

Leicester
City Council

WARDS AFFECTED:
All wards.

**CABINET
COUNCIL**

24 NOVEMBER 2003

Proposed Local Authority Discretion on Council Tax Discounts

Report of the Chief Finance Officer

1. Purpose of the report

- 1.1 The purpose of this report is to propose a policy on the use of new discretions to vary the current discounts received on second homes and long-term empty properties.

2 Summary

- 2.1 Local authorities have been given discretion to reduce the current 50% discount on council tax for second homes and furnished empty properties; and to reduce or remove the current 50% discount for long term empty (unfurnished) properties. These new powers are effective from 2004/05.
- 2.2 The new powers are intended to assist areas where the levels of second homes are having adverse effects on local housing markets, whilst also improving the fairness of council tax for second homes, and providing incentives to bring long-term empty homes back into use.
- 2.3 Local authorities have also been given powers to create their own exemptions in response to local circumstances, e.g. empty properties of flood victims. Some authorities are considering using these powers to specifically benefit pensioners: given that this would be at the expense of taxpayers more generally, it is not recommended.
- 2.4 Local authorities will be able to retain the additional income relating to second homes and furnished properties, but the additional income for long term empty properties will benefit central government, (except in 2004/05). The costs of any additional discounts will fall locally.

3 Recommendations

- 3.1 The following policy on the use of discretionary powers on council tax discounts should be adopted in principle:-
- i) Empty unfurnished properties should be liable for full council tax after the 6 month exempt period, applying from when the property was first vacant.

- ii) Second homes and furnished empty properties should be liable for 90% council tax after receiving 6 months 50% discount, applying from when the property was first vacant / registered as a second home.
- iii) No additional local discounts and exemptions be established.
- iv) A property that has been vacant for 6 months should liable for 90% or full council tax (depending on the furnished status at that time) regardless of a change in the furnished status in the previous 6 months.
- v) Aim to implement the policy from April 2004, subject to any views received, (a final recommendation will be included in the 2004/05 budget report to Council in February 2004).

4 FINANCIAL IMPLICATIONS

- 4.1 The proposal to charge unfurnished properties that have been empty in excess of 6 months full council tax would generate an additional estimated council tax liability of £630,000 in a full year. This would benefit the Council in 2004/05, and central government in later years.
- 4.2 The proposal to charge 90% for second homes and empty furnished properties months would generate an additional council tax liability of an estimated £153,000 in a full year. This additional council tax would be for the benefit of the Council.
- 4.3 Further financial implications are provided in the supporting information.

5 LEGAL IMPLICATIONS

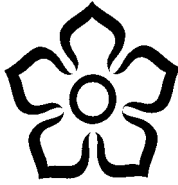
- 5.1 There are no direct legal implications arising from this report.

6 Author

Julian Allen
Financial Strategy, Ext 7454

DECISION STATUS

| | |
|--------------------------------------|------------------------------------|
| Key Decision | No |
| Reason | Policy and Budget Framework |
| Appeared in Forward Plan | No |
| Executive or Council Decision | Cabinet/Council |



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Proposed Local Authority Discretion on Council Tax Discounts

Report of the Chief Finance Officer

1 Purpose of the report

- 1.1 The report provides background information to the proposed policy on the use of new discretions to vary the current discounts received on second homes and long-term empty properties.

2 Background

- 2.1 At present, empty unfurnished properties incur no council tax liabilities for the first 6 months, and 50% of council tax thereafter. Empty furnished properties and second homes incur a 50% liability with no "free period". There are some variations to this which are referred to at various parts of this report.

- 2.2 Under the Local Government Act 2003, local authorities have been given discretion to reduce the current 50% discount on council tax for second homes and furnished empty properties; and to reduce or remove the current 50% discount for long term empty (unfurnished) properties.

Local authorities have also been given powers to create their own exemptions in response to local circumstances, e.g. empty properties of flood victims.

- 2.3 Local authorities will be able to retain the additional income relating to second homes and furnished properties, but the additional income for long term empty properties will benefit central government, (except in 2004/05). The costs of any additional discounts will fall locally.
- 2.4 These new powers are effective from 2004/05. The Council has previously supported the ability to reduce council tax discounts for second homes and long term empty properties. A suggested approach is outlined in this paper based upon draft regulations issued.

3 The Basis of Existing Discounts

- 3.1 The basis of council tax is that it is a 50% property tax and 50% a person tax (assuming a minimum of two adults in a property). Therefore empty properties, both furnished and unfurnished, receive a current mandatory 50% discount. Second homes, which by definition are not the main residence, currently receive a 50% discount on the basis that full council tax is payable on the main residence.
- 3.2 The new powers to vary discounts are intended to assist areas where the levels of second homes are having adverse effects on local housing markets, whilst also improving the fairness of council tax for second homes, and also provide incentives to bring long-term empty properties back into use.

4 Long Term Empty Unfurnished Properties

- 4.1 Currently, these properties are exempt from council tax for the first six months and then are liable for 50% council tax. There are currently 2,020 empty unfurnished properties receiving a 50% discount amounting to £700,000 (City and Police elements). The majority of these empty properties tend to be held for renovation or as a property investment.
- 4.2 In future it will be possible to charge up to 100% (after the 6 month exemption period). Note that empty properties that are subject to major repairs work to make them habitable or structural alteration are exempt from council tax for up to 12 months (including the normal 6 month exemption period). This exemption will continue.
- 4.3 Given that empty properties do not benefit from the whole range of council services provided, the basis for varying the current discount is to provide a stimulus to bring these type of properties back into use. Long-term empty properties can cause considerable blight to local communities and attract crime and anti-social behaviour. They deny homes to those in housing need and can be a drain on local services (e.g. environmental health and police). It is for these reasons that it is considered that the discount on empty properties should be reviewed.
- 4.4 The Council has the option to decide on the period of time that empty properties are considered as long term empty and what the level of charge should be for such properties. Given the separate maximum 12 month exemption for properties requiring major repairs work (which is considered sufficient for such work), the current 6 month exemption period is considered sufficient time to bring empty properties, not requiring major works, back into use.
- 4.5 It is therefore suggested that properties that have been empty for in excess of 6 months (not subject to other exemptions) are charged full council tax, in order to provide the maximum stimulus.
- 4.6 The proposed charging policy would apply to 2,020 properties that are empty and receiving a 50% discount. The Housing Department will need to take measures to ensure that its own properties were not empty for more than 6 months to avoid any additional council tax liability.

5 Second Homes / Furnished Empty Properties

- 5.1 The regulations have been drafted to enable local authorities to charge up to 90% of full council tax for furnished empty properties as well as second homes since there are a lot of similarities in their ownership. A 10% mandatory discount is thought necessary so as to provide an incentive to register as a second home. These properties currently receive a 50% discount (but are not exempt for the first six months). The Council will be able to retain any additional income generated by a reduction in the level of discount. There are currently 210 second homes receiving a discount of £73,000 and 852 furnished empty properties receiving a discount of £296,000.
- 5.2 The majority of properties categorised as second homes relate to individuals who work in Leicester but live elsewhere, or whose main home is outside the UK. There are a small number of cases where the property is tied (provided as part of the individual's employment) or relate to an owner in the armed forces and stationed elsewhere, the impact on these properties is outlined below. The majority of empty unfurnished properties are rented properties or (in reality) additional homes. In the context of the ownership of these properties it is considered that the maximum 90% charge is appropriate.
- 5.3 The regulations will not allow the authority to differentiate between second homes and empty furnished properties, i.e. we will have to apply a consistent charging policy. In practice, it is often difficult to distinguish between the two. The two main options for applying the 90% charge are:
- i) Immediately from when a furnished property becomes empty or a property is declared as a second home;
 - i) after a period of 6 months for both second homes and empty furnished properties.
- 5.4 The relative merits of both options are evenly matched, but on balance it is recommended that these properties are charged 90% council tax after 6 months. This will maintain (rather than increase) the charging differential between empty furnished and unfurnished properties, so as not to further encourage shifts in the taxbase that could disbenefit the Council. In addition 52% of empty furnished properties are brought back into use after 6 months (this indicates the rented sector turning properties round), the additional council tax charge is therefore felt more appropriate for properties empty longer than 6 months.
- 5.5 Those required to reside in tied properties provided by their employer (typically publicans, clergy, elderly persons' home wardens) will still receive a 50% discount as will those serving in the armed forces and not resident in their registered properties. Note that the current 6 month exemption for inherited properties and exemption on properties for those in care will continue.

6 Other Discounts and Exemptions

- 6.1 The ability for local authorities to provide their own discounts and exemptions is to enable a response to unusual local circumstances that prevent the occupier from using the property (e.g. flooding). However, it is considered that there is sufficient scope within existing arrangements not to merit the adoption of any additional local discounts and exemptions. Furthermore the Council can write off debt on a case by

case basis where it is considered to be appropriate. The Council has extremely few properties which are ever affected by floods.

7 Behavioural Impact

- 7.1 Whilst providing a fairer base for council tax on second homes and a stimulus to bring unused properties back into use, individuals will often seek to avoid additional tax liabilities where they can. The council tax liabilities for vacant furnished and unfurnished properties are already different (there is a 6 month free period for unfurnished properties), and the suggested proposals do not increase the differential.
- 7.2 Any potential shift from furnished to unfurnished as a tax avoidance measure (i.e. deliberate removal of furniture to avoid tax) should be time limited as unfurnished properties that have been vacant for greater than 6 months will be subject to full council tax rather than 90%. Although difficult to predict, any long term changes in the taxbase (over and above those underpinning the proposed changes) are likely to be negligible.

8 Financial & Legal Implications

Empty Unfurnished Properties

- 8.1 The proposal to charge unfurnished properties that have been empty in excess of 6 months full council tax would generate an additional council tax liability of £630,000 in a full year. The maximum additional cost to the Housing Revenue Account would be £35,000 (this assumes that all empty housing properties currently liable for council tax would be subject to this additional charge). Any additional income would not benefit the Council, except in the first year of operation.

Second Homes / Empty Furnished Properties

- 8.2 The proposal to charge 90% for this type of property that have been registered for 6 months would generate an additional council tax liability of £153,000 in a full year. This additional council tax would be for the benefit of the Council. There will be no implications for the Housing Revenue Account as empty HRA properties will be unfurnished.
- 8.3 The above financial implications do, however, assume continuation of current levels of empty property. If the measures succeed in reducing this, the financial impact will reduce consequently.
- 8.4 With the additional incentives to bring properties back into use there could be an increase in the level of student accommodation resulting in a decrease to the taxbase as these properties are exempt from council tax. However, any such losses would be compensated for by additional government grant.
- 8.5 It should be noted the generation of additional council tax liabilities could have an adverse impact on the level of council tax debt.

9 Implementation Issues

- 9.1 The Council will need to formally make a decision on the removal of any discounts in line with discretionary powers before the commencement of a financial year in which they are to be effective. A notice period of at least 21 days after making such a decision is also required.
- 9.2 The proposals contained in this paper for increased council tax liabilities are recommended to apply from April 2004 for properties where the relevant exemption or vacancy period has been exceeded. i.e. for properties that are vacant before 1st April 2004, the 6 month exemption / discount will start on the date that the property was first vacated (or registered for second homes) rather than April 2004. In addition to prevent changes in the furnished status of empty properties being used to extend discounts the additional council tax charge should apply after a property has been empty for 6 months (related to the property status at that time) regardless of whether it was furnished or unfurnished at the time it became empty.

10 Other Implications

| OTHER IMPLICATIONS | YES/NO | Paragraph References within Report |
|-----------------------------------|--------|------------------------------------|
| Equal Opportunities Policy | No | |
| Sustainable and Environmental | No | |
| Crime and Disorder | No | |
| Elderly and People on Low Incomes | No | |
| Human Rights Act | No | |

11 Background Papers

Local Government Act 2003

12 Consultation

Director of Housing
Head of Local Taxation