
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE – SPECIAL	AGENDA ITEM: 14
DATE OF MEETING:	1st December 2011	CATEGORY: DELEGATED
REPORT FROM:	CHIEF EXECUTIVE OFFICER	OPEN
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SUBJECT:	COUNCIL TAX DISCOUNT and REFORM	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the Government's proposals for council tax discount and reform is considered.
- 1.2 That the Committee consider any comments it wishes to make as part of the Government's consultation and that these are structured into a formal response.

2.0 Purpose of Report

- 2.1 To set out details of the Government's proposals for reforming discounts and exemptions associated with council tax payments. This is part of the Government's wider policy of decentralisation aimed at giving councils increased financial autonomy and increased flexibility in setting local taxes.
- 2.2 The Government issued a consultation paper on 31st October with the consultation period ending on 29th December 2011.
- 2.3 As part of the consultations, the Government is seeking responses to 22 specific questions and views on the main principles contained in the proposals. The Government intends to make any changes effective from 1st April 2013.

3.0 Executive Summary

The Proposals in Brief

- 3.1 There are currently a range of exemptions and discounts where individuals can pay a lesser amount of council tax on their homes. These proposals focus on those applying to second homes and empty properties.

- 3.2 The proposals aim to give councils greater flexibility to reduce or remove council tax relief on second homes and empty properties. Councils can already reduce the second homes discount to just 10%, but these proposals would allow councils local discretion to charge the full rate of tax.
- 3.3 In addition, there are currently a range of reliefs of up to 100% for empty homes. The proposals would give greater discretion to councils to make local decisions on relief, in order to generate additional tax revenues from such properties and bring them back into use.
- 3.4 There are no plans to change the relief available for empty homes due to “special circumstances.” This includes where a person has moved into care, a property is affected by fire or flood, or where genuine hardship exists.
- 3.5 In addition, the job related second homes discount, where someone has to live in the home because of their job, will also remain unaffected.

Paying Council Tax

- 3.6 Currently, council tax is generally paid by residents in 10 instalments over the year. The proposals would give residents a new right to pay their bills in 12 monthly payments. The option of 10 instalments would still remain.

Supplying Demand Notices

- 3.7 Besides sending out an individual council tax bill to each household, councils are also required to send out information to residents detailing council tax, spending levels and other information.
- 3.8 This is sent to every household in paper format. The proposals would give councils the choice to make this information available electronically and only provide in hard copy should a resident apply.

Tax on Photovoltaic Solar Panels

- 3.9 Currently, there are tax complications from arrangements with third party suppliers where solar panels are placed on the roof of dwellings without coming into the control of the resident. These proposals will completely cancel any tax on domestic properties with solar panels.

Annexes to Family Homes

- 3.10 Currently, a self-contained annex to a property is classed as a separate dwelling and is charged council tax in addition to the main residence. Amending this is not straightforward as it involves a complex area of rating law.
- 3.11 Consequently, the proposals make no specific recommendations to this issue but the Government is reviewing whether such arrangements could be improved and made clearer.

4.0 Detail

Discounts on Second Homes

- 4.1 Where a resident has a home that is not their main or sole residence, then they are entitled to a discount on that (second) home. Currently, councils have the power to provide a discount of between 10% and 50% on these properties.
- 4.2 The power is provided to enable councils to encourage or discourage second homes in their area depending on local circumstances.
- 4.3 Since the introduction of council tax in 1993, many authorities have used this power to lessen the discount on second homes in order to generate greater tax revenues. The Council itself adopted a policy in December 2008 to reduce the discount in South Derbyshire from 50% to 10%, i.e. the maximum allowed. This has been in place since April 2009.
- 4.4 The Government's proposal would give councils the power to levy up to full council tax on second homes, i.e. the discount would be 0% to 50%.

Empty Properties – Class C and Class A Exemptions

- 4.5 There are a range of exemptions from council tax where a property is empty. The full list is detailed in **Appendix 1**.
- 4.6 Where a property is empty and substantially unfurnished for longer than 6 months (**Class C**) councils have the power to levy council tax anywhere between 0 and 100%.
- 4.7 Similar to discounts on second homes, the Council's current policy was implemented on 1st April 2009. This policy charges the full amount of council tax after 6 months on empty properties, subject to some exemptions that take account of care and disability issues.
- 4.8 Where dwellings are vacant due to major repair works or structural alterations being required or are in the process of being completed (**Class A**) the property is exempt from council tax for a period not exceeding 12 months. If, after this period, the property is still unoccupied, it is effectively classed as a long-term empty (Class C).
- 4.9 In these cases, councils then have the discretion to levy council tax as above.
- 4.10 The limitations on empty properties are in place to encourage owners to bring dwellings back into use in a reasonable time. The Government's intention is that this remains the case.
- 4.11 There is currently no scope for councils to use discretion about what is reasonable in terms of foregoing council tax in respect of empty properties. The Government is therefore proposing to abolish exemptions A and C and replacing them with a discount.

- 4.12 In these cases, councils would have discretion to charge up to 100% which they deem is reasonable to reflect local circumstances.

Class A Exemptions

- 4.13 In respect of Class A (properties undergoing structural repair) besides the principle of abolishing the exemption, the Government are also consulting over what period the discount should apply before a dwelling is treated as a long-term empty, i.e. should the one year time limit apply or should councils have full discretion?

Class C Exemptions

- 4.14 These exemptions apply for a shorter time than Class A and is currently set having regard for different circumstances. These exemptions generally apply to people who have moved home without selling or letting their properties, together with developers who have vacant new properties on their books.
- 4.15 Potentially, converting the exemption to a discount will penalise these groups. Again the Government is consulting on both the principle and the timescale involved.

Effect on the Council

- 4.16 As the Council already charges 100% on empty properties after the statutory timescale, the issue (assuming this policy continues) relates to the period it should apply from. It is considered that there may be a balance between encouraging empty properties back into use, with the need to be "fair and reasonable" with the groups concerned.

Mortgage Repossessions - Class L Exemptions

- 4.17 These relate to unoccupied dwellings which have been taken into possession by a mortgage lender. By changing existing council tax legislation, the Government proposes to abolish this exemption. This would require institutions which have taken possession of such dwellings to become liable for council tax whilst the properties are empty.
- 4.18 The Government's view is that it is unfair for the general taxpayer to make up the shortfall in council tax revenue suffered by councils through repossessions.

Empty Homes Premium

- 4.19 The Government is proposing to levy a premium on long-term empty properties that have remained so for say longer than 2 years. This is in addition to the Class A and C exemptions detailed earlier.
- 4.20 Where councils already apply no discount for empty properties, i.e. they charge 100%, the premium could therefore mean a council tax charge greater than full liability (100%) which would be payable if a dwelling was to be occupied.

4.21 The Government is concerned about the 300,000 long-term empty properties currently across England and the potential issues this may bring to local communities.

4.22 This would be a fairly fundamental change to the current council tax regime. A balance between fairness, collectability and possible avoidance would need to be considered. It may also need to fit into wider local strategies on dealing with empty homes.

Payment of Council Tax by Instalments

4.23 A council tax bill can be paid through a lump sum or through instalments. The number of instalments is normally 10 and the majority of the 22 million council tax bills issued each year are paid by this method.

4.24 Councils can enter into an agreement with individual taxpayers to complete 12 monthly instalments but this normally comes with conditions such as payments must be made via the internet or by direct debit. The Council currently offers this option with only around 50 residents paying by this method.

4.25 The Government believes that all taxpayers should be entitled to pay by 12 monthly instalments as a right. This would provide more flexibility to households/individuals to spread the bill over a longer period if they choose to do so. This also aligns with most modern arrangements for the payment of other charges such as utility bills.

4.26 It is considered that there could be a drawback to councils in that it would have an adverse impact on cash flow.

Information Supplied with Demand Notices

4.27 The legal demand for council tax are normally printed and issued on paper through the postal system. They are accompanied by information that is out in regulations (known as the council tax leaflet).

4.28 This can be fairly lengthy and costly to publish and send to each individual household. The Government does not intend to change the content of the information to be supplied.

4.29 Powers already exist for councils to provide electronic billing and payment by the taxpayer under agreement. Councils that do this, also offer a discount to encourage electronic payment as it reduces administrative costs.

4.30 Therefore, the Government is proposing to allow councils to publish the information on-line, but with a duty to provide a hard copy for free to any resident who requests it. It is hoped that this may help to encourage the take-up of electronic billing as all aspects of the process can be paper-less if the taxpayer chooses.

“Rent a Roof” Solar Photovoltaic Installations on Domestic Properties

- 4.31 This is a technical issue in that currently, there is a potential loophole under Rating Law where solar panels could be classed as an add-on to properties. Consequently, they would be liable for non-domestic rates.
- 4.32 In particular this applies to “rent a roof” schemes; the owner of the property does not install and own the solar panel, but a third party is effectively conducting business by renting a property and benefitting from the feed in tariff. This could be construed as a business interest rather than an extension of the property and attract business rates.
- 4.33 Due to the potential problems of identifying, monitoring and collecting liability, the Government proposes to amend legislation. Therefore, all solar panels, however fitted and operated, will be classed as being an integral part of the property and not liable for any additional tax.

Definition of Domestic Installations

- 4.34 In addition, there is also a technical point around what is a domestic installation compared to a commercial scale operation, the later being liable for business rates. This is where businesses use renewable technologies to provide energy for their business premises.
- 4.35 The Government proposes to place a limit to define a domestic installation, i.e. having a maximum generating electrical capacity of 10 kW. A typical domestic installation has an operating capacity of between 1.5 kW and 3 kW. Therefore, any solar photovoltaic installation of 10 kW or less attached to a dwelling would be treated as part of the dwelling and would not be liable for tax.

Annexes to Dwellings

- 4.36 Where parts of a building are in separate occupations, each part is a separate hereditament and liable separately for council tax. Some properties contain self-contained accommodation which has been physically constructed or adapted for use as separate living accommodation.
- 4.37 These rules are applied frequently for separately banded dwellings in hostels and flatlets, etc. The Government has no intention of changing this general application.
- 4.38 However, there have been many instances where part of a house has been physically adapted by adding an “annex” to accommodate a person. This person is often another family member who “lives in” to support the wider family in some way.
- 4.39 This accommodation is separately identified for council tax and not treated as integral to the property, i.e. there are separate living quarters. Once this accommodation becomes vacant it is still liable for tax until such a time when the adaptations are undone, which can be costly and inconvenient.
- 4.40 The Government is seeking views on whether this should be changed.

Consultation Questions

4.41 A full list of the consultation questions is shown in **Appendix 2**; this is an extract from the Government's consultation document. They are grouped as follows:

- Q1 – 2: Proposals on second homes
- Q3 – 5: Proposals on Class A exemptions
- Q6 – 8: Proposals on Class C exemptions
- Q9: Class L exemption
- Q10 – 15: Long Term Empty Dwellings
- Q16: The definition of "relevant person"
- Q17: Payment by instalments
- Q18: Information to be supplied with demand notices
- Q19 – 20: Rent a Roof Solar PV installations on domestic properties
- Q21 – 22: Annexes to Dwellings

4.42 The Committee is requested to consider its response to the questions and in doing so, taking note of the financial implications as detailed in section 5, below.

5.0 Financial Implications

- 5.1 The Government proposes that additional income raised from the changes would be retained locally. Clearly, this would be shared with the other major preceptors on council tax including the County, Police and Fire authorities (but excluding parishes).
- 5.2 Currently, the Council provides a 10% discount to 163 second homes in the District. However, this only equates to "lost" council tax of approximately £2,200 per year for the District Council.
- 5.3 There are currently 39 Class A exemptions and 28 Class L exemptions across the District which qualifies for the full 100% exemption. This equates to "lost" council tax of approximately £9,000 per year for the District Council.
- 5.4 At any one time, there are between 400 to 500 empty properties across the District. Many are vacant for short periods but will be exempt from council tax for that period. In 2010/11, the Council "lost" approximately £11,000 on this basis.
- 5.5 There are though currently 386 properties which have been vacant for more than six months. Consequently, under the approved policy, these are being charged full council tax.
- 5.6 Of these, 138 have been empty for 2 years or more. Under the Government's proposals, the Council would have the option of charging a premium on these properties.

Payment by Instalments

- 5.7 As highlighted previously, there is currently only a very small take-up of residents paying by 12 instalments. Although this spreads the cost for individuals, it would affect the Council's cash flow in that funds would be received at a slower rate over the year. This could have a knock-on effect to the interest earned from what the Council holds on deposit, although it is considered that it would not be significant.

Issuing the Council Tax Demand and Leaflet

- 5.8 This costs approximately £20,000 per year in printing and postage. Design and proof reading is undertaken internally.

6.0 Corporate Implications

- 6.1 The Council will work closely with Northgate as the Council's service provider to implement changes if and when approved.

7.0 Community Implications

- 7.1 As highlighted in the report, the proposals will have an impact upon residents/home owners and in particular, those that have second homes and empty properties in the District. Depending on the final outcome of the proposals and the subsequent policies adopted by the Council, this could affect the level of council tax paid by some people.

8.0 Background Papers

Technical Reforms of Council Tax: Consultation from the Department for Communities and Local Government at:

<http://www.communities.gov.uk/documents/localgovernment/pdf/20192051.pdf>