

Consultation on the Reform of Domestic Rates



Isle of Man
Government

Reiltys Ellan Vannin

Treasury

Yn Tashtey

**This document will be of direct interest to all ratepayers and
rating authorities**

Issue date: 16 March 2015

Closing Date: 27 April 2015

Purpose of Consultation

The purpose of this consultation exercise is to invite comments on the proposed reform of domestic rates. It is not a referendum but is an exercise for gathering information, views and evidence to allow Treasury to take an informed decision on the future method of calculating and collecting local property taxes on behalf of local authorities, churchwardens and the Manx Utilities Authority: known together as "rating authorities".

In any consultation exercise the responses made do not guarantee that changes will be made to what has been proposed.

To ensure that the process is open and honest, and in line with the Government's Code of Conduct on Consultation, responses can only be accepted if you provide your name with your response.

If you are responding on behalf of a group, it would be helpful to make your position clear.

Unless specifically requested otherwise, any responses received may be published either in part or in their entirety. Please mark your response clearly if you wish your response and name to be kept confidential.

Confidential responses will be included in any statistical summary of comments received.

Electronic copies of this document are also available:-

<https://www.surveymonkey.com/r/ratesreform>.

Should you require a paper copy of the consultation document, please contact the Rating & Valuation Office at the address indicated above.

Any abusive or offensive responses will be not be considered.

Responses to this consultation

Treasury welcomes your responses to the questions set out in the consultation document along with any additional comments you consider may be of relevance.

Reponses should be sent in writing and preferably by email to:-

Treasury, Rating & Valuation Office

Illiam Dhone House, 2 Circular Road, Douglas, Isle of Man IM1 3PX

e-mail – michael.morrison@gov.im

Tel: (01624) 686266

The closing date for the receipt of all responses is **27th April 2015**.

Should you require a paper copy of the consultation document, please contact the Rating & Valuation Office at the address indicated above.

Introduction

The final report of the Mirrlees Review into tax reform, published in the United Kingdom in 2011, was titled 'Tax by Design'. It made the following comments about property taxation.

"Most taxes nowadays are levied on flows of income and of expenditure. But land and property have been taxed for centuries—certainly for longer than income—and they continue to form an important part of the tax base in most advanced economies.

There are good economic reasons for this. The supply of property, and especially land, is not very responsive to its price, which means that it can be taxed without significantly distorting people's behaviour. The ownership of land is also generally visible and easily established which makes it relatively straightforward to identify who should be paying the tax. The fact that land and property have identifiable and unchangeable geographic locations also makes them natural tax bases for the financing of local government."

Domestic rates in the Isle of Man are a long-established property-based tax used to pay for the provision of local government services, the maintenance of churchyards and for the provision of water and sewerage services to properties. The Government feels that although reform of the rates system is needed, its principle of being based on property should remain. There are alternative approaches, and you may wish to express an opinion on them in a section later in this document.

Our law dates back to the Rating and Valuation Act 1953, and because of later changes, rateable values are deemed to be the rental values of properties as in 1969: in other words, the rent which would have been charged for the property in 1969. Even for newer properties, the Government is obliged to calculate a 1969 rental value. This system is becoming increasingly difficult to maintain accurately and fairly.

The rateable value is then multiplied by a local rate in the pound to determine the property's rates bill. For properties across the Island with the same rateable value the water and sewerage rates are the same but the local authority and churchyard rates will vary in each area.

Treasury is responsible for rating legislation, the valuation of properties for rating purposes and the method of calculation of the rates. It collects rates on behalf of 39 rating authorities: 21 local authorities; 17 groups of churchwardens; and, the Manx Utilities Authority in respect of water and sewerage rates. Braddan Parish Commissioners, Douglas Borough Council and Onchan District Commissioners each collect their own rates.

There have been numerous proposals for rating reform over the years and the matter was recently reviewed by a Select Committee of Tynwald which reported in October 2014.

In January 2015, Tynwald agreed that domestic rating reform should now be carried out, based on new law which will introduce a property tax for domestic properties based on their

capital values: underpinned by a national property revaluation which should be completed by February 2016.

The capital value of a property is the price it would fetch on the open market when sold in good condition.

Please note that the total amount of money collected through property taxation will not change as a result of the proposals in this document.

Rateable values

A rateable value can change for any reason which affects the rental value of an individual property, and over time this has led to similar properties across the Island having different rateable values and therefore different rates bills. A system based on capital values in bands would be subject to fewer amendments and would ensure that similar properties across the Island would be treated in the same way.

How rates are currently calculated

A four bedroom semi-detached house has a rateable value of £128 based on the rental value in 1969.

Property taxes for this property in 2015/16 will be as follows:-

Local Authority	345.5p x £128	£442.24
Churchyard	7.00p x £128	£8.96
Swimming pool	2.50p x £128	£3.20
Water rate	313.97p x £128	£401.88
Sewerage rate	61.29p x £128	£78.45

What should domestic rates be based on?

Treasury proposes that rates should be based on the capital value of each domestic property and for non-domestic properties to continue to be based on the rental value.

It is Treasury's view that domestic property taxation based on capital values would be easier to manage, more cost-effective and more relevant to ratepayers than the system based on historical rental values which we have now.

To make the system simpler, individual property values would be placed in valuation bands; with rates calculated according to the band rather than the individual value.

1. Do you think that the current method of rating assessment based on rental values is easy to understand?

Agree

Disagree

Do not Know

Place a circle round the words which best describe your response

2. Do you think the proposed method of property taxation based on capital value would be easier to understand?

Agree

Disagree

Do not Know

Place a circle round the words which best describe your response

How this will affect taxes paid by householders?

It is proposed that domestic properties will be allocated to one of nine bands. The rates would then be charged according to the band in which a property's value falls. These bands would be Island-wide: so for example a domestic property with a value of £200,000 in Bride or Port Erin would sit in the same property valuation band, although the band charge could vary depending on the local authority.

In order to determine the charge payable in each band, the total amount which the rating authority wishes to raise would be divided by the number of "equivalent" Band E properties. This calculation would provide the property tax for Band E and then allow the calculation of the tax payable in the other bands.

Set out below is an illustration of how the nine valuation band system might work. The bands shown are purely for the purposes of the example, and no proposal is being made at this point about their final ranges.

Band	Suggested Range of Capital Values		Rates Charge
A	up to	£125,000	40% of Band E
B	£125,001	£175,000	50% of Band E
C	£175,001	£250,000	65% of Band E
D	£250,001	£325,000	80% of Band E
E	£325,001	£450,000	Band E
F	£450,001	£590,000	125% of Band E
G	£590,001	£800,000	170% of Band E
H	£800,001	£999,999	250% of Band E
I	£1,000,000	over	£325% of Band E

3. Do you think that it is reasonable to have groups of properties with similar capital values in one of nine valuation bands?

Agree

Disagree

Do not Know

Place a circle round the words which best describe your response

4. Do you think that the suggested range of values in each band is reasonable?

Agree

Disagree

Do not Know

Place a circle round the words which best describe your response

Valuation Process

In order to introduce rates based on capital values, those values will need to be known. It is proposed that owners should make a self-declaration of the capital value of their property which will then determine the charge band it falls in.

It is intended that the declaration form will be set out in a way which makes it easy for a property owner to complete. It is intended that assistance with completing the form will be provided to people who need it. Professional valuers may also be called upon when necessary. Failure to complete the form will incur a penalty, and there will need to be a system for checking the accuracy of declarations.

5. Do you think it is reasonable for property owners to be responsible for declaring the capital value of their own property?

Agree

Disagree

Do not Know

Place a circle round the words which best describe your response

Alternative Methods

The Treasury and local authorities currently operate a cost-effective system for the calculation and collection of rates, but other methods could be used to fund local authorities, water and sewerage services: such as a form of community-based income tax or a charge based on the area of land taken up by a domestic property.

Treasury considers that the cost of setting up and administering these methods would be greater than either the current or proposed capital value systems, and it would be unfair to place these extra costs upon taxpayers, but is presenting them in this consultation document for completeness.

6. Do you think that local authority, water and sewerage costs should be paid using an income tax based system separate from the established income tax?

Agree

Disagree

Do not Know

Place a circle round the words which best describe your response

7. Do you think that local authority, water and sewerage charges should be calculated by using the area of land taken up by a house, and if so why?

Agree

Disagree

Do not Know

Place a circle round the words which best describe your response

8. Are there any other methods which you think might be appropriate for the calculation and collection of local authority, water and sewerage charges and if so why?

Please make any comments in the box provided

Funding local services

An all-Island water and sewerage services rate has already been approved by Tynwald. The capital value system proposed in this consultation document envisages that local authorities and church wardens will continue to levy their own rates for services provided in that town, village or parish.

This means that local authorities and church wardens would remain responsible for setting the levels of property taxation for community services; and the Manx Utilities Authority would remain responsible for setting the level of property tax for water and sewerage services.

Another method of funding local services would be through the introduction of a general all-Island property tax. The income raised would then be divided among local authorities and churchwardens according to a method to be agreed. In these circumstances, the property value bands and the taxes paid in each band would be the same across the Island.

If this method was adopted, there would be no clear reason not to include business rates in the 'pool' of income which was raised, and this could remove the anomaly perceived by some people that at present a number of local authorities receive large amounts of business rates whilst other receive little or no income from business rates.

9. Do you think there should be an all-Island rates system which raises income equally from all properties across the Island and then allocates it to local authorities, and if so why?

Agree

Disagree

Do not Know

Place a circle round the words which best describe your response

Rate rebates

A rate rebate scheme is one where some ratepayers have their property tax reduced compared with similar properties e.g. where only one person occupies a property.

Our current law allows rating authorities to operate a rate rebate scheme, although currently there is no scheme in operation. The cost of any rate rebates granted would be paid for by rating authorities.

10. Do you think that there should be a rate rebate scheme?

Agree

Disagree

Do not Know

Place a circle round the words which best describe your response

11. If there is a rate rebate scheme, which factors should it take into account?

- | | |
|--------------------------------------------|-----------------|
| a. The number of people in each household? | YES / NO |
| b. The income received in the household? | YES / NO |
| c. The services provided? | YES / NO |

Place a circle round the words which best describe your response

- d. Any other factors?

Please make any comments in the box provided

Discounts & Exemptions

Our current law allows for discounts and exemptions from rates in certain circumstances.

Discounts can be authorised by a rating authority when, for example, the rental value of a property could be affected by on-going building works.

Exemptions can also be granted where a service is not provided: for example, when a property is not fit to be occupied.

The cost of any discounts or exemptions would be paid for by rating authorities.

12. Do you think there should be discounts and/or exemptions from rates?

Agree

Disagree

Do not Know

Place a circle round the words which best describe your response

13. If there are discounts or exemptions, which factors should be taken into account?

- a. Charity owner/occupiers? **YES/NO**
- b. Properties in a poor condition? **YES/NO**
- c. Any other factors?

Please make any comments in the box provided

Other

The rates for non-domestic or commercial properties are currently based on the rent which would have been charged for the property in 1969. Treasury propose to keep this system for non-domestic properties at present.

14. Do you think that the rateable value of non-domestic properties should be updated to reflect current rental values?

Agree

Disagree

Do not Know

Place a circle round the words which best describe your response

15. Do you think that there should be any other changes to the way in which non-domestic rateable values should be calculated?

Please make any comments in the box provided

16. Are there any other comments you wish to make about the assessment and collection of property taxes?

Please make any comments in the box provided

Information about yourself

17. Would you please include your name and a telephone number or email address in case we have questions regarding your response -

Name:	
Telephone no. or email address	

18. Are you content for your responses to be published?

YES / NO

19. Are you content for your name to be included in the list of people who responded to this consultation?

YES / NO

20. Do your responses represent the views of an organisation, and if so please state the name or the organisation.

YES / NO

Name of Organisation:	
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21. If you are responding as an individual can you please say whether you are an owner of a property or a tenant –

Property Owner / Tenant

22. Are you responsible for the payment of rates on a property, and if so what type of property is it?

Domestic Rates / Non-domestic rates / Agricultural / All¹

23. If you are responding as an individual can you please include the name of the local authority where you live?

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¹ Circle all the responses which apply

Consultees

Members of Tynwald
Chamber of Commerce
Department of Infrastructure
Isle of Man Association of Estate Agents
Isle of Man Law Society
Manx Utilities Authority
Municipal Association
Royal Institute of Chartered Surveyors Isle of Man
Trade Union Council

Burial Authorities

Andreas Burial Authority
Arbory Burial Authority
Ballaugh Burial Authority
Bride Burial Authority
German Burial Authority
Jurby Burial Authority
Kirk Braddan Burial Authority
Lezayre Burial Authority
Lonan Burial Authority
Malew Burial Authority
Marown Burial Authority
Maughold Burial Authority
Michael Burial Authority
Onchan Burial Authority
Patrick Burial Authority
Rushen Burial Authority
Santon Burial Authority

Local Authorities

Andreas Commissioners
Arbory Parish Commissioners
Ballaugh Parish Commissioners
Braddan Parish Commissioners
Bride Commissioners
Castletown Commissioners
Douglas Borough Council
German Commissioners
Jurby Parish Commissioners
Laxey Village Commissioners
Lezayre Parish Commissioners
Lonan Parish Commissioners
Malew Parish Commissioners
Marown Parish Commissioners
Maughold Parish Commissioners
Michael Commissioners
Onchan District Commissioners
Patrick Parish Commissioners
Peel Town Commissioners
Port Erin Commissioners
Port St Mary Commissioners
Ramsey Town Commissioners
Rushen Parish Commissioners
Santon Parish Commissioners

Handling Results

Following the consultation, the next steps in the process will be as follows:

- the Treasury will review all of the comments received;
- a summary of the comments will be published within six weeks of the closing date for this consultation, and will be made available on the Government website or by contacting the Rates and Valuation Office; and,
- Treasury will prepare legislation to reform the domestic rates process.

Information received will be dealt with in accordance with the access to information regimes. These are primarily the Guidance on the Code of Practice on Consultation and the Code of Practice on Access to Information.

This consultation follows the Isle of Man Government Code of Practice on Consultation (June 2008).

If you have any comments on how this consultation has been carried out, please contact Dr M. Couch, Chief Financial Officer Treasury, 3rd Floor, Government Offices, Bucks Road, Douglas IM1 3PZ

Queries may be addressed to:-

Michael Morrison, Senior Project Manager,

Treasury, Rating & Valuation Office

Illiam Dhone House, 2 Circular Road, Douglas, Isle of Man IM1 3PX

e-mail – michael.morrison@gov.im

Tel: (01624) 686266

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