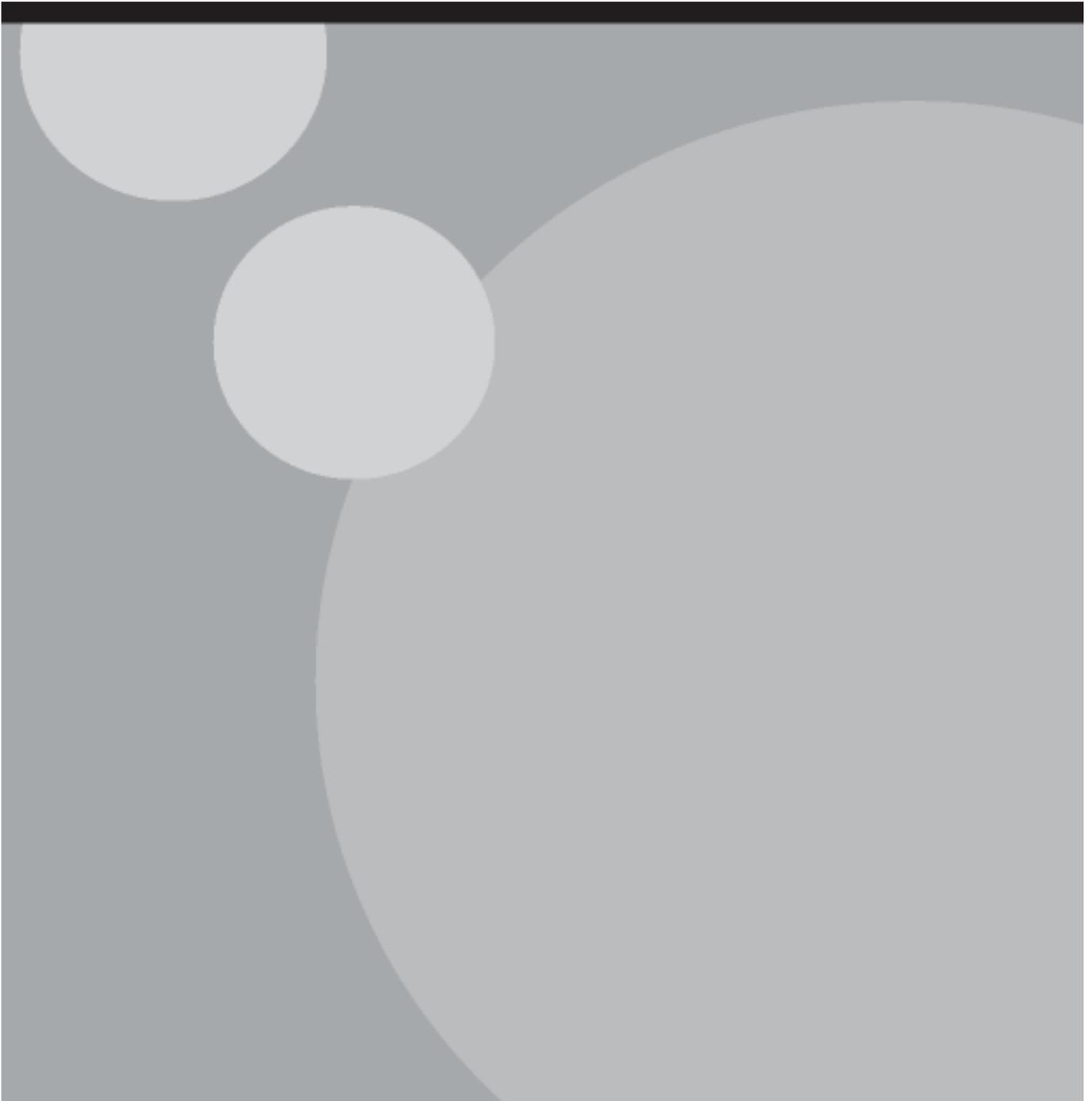




Local Government Finance Bill: Technical reforms to council tax

Impact assessment



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Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

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Title: Technical Reforms of council tax IA No: Lead department or agency: DCLG Other departments or agencies: None	Impact Assessment (IA)
	Date: 01/09/2011
	Stage: Consultation
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: David Kelly - zone 5/D2 Eland House tel 03030 444 2099

Summary: Intervention and Options	RPC: RPC Opinion Status
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Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as
NA	NA	NA	No	Zero Net Cost

What is the problem under consideration? Why is government intervention necessary?

The Government is addressing some technical issues which have arisen on council tax and is exploring modernising the system in certain minor respects. The changes being contemplated include giving authorities more flexibility on what discounts they can charge on 2nd homes and certain empty properties. There are two drivers for these changes. Firstly, local authorities will be given more local control to help them keep council tax down. Secondly, authorities need stronger levers to make sure that the housing stock is effectively utilized. The changes proposed will enable them further to discourage 2nd home ownership and encourage owners to bring empty dwellings into use quickly.

What are the policy objectives and the intended effects?

It is vital that the overall level of council tax is kept down, and in the Spending Review, the Government undertook to consider providing greater flexibilities to local authorities to manage pressures on council tax. It has decided to do this by enabling local authorities to adjust council tax relief in respect of second homes and empty properties when they judge that they do not merit the special treatment they currently get.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 1 — “do nothing” — i.e. no changes to the current system. This would not meet the policy objectives outlined above.

Option 2 — introduce the flexibilities outlined above to better allow authorities to manage their own finances and in particular to keep the level of Band D council tax down.

A full assessment of the regulatory impact of these proposals will be made as part of the overall impact assessment for the forthcoming Local Government Finance Bill. In addition, the Government will be monitoring the impact of the changes on levels of council tax.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 01/2012						
Does implementation go beyond minimum EU requirements?			No			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		Micro No	< 20 No	Small No	Medium No	Large No
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			Traded:		Non-traded:	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: _____ Date: 15/11/2011

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £0m	High: £0m	Best Estimate:

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low		£0 million	£0 million
High		£420 million	£3,605 million
Best Estimate			

Description and scale of key monetised costs by 'main affected groups'

The main affected groups are council taxpayers. The tax impact will only fall on owners of second homes and empty dwellings, and mortgagees in possession. The extra tax they pay will depend on the extent to which authorities exercise these flexibilities. The additional council tax raised will be in the range of zero to about £420 million per annum.

Other key non-monetised costs by 'main affected groups'

Where dwellings formerly exempt become chargeable, and authorities choose to use their discretion to levy tax, there will be some collection costs for them. However, there are already some administration costs associated with handling exempt properties for council tax, and they will be avoided. The net impact will be broadly neutral.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	£0 million	£0 million
High	Optional	£420 million	£3,605 million
Best Estimate			

Description and scale of key monetised benefits by 'main affected groups'

The main affected groups benefitting from this change are the local authorities who will have greater flexibility to decide a level of discount which better suits the local circumstances. The additional council tax raised will be in the range of zero to about £420 million per annum.

Other key non-monetised benefits by 'main affected groups'

Providing local authorities with greater flexibilities to manage pressures on council tax will allow authorities to keep council tax lower for tax payers whose liability is unaffected by the changes. To the extent that the reforms encourage owners of empty properties to bring them into use more quickly, there will be benefit to all those disadvantaged by the fact that the demand for housing is greater than the supply.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5%

The analysis is based on historical data on second homes and exemptions, which may not fully reflect the fluctuations over future years.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs:	Benefits:	Net:	No	Zero net cost

Evidence Base (for summary sheets)

Problem under consideration

1. This is an opportunity for the Government to address some technical issues which have arisen in recent years, to explore modernising the council tax system in certain minor respects, and to seek views on whether some other aspects of the system should be changed. In summary, the changes being contemplated include:
 - a. giving billing authorities power to levy up to full council tax on second homes;
 - b. replacing exemption Classes A (a vacant dwelling where major repair works or structural alterations are required, under way or recently completed (up to twelve months) and C (a vacant dwelling, empty and substantially unfurnished, up to six months) with discounts, the amount of which would be for billing authorities to determine.
 - c. abolishing Class L exemption (an unoccupied dwelling which has been taken into possession by a mortgage lender), and making mortgagees in possession of empty dwellings liable to council tax in respect of them;
 - d. setting a default assumption that payment of council tax by instalments will be over twelve months rather than (as is currently the case) ten;
 - e. allowing authorities to publish online the “Information to be supplied with demand notices” (that is, the information currently itemised in Part 2 of Schedule 2 to The Council Tax (Demand Notices) (England) Regulations 2010), but with a duty to supply it in hardcopy to any council tax payer requesting it;
 - f. changes to eliminate potential tax complications from arrangements involving third party suppliers where solar panels are placed on the roofs of dwellings without coming into the paramount control of the resident.
2. Government is seeking views on two other topics, but is not putting forward its own proposals at this stage (see further detail under paragraph 8). They are:
 - g. empowering local authorities to adopt an “empty homes premium” payable on top of the normal council tax chargeable in respect of dwellings which have been empty for two years or more; and
 - h. the treatment for council tax of units of accommodation which have been established as having been constructed or adapted for separate occupation.

Localisation

3. The Spending Review was underpinned by a radical programme of public service reform to change the way services are delivered by redistributing power away from central government. This programme is built on the Coalition principles of increasing freedom and sharing responsibility by localising power and funding, including by removing ring-fencing around resources.

Rationale for intervention

4. Setting the agenda for decentralisation and localism is one of the Coalition Government’s core objectives. The goal is a radical redistribution of power and funding from government to local people to deliver what they want for their communities. Council tax is a local tax, and it is

therefore natural that, as part of its broad agenda, the Government should look for changes that further empower local communities.

5. It is vital that we keep the overall level of council tax down, and in the Spending Review, the Government undertook to consider providing greater flexibilities to local authorities to manage pressures on council tax. Taxpayers currently enjoy exemptions or discounts in some circumstances, and one way to help local authorities keep the headline level of council tax down is to empower them to take a less generous approach to those reliefs, thereby increasing the tax base that is available.

6. Separately, there is an increasing shortage of housing generally, and encouraging owners to bring empty properties into use more quickly will help to address it. Data from council tax records collected in October 2009, suggest the number of empty homes to be 770,000 which is around 3.4% of the dwelling stock. Of the 2009 total, 314,000 (41%) were empty for six months or longer. The measures proposed should help encourage owners to bring empty homes back into use. However, we are unable to measure the impact our proposals might have on reducing the number of empty homes.

Policy objective

7. These proposals will help local authorities keep the overall level of council tax down, thereby supporting hard-working families and pensioners. This will be achieved by adjusting the tax relief in respect of second homes and empty properties when authorities judge that they do not merit the special treatment they currently receive.

8. The Government is not currently minded to change other aspects of council tax and, in particular has no plans to change the rules on discounts and exemptions other than those detailed in paragraph 1. However, it is seeking views on whether changes are desirable to:

a. the empty homes premiums enable local authorities to levy a council tax surcharge on dwellings that have been left empty for a long period (e.g. two years);

b. reconsider the rules underpinning separate banding of parts of properties which are constructed or adapted for separate occupation - an important feature of council tax law. It depends entirely on the physical facts: so an annex which is adapted but not in fact separately occupied must be banded separately. In circumstances this can arguably lead to unfairness.

Description of options considered (including do nothing)

9. The options being considered are:

a. **Do nothing:** i.e. no changes to the current system. This would not achieve the policy objectives.

b. **Introduce the flexibilities outlined in paragraph 1 above:** This better allows authorities discretion to manage their own finances in light of the circumstances outlined in paragraph 5.

10. Since the application of these flexibilities will be a matter for local discretion, we cannot accurately estimate their impacts. This Impact Assessment exemplifies a small number of possible scenarios. In addition, the Government will be monitoring the impact of the changes on levels of council tax.

Costs and benefits

11. Under the new proposals, local authorities will have discretion about the extent to which they increase the tax on second homes, and to levy tax on empty dwellings which are currently exempt. The council tax foregone in England in 2011-12 (calculated using 2011-12 council tax levels) as a result of the status quo is estimated to be around £420 million, broken down as follows (rounded to nearest £5m):

- Second Homes Discount: approx £45m
- Exemption A: approx £40m
- Exemption C: approx £320m
- Exemption L: approx £15m

12. It is unlikely that authorities would think it appropriate to use their new flexibilities to reduce these discounts to zero. Moreover, the proportion of the tax base that is attributable to second homes and empty dwellings varies very considerably from authority to authority, and the value of the flexibilities will vary similarly. That said, if authorities exercise the flexibilities to maximize revenue, the extra revenue generated would relieve pressure on council tax to the equivalent of approximately £20 per Band D equivalent in England.

13. The following table shows the number of dwellings receiving each of the discounts and exemptions, as at 13th September 2010:

Table 1

Exemption/Discount	Number of dwellings
Second Homes	246,000
Exemption A	33,000
Exemption C	266,000
Exemption L	12,000

Source: Data are from DCLG's Local Authority Council Tax Base 2010 England returns, rounded to the nearest thousand. Data by authority are available here:
<http://www.communities.gov.uk/documents/statistics/xls/1877003.xls>

14. These policies will have no general impacts on business. However, if billing authorities exercise their new discretion to charge council tax, albeit discounted, on empty dwellings which would currently be exempt, there may be some impact on businesses involved in house-building and renovation. For example, a new dwelling would give rise to a council tax liability from the moment it is completed or deemed to be completed whereas, in current law, that liability would not have arisen for six months. However it is our view that the proposed changes on empty homes will incentivise owners to refurbish them faster and therefore bring them back into use more quickly.

15. Table 1 shows that these changes could affect the owners of over half a million dwellings. However, given that authorities already have a degree of flexibility over the Second Homes discount, owners of only around 300,000 dwellings could potentially see their council tax liability increase by more than 10 percentage points as a result of these changes.

16. Information on the level of the Second Homes discount is collected on DCLG's Local Authority Council Tax Base 2010 England return. Table 2 is a summary of that information:

Table 2

Level of Second Homes discount	Number of dwellings receiving this discount	Number of authorities offering this level of discount
50%	15,870	152
Total	245,240	495
11% - 19%	5	1
20% -29%	7,985	12

Source: Data are from DCLG's Local Authority Council Tax Base 2010 England Supplementary returns. Data by authority are available here: <http://www.communities.gov.uk/documents/statistics/xls/1877003.xls>

Note: The number of dwellings in Table 2 does not total the number of second home dwellings from Table 1 as the data are taken from the supplementary part of the CTB (Council Tax Base) form which differs slightly in the Local Authority reporting.

The total number of authorities in table 2 is larger than the total number of billing authorities (326) because authorities are not restricted to offering a single level of discount to second homes. Therefore, where an authority offers different levels of discount to different second homes it will be counted more than once (three local authorities are not included in the total as they reported no second homes).

17. Table 2 shows that the majority (90%) of dwellings receiving the Second Home discount receive a discount of only 10%. Only around 6% of dwellings receive the full discount of 50%. Some 80% of authorities already set the discount to the lowest level possible for at least some of their second homes. It should be noted that all second homes dwellings that are job related are entitled to receive the full discount of 50%.

18. Given that it is unlikely that all authorities will cut all the selected discounts and exemptions to zero, it is useful to consider other scenarios. Table 3 below shows the resultant revenue that would be raised in each case:

Table 3

Scenario		Revenue raised (£m)
1	Second Home Discount: 5%	£25
	Former exemption A: 75%	£80
	Former exemption C: 75%	£10
	Former exemption L: 75%	£5
	Total	£120
2	Second Home Discount: 5%	£25
	Former exemption A: 50%	£160
	Former exemption C: 50%	£20
	Former exemption L: 50%	£5
	Total	£215
3	Second Home Discount: 5%	£25
	Former exemption A: 25%	£240
	Former exemption C: 25%	£30
	Former exemption L: 25%	£10
	Total	£310
4	Second Home Discount: 0%	£45
	Former exemption A: 0%	£320
	Former exemption C: 0%	£40
	Former exemption L: 0%	£15
	Total	£420
5	Second Home Discount: 0%	£45
	Former exemption A: 50%	£160
	Former exemption C: 75%	£10
	Former exemption L: 50%	£5
	Total	£220

Note: Figures rounded to nearest £5m. Figures may not add up to totals due to rounding.

19. Collecting council tax from those who were previously exempted or who previously received a higher level of discount may be difficult. As a consequence, collection rates for these groups may be lower, reducing the revenue that may be raised from them.

20. Scenario 4 in table 3 assumes second homes discount is zero, and that all relief on empty homes currently exempt under A, C and L is abolished. The yield of £420m assumes the current national collection rate of 98.5% is sustained. Table 4 shows the effect that different collection rates might have on the revenue under this same scenario:

Table 4

Collection rate	Total raised from reducing the Second Home discount and exemptions A, C and L
98.5%	£420m
90%	£380m
80%	£340m
70%	£295m
60%	£255m

Summary of methodological and data issues

21. Costings were calculated using data from Council Tax Base and Council Tax Base (Supplementary) forms submitted by billing authorities in England. Exemption and discount data are as at October 2010 and are applicable to dwellings that were on the VOA list at 13th September 2010. Council tax data from Budget Requirement 2011-12 forms were also used.

22. For Second Homes Discount, the council tax band data from the Council Tax Base form were used to work out the number of Band D equivalents receiving a discount.

23. Data from the supplementary part of the Council Tax Base form were then used to calculate what share of Band D equivalent properties, for each discount range, were offered what level of discount, taking the midpoint of the discount range where appropriate.

24. These figures were then multiplied by the rate of council tax for a Band D property for 2011-12 (from the BR 2011-12 form) and estimated collection rates to give a final discount cost.

25. For Exemptions A, C and L, the number of Band D equivalents receiving each exemption were calculated from the supplementary part of the Council Tax Base form. These were then multiplied by the rate of council tax for a Band D property for 2011-12 and the estimated collection rate to calculate the recoverable council tax of these exemptions.

26. Figures estimated for exemptions are based on the assumption that the number of dwellings receiving a discount will remain constant throughout the year.

Do nothing

27. No costs and benefits have been assessed for this option since it is the do nothing option against which the preferred option will be compared.

Implementing the proposals

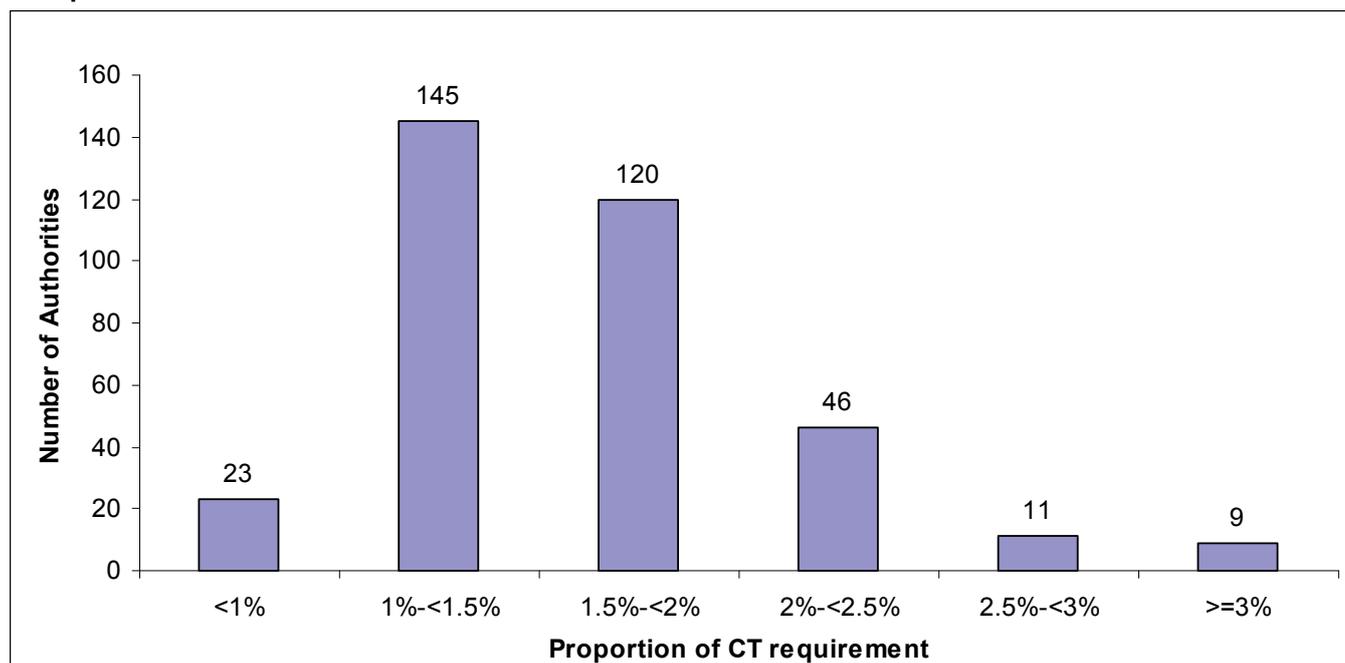
28. The following sections look at the impacts on different groups of implementing the proposals set out under paragraph 1.

Impact on local authority budgets

29. The proposals set out under paragraphs 1 (a), (b) and (c) would give additional flexibility to authorities to raise more council tax from taxpayers currently enjoying reliefs, without having to

raise it for everyone else. The following chart illustrates the distribution of additional council tax income on local authority budgets.

Graph 1 – Proportion of council tax requirement that could be raised by cutting selected discounts and exemptions to zero.



Source: DCLG, Council Tax Base Form, Oct 2010; DCLG Budget Requirement Form, 2011-12

30. If they were to use the new flexibilities to the maximum extent, most authorities could raise a sum equivalent to 1%-2.5% of their council tax requirement. There is considerable variation. Great Yarmouth and Isles of Scilly could raise a sum equivalent to over 4% of their council tax requirements, whereas Epsom and Ewell, Bexley and Exeter could raise less than 1%.

Impact on individual claimants

31. The proposals set out under paragraphs 1 (a), (b) and (c) give additional flexibility to authorities to set discounts on certain properties. Authorities will use this to maximise their revenue (or minimise a general increase in council tax). Affected taxpayers will face higher bills than they otherwise would have (or where exemptions previously applied, a tax liability will arise where there was none before).

32. Some people may consider it unfair that others in similar circumstances will receive a different level of discount just because they are in a different local authority to them. However that is a consequence of relinquishing central control.

The impact on different council tax payer groups

33. The main impacts are likely to be as follows:

a. Owners of second homes are currently liable to pay between 50% and 90% of a normal council tax bill (depending on the exercise of the local authority's discretion). Once these changes are enacted, they will be liable to between 50% and 100%. The entitlement to a 50% discount enjoyed by taxpayers who have a second home because one of their homes is job-related will not be affected.

b. Owners of unoccupied, unfurnished dwellings which are awaiting, undergoing or have just undergone major repair or structural alteration currently have no liability to pay council tax for up to 12 months. This is Class A exemption. Once these changes are enacted they will be liable to between 0% and 100% of the full bill.

c. Owners of other unoccupied, unfurnished dwellings currently enjoy an exemption (Class C) of up to 6 months. They too will become liable to pay between 0% and 100% of a full bill once these flexibilities are in place.

d. Owners of empty dwellings that have been repossessed by a mortgagee currently have no liability to council tax. This is Class L exemption. Mortgagees are never liable. The changes being contemplated would make the mortgagees liable for council tax in preference to the owners. Class L exemption would become otiose.

Impact on administration costs

34. The loss of exemptions, and higher bills for those people affected may increase enforcement costs, but the impact will be small, and heavily dependent on the extent to which authorities use the new flexibilities.

35. There may also be transitions costs for changing the systems that local authorities will apply these changes.

Savings to Government

36. No direct savings to Central Government. The additional council tax raised will be in the range of zero to about £420 million per annum.

Risks and assumptions

37. The main area of risk, which cannot be accurately evaluated, relates to the marginal collection rates of council tax levied on dwellings that were previously exempt. There is a remote risk that a less generous approach to the taxation of empty dwellings might adversely affect the housing market, and job mobility. It is assumed, at this stage, that such impacts will be negligible.

Direct costs and benefits to business calculations

38. There will be direct costs to business, to the extent that:

- property developers and renovators may find themselves liable for council tax in circumstances in which, under current law, they would not.
- banks and building societies will be liable for council tax in respect of dwellings they have repossessed. The extent to which they would eventually recover those costs from the proceeds of sale are presently unclear.

Wider impacts

39. None.

Summary and preferred option with description of implementation plan

40. The preferred option is to modernise the council tax system as described in paragraph 1.