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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL AUTHORITY EXPENDITURE AND THE FUTURE OF THE RATING SYSTEM

Memorandum by the Secretary of State for the Environment

1. The Government has a general commitment to abolition of domestic rates as a longer term objective. There is also increasing concern now among industry and commerce about the level of non-domestic rates. So long as we have inflationary pressures leading to annual increases in rates at a high level, we must expect the pressure for reform to remain. Indeed, recent speeches by Labour spokesmen indicate that they - and perhaps the Social Democrats - might seek to occupy any ground that we abandoned.

MEDIUM TERM

2. We clearly cannot develop, legislate upon or implement an alternative to domestic rates until the next Parliament. Our primary immediate objectives between now and 1983/84 should therefore be to secure the public expenditure targets for local government and to modify the perceived unfairness of the rating system.

3. I have considered a number of alternative approaches such as transfer of part of local expenditure to central government, increasing income from fees and charges or a statutory control of income or expenditure, but I consider all these propositions are open to substantial objection.

4. The transfer of a block of local authority expenditure to central government (such as education, or teachers' salaries) would require a massive extension of central bureaucracy and control. This would add to administrative costs and there is no reason to think that control of expenditure would be improved by such a transfer. There is probably still some scope for greater use of fees and charges for local authority services. But, as annex A reveals, this could not have more than a marginal effect on rates unless charges were introduced for schooling and the tradition of free provision were ended. Moreover, the hostility to water charges shows that fees and charges may not be any more acceptable than rates. Nor do I believe it desirable or practicable to think in terms of a statutory control of local authority income or expenditure - that would end local government independence and raise the threat of multiple 'Clay Cross' confrontations (minutes of E(80)24th and 32nd refer).

5. I consider that we can only seek to increase indirect pressures on local councils by increasing their accountability to the local electorate. This inevitably means transferring a greater part of the cost of local government to the ratepayer through the block grant system in the ways described in E(81)52 on local government expenditure

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in 1981/82. This will however put severe pressure on the rating system in the meantime and particularly on hard pressed industrial and commercial ratepayers. We shall therefore need a programme of medium term ameliorative measures to improve some of the current features of the system, and a longer-term strategy on local taxation.

6. A number of medium term measures are possible. I suggest that the most promising proposals for further study - although none are free from difficulty - are as follows:

I. For the Non-domestic Ratepayer

(a) Limiting the level of non-domestic rates for authorities spending above a specified threshold level. This would protect non-domestic ratepayers in areas where local authorities have pushed up expenditure and rate levels regardless of the effects on industry and commerce. It would put more of the burden of excessive rate levels on the domestic ratepayer. It would mean higher domestic rates in any area that pushed spending beyond the threshold, but it should substantially increase the accountability to the electorate in the councils concerned.

(b) Revaluation of the non-domestic sector. The evidence available suggests that a revaluation now would tend to reduce greatly rate bills for larger, often elderly, labour intensive factories (eg in car industry) in Midlands and the North, and for older steelworks; to reduce slightly rate bills for better steelworks, local shops and older offices in centres like Liverpool and Newcastle; to increase slightly rate bills for new offices in more prosperous centres and for small factories on modern industrial estates; and to increase greatly rate bills for shops in primary locations, and for modern oil refineries. It is difficult to draw any firm conclusion for small manufacturing businesses as a class because of the variety of premises and locations in which they operate. It will take some time to set up the machinery for a revaluation, get the Order approved by Parliament and carry out the work. The new list might come into force in 1985.

II. For the Domestic Ratepayer

(c) Restructuring domestic rate relief to give flat rate relief to each ratepayer. This would be more progressive than the present form of relief.

(d) A scheme for giving discounts on rates to single (or two adult) households. This might go some way to meet the criticism of such people that they pay heavy rates for small receipt of services. Two possible main variants of the discount would be:

- (i) discount for one-adult households; this would reach some 5 million out of about 20 million ratepayers; of these about 3 million would be pensioners, 1 million single parent families, and 1 million single adults living alone. But it would discriminate against, among others, 5 million two-adult households with dependent children - ie against the conventional family. This could be avoided by:

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- (ii) a discount for one-or-two adult households; this would provide for rate bills to be lower in the majority of households, ie 16 1/2 million out of the 20 million; rate bills would then be relatively higher in some 3 1/2 million, eg where the household is supplemented with adult children, or lodgers. It would therefore discriminate against families that had taken in an elderly relative, and be more costly to administer than one adult schemes.

Under both (c) or (d) there would be problems of losers and gainers unless the cost were met by additional Exchequer grant.

(e) Supplementary rate demands. Expenditure above a certain level (perhaps 25% above each authority's grant related expenditure) could not be financed by the main rate at the beginning of the year. Instead authorities would be required to levy additional supplementary rates through the year for each additional tranche of expenditure, up to say 10% of the original rate poundage per time. This would maximise the public impact of high rates, and could lead to public pressure for economies to be made.

(f) This pressure might be increased further if such supplementary rates were made subject to approval by local referendum or making it a condition that the council seek immediate re-election. We did however reject this when we looked at it last year (E(80) 32nd Meeting).

(g) A system of rate demands - separated from rent - for council tenants could be introduced to ensure that council tenants are fully aware of the amount of rates which they are required to pay. This would add substantially to the administrative cost of rate collection (perhaps £10 million for the whole country).

III General

(h) Establishment of an Accounts Commission to take executive responsibility for the audit of local authorities. I am circulating a separate paper on this.

All these proposals except (b) (revaluation) would require legislation. We should need to ask officials to work them up in more detail over the next 2-3 months before taking firm decisions on them.

The Longer Term: Alternative Local Taxes

7. An inter-departmental group of officials have at our request been studying alternatives to domestic rates, which accounted for 17% of local government income in 1980/81. Their report (a summary of which is at Annex B) identified local income tax, local sales tax and a local poll tax as being the only practicable alternative, but also drew attention to a number of problems about each of these.

(i) LIT and Local Sales could not be introduced before the late 1980s.

(ii) LIT would be difficult and expensive to administer. It would deprive the Chancellor of a larger part of the yield of one of the major taxes. LIT would tend to be a buoyant and "lumpy" tax which might encourage expenditure, and make it more difficult to control the total level of local expenditure.

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(iii) These objections apply also to a Local Sales Tax. It would impose a heavy administrative burden on shopkeepers and other traders, and probably run into difficult objections from the EEC.

(iv) Poll tax could be represented as a tax on votes. It could take a substantial time to set up if the Home Secretary advised that the electoral register cannot be used and local authorities have to set up their own poll tax register. There are practical problems of registration and enforcement. It could not yield sufficient to replace the whole of domestic rates without being highly regressive.

8. None of the alternatives is ideal, but on the evidence assembled so far LIT is probably the most practicable. I would not wish however to invite colleagues to form a firm view on these alternatives without a detailed assessment of who would be the losers and gainers under a new tax regime, both in terms of individual households, and as between authorities. As the next step, I have asked officials to assess the feasibility of an authoritative study aimed at comparing the incidence of rates and these three alternative taxes on a cross-section of households and authorities and identifying gainers and losers. If it proves feasible, the study might be publicly announced next month; and might be completed by summer 1982 (Annex C refers).

9. Either LIT or a local sales tax would be much more practicable with a system of unitary authorities based on the non-metropolitan counties and the metropolitan districts. Unitary authorities levying a single local tax would also be much more comprehensible to the electorate than the present confused allocation of services between tiers with the complications of precepting. The accountability of local government would thus be greatly strengthened. The accountability and efficiency of local government might be further strengthened by introducing the system of direct election of a mayor or chief executive as in the USA or Germany.

10. I recognise that another major reorganisation of local government in England is politically impracticable in the foreseeable future. But the logic of events might compel us to consider it seriously in the longer term and perhaps earlier in some particular cases and make our final decisions on local taxation alongside a view on the long-term future structure of local government. However, a significant and I believe, popular reform would be the abolition of the Metropolitan Counties, and the GLC. I suggest that we should ask officials to consider the implications of this in parallel with the longer-term study of alternative taxes.

Legislation

11. In separate discussions with colleagues (in QL) about a Public Bodies (Management) Bill next Session, I have already suggested that there may be a need to include local government finance provisions. If the items mentioned in paragraph 6 above prove practicable and agreed by colleagues they could be included in the Bill. It would be important that they be legislated next session so that they could be in effect for the financial year beginning 1 April 1983.

12. It will be necessary to work up the "medium term" proposals at paragraph 6(a) - (g) before we take final decisions. I propose that

My Department should prepare a report for colleagues, in consultation with other Departments as necessary, for consideration in July. In the meantime, I propose to announce early in June as part of the announcement of action to deal with local government overspending in 1981/82, that the Government is launching a project for modelling the impact on households and local authorities of the alternatives to domestic rating; and is urgently examining interim ameliorative measures which could be applied within the existing system.

CONCLUSION

13. I invite colleagues to agree to:

- (a) an urgent interdepartmental examination of the interim ameliorative proposals outlined in paragraph 6;
- (b) the launching of a study of the impact of alternative taxes on households and authorities (paragraph 8);
- (c) a statement about (a) and (b) in the week beginning 1 June in the context of the announcement about measures to deal with local government overspending in 1981/82 (paragraph 12).

Department of the Environment
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8 May 1981

MH

DETAILS OF LOCAL AUTHORITY EXPENDITURE AND INCOME

I. Service by Service Breakdown of Net Current Expenditure in England and Wales 1980-81

Service	Net Current Expenditure ⁽¹⁾ (November '79 prices) £m	% of total net current expenditure
Education ⁽²⁾	6465	47.3
Police	1499	11.0
Personal Social Services	1398	10.2
Highways and local transport	1134	8.3
Refuse	450	3.3
Fire	363	2.7
School meals, milk etc	356	2.6
Libraries and Arts	246	1.8
Parks and open spaces	237	1.7
Environmental Health	209	1.5
Town & Country Planning	202	1.5
General Administration	177	1.3
Administration of Justice ⁽³⁾	167	1.2
Recreation etc	155	1.1
Housing Act Advances } Non RHA Housing }	78	0.6
Cemeteries & Crematoria	31	0.2
Other Services	493	3.6
Total net current expenditure	13,660	99.9

- Notes: (1) excludes revenue contributions to capital, loan charges and rate fund contributions to housing revenue account (relevant expenditure was given as £19150m)
- (2) excludes expenditure on mandatory student awards
- (3) excludes non-relevant expenditure on Home Office services

II SOURCES OF LOCAL AUTHORITY INCOME ENGLAND AND WALES
1979/80 and 1980/81⁽¹⁾ (OUTTURN PRICES)

Annex A Cont.

1979/80
(provisional)

For rate fund services:- £15676 million (2)
of which:

Rates

Domestic	19%
Non-domestic	20%
	<hr/>
	39%

Grants

RSG needs and resources elements	46%
RSG: domestic element	4%
Rate rebate grant	1%
Specific and Supplementary Grants	10%
	<hr/>
	61%

In addition income from fees and charges⁽³⁾

(other than on Housing Revenue Account)

£1,589 million

1980/81⁽⁴⁾
(estimated)
£19,000 million
of which:

17%
23%

10%

60%⁽⁴⁾

- Notes: (1) Actual income figures for 1980/81 are not yet available.
- (2) This shows income which finances net revenue expenditure (i.e. relevant expenditure for RSG plus non-relevant expenditure, net of expenditure funded by fees and charges).
- (3) This is income into the rate fund from fees and charges plus income from charges received by trading services.
- (4) assuming the £200m grant is withheld.

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ALTERNATIVES TO DOMESTIC RATING

A report, covering Great Britain, by an interdepartmental group of officials

SUMMARY AND CONCLUSIONS

1. The Report identifies a number of possible sources of local revenue and assesses their suitability as alternatives to replace domestic rates.

SECTION 1

2. Our main task was to suggest what new local tax or taxes might be candidates to replace the £2,700 million raised by domestic rates. Such a source or sources of revenue must be capable of producing not only a sufficient yield overall but also be an independent source of income for each of the 521 main authorities in Great Britain. In addition new sources of income would be needed for about 10,000 parish and community councils in England and Wales, and for the water authorities which charge on the basis of rateable values.

3. On a broader front the replacement of domestic rates would raise wider issues about local government finance and about the Government's general taxation strategy, and would have major economic effects, particularly on housing, on the RPI, and on distribution of income. We have pointed to these issues where appropriate, but have not explored them in detail. We have concentrated on the basic task of identifying alternative sources of revenue and appraising them - primarily for their practicability - as sources of local revenue.

SECTION 2

4. The Group has looked at the following possibilities for new local taxes:

local sales tax
local income tax
poll tax
local duties on petrol, tobacco or alcohol
charges for licences for sale of alcohol or petrol
local vehicle excise duty
local payroll tax
local development land tax

In addition we looked at the possibility of assigning the yield of a national tax to local government according to some distributional formula.

5. These possibilities have been appraised against the following list of criteria;

- (i) Practicability
- (ii) Cost of administration
- (iii) Perceptibility and accountability
- (iv) Financial control
- (v) Equity
- (vi) Compatibility with Government's fiscal strategy
- (vii) Suitability as a tax for all tiers of local government.

These criteria are analysed and explained in Section 2 of the Report.

6. In the course of the Group's work the criterion of financial control has come to seem particularly important. Certain characteristics of any tax affect the degree of financial control it permits. In order to budget sensibly and tightly, local authorities need if possible a sales tax or income tax whose yield is predictable each year. Second, if the tax base is buoyant with inflation then authorities would be spared the discipline of re-setting their tax rate (like rate poundages) each year. Of greatest importance is the lumpiness with which a tax yield varies in response to the smallest possible variation in the rate of tax: if a tax is "lumpy" then authorities may find it difficult to budget to cope with marginal changes in expenditure.

SECTIONS 3 & 4

7. We have concluded that many of the possibilities should be eliminated on grounds of the severe practical problems they would raise, or the excessive administrative cost, or both. A local payroll tax should be eliminated as a tax on businesses that would have no relation to the electorate. (See Annex A, which reproduces Table 4 in Section 3 of the Report.)

8. This leaves three options for local taxes: local sales tax, local income tax and poll tax. There is also a different approach, an assigned national revenue. We are satisfied that each of the 3 leading options (reviewed in detail in Sections 5-7) would be a feasible source of local revenue though we would emphasise that none is without substantial problems; their features are summarised in Annex B, which reproduces Table 5 in Section 4 of the Report. Assigned revenues (examined in Section 8) are clearly a practicable alternative approach, but such a system would be very little different from straightforward exchequer grant which would very significantly reduce local government's independence.

SECTION 5 LOCAL SALES TAX

9. A local retail sales tax would be workable, either operated by Customs and Excise as a locally variable surcharge on VAT, or operated directly by local authorities. The latter alternative would be more expensive to administer but either would be cheaper than domestic rating in this respect, though there would be heavy burdens on traders. There would probably be serious EEC difficulties in establishing a local sales tax.

10. Heavy burdens for traders, and administrative complexities, could arise from attempting to levy separate rates of sales tax at the level of the 458 lower tier authorities. This leads to the conclusion that it would only be practicable to levy a local sales tax at county level, and that some other source of income would be needed at district level (although possibly ways could be found of letting districts share in a county-wide sales tax levy as a minor supplement to their income).

11. A sales tax would be very broadly based and reasonably equitable. Average tax rates for the county tier might be 3-4%. A major problem for authorities' financial control is that the yield would be difficult to predict, buoyant from one year to another, and there would be severe problems because of the lumpiness of yield: a change in tax rates in 1% steps could change a local authority's tax revenue by a third; similarly its allocation of exchequer grant would (if that were a grant to equalise resources) change by a third. These three aspects of the tax would make financial control by local authorities more difficult (ways of mitigating the lumpiness problem are considered by Section 11, but this aspect remains a major drawback of a sales tax). Local authorities' freedom to set their tax rates would

also be somewhat constrained since if they diverged markedly from their neighbours cross-border shopping would be encouraged and yields might fall off.

12. Because Customs and Excise are re-programming and re-equipping their computer system, it would not be practicable to introduce a local sales tax until 1985 at the earliest.

SECTION 6 LOCAL INCOME TAX

13. We have discussed 4 ways in which local income tax might be established. We have concluded that 3 possible models would be practicable:

Model I: integration with national PAYE

Model II: year-end assessment by Inland Revenue if national income tax were changed onto that basis (but this is contingent upon such a change), or

Model III: a partly locally administered system in which Inland Revenue would determine an individual's taxable income but local authorities would make year-end assessments and collect the tax.

The fourth model (a completely separate local income tax) would be likely to be about 4 times as expensive as domestic rating and can be rejected. The first model would be cheaper than the others. None could be introduced until the late 1980's - again because of computerisation.

14. If the burden on the PAYE employers is to be kept to a manageable level, a local income tax model I should be operated by only a limited number of authorities: only a county council or Scottish regional council for most areas, although possibly down to Metropolitan districts and the London boroughs. Shire districts and Scottish districts would therefore need a separate source of local revenue. However, local income tax models II and III - if they could be introduced - could be levied by all districts (because the principle of year-end assessment would relieve the PAYE employers of some or all of the calculations for the local tax).

15. A local income tax would be directly related to income and would in that sense be more equitable than domestic rating. Average rates of local income tax - levied for one tier only - could be around 3p. There would be some problems for financial control stemming from the unpredictability and buoyancy of the tax. For model I alone the yield would also be lumpy: a 1p change in the rate of tax for an authority with a 3p tax would change its income both from the tax and from exchequer grant by a sixth - but this would not be as severe as for a local sales tax, and ways of mitigating this might for that reason be more successful than for a sales tax. Financial control problems would be less for models II and III.

16. Unless national income tax were reduced at the same time to compensate, the introduction of a local income tax would increase the total burden of income taxation which would conflict with one of the Government's important fiscal objectives.

17. We have looked at the practicability and cost of these models. We consider that if LIT is to be further studied then model I should be examined but model IV should certainly be discarded. It is a question whether it would be worth exploring model III further: Inland Revenue have serious doubt whether an acceptable scheme could be established. Model II could only be explored further if or when it were decided to pursue universal year-end assessment for national income tax.

SECTION 7 POLL TAX

18. There is no experience of operating a poll tax in this country at present. On the basis of a preliminary appraisal we have concluded that such a tax might be feasible, but there would clearly be problems in constructing and maintaining a register. Furthermore, there would be enforcement problems and there could be significant tax evasion. A flat rate poll tax would be a broadly based tax, but it would take no account of ability to pay and would be highly regressive so that a rebate scheme might be found necessary if the yield were to be large. A poll tax would have the advantage for authorities of having a predictable yield, and would be capable of being adjusted in small steps.

19. It might be feasible to use a flat-rate poll tax, at some £20-25 a head to raise £700-1000 million a year, as a complement to some other source of revenue. If it were required to replace the greater part of domestic

rating with a poll tax a rebate scheme would be necessary, with an average payment of £80 a head (allowing for the rebate scheme). This would largely overcome the regressivity of the tax, but the problems of enforcement could be expected to be even greater, and we have serious reservations whether a high yield would be viable.

SECTION 8 ASSIGNED REVENUES

20. A different approach would be to operate a system whereby some or all of the yield of a national tax or taxes was distributed or assigned to local authorities. Such a system would be feasible, but individual local authorities would not be able to determine their own incomes, and would not be responsible for setting a tax rate. This is unlikely to be an acceptable solution on its own therefore. On the other hand it may have some presentational advantages over exchequer grant if it were to be introduced as an adjunct to a poll tax raising some but not all of the £2,700 million.

SECTION 9 NON-DOMESTIC RATES

21. If domestic rates are abolished there would be strong pressures from industry and commerce to bring non-domestic rate poundages under some new constraint to replace the present linkage with domestic rates. We have considered two types of constraint: determination of the rates by central government (with far-reaching consequences) or linking the poundage or yield of non-domestic rates for each authority with the tax rate it sets for a new - electorally accountable - tax that replaces domestic rates; the best linkage would be with a poll tax.

SECTION 10 EXCHEQUER SUPPORT GRANT

22. The present support grant has the objective of equalising resources between authorities. We have concluded that new sources of revenue could in principle be supplemented by a similar support grant, but the equalisation objective would be impossible to achieve with a "lumpy" tax (ie one that had a yield that varied in major steps with the minimum possible variations in tax rate). Moreover, the grant entitlements of individual authorities would vary lumpily, because an equalisation grant is harnessed to its tax. These are very serious problems for sales tax, somewhat less so for the first model of local income tax, and need not be at all for other models of local income tax or for poll tax.

SECTION 11 COMBINATION OF TAXES

23. In view of all these considerations, we suggest that possible schemes for replacing domestic rates fall into four main groups:

Possible Schemes for Replacing Domestic Rates

A: Sales tax schemes

			<u>Timing of Implementation</u>
sales tax for counties	)	( poll tax for districts)	not
and Scottish regions	) Plus	(boroughs and parishes)	until
		)	mid
		)	1980's
		OR	
sales tax and poll tax for	)	( poll tax for parishes)	
upper tier and poll tax and	) Plus	(
assigned revenue from sales))	(
tax for districts)	(

B: Schemes with LIT within the present system

LIT within the present	)	( poll tax for shire)	
system (model I) for shire	)	( districts, Scottish)	
counties, Scottish regions	) Plus	(districts and (if)	not
and (if preferred)	)	( preferred metropolitan)	until
metropolitan districts	)	( counties and the GLC;)	end
and London boroughs	)	( also for parishes)	of
		)	1980's
		OR	
LIT (model I) and poll tax	)	( poll tax for)	
for upper tier and poll	) Plus	(parishes)	
tax and assigned revenue)	(
from LIT for districts)	(

C: Schemes with LIT administered partly locally

eg LIT partly run by local	)	( but parishes would have)	not
authorities (model III) for	)	( no independent source)	until
both main tiers of authori-	) alone	(of income and may have)	end
ties	)	( to be dependent on)	of
	)	( district authority)	1980's
	)	( grant as in Scotland)	
	)	( at present)	

Alternatively, if the national PAYE system were at some stage changed to a year-end assessment system (model II) it would be possible to apply local income tax rates down to district level within a centrally administered system.

D: Poll tax schemes

D: Poll tax schemes

poll tax for all 3 tiers)	(extension of exchequer	Timing of Implementation by mid 80's
of authorities	) Plus	(grant or (which is not
	)	( greatly different)
	)	( assigned revenues

CONCLUSION

24. We have not at this stage attempted to rank these schemes in order of preference. We think that further work would be needed before any firm decisions are made to pursue any of them.

25. If it were desired to explore any of the schemes further we think that further work under the following main heads would be necessary.

(i) Implications for the whole of local government finance, including non-domestic rates and exchequer grant, and the extent of central control or influence over local authority expenditure.

(ii) Wider implications for the economy, including general economic and fiscal effects and also the effects on housing of the abolition of domestic rates.

(iii) Such further work as can be done at this stage on any tax option which Ministers consider worth study: the long time scale for most options would limit this work.

26. Timing All the leading options would require a period of several years: first for further analysis and consultation, then for legislation and possibly by a transitional period. Moreover in the case of a local sales tax or income tax operated by the central Revenue Departments, we think it would not be practicable, without prejudicing work on the present round of computerisation, to make the changeover until the mid or late 1980s.

27. In view of the further work needed, and the constraints on timing, Ministers are invited:-

1) To agree that the taxes discussed in Section 3 should not be pursued further;

(i) If they wish domestic rates to be replaced before the late 1980s, to agree that the only possibility would be a poll tax - an untried tax, which might also have the disadvantage of requiring a substantial increase in exchequer grant (or assigned revenues);

(ii) Otherwise to agree that change will have to wait at least until the mid or late 1980s (because of the need to computerise PAYE and reprogramme the VAT system and replace existing computers) and that the options are a local income tax alone, or a local income tax or local sales tax combined with poll tax;

(iv) To decide whether they want further work to be done on these three taxes in the meantime; for those taxes with a long time scale there would be a limit to the planning work that can usefully be done at this stage.

v) To decide whether they want to publish a consultation document based on this Report.

June 1980

TABLE 4 THE REJECTED OPTIONS

ANNEX A

	YIELD ENVISAGED	PUBLIC SECTOR COSTS COSTS TO PRIVATE SECTOR	CHIEF PRACTICAL PROBLEMS	PERCEPTIBILITY AND ACCOUNTABILITY	FINANCIAL CONTROL PROBLEMS	PROBLEMS FOR THE GOVERNMENT'S FISCAL STRATEGY	NUMBERS OF INDIVIDUALS BEARING TAX	SUITABLE FOR WHICH TIERS OF AUTHORITIES
DUTIES ON PETROL TOBACCO ALCOHOL	£2,700m	significantly less than £100m heavy cost to the trades	major enforcement problems EEC	weak	Unpredictable yield	major	customers eg. 18 million smokers	less suitable for lower tier
VEHICLE EXCISE DUTY	£1,000m	substantially more than £25m slight	enforcement	weak	slightly unpredictable yield	major	14 million motorists	less suitable for lower tier
LICENCES FOR SALE OF ALCOHOL	£150m	£10m minor	high cost in relation to yield	Very weak	none	none	customers	both main tiers
PAYROLL TAX	£2,700m	substantially more than £25m heavy	disincentive to employment	Very weak	slightly unpredictable yield	major	900,000 employers	both main tiers
DEVELOPMENT LAND TAX	£50m	Less than £10m minor	high cost in relation to yield	Very weak	highly unpredictable yield	none	land vendors	less suitable for lower tiers

NB The estimated public sector costs are very tentative estimates (see the text). For comparison it may be useful to note that domestic rates yield £2,700m and cost £100m to collect. They are borne by 10 million householders.

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TABLE 5 OPTIONS DISCUSSED IN DETAIL

ANNEX B

	YIELD ENVISAGED	PUBLIC SECTOR COSTS COSTS TO PRIVATE SECTOR	CHIEF PRACTICAL PROBLEMS	PERCEPTIBILITY AND ACCOUNTABILITY	FINANCIAL CONTROL PROBLEMS	PROBLEMS FOR THE GOVERNMENT'S FISCAL STRATEGY	NUMBER OF INDIVIDUALS BEARING TAX	SUITABLE FOR WHICH TIERS OF AUTHORITIES
LOCAL SALES TAX	£2,700m	£20m, or £60m heavy	not before mid 1980s — EEC	moderate	unpredictable yield lumpiness of yield	significant tax sharing problems	54 million	counties and Scottish regions
LOCAL INCOME TAX MODEL I: WITHIN PRESENT PAYE	£2,700m	up to £80m heavy	not before end of 1980s	fairly weak	slightly unpredictable yield — lumpiness of yield	increases indirect taxation unless offsetting reductions	around 28 million	counties regions — Met. districts Lon. boroughs
LIT MODEL II: UNIVERSAL YEAR-END ASSESSMENT	£2,700m	less than £80m moderate	not before 1990s	fairly weak	slightly unpredictable yield	as above — would have to be preceded by radical restructuring of the national system	around 28 million	both main tiers
LIT MODEL III: ADMINISTERED PARTLY LOCALLY	£2,700m	£150m nil	Not before end of 1980s — difficult IR - LA's interface	highly perceptible	slightly unpredictable yield	as for LIT(I)	around 28 million	both main tiers
POLL TAX	£700m (higher with rebates)	£70-£80m nil	enforcement — electoral registration	highly perceptible	none	none	40 million	both main tiers plus parishes

NB The estimated public sector costs are very tentative estimates (see text). For comparison it may be noted that domestic rates yield £2,700m and that £100m is

OUTLINE FOR A MODELLING STUDY ON THE INCIDENCE OF ALTERNATIVE LOCAL TAXES

1. In order to appraise the effects of alternative sources of local revenue it is necessary to analyse their distributive effects both as between households (and individuals) and as between authorities. In order to make a detailed analysis of this kind, complex modelling work will be needed.

Objectives of the Analysis

2. The two primary objectives of the study will be to compare the incidence of the different local taxes on different types of household and on different authorities.

Taxes to be considered

3. The study will consider three local taxes (local income tax, local sales tax, local poll tax) that might be considered as alternatives to domestic rates and will compare their incidence with each other and with domestic rates. For the purposes of the study non-domestic rates will be assumed to continue, and to raise the same amounts as at present; to guard against excessive rates on businesses, it could be assumed that the non-domestic rate poundage levied by each authority will be linked to the poundage levied for the new tax or taxes in a fixed ratio determined by statute or central government. Exchequer grant will initially be assumed to continue at the same total level as in 1981/82, and will be used to equalise for differences of resources (ie non-domestic rateable value + the local base for the new tax). In a second stage the possibility of reducing the level of grant and increasing the income from local taxes might also be modelled.

The Household Analysis

4. Suitable samples of households might be drawn from the Family Expenditure Survey or the General Household Survey. The analysis would compare the tax burden of all the households of the survey under the different possible taxes. It would classify the results for households in different income groups.

Local Authority Analysis

5. The analysis would endeavour to establish the size of the tax base in each local authority for each of the alternative local taxes. It would contrast these with the present rateable value base in each area, so as to obtain a measure of changes in the income that could be generated in each area from the local tax base at comparable levels of tax, and hence of the offsetting shifts in the equalising grant that might arise.

Organisation of Study

6. The study might be carried out either within Whitehall or - subject to the sensitivity of material - partly within Whitehall and partly by an authoritative outside body. In either case the study should be steered by an interdepartmental group

7. The detailed terms of reference for the study should be agreed interdepartmentally and approved by Ministers by the end of June. Staff would be appointed and if appropriate consultants engaged shortly thereafter and the work completed by summer 1982.