

# **Local Taxation**

## **The Bigger Picture**

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# Local Taxation - What Does the Future Hold?

- Six questions on funding local government
  - Is it time for change?
  - Does the structure of our property taxes need modernising?
  - Is the burden on business too great?
  - Is the domestic property tax fair?
  - Do we understand the need to balance funding and identify new sources of revenue?
  - Do we move away completely from any form of local funding?

# Principles of Local Taxation

- Should be related to the ability to pay
- Should be easily understood
- Should be administratively efficient
- Should be difficult to evade and avoid
- Should be impartial
- Should be economically efficient
- Should benefit those who pay

# Meeting the Criteria for Local Taxes

- Local taxes must meet local needs
- The choice of taxable subject
- The yield from taxes must be certain and adequate
- Where possible taxes should be policy linked
- Sub-national government must be accountable
- Should be easy to collect, but
- Difficult to evade and avoid, and
- Be fair in every respect

# A Charitable Bluetooth Messaging Service



04/01/2012 14:44



# A Snail Farm



# An Art Exhibition





# A SPV subject to Insolvency



31/10/2012 14:02



# The Building





*Trump National Golf Club*

BEDMINSTER











# A Short History of Local Authority Funding in England

- Relative stability between 1601 and 1970
- Through the 70's and 80's funding "*problems*"
- From 1990 a flexible national rate levy and three years of the Community Charge
- From 1993 the flexible national rate levy and the introduction of the Council Tax
- From 2013 the move to localise elements of the rate and continuation of Council Tax



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# 2019/20 Just Another Year

- The Spending Review will be “make or break” for non-essential services
- Buses, museums, park maintenance and council tax support will suffer if government fails to ease the financial pressure
- Councils are being “pushed to the brink” as demand grows for children’s services, adult social care, and homelessness
- Councils provide more than 800 services to their residents, some of which are legal duties like children’s and adult social care, while others are optional.
- Discretionary services that risk being slashed include rural and school buses, council tax support, fly-tipping penalties, and the management of parks and green spaces.

# Current Funding Sources

- **Where does the funding come from?**
  - Council Tax
  - Business Rates
  - Fees, charges and trading
  - Specific grants
- **The challenges**
  - Is the “balance” of funding correct?
  - Do the property taxes need modernising?
  - Are there any alternatives?

# The Financial Structure

- Overall funding level determined by central government with business rates set centrally
- Council tax set locally but with democratic limitations
- Equalisation and some localisation through the retention scheme
- Specific grants and supplements with fees and charges fixed locally, but

**This process does not deliver sufficient funding to meet the demands of local services**



# The Starting Point of Change

- Reduce the impact of the business rate by
  - A lower multiplier and better regulated
  - Modernise the structure of the tax
- Adjust the balance of funding between business rate and council tax by
  - Removing banding and the formula
  - Introduce discrete values and local tax rates and utilise an Automated Valuation Model
  - Allow taxpayers to claim council tax against personal income tax
  - Introduce a new relief scheme
- Identify additional or alternative sources of revenue

**The aim is to create a solution that provides certainty and sustainability**

## **What are the Wider Arguments about the Non Domestic Rate in England?**

- Is it fair?
- Is it too much of a burden on the ratepayer?
- Is the assessment methodology appropriate to the 21<sup>st</sup> Century?
- The wider argument on the contribution that industry and business should make to local services or for that matter to the Exchequer generally.

## **Is There Anything Wrong with the Non Domestic Rate in England?**

- The overall argument about the burden
- The breadth and depth of the tax base
- The structure and distribution of the tax base
- The efficiency, effectiveness and accountability of the administration

# Reform the Business Rate

- Reshape the tax base
  - Review valuation methodology and utilise modern technology
  - Review exemptions and reliefs
  - Implement frequent revaluations
- Reduce the multiplier
  - By half
  - Temporary funding to facilitate change
  - Increase the yield of council tax
  - Identify alternative or additional funding sources
- Appeal process



# The Council Tax

- Tax is value-based - some element of ability to pay included
- Augmented by a sophisticated benefit system
- Discount for single person occupation
- Other circumstance based discounts
- Limited exemptions

# Radically Reform the Council Tax

- Discrete values rather than banded values with variable tax rates fixed locally
  - Annual revaluation using Automated Valuation Models
  - Abolish key discounts and exemptions
- Create a pure property tax directly linked to ability to pay using HMRC data
- Consider an allowance against income tax
- Test the model and various scenarios at the local authority level

## **Seek out the alternatives or additional sources**

- Land Value or Land Transaction Taxes
- Commercial Landowner Levy
- Vacant Site Tax
- Local Sales Tax and/or an Internet Transaction Tax
- A Tourism Tax
- Road Pricing
- Dramatic increase in charging for services
- Increase the standard rate of income tax by at least 6 pence or as much as 11 pence in the £!! or increases in other taxes

# In Conclusion

- Local government needs a “futureproofed” and “smart” solution to funding
- The link to the national tax system could remove any need to equalise
- This is a part of a radical review that must contribute to the overall view of how sub national government should be financed
- The funding model should be properly balanced, and
- Secure the future of local government