

Annex A:

Council Tax Reforms to discounts and exemptions

1. BACKGROUND

- 1.1 On 31 October 2011 Government published a consultation paper entitled 'Technical Reforms of Council Tax' with all responses required by 31 December 2011. The paper outlined proposals to give local authorities greater discretion over the reliefs from council tax available in respect of second homes and some empty property. A response to the consultation was published on 28 May 2012, and officers and professional institutions have continued to lobby for more reasoned and effective changes to those proposed for empty properties.
- 1.2 Initially the proposals would have only allowed authorities the discretion to vary the percentage of discount. As a result of dialogue with Government an announcement was made on 27 July 2012 that the proposals will allow councils complete discretion over the percentage level of discount and further discretion over the time limits employed for certain empty property.

2. THE CURRENT POSITION AND POLICY

- 2.1 On 1st April 2003 the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 came into force. These regulations gave local authorities the power to reduce the discount on "second homes" from 50% to a minimum of 10% and reduce the discount on "long term empty property" (typically those empty from at least 6 months) to 0%. This authority implemented the change to 'second home' discounts and currently awards the minimum 10% discount, the discount on "long term empty property" was not reduced and is currently set at 50%.

There were exceptions where the discount on second homes could not be reduced from the 50% and they include:

- second homes owned by Service Personnel who live in accommodation provided by the MoD
- where the dwelling is a caravan pitch or boat mooring
- where the liable person is also liable on a 'job related' dwelling eg ministers of religion

The discount in these excepted cases are not subject to any change and the liable person will continue to receive a 50% discount.

- 2.2 Any decision to reduce the level of discounts will have the effect of increasing the Tax Base and the income derived by all preceptors will be in proportion to the amount of their precept.

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3. KEY GOVERNMENTS PROPOSALS ON DISCOUNTS from April 2013

- 3.1 The Local Government Finance Act received Royal Assent in October 2012. However, guidance had earlier been issued by CLG, which has enabled Billing Authorities and software providers to begin work on the implementation of the following provisions.
- 3.2 The abolition of Class 'A' (dwelling which requires or is undergoing major repair work to render it habitable, or undergone/undergoing structural alteration) exemption, which currently exempts dwelling from council tax for up to 12 months and replacement of that exemption with a locally defined discount. This gives the billing authorities discretion to reduce the percentage discount to between 100% to 0% but not the period of the discount ie. any discount must be awarded for up to 12 months.
- 3.3 The abolition of Class 'C' (Unoccupied and Substantially Unfurnished) Vacant Dwelling exemption, which currently exempts dwellings from council tax for up to six months and replacement of that exemption with a locally defined discount. This gives billing authorities the discretion to reduce the percentage discount to between 100% and 0%, and, reduce the period of the award, or a combination of both.
- 3.4 A further provision allowing authorities the discretion to reduce the 'second homes discount (see 2.1 above). Currently the minimum discount of 10% is applied. From 1 April 2013 the billing authority will have discretion to remove the discount. Owners of these properties would then pay full Council Tax whenever a property is furnished and not occupied as any ones sole or main residence.
- 3.5 A provision allowing billing authorities the discretion to increase the amount of council tax paid on "Long Term Empty" dwellings – an Empty Homes Surcharge. This allows billing authorities the ability to increase the council tax liability up to a maximum of 150% after a dwelling has been vacant (unoccupied and substantially unfurnished) for more than two years.
- 3.6 Consideration has also been given to amending the Class L "Mortgagees in Possession" exemption. This proposal is currently being reconsidered following representations from some mortgage lenders. The value of these current exemptions and the number of properties affected are comparatively low, however we will monitor the Governments future intentions and report as necessary.

4. FINANCIAL IMPLICATIONS

- 4.1 It is extremely difficult to accurately forecast the amount of additional revenue that could be generated by a change of policy for future years due to how the housing market reacts in Cambridge to the proposed changes. It is expected that these changes will affect how long dwellings remain empty.
- 4.2 We are also mindful of a 'behaviour change' that may lead to a risk of Council Tax "avoidance" for example the creation of fictitious tenancies. We are further concerned about the number of small Council Tax debts that may prove to be difficult or uneconomic to collect and will place an additional administrative burden on the authority.

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- 4.3 The level of Exemptions/Discounts granted in the past year (2011/12) has been approximately:

Type:	£	Potential Revenue from proposed changes - £
Class A (Uninhabitable)	75,000	N/A
Class C (Unoccupied and substantially unfurnished up to 6 mths)	850,000	531,000
Class C (over 6mths @ 50% discount)	260,000	260,000
“Second Homes”	148,000	148,000
Empty Homes Premium	N/A	105,000
Totals	1,333,000	1,044,000

5. IMPACT OF POLICY CHANGES

- 5.1 We have considered the impact the abolition of Class A exemption (dwelling which requires or is undergoing major repair work to render it habitable, or undergone/undergoing structural alteration) will have and believe the reduction in both the percentage level of discount and period of award of the discount is inappropriate. This is because any reduction would undermine the council's vision statement (Cambridge- a good place to live - meeting the needs for housing). The amount of additional revenue that could be generated would also be relatively small (circa £75,000 pa from 2013 onwards) therefore; there is merit in continuing to offer a 100% exemption for up to one year for properties meeting the appropriate criteria.
- 5.2 A change to Class C (unoccupied and substantially unfurnished) Vacant Dwellings exemption will have a more significant impact on owners and tenants of dwellings, who were not previously required to pay council tax (for up to six months) on unoccupied dwellings. We therefore believe that any change to the percentage of discount awarded from the date a dwelling becomes vacant will lead to significant numbers of small debts being created for short periods of time and create a significant administrative burden on council tax liabilities that are very difficult or uneconomic to collect. It is therefore proposed that a 100% discount should be awarded for 1 month as apposed to the previous 6-month exemption award. Although it is acknowledged that the period of award is quite short, we believe the period of award will allow sufficient time for most owners and tenants time to exchange their dwellings to the next tenant/owner. Based on the 2011/12 figures, we

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have estimated the extra revenue (to be shared by each preceptor) is approximately £531k pa from 2013 onwards.

In addition, the current 50% discount (zero occupancy) awarded after an initial 6 month Class C exemption would be reduced to 0%. Based on 2011/12 figures we have estimated the additional revenue generated from removing this discount will be approximately £260,000pa from 2013 onwards.

5.3 The removal of the 10% 'second home' discount will have the least impact on council tax collection. This is because those dwellings that fall into this category of dwelling already attract a 90% council tax charge from the first day the dwelling becomes unoccupied. The additional administration burden would be minimal as an account is already raised under the current policy. However, as at present there may be some element of avoidance (eg an owner claiming the property is occupied and claiming a Single Occupancy Discount of 25%). However the 10% extra charge is unlikely to be an excessive additional burden on owners of second homes. Based on the 2011/12 figures, we have estimated the extra revenue (to be shared by each preceptor) is approximately £148,000 pa from 2013 onwards.

5.4 The impact of the introduction of an "Empty Homes Premium" after a dwelling has been vacant for over two years in contrast to the above supports the council's vision statement of 'recognising and meeting the needs for housing'. The ability to impose an additional 50% premium on top of a full council tax charge after two years will concentrate owners efforts in ensuring their properties are brought back in to use and on the market for rent/sale sooner. However, it is difficult to accurately forecast the amount of additional revenue that will be generated by a change in policy in future years due to how the housing market reacts in Cambridge to the imposition of an Empty Home Premium.

Based on the current caseload remaining constant additional revenue of approximately £105,000 pa from 2013 could become collectable.

Please note, if the council decides enact the above policy, the additional revenue in each successive financial years will be less as owners bring their dwellings into use sooner to avoid the premium and must have regard to the following circumstances that will not give rise to a premium:

- Unoccupied dwellings which is the sole or main residence of a member of the armed forces, who is absent from the property as a result of service;
- An annex deemed unoccupied, which is being used by the occupier of the main dwelling, as part of the main dwelling.

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6. OTHER GOVERNMENT PROPOSALS

6.1 Monthly Instalment Plans

The Government has proposed that taxpayers will have the right to request payment of their Council Tax over 12 monthly instalments at the start of the year. If taxpayers do not request 12 instalments then the default scheme will remain as now at ten instalments.

6.2 Council Tax Booklet

The Council Tax (Demand Notices) (England) Regulations 2011 currently prescribe what information must be contained within, or accompany, a council tax bill. The Government now proposes that all that additional information can be published on line. There will however, be an obligation to send it all in hardcopy to those taxpayers who request it. For a number of years Cambridge City Council has worked in collaboration with the other billing authorities in Cambridgeshire (excluding the unitary Peterborough City) plus the County, Fire and Police Authorities to publish a 48 page joint document, which includes many other corporate messages that reach every household in the City. The cost of producing this document is just £2,500, which includes a webpage version.

ENDS.