Alliance Party of Northern Ireland

Response to 2007 Executive Review of Domestic Rating Reform

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Introduction

The Alliance Party welcomes the opportunity to contribute to this important review.

There are major issues relating to public expenditure in Northern Ireland and how many is raised that need to be grappled with by the Assembly and the Executive. The review of the rating system is only one aspect of this.

Northern Ireland is heavily dependent on a financial subvention from the British Treasury of approaching £7 billion each year. This amounts to over 40% of the overall Northern Ireland budget. On top of this, there are additional demands for investment in public services. This occurs in the context of significant sums being spent on managing a divided society - up to £1.5 billion, according to research from Deloitte commissioned by OFMDFM. There are major opportunity costs with respect to investment in public services for the entire community. This report further points to the consequences from lost inward investment and tourism.

With the public sector now equating to over 70% of GDP, there is an urgent need to grow the private sector, and to increase the size of the local tax base. Northern Ireland needs to become more sustainable.

There is not yet a sense of accountability within Northern Ireland with respect to decisions on taxation and expenditure, and their relationship. Furthermore, the size of the tax base in Northern Ireland, with respect both to property value and income tax, is still relatively narrow and concentrated.

The domestic rate consists of two components, the district rate which funds local government, and the Regional Rate which funds regional government. The District Rate is comparatively uncontroversial in contrast to the regional rate. The regional rate previously funded specific services, which were delivered at a regional level in Northern Ireland but at a local level in Great Britain.

However, since 1999, the regional rate has been de-coupled from funding specific services. It is now essentially a Northern Ireland tax that is used to address the gap between the overall Northern Ireland budget, and income from the UK Treasury and some other minor sources. Notably, the Regional Rate has been linked to paying the interest on the Reform and Reinvestment Initiative. Furthermore, water charges are regarded as fulfilling a similar purpose of plugging the revenue gap.

Furthermore, the balance between the relative amounts raised for the Regional and District Rates has changed radically since 1999.

Therefore, there is an important distinction to be made between the context in Great Britain where Council tax is used to fund exclusively local government services and Northern Ireland where the domestic rates are split between local government and regional government.

In drawing lessons from both the Lyons and Birt Reviews in England and Scotland respectively, this review should be mindful of the different context in Northern Ireland. In particular, this may make some options such as a local income tax easier to administer, and the problems identified with respect to implementation may not be as acute.

Rates are essentially raised on the same basis that is proposed for water charges, i.e. the capital value of property. The huge controversy surrounding water charges should indicate the potential pitfalls from the system of domestic rating.

There is unfairness within the current system of rates, including fundamentally the property basis that underlies it. As the level of the Regional Rate rises, unfairness in the system will be magnified. It should be noted that the amount of funds raised from the Regional Rate alone dwarfs that proposed to be raised from water charges.

There are two related broad problems with respect to the rates system. The first is the shift to capital values, which has seen considerable rises in their rates bills for some households. Some people through no fault of their own, or change in their own circumstances, now find themselves prone to a much higher level of taxation. Particularly in the context of a fast-rising property market, major gaps between nominal wealth and ability to pay have emerged. Many people have bought family homes and have lived in them for many years and do not wish to move. The second problem is the steep hikes in the level of the regional rate. This affects people across the board.

Short-Term Reforms/For Potential Effect from April 2008
The current system of rates can be reformed to make it a little fairer.

However, Alliance would stress at the outset that we have major reservations over the capping of rates bills. A blanket cap is too much of a blunt instrument.

Overall, discrete values are a fairer system over banding. Capping may help those who find themselves in a situation where a large cap has opened between the value of their property and ability to pay. However, at the same time, a cap will reduce the amount to be paid by those who do indeed have the capacity to pay their fair share.

The revenue that is lost by the creation of a cap has to met elsewhere either from passing the rates burden to others, mostly with lower incomes, or through increasing other forms of taxation. Therefore, a cap is regressive.

The effect of a gap set at a level of £500K is minimal. It passes a burden of less than £10m to elsewhere within the system. Suggestions have been made for a gap at £300K. However, this would pass a much greater burden on to others, and would be significantly regressive.

There is related point that must be considered, which is what happens with the level of any cap in the event of a revaluation. Does the cap increase in line with the change in average valuations of property making the overall effect of the cap neutral, or does the cap stay at the current level, in effect becoming applied to a greater range of households in the context of an upward average revaluation?

Alliance would support the rating of empty properties. This would provide a financial incentive for such properties to be used. In the context of many empty homes across Northern Ireland, housing waiting lists, a rising property market and a crisis around affordable housing, this is an important consideration.

Alliance does not see the logic of a minimum payment.

Alliance is happy to see consideration of a revised system of tax reliefs.

We believe that the savings threshold as a qualification for relief should be reviewed. People should not be penalised for having forgone expenditure and instead invested in savings.

With respect to assistance for those in full-time education and training, there is a need for a robust system to ensure that students benefit rather than landlords.

We would have concerns with respect to a deferment scheme for pensioners. It may cause worry to some with respect to assets they planned to hand on to subsequent generations. A general discount/relief for pensioners is preferable to this measure.

Alliance believes that consideration should be given to a single persons discount, while acknowledging that is a fairly blunt form of relief. It may be more effective when implemented in conjunctions with other reliefs, for example for single pensioners or persons with disabilities.

A discount for owner-occupiers would be attractive and would target second-home owners. However, given that most ratepayers are still owner-occupiers, it may be difficult to implement. Furthermore, there may be problems with definitions and policing.

Alliance would support the broadening of the qualifications for Disabled Persons Allowance scheme. At present, these are drawn narrowly with respect to situations where domestic modifications have been made. Furthermore, it is important that strong efforts are made to ensure that those who qualify for assistance under the current scheme take up the relief on offer.

Circuit breakers, whereby there is an income cap for some groups or indeed everyone, has its attractions. It would be the least blunt form of relief, and would bring rates much more into line with income and ability to pay than a system purely based on property value. The practical difficulty here is trying to marry a system based around property values with the tax and benefits system.

All of these measures are still blunt instruments to varying extents. However, they are more targeted that a cap. Reliefs will benefit a wider range of people, in a variety of different circumstances, both above and below the threshold for any cap.

Consideration should also be given to extending the duration of transitionary relief.

Alliance also would stress the importance of transparency of rates bills. At present, householders only receive one overall rates bill. No breakdown is provided of the split between the Regional Rate and the District Rate. In the context of one rate rising at a much greater extent than the other, this is a particularly important consideration for households being able to hold those who set the rates accountable for their actions. As Local Government

become more important under the Review of Public Administration this becomes an even greater requirement. Furthermore, in the past, Councils have been able to insert their own leaflets explaining the split between the regional rate and the district rate and also setting out what services ratepayers receive in return for their rates. Alliance understands that this facility will return.

Longer-Term Reforms

Alliance believes that there should be comprehensive consideration of alternative options to the current system or complements to it. We have already made the point that the recommendations of the Lyons and Birt Reports are not fully applicable to Northern Ireland given our different context. Furthermore, greater consideration should be given to examples of regional and local finance elsewhere in Europe and around the world.

Through different systems of taxation, there are always going to be 'winners' and 'losers'. In making comment within this section of the review, we are not advocating an overall increase in the tax burden. Our comments and suggestions are made on the assumption that reform overall will be revenue neutral, and that the burden of taxation will shift only internally, i.e. an shift in emphasis to a different means of raising revenue should be offset by a reduction elsewhere.

Decisions with respect to the amount of revenue to be raised will be made within the Assembly as a whole.

Banding of House Values/Council-Tax approach

Alliance believes that the use of discrete values is a fairer approach. There are inevitably problems at the margins of the bands, and the upper limit of the top band in effect acts as a cap.

Local Income Tax

The value of property is a blunt instrument of ability to pay. It only approximates to it, and there is a considerable risk of anomalies arising. Income tax, by definition, is much closely related to ability to pay. Income tax is widely recognised as the fairest form of taxation. Income tax also takes into account family circumstances. It is not a disincentive to work as income is taxed in a proportional manner. Furthermore, income tax is not a tax on business, and should not influence investment decisions. It is a well established form of raising resources.

Both the Lyons and Birt reports do show that there is considerable public support for this approach. However, both reports do not ultimately endorse this way forward. Alliance maintains that there are major differences in the context of Northern Ireland that may make its application easier.

There are in essence four different approaches to a local income tax.

First, central government could collect a set supplement to income tax and then distribute it to regional assemblies and local authorities on the basis of a set formula. This would break the link in relation to taxation and expenditure, and undermine accountability in relation to the bodies in question.

Second, the power could be granted to all bodies, including assembly and local authorities, to individually set their own supplement to income tax. This would be overly complicated, and

bureaucratic. For this reason among others, Alliance does not advocate replacing the District Rate with a local income tax.

With respect to the Assembly it could either have the ability to modify or supplement income tax within certain parameters as is the case in Scotland or have full discretion over the level of income.

Therefore, third, the Assembly could have the power to collect a uniform local government supplement to income tax and then distribute between the work of the regional government and local authorities. This is a modification of the first model and same problems would apply with respect to local accountability.

Fourth, the Assembly would be able to collect a uniform supplement to income tax solely as a replacement for the regional rate and to fund the work of the regional government. A property-based system, or other alternatives, would be used for local authorities. This in practice may prove to be the most effective way forward.

This approach would be relatively easy to administer. The home address of any taxpayer is available to HMRC, and tax codes could be varied on a geographical basis. It is particularly advantageous that everyone living in Northern Ireland has a BT postcode.

The application of a local income tax at a Northern Ireland wide level would provide a larger framework in which fluctuations in the level of the tax base could be managed and contained.

It is important that this review does consider different replacements for the regional and district rate and that there is not an unnecessary requirement imposed for the same system to be used.

Local Sales Tax
Alliance does not believe that this would be a practical option, and in any event would be a regressive move.

Poll Tax
Alliance would oppose such a tax. It has no relation to ability to pay.

Tourist Tax
Alliance would be opposed to this. The tourist industry remains significantly underdeveloped, and has been held back by violence and division. It needs every opportunity to grow.

Road Charging
Alliance is open to further discussions in this area. As a party, we endorse ‘the polluter pays, principle’. There are a number of different ways in which such charges could be introduce through for example road pricing, tolls, or congestion charges. It is critical that such charges are seen as being fair and transparent.

Green Taxes
As a party, Alliance endorses ‘the polluter pays, principle’. We believe that environmental taxes should be used on a much wider basis in the future, with central government, regional governments and also local government having the power to levy charges against environmental unsustainable behaviour and at the same time to encourage and reward environmentally sustainable behaviour. One obvious area for consideration is in relation to waste management and recycling.

Land Value Taxation
Alliance would have major reservations over land value taxation. It would not take into account whether land was developed or not, but rather its potential development value. It would need to be integrated with the planning system.

While in theory, this tax may encourage a shift of investment and development from high value areas to other parts of a region or country as a whole, it would carry many risks and unintended consequences.

It is a false to assume that all land should be developed and put to the greatest economic use. This form of taxation could encourage the over-development of valuable land along the coastline, the inappropriate development of the countryside, and the cramming of property into city-centre or town-centre property.

Derelict Land Taxation
Alliance believes that this option should be given further consideration as an incentive to develop brownfield sites.

Conclusions
Alliance believes that further consideration should be made of short-term reforms to the current system.

We believe that a property-based system should be retained for domestic rates, but that councils be given the power to make much greater use of environmental taxes.

We believe that significant investigations should be made with respect to replacing the regional rate with a form of Northern Ireland income tax at a level to be set by the Assembly. In conjunction with this, again greater consideration of the use of environmental charges should be made.

Given the short-time frame of this consultation, this is a limited response, but Alliance is happy to elaborate further on the points made in this document.

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