

The Taxing Wealth Report 2024

Every politician's guide to
"How to pay for it".

Reforming council tax in England

Brief Summary

This note recognises that the council tax system used in England (of which variations are in use in Wales and Scotland, but not Northern Ireland) was always a hasty compromise when it was introduced in 1993, and that nothing has improved it since then.

For one pragmatic reason, however, it is not suggested that major reform of this tax take place as part of the whole package of reforms suggested in the Taxing Wealth Report 2024. That pragmatic reason is that there are many better ways of transforming the tax system as a whole to tackle the inequalities created by wealth in the UK than by expending a great deal of effort to totally redesign or even replace council tax. If the goal is to tackle the issue of wealth inequality in a systemic fashion then complete council tax reform has to come a long way down the list of potential reforms, even though the tax as it currently stands is very far from ideal.

That said, there is much that can be done within the parameters of the existing tax and this note proposes that if the goal is to more appropriately tax high and low value properties, and in the process reduce the regressive nature of this tax, then this will require:

¹ This note forms a part of 'The Taxing Wealth Report 2024' published by Finance for the Future LLP, which is UK LLP number OC329502, registered at 33 Kingsley Walk, Ely, Cambridgeshire, CB6 3BZ. See <https://www.financeforthefuture.com/taxing-wealth/>. This note was written by Richard Murphy FAcSS FCA FAIA (Hon), Professor of Accounting Practice, Sheffield University Management School, who is a director of Finance for the Future LLP.

The Taxing Wealth Report 2024 is a joint project between:

Finance for the Future

and



Sheffield
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1. Property revaluations.
2. Increasing the number of bands used for property valuation.
3. Changing the ratio of tax charged between top and bottom bands of council tax.
4. Changing the exemptions available to those on benefits.
5. Changing the treatment of second properties.
6. Changing the treatment of vacant properties.
7. Using central government grant giving mechanisms to provide more support for local authorities in poorer areas whose revenues will fall as a result of these proposals.

The result could be a considerably fairer tax than we have at present, but not an optimal solution, which would have to wait for attention when more of the issues tackled in the Taxing Wealth Report 2024 have been addressed.

It is important to note that it is very unlikely that this proposal would raise additional tax revenues. There is very little scope to do that within the existing structure of this tax, not least because the number of high value properties that are undertaxed at present is quite small, and any proceeds from taxing them more appropriately should be used to reduce charges elsewhere across the tax bands. The aim should be to create a fairer tax.

The proposals

To reform council tax in England to more appropriately tax high and low value properties and to reduce the regressive nature of this tax. This will require:

1. Property revaluations.
2. Increasing the number of bands used for property valuation.
3. Changing the ratio of tax charged between top and bottom bands of council tax.

	<ol style="list-style-type: none"> 4. Changing the exemptions available to those on benefits. 5. Changing the treatment of second properties. 6. Changing the treatment of vacant properties. 7. Using central government grant giving mechanisms to provide more support for local authorities in poorer areas whose revenues will fall as a result of these proposals.
<p>Reason for the proposal</p>	<ol style="list-style-type: none"> 1. To improve the horizontal equity of council taxation in England, which is currently undermined by the capping of council tax charges on the highest value properties. 2. To increase the prospect of vertical equity of taxation in England, which is seriously undermine at present by the cap on council tax charges in England and other UK constituent nations. 3. To redistribute tax charges made by local authorities. 4. To use government grant giving mechanisms to encourage greater regional redistribution. <p>What this proposal does not do:</p> <ol style="list-style-type: none"> a. Raise any significant new revenues for local authorities: it merely redistributes existing liabilities. b. Solve the long term problem of how to tax land appropriately.
<p>Estimated tax that might be raised as a result of the recommendation made</p>	<p>The behavioural response to this recommendation cannot be known, although it is likely to be small because relatively few properties will be affected by it.</p> <p>It is possible that some property will be made available for use or sale as a result of the proposals, which in view</p>

	<p>of the shortage of homes in the UK is considered beneficial.</p> <p>There is no intention that the proposed reforms should raise significant revenue, which by themselves they will not. They are meant to be redistributive in nature.</p>
Ease of implementation	<p>Relatively straightforward. The number of properties requiring revaluation as a result of this exercise will be much smaller than a full revaluation would require, and all will already be identified as they are now band H properties for council tax purposes. Revaluation will be greatly assisted by the ready availability of property databases and AI techniques.</p>
Likely difficulties that might result from implementation	<p>Few.</p>
Likely time required to implement the change	<p>Two or three years might be required for a revaluation exercise to take place and for resulting issues to be resolved.</p>
Consultation period required.	<p>Relatively short: a few months at most since the principles of the change are straightforward.</p>

Background

Council tax is the main tax charged by local authorities in England. Separate rules apply in Scotland, Wales and Northern Ireland and as such comments made here do not apply in those places, although they could be followed in Wales and Scotland. This commentary also only relates to that part of council tax paid by households and does not concern the charge made to businesses.

Council tax was introduced in haste in 1992 in Scotland and 1993 in England and Wales. It replaced the deeply unpopular community charge, or poll tax, which had, in turn, replaced local rates in England and Wales in 1990.

Unlike the rates system of local council taxation, which was supposedly based upon the rental value of a property, council tax is supposedly based upon the property's market value in 1992. A bizarre feature of the tax is that this is the case even if the property had not been built in 1992, when an imputed value is computed for that year.

In England every property is allocated to one of eight tax bands (A to H) based upon the deemed value of the property in 1992. The higher the value of the property, the higher is the tax band to which it is allocated, although all properties valued above £320,000 are in band H.

As the House of Commons Library noted in 2023²:

Council tax calculations are based on a property in Band D. Bills on properties in other bands are proportionate to Band D bills: so for instance, a band G property in a given local authority pays 15/9 of a Band D bill. The highest band, Band H, pays three times that of the lowest, Band A. This means that the spread of council tax bills is far lower than the spread of property values. As a result, lower income households pay a higher proportion of their income as council tax than higher income households.

The taxes due in each valuation band are always calculated according to the following formula³:

Band	Value of dwelling (estimated at April 1991)	Proportion of the tax due for a Band D dwelling
A	£40,000 and under	6 / 9
B	£40,001 - £52,000	7 / 9
C	£52,001 - £68,000	8 / 9
D	£68,001 - £88,000	9 / 9
E	£88,001 - £120,000	11 / 9
F	£120,001 - £160,000	13 / 9
G	£160,001 - £320,000	15 / 9
H	Over £320,000	18 / 9

What is almost never noted is how few properties are in that top band where the maximum rate of council tax is paid. According to an Institute for Fiscal Studies study⁴ on council tax published in 2020 the proportion of properties in each band is as follows:

² <https://commonslibrary.parliament.uk/research-briefings/cbp-9712/>

³

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/875124/Council_tax_levels_set_by_local_authorities_in_England_2020-21.pdf

⁴ <https://ifs.org.uk/publications/reevaluation-and-reform-bringing-council-tax-england-21st-century>

Band	Tax rate relative to Band D	Property valuation as of 1 April 1991	Percentage of dwellings in each band, September 2019
A	$\frac{6}{9}$	Up to £40,000	24.2%
B	$\frac{7}{9}$	£40,001 to £52,000	19.6%
C	$\frac{8}{9}$	£52,001 to £68,000	21.8%
D	1	£68,001 to £88,000	15.5%
E	$\frac{11}{9}$	£88,001 to £120,000	9.6%
F	$\frac{13}{9}$	£120,001 to £160,000	5.1%
G	$\frac{15}{9}$	£160,001 to £320,000	3.5%
H	2	Above £320,000	0.6%

Source: Table CTSOP1.0 SUPP of VOA (2019).

A quite remarkably small number of properties are taxed at the highest council tax rate, which charge is itself just double the charge levied on a property supposedly worth, on average, about one quarter of its worth. In addition, fewer than nineteen per cent of properties are subject to the higher rates of council tax in England. The regressive nature of this tax, at least in proportion to wealth, is readily apparent as a consequence.

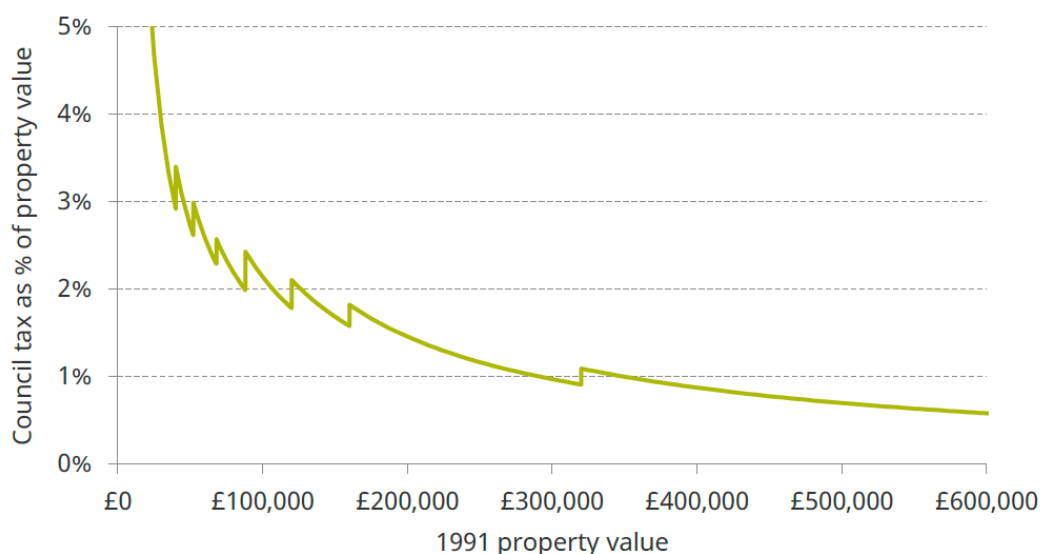
There are numerous problems with this tax. The first is that to run a taxation system based on 1992 property values makes no sense: the likelihood of the wrong tax rate being applied to a property is high. In addition, as a matter of fact, and as the Institute for Fiscal Studies has shown, the disparity in value between high and low value properties has increased considerably. So too has the disparity in value between regions of England. The use of supposed 1992 values perpetuates inequalities within this tax that results in those in the highest value properties in the most highly valued areas paying substantially less as a proportion of their income for this tax than they did when it was first introduced, with the opposite also being true: those in low value properties in the lowest valued areas pay disproportionately too much council tax compared to 1992.

A revaluation is obviously required but the political will to face the resulting issues that might arise has not been found as yet. Memories of the public distaste for the poll tax remain vivid in many politician’s minds⁵, but that is no excuse for inaction.

The Institute for Fiscal Studies highlighted these injustices in their work:

⁵ <https://www.jstor.org/stable/41788932>

Annual council tax as a percentage of 1991 property value in a local authority charging the 2019–20 English average Band D rate



Source: Institute for Fiscal Studies as noted in text

The 'lumpiness' in the graph reflects the problem with charging a tax in bands.

There is a further problem with this tax, which is that the single person discount available to all occupiers of any property whatever its size makes no economic sense since it encourages an inefficient use of property when there are many in desperate need of suitable housing.

There are, finally, distortions arising with regard to second properties and those that are vacant for any reason.

Second properties are defined as those that are furnished and available for the use of a person who has another property in which they usually reside. There is widespread disparity in the treatment of these properties, from the offering of discounts of up to fifty per cent, to charging the full council tax charge, to the imposition of a premium on that charge. There is now a proposal, not yet enacted, to allow councils to charge up to double the normal council tax charge on second properties, but this has been enacted^{6 7} at the time of preparation of this note.

⁶ <https://www.gov.uk/council-tax/second-homes-and-empty-properties>

⁷ <https://hoa.org.uk/advice/guides-for-homeowners/for-owners/second-home-council-tax/>

Vacant properties are also subject to variation in treatment⁸. Most councils charge council tax on empty properties, although some still offer discounts. A premium can be charged if a property has been empty for 2 years or more which can increase to four times the normal council tax charge if the property is empty for ten years or more. There is little apparent logic to the inconsistencies in these charges.

Potential reform

There are some very obvious immediate reforms that are possible with regard to council tax in England.

1. Revaluation and increasing the number of bands used for Council Tax charging

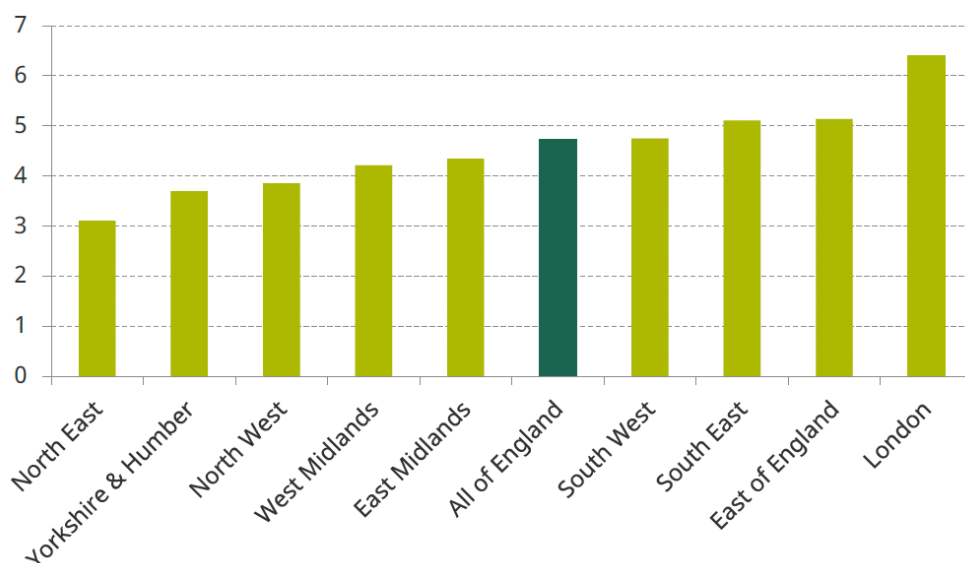
First within this area of consideration, there could be a revaluation of all properties in England for council tax purposes. Presuming that a banding structure for the tax was retained, and tax was not to be charged as a strict proportion of the deemed value of a property then it is likely that online data would now permit such a revaluation with relative ease and lower cost than might have been the case until recently, subject to appropriate evidence-based appeals procedures being available.

Data from the Institute for Fiscal Studies⁹ does, again, indicate the appropriateness of such a revaluation:

Average property price in November 2019 as a multiple of January 1995,
by region

⁸ <https://www.gov.uk/council-tax/second-homes-and-empty-properties>

⁹ <https://ifs.org.uk/publications/revaluation-and-reform-bringing-council-tax-england-21st-century>



Source: Authors' calculations using data from HM Land Registry (2020).

With such significant disparities having arisen a revaluation is clearly overdue.

Second in this area of reform, the idea of eight property valuation bands needs to be abandoned. There is no reason why significantly more could not be added both within existing ranges and at the top end to reflect the growing diversity in property valuation right across the UK whilst also providing a better basis for the taxation of wealth (with those in retirement being allowed to roll up liabilities until death).

Third, more exemptions and reduced rates are required at the lower level of valuations: it is wrong that households likely to have very low income should pay two-thirds of the sum due on an average house when they are unlikely to have the capacity to pay that sum. In addition, those with low incomes and who are on essential benefits should be exempted from this tax, which is not universally the case at present.

The IFS modelled a number of options for general reform of this tax. First they looked at a model still using eight bands:

Band structures, thresholds and relativities of reform: systems with 8 bands

Band	1991 bands	Q1 2019 bands	Revaluation relativities (option 1)	Proportional relativities (option 2)	Fraction of properties (England as a whole)
A	Up to £40,000	Up to £142,000	6/9	29/100	24.4%
B	£40,001 to £52,000	£142,001 to £204,560	7/9	49/100	19.6%
C	£52,001 to £68,000	£204,561 to £301,810	8/9	71/100	21.8%
D	£68,001 to £88,000	£301,811 to £415,120	9/9	100/100	15.5%
E	£88,001 to £120,000	£415,121 to £571,050	11/9	136/100	9.6%
F	£120,001 to £160,000	£571,051 to £794,420	13/9	187/100	5.1%
G	£160,001 to £320,000	£794,421 to £1,769,840	15/9	284/100	3.5%
H	Above £320,000	Above £1,769,840	18/9	680/100	0.6%

Note: The 'relativities' columns show the tax rates on properties in each band as a proportion of the tax charged on a Band D property. For example, under option 1, a property in Band A would face a tax bill equal to $\frac{6}{9}$ of the tax bill for a property in Band D. Figures differ slightly from those reported in Table 2.1 as these figures relate to 2018-19, the year on which our analysis is based, rather than 2019-20.

Source: Authors' calculations using HM Land Registry (2019), MHCLG (2018a and 2019e) and VOA (2018).

Then they suggested increasing the number of bands:

Band structures, thresholds and relativities of reform: systems with 11 bands

Band	Q1 2019 bands	Proportional relativities (option 3)	Less regressive relativities (option 4)	Fraction of properties (England as a whole)
A1	Up to £97,160	22/100	4/9	11.0%
A2	£97,161 to £134,800	33/100	5/9	11.0%
B1	£134,801 to £168,100	43/100	6/9	11.0%
B2	£168,101 to £204,560	53/100	7/9	11.0%
C	£204,561 to £301,810	71/100	8/9	21.8%
D	£301,811 to £415,120	100/100	9/9	15.5%
E	£415,121 to £571,050	136/100	12/9	9.6%
F	£571,051 to £794,420	187/100	15/9	5.1%
G	£794,421 to £1,769,840	284/100	20/9	3.5%
H	£1,769,841 to £2,373,370	570/100	25/9	0.3%
I	Above £2,373,370	909/100	30/9	0.3%

Note: The 'relativities' columns show the tax rates on properties in each band as a proportion of the tax charged on a Band D property. For example, under option 3, a property in Band A1 would face a tax bill equal to $\frac{22}{100}$ of the tax bill for a property in Band D.

Source: Authors' calculations using HM Land Registry (2019), MHCLG (2018a and 2019e) and VOA (2018).

This second option is more progressive whether a form of proportionately to value or grading around Band D tax is adopted. The second range of options appears considerably the more useful as a result. It is likely that both for political ease and for the sake of reducing the number of valuation appeals that banding will remain attractive.

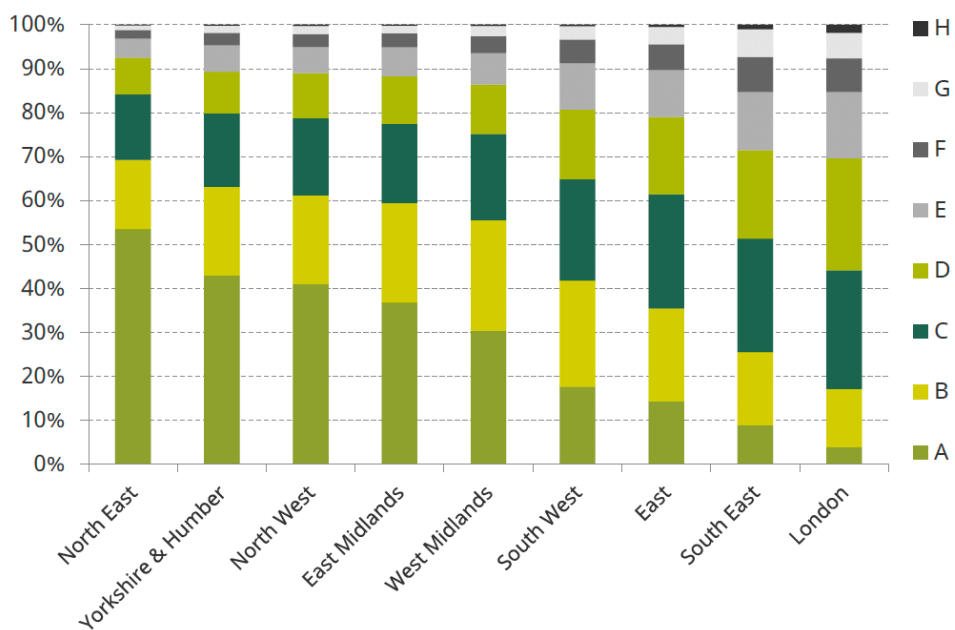
However, as the Institute for Fiscal Studies notes, this does require abandonment of the idea that Council Tax is a payment for services: it clearly is not.

It also requires a recognition that there are winners and losers from such reform but overall:

- Less well-off households usually gain significantly, although a few might not. This will have to be managed.

- Better off households are very likely to be asked to pay more.
- The proverbial ‘property rich, cash poor’ pensioner problem becomes more apparent as a more progressive tax is adopted: this has to be managed by allowing higher liabilities to be rolled up until death when payment is made, secured by a charge on the property.
- There is a more significant problem created by the likely differing numbering of properties in each new band per area, as indicated by existing data, which varies as follows (data, again, from the IFS):

Distribution of properties across council tax bands, by region



Source: Table CTSOP1.0_SUPP of VOA (2019).

This last issue is addressed in the next recommendation.

It is stressed that whilst this proposal will tackle inequality it is not meant to be revenue generating: the aim is redistribution of existing liabilities to correct failings in what is currently a deeply inappropriately regressive tax.

2. Regional redistribution

The result of a revaluation and rebanding of properties has a number of consequences, most especially on the total capacity for revenue collection by a council. Those councils that end up with more properties in lower bands (and many will) might see their ability to raise revenue reduced without creating unacceptably high overall Band D tax rates. The converse

might be true in areas with disproportionately large numbers of higher value property. An attempt to reduce the regressive nature of a tax should not produce such a perverse outcome.

As a matter of fact, sixty per cent of the funding for local authorities is still provided by central government grants¹⁰. It follows that the system of grant funding by central government could be used as a mechanism for redistribution between local authorities so that those with limited, and reduced, capacity to charge council tax after rebanding are compensated for losses and those with increased capacity are required to cover a greater proportion of their costs from their own resources.

It is recommended that a process to ensure that this is the case is out in place.

3. Second properties

It is recommended that all second properties be subject to mandatory double council tax charges.

It is recommended that third and further properties be subject to mandatory quadruple council tax charges.

This is a deliberately progressive taxation charge.

The ordering of properties should be on the basis of days of use, which the taxpayer must prove e.g. by evidence of water usage.

This proposal will raise revenue, but data to estimate the amount is not readily available.

4. Vacant properties

The current rules with regard to vacant properties are inconsistent and inappropriate as a result. Legislation in 2018 in England extended the maximum additional charges but does not mandate it. As the House of Commons Library noted¹¹ in 2023:

¹⁰ <https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2021-to-2022-final-outturn/local-authority-revenue-expenditure-and-financing-england-2021-to-2022-final-outturn>

¹¹ <https://commonslibrary.parliament.uk/why-am-i-paying-an-empty-homes-premium-on-my-council-tax/>

The law sets a maximum charge that a council can make. For instance, after a property has been “unoccupied and substantially unfurnished” for two years, an authority in England can charge up to 200% of the normal council tax bill.

The amount of the empty homes premium is based on the normal council tax band of the property. The band itself is not affected by the empty homes premium.

It is suggested that this charge be mandatory.

It is also noted that the charges can usually be cancelled by living in the property for six weeks, after which the two-year period of vacancy recommences. This appears to be much too short. A three-month period would seem appropriate until three years from first vacancy, rising by a month each year thereafter.

After five years vacancy any property is likely to be in a state of serious dilapidation. For the sake of the property and its future use, the place in which it located and recognising the need for housing the charge should then be increased considerably. A rate five times the normal council tax charge would then seem appropriate, with an option to extend this after seven years of vacancy to ten times the normal rate to prevent the nuisance arising.

The right to repossess at fair value if these charges are not paid should be provided for.

It is thought that there are approximately 250,000 vacant properties in the UK at any time, although the definition is based on a time period shorter than two years¹².

This proposal is not being made to raise revenue, as such. Its intention is to bring property into use. This is an effective and alternative form of wealth redistribution.

¹² <https://www.leedsbuildingsociety.co.uk/resources/pdfs/press-pdfs/press-releases/empty-homes-week.pdf>