. In addition, tax exemption is available on rates paid by employers for employees required to live in tied accommodation. The two categories of concession are strictly speaking quite separate, reliefs being dealt with through the valuation and rating system and tax exemptions by the Chancellor of the Exchequer through the tax system: but both are perceived by those who benefit from them as advantages which may be lost on the move from domestic rating to the community charge. It is therefore appropriate to consider them together.

Pressure for reliefs

3. During the consultation period on the Green Paper a number of representations on these issues have been received. The National Farmers' Union of Scotland have argued in general terms that farm workers (who at present tend to live in low rated accommodation as well

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as enjoying the tax benefits described above), and in particular crofters, should be cushioned against the full impact of the change. This has been backed up by a number of other representations from the crofting lobby in particular. The churches in Scotland have represented that the favourable position of their clergy, both in relation to rating reliefs and tax concessions, should be maintained, though I understand that in England the Churches Main Committee may not ask for special treatment for clergymen. The National Trust for Scotland have also argued for the continuation, as a minimum, of their present favourable charitable status and of the tax concessions avoidable to their employees living in tied houses. In addition, a number of representations from the charitable and voluntary sector have argued that the present rate reliefs for charities and the disabled should be preserved in the new system.

4. The lobbies involved here represent significant interests in political terms. Some 20,000 agricultural workers in Scotland (70% of the full-time total) and their families live in tied houses, and in many cases will have their rates paid by the landlord. While the definitions of the exemptions likely to be claimed in relation to charities and the disabled are not straightforward, the size and political impact of the bodies involved is very considerable.

5. It is fair to say that pressure on the question of reliefs so far has been limited. I suggest there are two main reasons for this:-

(a) The Green Paper states in paragraph G36 that the Government intends to preserve the benefits of the existing rate relief arrangements for charities in the form of a discount from collective community charges.

(b) The Green Paper creates a general presumption in paragraphs G30 and 31 and in the exemplifications of the distributional impact of the community charge (though not, I accept, in the precise wording of paragraph 3.46) that a full rebate scheme for the community charge along the lines of the present Housing Benefit Scheme for Rates will be made available.

6. When it becomes clear, on publication of my Bill, that our detailed proposals contain no provision for reliefs there will be an upsurge of pressure. I do not think it will be realistic to try to maintain a hard line on this throughout the Parliamentary stages of the Scottish Bill. In particular, we are likely to face very great difficulty in the House of Lords where the charity and disabled lobbies are strong. There could be no guarantee that we could avoid the insertion into the Bill of badly drafted and over-wide provisions, with little opportunity of putting matters right at that late stage. A particular point of criticism would no doubt be the loss of the specific grant (amounting to £12.3m in 1985-6) which compensates local authorities for the cost of mandatory rate reliefs for the disabled: we would be under pressure to maintain this support by some means.

Proposals

7. As noted in the officials' report attached to E(LF)(86)1, it is not possible to propose any exact 'read across' from the present rating system (though tax concessions in respect of community charge payments HMP25301

made by employers on behalf of employees and their spouses would, I think, be more straightforward): and I accept that this is a strong argument in favour of holding the line, at least for the moment, that no reliefs or concessions should be granted. The Bill as presented would be prepared on that basis. However I consider that it would be prudent to prepare, on a contingency basis, a draft amendment introducing a general enabling power allowing me to prescribe a scheme of reliefs in respect of particular classes of people, or the accommodation in which particular classes of people are resident, and of particular criteria for the identification of such classes of people or accommodation. This would allow any detailed scheme of reliefs to be considered further, after consultation with the various interests involved, in the period following enactment of the Bill. I cannot of course guarantee that such a general provision would entirely stem the opposition, I expect, since it might be regarded as an inadequate substitute for the present provisions for reliefs which in general appear on the face of statutes.

8. I would also wish to be in a position, if pressed, to give an undertaking to ask the Chancellor of the Exchequer to consider what provision might be made in a future Finance Bill for tax concessions in respect of payments of community charge made by employers on behalf of specified classes of people resident in tied houses.

9. I invite the Sub-Committee to agree to these proposals on the basis suggested.

M R

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Scottish Office