

Consultation on the Reform of Domestic Rates

Summary of Responses



Isle of Man
Government

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Treasury

Yn Tashtey

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Treasury

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Executive Summary

The consultation created considerable public interest and resulted in one of the largest responses received on any subject by the Isle of Man Government. The information provided by respondents showed an understanding of the unfairness within the current system and provided a clear indication of support for a change in the method of calculation and collection of property taxes.

Treasury proposed that domestic property taxation should be based on the capital value of a property rather than the rental value. The results of the consultation support this proposal with each domestic property being placed into one of nine property tax bands and the comments about the fairness of the property tax bands will be addressed. Alternative proposals for property taxation based on income tax or area occupied by a property did not receive majority support.

The support for a change in the calculation of property tax did not extend to the valuation being carried out solely by property owners and further work needs to be carried out to find a system of valuation which is cost effective and fair.

When considering how property tax should be collected the largest number of respondents were in favour of an all-Island basis with income being raised equally across all properties in the same tax band and allocated to local authorities according to their requirements. There was no support for this proposal from any local authority.

As part of the system of property taxation there was support from individual respondents for a rate rebate scheme and for discounts in certain specific circumstances. There was not however support from local authorities who would be responsible for administering these matters.

Respondents and local authorities showed significant support for the reform of commercial and agricultural rating together with domestic rating to ensure that any revaluation was fair to all rate-payers.

A more detailed explanation of the consultation findings is set out in this document.

Background

The consultation on the reform of domestic rates took place between the 16 March and 27 April 2015 in accordance with the Isle of Man Government Code of Practice on Consultation.

The purpose of the consultation exercise was to invite views on the proposed reform of domestic rates. It was not a referendum but 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".

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.

Domestic rates in the Isle of Man are a long-established property tax based on the value of a property with the proceeds 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 considers that although reform of the rates system is needed, its principle of being based on property should remain.

During this period ratepayers, rating authorities and relevant professional and representative bodies were asked to give their views and a public consultation document was available for completion in writing or on-line. A reminder regarding the consultation was included in the rates demands sent by Treasury and this generated a great deal of interest regarding the consultation.

Treasury received 1,477 individual responses the majority of which were made on-line 1,247, and the remainder 230 were received on paper. Of the 39 rating authorities responses were received from less than half (18). A full list of organisations which responded is included in Appendix 2.

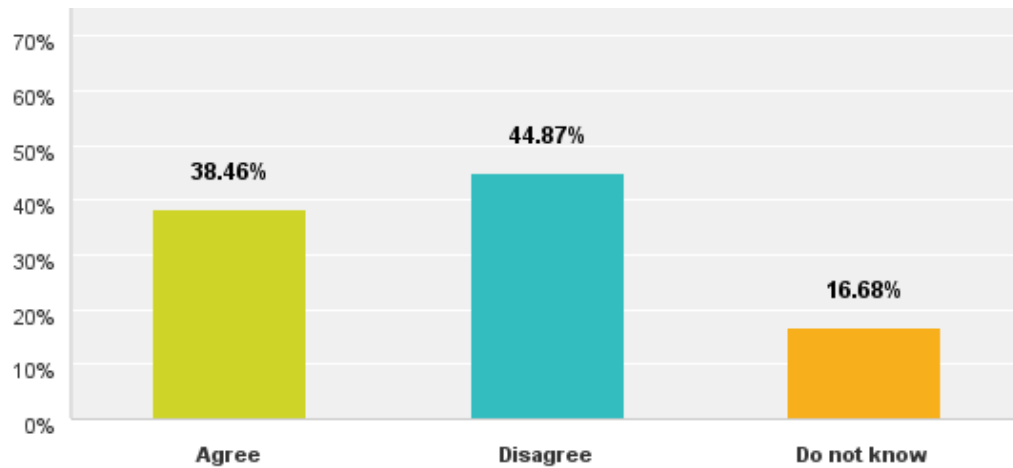
An analysis of responses shows that responses were received from all local authority areas and generally in proportion to the population in each area. There was a slight under representation in town areas compared with more rural areas, and proportionately there was a lower response from tenants than from property owners.

Section 1 – Calculation of Property Tax

Basis of Assessment

The current system of property tax (rates) is based on a valuation of the property for rental purposes with the last valuation being undertaken in 1969.

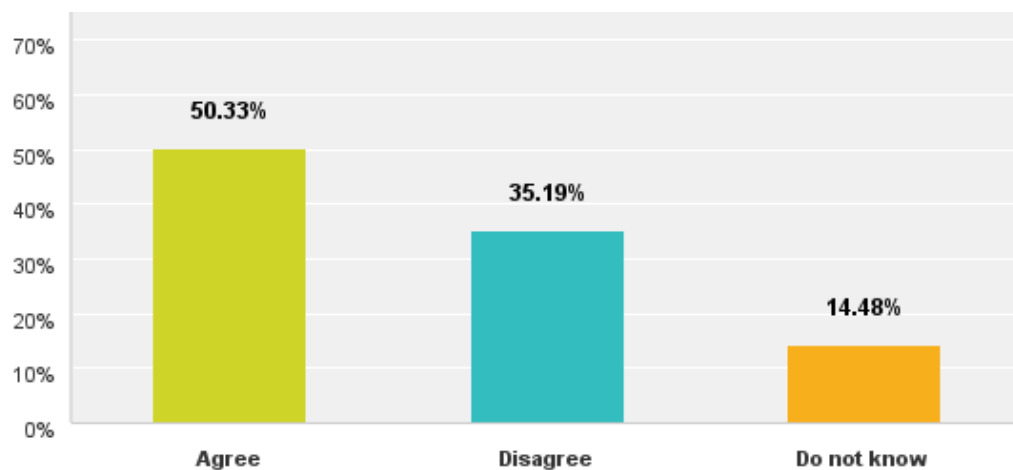
1. *Do you think that the current method of rating assessment based on rental values is easy to understand?*



Finding:

The largest response (44.87%) was from respondents who did not agree that the current rating system was easy to understand.

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



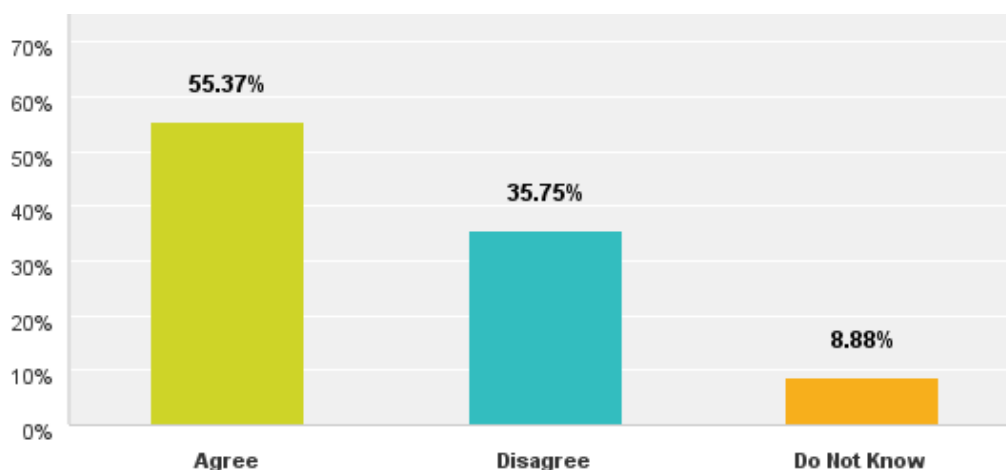
Finding:

The majority of respondents (50.33%) agreed that property taxation based on capital values would be easier to understand.

Treasury proposes 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.

Section 1 – Calculation of Property Tax

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



Finding:

The majority of respondents (55.37%) agreed that it is reasonable to group domestic properties into nine valuation bands.

Local Authority Responses:

The majority of local authorities supported the move from calculating property taxes based on rental value to being based on capital value, although not Onchan, Castletown and Ramsey Commissioners.

Maughold Parish Commissioners –

"the current rating system is outdated and needs to be reformed before further large charges are transferred from central government; further transfer of charges onto the rates will exacerbate the unfairness of the current valuations of individual properties".

Michael Commissioners –

"The Board feels that the proposals should remain as at present as simply being a tax on property and without adjustments for various social groups. Subsidies should be met from sources other than ratepayers who would of course have to pay more."

Onchan District Commissioners –

"The assessment of the property based on rental values is easy to understand. The confusion under the current system is the fact that the valuations being used are over 40 years old, and no longer reflect the circumstances on the Island."

Patrick Parish Commissioners –

"The Commissioners have stated previously that, what is required is a rate revaluation. The theoretical rental value is perhaps outdated and capital values might be better"

Port St Mary Commissioners –

"The Board concurred that a system based on capital values would be more comprehensive than the current one"

Treasury Comment:

Treasury welcomes the support for the move to a property tax system based on capital values and for a system which sets out nine property tax bands.

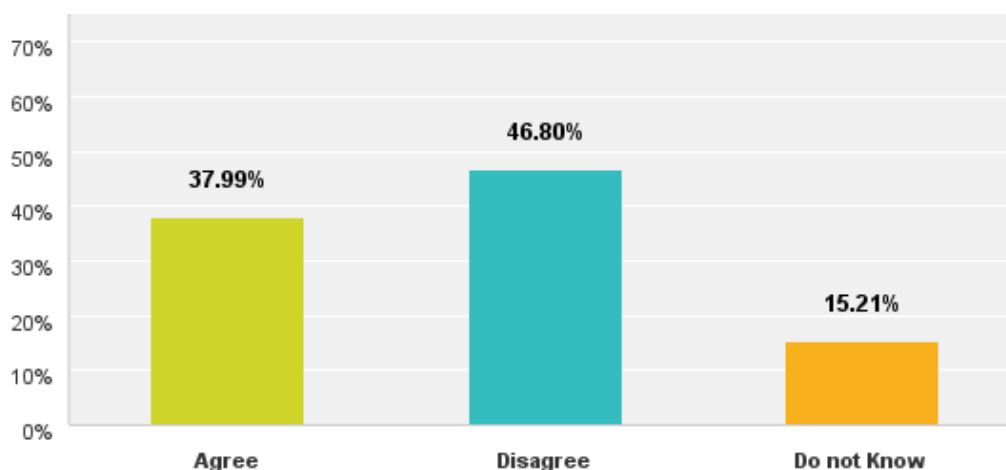
Section 1 – Calculation of Property Tax

Property Tax 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

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



Finding:

The largest response (46.80%) did not agree with the proposed range of values set out in the consultation document.

A number of respondents expressed their views about the proposed valuation bands; the most common was that there should be additional higher bands and that the valuation of bands should increase further otherwise owners of properties valued above £1M would be paying proportionally less property tax than owners in lower bands.

Other views included a perception that the range of values needs to be more “progressive” ensuring that the percentage of property tax paid in each band was consistent across all bands.

Views was also expressed that there was a significant jump in tax paid when moving from one band to another and that this would give an incentive for people with properties considered to be on the border of a band to appeal against their property tax band as moving to a lower band would give them a significant difference in property tax paid.

There were some views expressed regarding the proposal that the difference between the highest and lowest band would be eight-fold. Some respondents understood this to mean that those in high value properties would see a significant increase in property taxes.

Section 1 – Calculation of Property Tax

The most common comment about the proposed band system is that an individual would not know how reasonable they were until they had seen the first tax demand under the new system.

Local Authority Comments:

Braddan Parish Commissioners –

"the Commissioners felt that a simple £1M cut-off is unacceptable. They feel it is imperative that any system is extended to ensure rateable values for properties over £1M are increased proportionately. If this is not achievable using a 9 band system then perhaps a process of charging the 9th Band and a percentage increases, for instance, for every extra £500K of valuation but never reaching a ceiling."

Marown Parish Commissioners –

"Bands too coarse and top level inappropriate"

Peel Town Commissioners –

"a pro-rata increase should apply to properties over £5M"

Treasury Comment:

The property tax bands set out in the consultation document were indicative and it is recognised that there is a need for further work to be carried out to demonstrate fairness. Treasury accepts the need to ensure the proportion of tax paid in each band is fair at all levels and to ensure property taxation is a progressive tax system.

The difference between the maximum and minimum rates payable in the current system is greater than that proposed under the capital value system where it is reduced to an eight-fold difference between the bottom and top band. The views expressed about the eight-fold difference between the bottom and top tax bands appear to be unfounded.

The consultation is about the principle of moving from a rental based calculation to a capital value based calculation and until revaluation takes place it is not yet possible to provide an idea of how individual property tax demands might change. Once revaluation is completed it will be possible to provide more accurate and up to date information about individual properties and the effect of the revised system on the property taxes payable.

The move from property tax based on rental values to being based on capital values may only change the proportion of property tax paid by each property and will itself not change the total amount raised by each rating authority. A pilot scheme carried out on a limited number of properties in 2004 indicated that 85% of property tax bills would be the same or reduced under the proposed capital values system.

Section 2 - Valuation Process

Revaluation

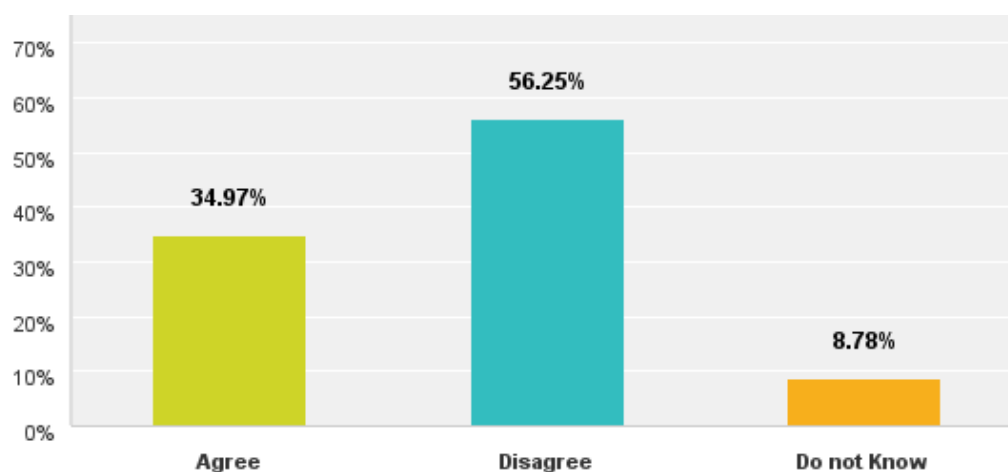
In order to introduce property taxes based on the capital value of a property there would be a need to revalue all domestic properties. It is proposed that initially all property owners should be asked to suggest which one of the nine property tax bands would be appropriate for their property.

Where this was not possible then Treasury would determine the applicable property tax band by comparison with similar properties, information available from the Land Registry or through a formal valuation by a professional valuer.

As part of the revaluation, all the property tax bands allocated to properties, either by self-assessment or by other means will be subject to a "sense check" to ensure that they have been allocated fairly and appropriately.

Where a property taxpayer considers that the property tax band for their property has not been properly determined there will continue to be an appeals procedure, initially to the valuation section of Treasury and then to the Rent and Rating Appeal Commissioners.

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



Finding:

The majority of respondents (56.25%) did not agree that it would be reasonable for property owners to declare the capital value of their own property.

The respondents views expressed in answer to this question are set out below:-

Fair valuations

A number of respondents considered it was impractical for owners to provide this information, particularly where the property had not been sold recently. It was also considered that owners might not be accurate in their declarations and may disadvantage themselves by placing their property in a higher band compared to similar properties or may inadvertently undervalue their property resulting in an underpayment of property taxes.

There was a general view that the valuation of properties should be carried out or reviewed by an independent professional to ensure a fair value was given to properties both fair to the property owner and to ensure all properties were treated in the same manner for valuation purposes.

Section 2 - Valuation Process

Support for Valuations

A number of respondents wished to see a valuation process which was easy to understand and where appropriate advice and support would be made available to property owners who could not determine the property tax band in which the property belongs. It was considered that a simple system with support would result in higher levels of self-assessment and more accurate self-assessment.

Current Property Market

Some respondents expressed the view that it would be difficult to accurately value a property in the current market due to the lack of sales information in certain levels of property values.

Appeals

A number of respondents pointed out the need to have a good process for the valuation of properties as otherwise there would be a large number of appeals which would be costly to administer and may lead to a lack of confidence in the revaluation process.

Local Authority Comments:

Arbory Commissioners -

"They feel that the proposal for self-assessment is fraught with problems and appears to be seriously flawed"

Douglas Borough Council –

"the Council supports the proposal that property owners should declare their property values, subject to the caveats that:-

- a) Support be made available to those owners who may not be able to fix a current valuation be reason of the property not having been sold for many years;*
- b) If a valuation is required by Treasury to verify an owner's declared value, the valuation should be paid for by the Treasury; and*
- c) Valuations should be based on the market value of the property in fair condition, and not take account of dilapidation or dereliction."*

Treasury Comment:

The Rating and Valuation section currently maintain a list of valuations for all rateable property on the basis of rental values and following the proposed revaluation they will be maintained on a capital value basis to the same level of accuracy.

The rateable values of all domestic properties are currently published and it is intended to make the property tax band information for each property available in the same way and also on-line through the Government's digital mapping facility. This will support transparency in the valuation of properties and allow individuals to compare the property band for their property with other similar properties.

Treasury recognises the views expressed in response to this question and when drawing up the method of allocating property tax bands to properties it will ensure it is easy to understand, fair and will be subject to scrutiny by a professional valuer.

Treasury will ensure that support is available to property owners who may not be able to decide which property band is correct for their property, particularly where the property has not been sold or valued for some time. Where a valuation of the property is required to determine the property tax band and this cannot be determined by any other means a valuation will be made by Treasury and this will not be a cost to the property owner unless they wish to obtain an independent valuation.

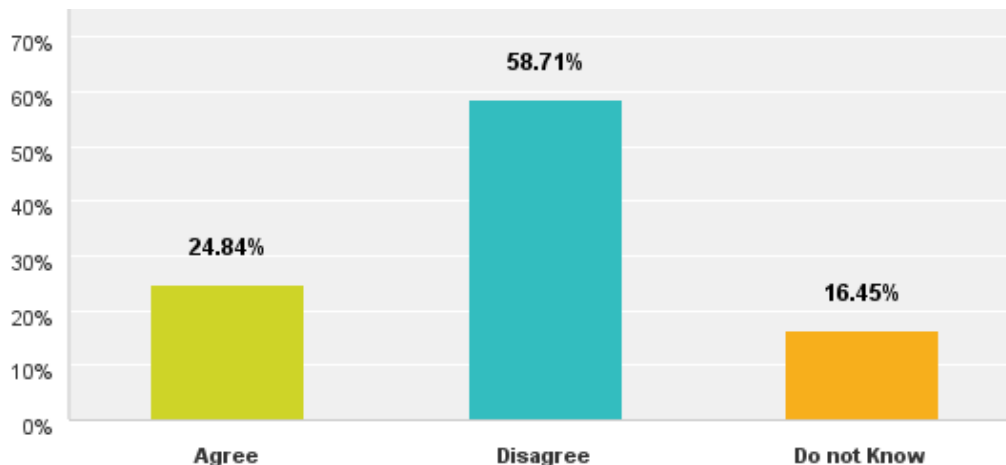
Section 3 - Alternative Methods

Alternative Methods

The Treasury currently operates 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.

The consultation document asked the following questions:-

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?



Finding:

The majority of respondents (58.71%) disagreed with the proposal that domestic property taxes should be collected using an income tax based system.

Local Authority Responses:

Arbory and Ramsey Town Commissioners support the use of an income tax based system.

Arbory Parish Commissioners -

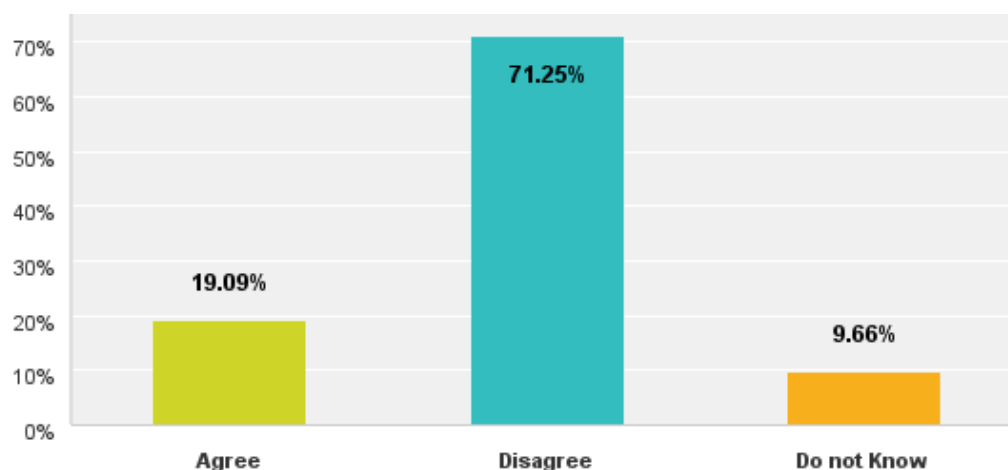
"They would favour an investigation into local income tax as an alternative to rates. On the face of it, it would seem a relatively simple IT matter to add a local tax to the national tax."

Ramsey Town Commissioners –

"Consideration should be given to a form of local income tax, so that services delivered on an all-Island basis would be funded equally whereas locally delivered services would be funded by region or area"

Section 3 - Alternative Methods

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?



Finding:

The majority of respondents (71.25%) disagreed with the proposal that domestic property taxes should be calculated by using the area of land taken up by a house.

Local Authority Responses:

This method of calculating property taxes for each property is not supported by any local authority.

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?

51% of all the respondents provided some response to this open question and two main themes emerged; taxation based on the number of occupants in a property and treating provision of water, sewerage and waste disposal services as any other utility, separate from property taxation, with a standing charge with an additional cost based on a measure of consumption.

Number of Occupants

This was the biggest response and 24% of the total individual respondents wished to see property taxes calculated taking into account the number of people occupying a domestic property. The reason given for this is that services are used by people and therefore the cost of services should be based on the number of people occupying the property and such a tax would demonstrate the "user pays principle".

A number of respondents pointed out that census information or an additional annual return would provide a reference point for the number of occupants which could then be used to calculate the property taxes payable based on occupancy.

Some respondents considered that the cost of local authority services should be divided equally, with each occupant paying the same as the other. Other respondents suggested there should be a two part charge consisting of a fixed service charge per property and an additional charge per occupier.

A number of respondents specifically referenced their preference for a "Poll Tax" where the cost of local authority services would be payable by each person on the electoral register over 16 years of age. This was considered to be a fair system for allocating the costs of local authority services.

Section 3 - Alternative Methods

Treasury Comment:

Property taxes or rates are based on the value of a property, the proceeds of which are allocated to the payment of a service provided to the property. There is no direct link between the demand placed on the services and/or the number of occupants resident in the property and the amount of tax paid.

The majority of the cost of providing local authority services to properties is fixed regardless of the number of occupants e.g. street lighting or maintenance of open spaces.

It would be more administratively difficult and therefore costly to keep track of the number of occupants in a property and there would be an incentive to under declare this figure to reduce taxes payable. Currently the number of people occupying a building is only known on the day of a census once every 5 years and can vary on a day to day basis at any other time.

It is relatively cost effective to fund local authority services by a tax paid on each property and it would be more difficult and intrusive to monitor the occupancy of each property and make the necessary changes to property tax each year to reflect these changes.

The current system of property taxation is approximately half of the cost of collecting the community charge in the United Kingdom. This is largely as it is relatively simple to administer and the valuation for tax purposes is relatively easy to calculate.

Water and Sewerage as a Utility

A small proportion (14%) of the total respondents wished to see the cost of waste disposal, water and sewerage services based on the amount used, in a similar manner to other utilities e.g. electricity, and not payable as a property tax. It was considered that the cost of waste disposal should be based on weight collected, water using water meters and the cost of sewerage services based on the amount of water used.

They did not consider that the use of a property tax was appropriate to fund these services due to the varying number of people in each property. A number of respondents pointed out that water meters were commonly used throughout England and Wales.

The Manx Utility Authority is currently considering the future tariffs for water and sewerage services.

Treasury Comment:

In providing water and sewerage to a property the majority of the cost is fixed regardless of the number of occupants e.g. the collection, treatment and distribution of water is the majority of the costs and the volume used has little effect on the cost of supplying water.

In this scenario there would be a standing charge, covering the fixed costs, and an additional cost for the water used. The total cost per property is unlikely to vary significantly between a property occupied by one person and one occupied by four, as the standing charge will be the majority of the cost and the additional usage is likely to only be a small proportion of the total invoice.

The use of water meters, including the costs of maintenance and reading, would be additional costs if meters were to be used.

Other responses

Other responses to this question also included issues such as property taxes based on the number of rooms and support for the use of a "flat tax" where the cost of providing the service was divided by the number of properties. In this scenario there would be no need for valuations as all the properties would pay the same amount within a rating authority area.

Section 3 - Alternative Methods

Local Authority Responses:

Castletown Commissioners –

"there should be a level playing field for an all-Island valuation (not rates) system"

Port Erin Commissioners –

"the current system of charges – some national, some local is unnecessarily confusing and gives an exaggerated impression of local control over the rates"

Rushen Parish Commissioners –

"Water meters would be a fair way of calculating usage of water, however this could be costly."

Treasury Comment:

There are a number of methods of calculating taxes based on property, however the current system calculated on the value of a property has been found to be the most cost-effective and gives a high collection rate, because properties are easy to identify as an asset and change only slowly, it is therefore difficult to avoid this type of taxation.

The alternative suggestions which are more complex to administer would lead to additional costs to the property taxpayer and this may lead to a reduction in the collection rate.

Section 4 – Funding Local Services

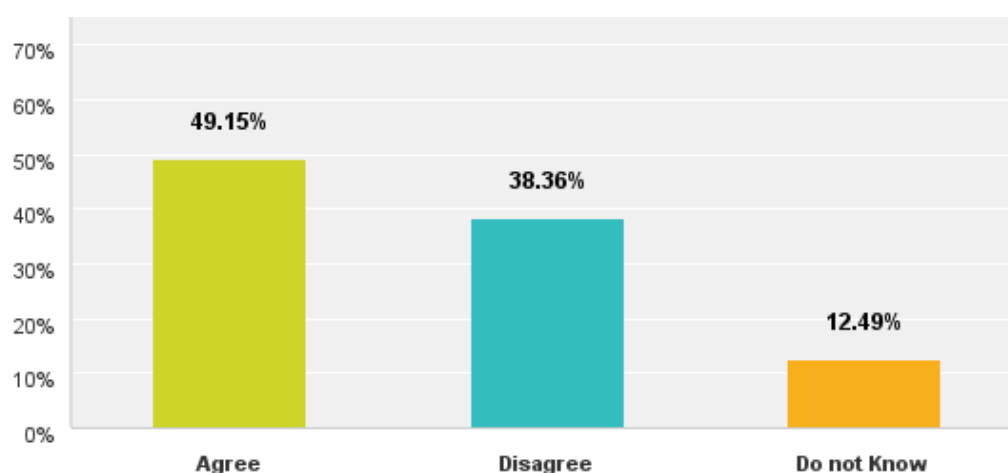
Funding Local Services

Property taxes allocated to the payment of water and sewerage services are already the same across the Island and in these circumstances, the property value bands and the taxes paid in each band would be the same across the Island.

Another method of funding services provided by local authorities 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 and the services provided.

The consultation document asked the following question:-

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?*



Finding:

Over 90% of the people who responded to the consultation answered this question and the largest response (49.15%) agreed with the proposal that there should be an all-Island rates system which raises income equally from all properties across the Island.

A number of views were expressed in response to this question, the two main themes were that the proposal would ensure the cost of services would be spread fairly throughout the whole community and having one level of taxation instead of thirty-eight would reduce complexity and cost within the rating system.

In support of the view that the whole community should support the costs of local authority provided services respondents suggested that ratepayers in some areas were providing services and infrastructure for use by the whole Island and this was an additional cost to them which was not reflected in the rates in other areas e.g. parks and other managed open spaces. This proposal would ensure that the expense of community facilities provided in one area and enjoyed by all would be spread across all Island residents on an equitable basis.

Other views noted that some local authorities with significant rate income from non-domestic sources were able to use this to maintain a lower level of domestic rates than would be expected for the services provided and this was unfair compared with areas with little non-domestic rate income.

Respondents considered that having one rate of property tax would reduce the complexity within the rating system, increase transparency in rate setting, reducing the cost of calculation and collection. A significant number of views supporting these proposals did not see the reason for thirty-eight different rating authorities for a small population.

Section 4 – Funding Local Services

Further analysis of the answer to this question shows support for an all-Island rates system came from people in the majority of local authorities with a mix of support from towns, villages and rural areas. Respondents who did not support the proposal largely lived in rural areas.

Respondents who disagreed with this proposal were concerned about the loss of a link between the property tax payable and the responsibility of the locally elected representatives for providing local services e.g. the expenditure on local services might increase or reduce in one area but this may not be reflected in changes to an all-Island property tax.

There were also views that the less efficient local authorities would be subsidised by those who are more cost effective without the ability to call the less efficient local authorities to account.

Views were expressed that where the services provided by local authorities were not-consistent it would be unfair in these circumstances to have the same level of property taxes e.g. the provision of refuse disposal services where the collection of domestic waste across local authorities could be either weekly or fortnightly.

Local Authority Comments:

Maughold Commissioners –

"An all-Island rating system would encourage the disengagement of those who pay rates from the provider of services, thus damaging the accountability and quality of service they receive. This would be detrimental to the communities of the Isle of Man"

Port Erin Commissioners -

"the current system of charges – some national, some local is unnecessarily confusing and gives an exaggerated impression of local control over rates. For example the likes of refuse disposal, water, sewerage and burial we have no control over the setting of those costs and yet to the rate-payer they might appear as if we do. Also many people from different local authority area on the Island enjoy the amenities of other areas without necessarily directly contributing to any expenses associated with those areas (e.g. beaches, parks, swimming pools, etc.)"

Ramsey Town Commissioners –

"It is unfair that for all island services people should be required to pay differing amounts as a result of the location within which they live. The consultation document does not make it clear that the existing valuation process applies a considerable discount factors to the value of properties in rural areas (e.g. 50% to Kirk Michael, 40% to Maughold) meaning that in regard to the all island water and sewerage rates, ratepayers in those areas contribute considerably less than those in towns."

Treasury Comment:

The current requirement to calculate and collect property tax for 34 different rating authorities adds complexity to the calculation and collection of rates and there is an additional cost to maintain this.

Should there be political support for the introduction of an all-Island rates system which raises income equally from all properties across the Island and is then distributed to local authorities; Treasury would support the necessary changes to bring this about.

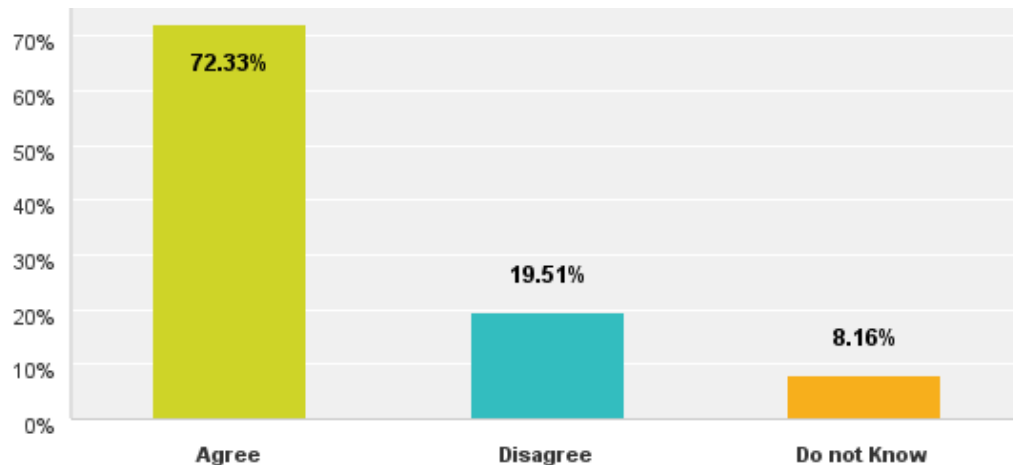
Section 5 - Rate Rebates

Rate Rebate Scheme

A rate rebate scheme is one where property taxpayers have their tax reduced compared with similar properties where the standard services are not or could not be provided to a particular property. A rate rebate would be granted and reviewed on an annual basis.

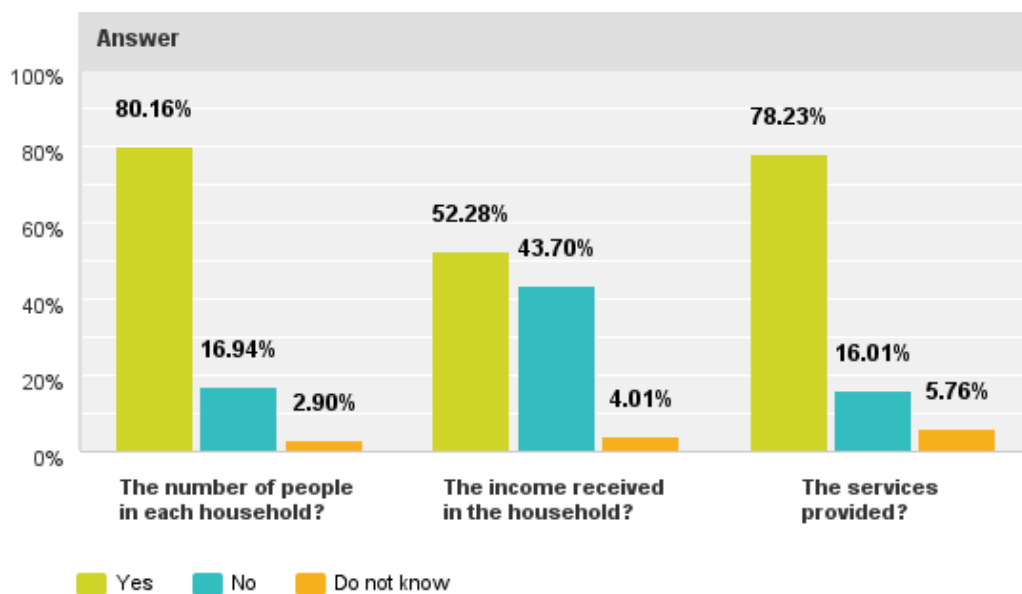
Whilst there is currently legislation to support a rate rebate scheme for property taxes collected by or on behalf of local authorities no scheme has been brought into effect.

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



Finding: The majority of respondents (72.33%) support the use of a rate rebate scheme

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



Section 5 - Rate Rebates

Findings:

In general terms a rate rebate scheme was supported by respondents in two areas; for single person occupancy and where standard services are not or could not provide to a particular property e.g. a rebate to the sewerage rate where a septic tank was used or water rate where mains water was not supplied.

Single Person Occupancy

Many respondents referred to the situation in England and Wales where there is a rate rebate for single occupant properties on the basis that a single occupant will use less services than a couple or family. A small number of respondents also noted that rebates were applicable to registered disabled persons where they lived with on their own or with a dedicated carer.

A small number of respondents wished to see any single occupancy rebate limited by income or means tested and considered it should not be a universal benefit, as not all single occupants would have difficulty paying their property taxes.

A rate rebate for single person occupancy was also linked to the views of respondents that property taxes should be based on the number of people who occupy a domestic property (see Question 8).

Household Income

There was mixed support for an income based rebate, it was supported by respondents who considered property tax should be based on income or paid through income tax. However, those who were opposed to it commented on the expense of administration and that rates are a property tax based on the capital value of a property and not a tax based on income.

Other

Other suggestions for inclusion within a rate rebate scheme included properties which were unoccupied for a period of time, where they were incapable of occupation following fire, flood, etc. where there was evidence of waste reduction such as recycling or where the occupant was unable to pay the property taxes.

A minority of respondents were against a rate rebate scheme (19.51%) due to the added cost of administration and the difficulty in ensuring that the information provided to support the rebate was correct. They point out that rates were a property tax and there should be no rebate on the basis of occupancy.

Local Authority Comments:

Douglas Borough Council –

"the Council does not support the provision of a rate rebate scheme based on the number of people in a household"

Ramsey Town Commissioners –

"A rebate system would be unnecessary if a local taxation system were implemented with contributions based on an individual's ability to pay assessed on their gross income. The Island already has a means testing system for income tax and introduction of another system is unnecessary."

A minority of local authorities who responded supported a Rate Rebate scheme including Castletown, Marown, Port St Mary and Rushen Commissioners. Where it was not supported the views expressed were about reducing the complexity and minimising the administrative cost of the property taxes.

Manx Utilities Authority pointed out that they did not have a statutory power to introduce a rate rebate scheme for water rates.

Section 5 - Rate Rebates

Treasury Comment:

Treasury considers that the responsibility for a rate rebate scheme rests with local authorities as the cost of any rebates would have to be met by other property taxpayers. If any local authority wished to progress a rate rebate scheme this would be supported by Treasury.

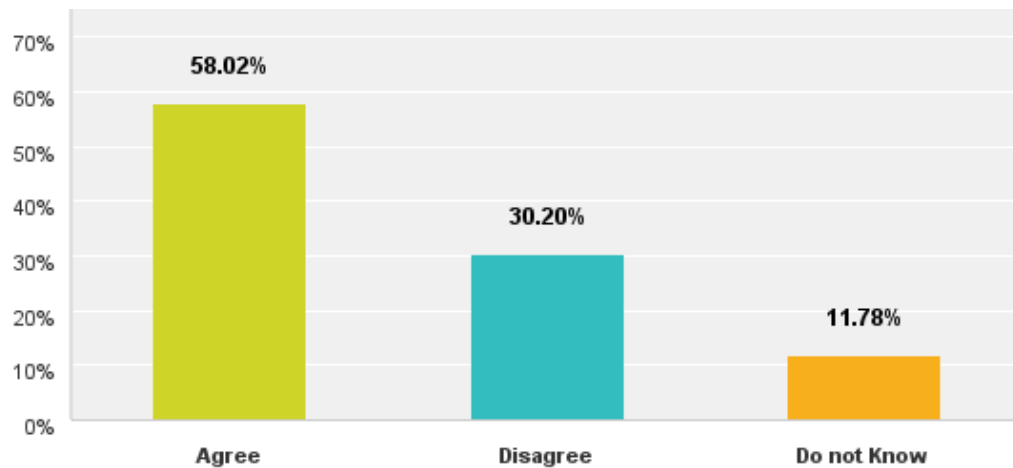
Changes were made to the rating legislation in 1999 to allow for a rate rebate scheme, however no scheme has yet been brought into effect. Treasury will ensure that it a legislative framework to support a rate rebate scheme will be included in any new or revised rating and valuation legislation.

Section 6 – Discounts

Discounts

Rating and Valuation Act allows for a discount on the payment of property taxes (rates) if the payment is made before the 30th June each year.

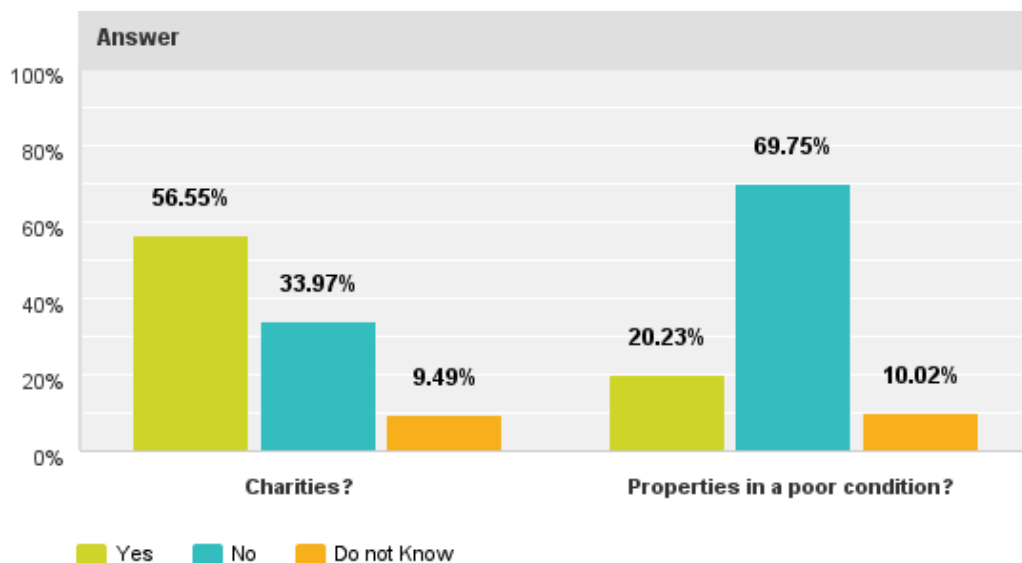
12. Do you think there should be discounts and/or exemptions from rates?



Findings:

The majority of respondents (58.02%) support a scheme of discounts and exemptions from property taxes.

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



Findings:

Approximately 80% of the respondents provided an answer to this question and the majority agreed there should be a scheme of discounts. When asked about specific reasons they supported an exemption for charities but not for properties in poor condition.

Other issues which respondents considered could form the basis for a discount against property taxes included inconvenience due to road or building works, ability to pay, services not provided, unoccupied properties, renovation of property, age of the occupants (students and pensioners) and rural location but few had significant support.

Section 6 – Discounts

A small group of respondents suggested that there should be no need for a discount scheme where property taxes are based on capital values. A tax based on the capital value would vary depending on the market value of the property, if this changed then a property could be revalued into a lower property tax band rather than being granted a short-term discount.

In general terms the ability to give a discount to charities on the payment of property taxes was supported by the majority of respondents. However, a number of respondents also pointed out that charities in general should not receive a discount as they were in no different position to organisations and individuals who had to pay property taxes in full and who in addition paid additional taxes to make up for the discounts given to charities.

The granting of discounts to properties in a poor condition was not supported.

Discount for Prompt payment

Some respondents commented that there should be no discount for prompt payment as the relatively large sums now involved in the payment of all rates made it difficult for some rate-payers to make an annual payment. Instead there should be encouragement for payment by instalments and using direct debit.

Other suggestions included penalties for late payment or failure to make or keep payment arrangements, as currently once the due date is passed there is no further penalty for late or non-payment.

Local authority Comments:

A scheme of discounts and or exemptions was supported by Arbory, Braddan, Castletown, Marown, Port St Mary and Ramsey Commissioners; however it did not have majority support.

Douglas Borough Council –

"the Council opposes any discount for charitable ownership or occupation; on the grounds that any property so used did benefit from the services provided and therefore should contribute"

Peel Town Commissioners –

"if approved should be the responsibility of individual local authorities"

Treasury Comment:

Whilst there is support for a discount for charities the argument made by some local authorities that charities have properties of the same value as other organisations and sometimes compete with them e.g. charity shops, a discount on property taxes for charities may not be sustainable. There are also some charities e.g. private educational institutions where it may not be appropriate to grant a discount.

Treasury does consider discounts to rateable values where there is a short term reduction in the rental value of a property e.g. road works or property development, where this may affect the rental value it is unlikely to affect the capital value of a property which would be sustained.

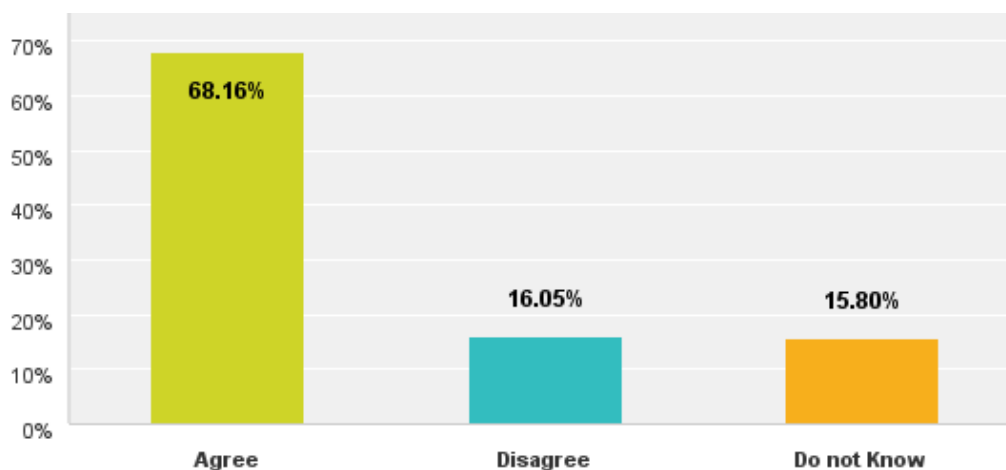
Treasury considers should there be an enhanced discount scheme the responsibility and administrative support for this should be provided by the rating authority and the costs should be met by other property taxpayers in the same local authority area.

Section 7 - Non-domestic Properties

Non-Domestic Properties

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 proposes to keep this system for non-domestic properties which are largely rented rather than owned.

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



Finding:

The majority of respondents (68.16%) support the updating of the non-domestic rateable values to reflect current rental levels. Many respondents commented that they considered it unfair that domestic properties should be revalued without a similar revaluation being carried out to non-domestic properties.

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

Findings:

Only about one-quarter of the respondents chose to answer this question, many of them commenting that they did not have sufficient information about how property taxes were calculated and collected from non-domestic premises. From the responses provided the following themes were included:-

All-Island Business Rate

Respondents supported an all-Island business rate for non-domestic premises so that all business rates would be collected on the same basis with the same rate per pound for every area of the Island. Some respondents considered an all-Island business rate could provide the basis for discounts for discrete business districts for specific reasons such as regeneration or new businesses.

Views were also expressed that in some local authority areas the proportion of costs paid by non-domestic premises, the largest being central Government, was significant and this was considered to be unfair as it reduced the contribution by domestic rate-payers in that particular area.

Water, Sewerage and Waste Disposal as a Utility

A number of respondents wished to see the cost of waste disposal, water and sewerage services based on the amount used by businesses, in a similar manner to other utilities e.g. electricity. It was considered that the cost of waste disposal should be based on weight collected, water using water meters and the cost of sewerage services based on the amount of water used. This would remove

Section 7 - Non-domestic Properties

these services from the rate demand and just leave an all-Island business rate or service charge. This would encourage a careful use of resources.

Mixed Use Premises

A number of respondents wished to see an assessment for each part of the property where e.g. one part is domestic and one commercial. An example of this would be a farm where the house would be considered as domestic premises and the surrounding land as commercial. This would ensure that each part of the property was taxed fairly compared within equivalent properties which did not have mixed use.

Categories of Commercial Premises

A small number of respondents wish to see revised definitions for different types of commercial business to ensure fairness. One example given was the definition of agricultural premises so it matched the definition of "working farm" used by the Department of Environment, Food and Agriculture.

Profit / Loss

A small number of respondents wished to see the rates for non-domestic premises calculated on the basis of the profit or loss generated by a business. The suggestion was made on the basis that this would encourage new businesses as the rates would be reduced in the "start up" phase where little profit might be expected.

Unoccupied premises

Views expressed by a small number of respondents suggested a reduction in property tax (rates) payable when commercial premises were unoccupied due to that lack of tenant.

Local Authority Responses:

All local authorities who responded supported the revaluation of non-domestic property.

Arbory Commissioners –

"Non-domestic rates to reflect facilities used, damage to infrastructure, expenditure on facilities used primarily for non-domestic users e.g. tourist attractions, street cleaning in town centres, etc."

Treasury Response:

Treasury recognises the support for a revaluation of non-domestic properties; however the current priority is a revaluation of domestic properties. Once this has been completed resources will be available to extend revaluation to non-domestic properties.

Section 8 - Other Comments

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

Approximately one-third of respondents made general comments and a number of common themes emerged which have not been included elsewhere in this report and are set out below.

Support for Change

The majority of respondents supported the need for change in the calculation and collection of property taxes, some went further and outlined their reasons to move away from property taxation to other forms of tax such as services charges or charges based on consumption.

Strong support for change was based on the need for increasing fairness within the system as the amount collected in property taxes has increased annually above inflation. Views were expressed that the difference in property valuations and services provided across the Island was unfair and the lack of revaluation over a 40 year period had exacerbated the unfairness.

Views were expressed that the anomalies in the calculation and collection of property taxes were largely tolerated when property tax demands represented a small proportion of income; however now the proportion of income used to pay property tax was increasing the demand for addressing these anomalies was also increasing.

A number of examples were given of where there is perceived and actual unfairness within the current system, including significantly different rateable values for similar properties in different rural areas, for properties in the country in comparison with similar properties within towns, etc.

Churchyard Rate

A number of views were expressed regarding the churchyard rate the principle one being that respondents did not see why this rate should be compulsory or why it should be levied on all properties domestic and commercial.

Respondents did not see the need for the community to support this facility directly where the majority of people paying the rate may not use the service. Views were expressed that the use of the churchyard should be paid by those who use it, in a similar manner to the crematorium and not as a compulsory cost on all property taxpayers.

Some respondents suggested that one method of reducing complexity and costs within the property tax system would be for local authorities to have responsibility for the maintenance of churchyards and for the costs to come within the local authority rate. This would reduce the number of rating authorities and make the people responsible for the service more democratically accountable to taxpayers.

Cost-effect collection system

A number of respondents expressed a view that the current cost-effective system for the calculation and collection of property taxes should be maintained, with only revaluation carried out. They perceived that proposed changes to the system would lead to increased complexity which would increase the administration costs and therefore costs to the property taxpayer and this should be minimised.

A small number of respondents suggested that there should be one collection organisation for the payment of all property taxes and this should all be carried out on-line reducing administration costs.

Section 8 - Other Comments

All Domestic Properties subject to Property Taxes

A number of respondents commented that due to the nature of the current rental based system there was no transparency with regard to whether different types of property paid their fair share of property taxes. It was perceived that certain types of domestic property such as farmhouses, flats or tenanted properties were not paying an appropriate proportion of property taxes compared with other properties.

Empty Properties

A small number of respondents wished to see a higher property tax bands for empty properties to encourage their occupation and to discourage the use of properties for investment purposes without the intent to keep them occupied.

Capital rich, income poor

The position of people who were resident in properties of a high capital value but who had a low income was raised.

A typical scenario would be a person who was continuing to live in a large family house with a significant capital value on a fixed pension and if the property tax applicable to a property increased significantly would this force them to sell the property and move to a house with a smaller capital value. It was considered by a number of respondents that this would not be appropriate and there should be some safeguards within the property tax system to prevent this situation occurring.

Transitional Provisions

A number of respondents pointed out that the "unwinding" of the current anomalies may have both positive and negative effects for a small number of rate-payers. In a situation where there may be a significant increase in property taxes, respondents wished to see transitional arrangements to support property owners.

Local Authority Comments:

Braddan Parish Commissioners –

"It was suggested that if any new system is put in place, any rate debt owing to the Authority treated on the same status as the non-payment of income tax and Authorities are treated as preferential debtors, second behind Treasury."

Douglas Borough Council –

"the suggestion be made that the notice period to be given to owners of their liability for rates on default of tenants should be within six months after the year end rather than one month"

"the obligation of occupiers to provide information should be extended to include a similar obligation on the part of property owners"

Onchan District Commissioners –

"Members agreed that the rates should be collected by the Local Authority"

Manx Utilities Authority –

"the current system has provided MUA with a sustainable method of collecting its water and more recently sewerage charges at a relatively low cost. Historically, it has resulted in a low level of debtors and facilitates forecasting for the financial model."

Section 8 - Other Comments

Treasury Comment:

Treasury welcomes the support for changes to the present system and the requirement to maintain a cost-effective collection system.

All properties are subject to property taxes (rates) although some tenants may not receive a rate demand as the responsibility for the payment rests with the landlord. It is hoped that a move to a property tax system based on capital values will make the system more transparent, and demonstrate that property tax is paid on all properties.

The scenario where a house may be occupied by a person with limited income will occur whether the valuation is carried out using either rental or capital values. It is unlikely that the change from assessments made on rental values to those made on capital values will exacerbate this situation to an extent that will force the sale of a property.

The effect on individuals of the change from a system based on rental values to one based on capital values will not be known and cannot be predicted until the revaluation of properties has taken place. It is intended that this information should be available in February 2016 and a commitment has been made to Tynwald to this effect.

Once the effect of the change has been calculated there may be a requirement to consider transitional arrangements where both the reductions and increases are staged over a number of years. The level of reductions and increases should balance as there is a political commitment that the revaluation in itself will be revenue neutral.

Appendix 1 – Summary of responses from Local Authorities

	1	2	3	4	5	6	7	9	10	12	14
Question	Current Method	Proposed Method	9 Bands Reasonable	Range Bands Reasonable	Owners Declaration	Income Tax Based	Area of Land Based	All Island	Rate Rebate	Discounts Exemptions	Non-domestic Revaluation
Arbory	X	√		X	X	√	X	X	X	√	√
Braddan	√	√	X	X	√	X	X	X	X	√	√
Castletown	X	X	X	X	X	X	X	X	√	√	√
Douglas		√	X	X	√	X	X		X	X	√
Lezayre					X						
Malew	√	√	√	√		X	X	X	X	X	X
Marown	X	√	X	X	√	X	X	X	√	√	√
Maughold	X	√	√	√	X	X	X	X	X	X	√
Michael		√				X	X	X	X	X	
Onchan	√	X	X	X	X	X	X	X		X	√
Patrick		√	X	X	X						
Peel	√	√	√	√	√	X	X	X	X	X	√
Port Erin	X	√	√	√	X	X	X	√	X	X	√
Port St Mary		√						X	√	√	
Ramsey	X	X	X	X	X	√	X	X	X	√	√
Rushen	X	√	√		√	X	X	X	√	X	√

Notes:

√ - support for the proposal

X – did not support the proposal

Appendix 2 - Respondents

Professional Organisations

Isle of Man Association of Estate Agents

Church Wardens

Kirk Braddan

Local Authorities

Arbory Parish Commissioners

Braddan Parish Commissioners

Castletown Commissioners

Douglas Borough Council

Lezayre Parish Commissioners

Malew Parish Commissioners

Marown Parish Commissioners

Maughold Parish Commissioners

Michael Parish Commissioners

Onchan District Commissioners

Patrick Parish Commissioners

Peel Town Commissioners

Port Erin Commissioners

Port St Mary Commissioners

Ramsey Town Commissioners

Rushen Parish Commissioners

Others

Ballasalla & District Residents Association

Ballastowell Builders Ltd.

Isle of Man Enterprises plc

Manx Utilities Authority

Port St Mary Business Association