

Local Government, Housing and Planning Committee of the Scottish Parliament

Council tax inquiry

Submission from the Chartered Institute of Taxation (CIOT) and its Low Incomes Tax Reform Group (LITRG)

1. Executive Summary

- 1.1. We welcome the opportunity to participate in this council tax inquiry, by making a written submission to the Local Government, Housing and Planning Committee in advance of providing oral evidence in February 2025.
- 1.2. There can be a perception among the general public that council tax is unfair. There are a number of reasons for this – outdated valuations, the operation of the banding system, the use of property value as a measure of ability to pay council tax, the operation of discounts and exemptions and perceptions of value for money.
- 1.3. It is important to note that what is fair is subjective. The CIOT and LITRG think that, in order for a tax to be considered fair, it must tax the base that it is meant to tax and that the tax base must be accurately assessed or valued. At present, the council tax is intended to be spread in line with the value of domestic property. To some extent it fulfils that intention, however the fact that it is based on property valuations that are either more than three decades old or hypothetical, means that the intended tax base is not accurately assessed.
- 1.4. Council tax is regressive by reference to its tax base of property value. This is on two counts. Firstly, the same basic tax charge applies to all properties that fall within the same valuation band. So, a property with a value at the lower end of the band generates the same tax charge as a property with a value at the higher end of the band. So, within a valuation band, the effective tax rate actually decreases as property values increase. Secondly, the effective rate of council tax broadly decreases as property values move up the banding schedule.
- 1.5. We think that a prerequisite for future changes to council tax is a full revaluation of all properties in Scotland. This is because it is not possible to assess and address the regressive nature of council tax in a meaningful and fair way without first ensuring that the values according to which you are spreading the burden of tax are in fact correct. Once there has been a full revaluation, other reforms

could be approached in the knowledge that the tax base is accurate and that reforms will affect the appropriate/intended properties.

2. Introduction

- 2.1. We welcome the opportunity to make a written submission in advance of providing oral evidence to the Local Government, Housing and Planning Committee in February 2025.
- 2.2. The CIOT and its LITRG have engaged with the Scottish Parliament, Scottish Government and the Convention of Scottish Local Authorities (COSLA) for many years on the topic of council tax reform. This has included providing written submissions (either jointly or individually) to the Scottish Government's consultation on a fairer local tax for Scotland (2008), the Commission on Local Tax Reform's work on alternatives to council tax (2015),¹ the Scottish Parliament's Local Government and Communities Committee call for evidence on The Council Tax (Substitution of Proportion) (Scotland) Order 2016,² and the Scottish Government and COSLA consultation on a fairer council tax (2023).³
- 2.3. The CIOT carried out a survey of its members in 2015 to inform its response to the Commission on Local Tax Reform, and in early 2023, commissioned the Diffley Partnership to carry out a representative survey of the Scottish public to assess attitudes to council tax reform in Scotland.⁴
- 2.4. The survey found that 48 per cent of respondents strongly agreed or tended to agree that the present system should end (compared to 8 per cent who disagreed, 27 per cent who neither agreed nor disagreed and 17 per cent who did not know). When asked about specified possible options for local tax, respondents showed strong support or support as follows:
 - Replace council tax with a local income tax – 26 per cent
 - Reform council tax to better reflect property values within existing council tax bands – 44 per cent
 - Replace council tax with a property tax based on a percentage of home value – 22 per cent
 - Replace council tax with a land value tax based on the value of the land on which a property is built 23 per cent
- 2.5. The CIOT and its LITRG have continued to raise the discussion of council tax reform as part of the future of the devolved taxes landscape in Scotland, particularly so in the last ten years. LITRG wrote

¹ <https://www.litrg.org.uk/submissions/whats-future-local-taxation-scotland>

² <https://www.litrg.org.uk/submissions/call-evidence-council-tax-substitution-proportion-scotland-order-2016>

³ <https://www.litrg.org.uk/submissions/consultation-fairer-council-tax>

⁴ <https://www.tax.org.uk/ciot-publishes-poll-data-on-attitudes-to-council-tax-reform-in-scotland>

a blog post in 2024 called, Council tax – where do we go from here?⁵ The blog explored some of the reasons for the perceived unfairness of council tax, and some suggestions as to how to resolve this.

- 2.6. During the course of our combined work on council tax in Scotland, we have considered possible changes that might make it align better with the Adam Smith principles, to which the Scottish Government has committed: certainty; the burden proportionate to the ability to pay (the canon of equality); convenience; efficiency of collection.⁶ We also bear in mind the CIOT's stated objectives for the tax system⁷ and LITRG's seven principles for the tax system, as set out in its paper 'A better deal for the low-income taxpayer'.⁸

3. Background

- 3.1. Council tax is a local tax, the revenue of which helps to fund local authorities. It was introduced in 1993, and the rate of tax payable is based on values of residential property as at 1 April 1991 in Scotland. Council tax is chargeable on the occupier or owner of a property. In 2022/23, council tax across Scotland raised £2.8 billion, which equated to roughly 19 per cent of councils' general funding.⁹
- 3.2. As can be seen from the number of reviews and consultations that have been undertaken over the course of the past twenty years, there is recognition that the present system of council tax may need reform. However, as demonstrated by the results of the CIOT commissioned survey in 2023, although there is support for change, there is no consensus as to what form the change should take. Similarly, while there has been broad support for reform across the parties represented in the Scottish Parliament, it has not been possible to find a consensus position.
- 3.3. Of all the taxes that the Scottish Parliament has power over, council tax perhaps provides MSPs with the greatest scope for reform. Most other taxes are more difficult to reform, either because they raise relatively smaller amounts of revenue, or because the ability to make changes is impacted by decisions taken by the UK Parliament.
- 3.4. In our submission we set out our thoughts on current perceptions of council tax, revaluation of domestic properties, other possible reforms and considerations if reforming council tax.

4. Perceptions of council tax

⁵ <https://www.litrg.org.uk/blog-post/council-tax-where-do-we-go-here>

⁶ <https://www.gov.scot/policies/taxes/>

⁷ <https://www.tax.org.uk/improving-tax-policy>

⁸ <https://www.litrg.org.uk/reports/better-deal-low-income-taxpayer>

⁹ <https://www.gov.scot/publications/funding-local-government-scotland-2024-25/pages/2/>

- 4.1. There can be a perception among the general public that council tax is unfair.¹⁰ There are a number of reasons for this – outdated valuations, the operation of the banding system, the use of property value as a measure of ability to pay council tax, the operation of discounts and exemptions and perceptions of value for money. We explore these further below.
- 4.2. Firstly, it is important to note that what is fair is subjective – the definition of fairness differs from person to person. The CIOT and LITRG think that, in order for a tax to be considered fair, it must tax the base that it is meant to tax and that the tax base must be accurately assessed or valued. At present, the council tax burden is intended to be spread in line with the value of domestic property. To some extent it fulfils that intention, however the fact that it is based on property valuations that are either more than three decades old or hypothetical, means that the intended tax base is not accurately assessed.
- 4.3. ***Outdated property valuations***
- 4.3.1. The fact that property valuations are outdated contributes to the perception that council tax is unfair. Although some changes can affect the council tax band in which a property is placed,¹¹ by and large, the banding of a property is still dictated by a valuation that is now over 30 years old. This creates a number of issues, including the following.
- Different properties have increased in value at different rates since 1991, meaning that if all properties were revalued, many properties would be in different bands. In fact, analysis carried out by the Commission on Local Tax Reform suggested that over half of all properties in Scotland would have changed band if there had been a revaluation in 2014.¹²
 - There are many domestic properties that were built after the 1 April 1991 valuation date. These have all been placed in a valuation band based on a hypothetical value. This means it is impossible to tell whether the band allocation is reasonable. This creates distortions between such newer properties and those that were actually valued in 1991.
 - Inevitably, some properties that are now of similar value have very different council tax liabilities from each other. Likewise, there are undoubtedly households in lower value properties paying more council tax than households in higher value properties. This means there is a reduction in both horizontal and vertical equity.
 - As main residences are not subject to capital gains tax, some increases in property value since 1991 are entirely untaxed.

We discuss revaluation further below – see paragraph 4.

¹⁰ The Welsh Government has commissioned surveys of public attitudes to council tax. These demonstrate that a significant proportion of the population in Wales views council tax as unfair: <https://www.gov.wales/public-attitudes-council-tax-0>

¹¹ <https://www.gov.uk/council-tax>

¹² <https://fraserofallander.org/tweaking-around-the-edges-of-council-tax-does-not-fix-its-fundamental-flaws/>

4.4. ***The operation of the banding system***

4.4.1. The way in which the banding system operates also leads to perceptions of unfairness. There are eight council tax bands. The same basic tax charge (before taking into account any discounts) applies to all properties that fall within the same valuation band. So, a property with a value at the lower end of the band generates the same tax charge as a property with a value at the higher end of the band. So, within a valuation band, the effective tax rate actually decreases as property values increase. By reference to its tax base of property value, therefore, council tax is regressive in nature.

4.4.2. Moreover, as we can see by looking at the schema for 2024/25 from Argyll & Bute council (Appendix 1), the effective rate of council tax broadly decreases as property values increase. That is, broadly the effective rate of council tax gets lower as you move up the banding schedule.

4.5. ***Property value as a measure of ability to pay***

4.5.1. One view of fairness is that a tax should be proportionate to the taxpayer's ability to pay. There can be a perception of unfairness because council tax is based on property value. It does not take account of other measures of ability to pay, such as level of income or other forms of wealth.¹³ This can raise concerns about the ability of some households to pay, for example, where someone on a low income lives in a property that has a high value. However, there are other taxes and charges, such as income tax, National Insurance contributions and student loan deductions, that take into account someone's level of income. Other taxes, such as VAT, tax consumption of goods and services. When considering whether a tax is fair or not and how to reform council tax, consideration needs to be given as to whether it is fairer to repeatedly assess the same tax base, such as income, with different taxes, or whether it is fairer to assess a different tax base, such as wealth or property value, as council tax does.

4.6. ***Discounts and exemptions***

4.6.1. In order to try to address the regressive nature of council tax, there are a number of discounts, reductions and exemptions that are available.¹⁴ However, there is a problem with uptake of some of these, like council tax reduction. This may be caused by the wide range of discounts and exemptions, the complex conditions for some, and the need for taxpayers to proactively apply for some of them. There is sometimes little publicity about discounts and exemptions, so people need to seek out the information on their local council's website. Application forms can be long and complex. Additional information requirements can also put some people off applying.

¹³ However, there are various council tax reliefs and exemptions that mean council tax tries to take account of income levels and other household circumstances. In order for these reliefs and exemptions to meet their objectives, it is essential that take-up is high.

¹⁴ Another view might be that council tax is not fit for purpose, because so many households are eligible for discounts and exemptions. Analysis carried out for the Welsh Government suggests that nearly half of households in Wales currently receive some sort of discount or reduction. <https://www.gov.wales/council-tax-reform>

4.7. ***Use of council tax revenues – value for money***

- 4.7.1. Another key issue related to perceptions of council tax concerns how the revenues generated are used. As noted above (paragraph 2.1), although council tax contributes to the funding of local councils, it only provides around a fifth of a local council's overall annual funding. The rest of their funds come from non-domestic (business) rates and central government grants (which are in turn funded by national taxes like income tax). Each local council uses the funding they receive to pay for local services. It is not unusual to hear a complaint about poor local services when council tax increases are mooted, or indeed to hear people protest that they don't use certain local services. This is because there is sometimes a misconception that council tax is a service charge. More awareness of what council tax pays for and the proportion of a council's budget that council tax forms might help reduce some of the dissatisfaction.
- 4.7.2. It is notable that the Welsh Government publicise what council tax is used for through a simple pie chart.¹⁵ It has not been possible to find anything similar on the Scottish Government's website, but this kind of information would improve transparency and might also serve to assist with the public perception of council tax.
- 4.7.3. Taxpayer understanding of the importance of council tax revenues and what they are spent on will further increase in importance during any period of council tax reform. Communication and education will be essential to break through negative perceptions of reform. The Welsh Government have tried to improve council tax education as they carry out work to reform council tax in Wales.¹⁶

5. **Revaluation**

- 5.1. As previously noted, council tax is based on property valuations from 1 April 1991. This means that council tax does not reflect actual property values and arguably cannot be fair. In our submissions to the Commission on Local Tax Reform and in our 2023 submission to the Scottish Government, we have recommended a full revaluation of all properties, plus a commitment to keep valuations regularly updated thereafter, for example, every three to five years. Otherwise, as we have stated previously, the council tax system will remain detached from reality.¹⁷
- 5.2. Following the work of the Commission on Local Tax Reform, the Scottish Government published proposals to reform council tax in March 2016.¹⁸ The main area of reform was to increase the ratios of the upper bands (E-H) relative to Band D. This meant that bills for Band E increased by 7.5%, Band F by 12.5%, Band G by 17.5% and Band H by 22.5%. No additional bands were added and the ratios

¹⁵ <https://www.gov.wales/council-tax-reform>

¹⁶ This included the creation of a short YouTube video: <https://www.gov.wales/council-tax-reform>

¹⁷ <https://www.litr.org.uk/press-release/failure-deal-revaluation-means-council-tax-will-remain-detached-reality>

¹⁸ <https://www.litr.org.uk/submissions/call-evidence-council-tax-substitution-proportion-scotland-order-2016> and <https://www.legislation.gov.uk/ssi/2016/368/contents/made>

for Bands A-D remained unchanged. A similar proposal was put forward in 2023.¹⁹ In both 2016 and 2023 the proposals were badged as changes designed to make the system fairer.

- 5.3. However, there was no suggestion of carrying out a full revaluation of properties. A council tax system that does not reflect current property values and treats (or appears to treat) taxpayers unequally risks eroding trust. We therefore think that a prerequisite for future changes to council tax is a full revaluation of all properties in Scotland. This is because it is not possible to assess and address the regressive nature of council tax in a meaningful and fair way without first ensuring that the values according to which you are spreading the burden of tax are in fact correct. As it is, there is evidence that shows that properties are in the wrong bands and therefore amendments to the multipliers for the higher bands are likely to affect some of the wrong properties while failing to apply to some properties to which they should.
- 5.4. Once there has been a full revaluation, other measures could be approached in the knowledge that the tax base is accurate and that they will affect the appropriate/intended properties.
- 5.5. The Scottish Government has committed itself to an approach to tax policy making that aims to adhere to Adam Smith's four principles for tax, including that taxes should be proportionate to the ability to pay of the taxpayer. Failing to revalue properties for council tax potentially leaves Scottish Government open to criticism that significant numbers of taxpayers are paying the wrong amount of council tax in Scotland, because their properties are in the wrong council tax band, or because the value of their property has been simply made-up on a hypothetical basis.
- 5.6. It is notable that the Welsh Government previously carried out a revaluation, meaning that their council tax is currently based on property values from 2003. They have consulted on a further revaluation, which may now occur in 2028. The legislation also contains a commitment to regular revaluations every five years.²⁰

6. Barriers to change and considerations before making changes

- 6.1. Council tax is considered a difficult tax to deal with. It is a very visible tax and can account for a high proportion of household expenditure. However, in our view, significant changes to council tax have been postponed for far too long. The longer that the failure to update property values persists, the more difficult it becomes to act, and any action taken without revaluation may not achieve its objectives.
- 6.2. At the 2021 Scottish Parliament elections, each of the parties now represented at Holyrood indicated, to varying degrees, an appetite for reforming council tax, suggesting broad support for

¹⁹ <https://www.litr.org.uk/submissions/consultation-fairer-council-tax>

²⁰ <https://www.gov.wales/council-tax-reform> and <https://www.legislation.gov.uk/asc/2024/6/contents>

some type of change. In a parliament of minorities, long-term, sustainable reform, will only be possible if political consensus can be achieved.²¹

- 6.3. Inevitably reform of council tax would cause some uncertainty, disruption and extra work for, among others, taxpayers, intermediaries and local government. A full revaluation will require significant administrative and financial investment. Reform is likely to generate significant comment. There will be winners and losers. People are likely to compare a new system with the existing system. It is important that all parties work together to overcome challenges. A key remedy will be communications. It will be important to have guidance that explains the changes and the reasons for them clearly. There will also need to be contingency plans to deal with unintended losers, for example through transitional rules.
- 6.4. It will be essential to consider interactions of council tax (and reliefs and exemptions) with other local and national taxes, universal credit and other welfare benefits, and also with other sources of local government funding, such as grants from the Scottish Government. Consideration may need to be given to distribution of funding across Scottish council areas, given some councils will benefit from much higher council tax revenues than others.

7. Other reforms

- 7.1. Council tax is currently a slab system. That means there is a single tax charge depending on which council tax band a property falls into. This creates a cliff edge at the boundaries of each council tax band, which can be observed in Appendix 1.
- 7.2. In addition to revaluation, there are other possible reforms that might make council tax more progressive, some of which we have previously suggested. These include:
- The creation of additional bands at the higher end of property values.
 - The use of percentage rates of tax within bands, to make council tax more progressive within each band and also across the bands.
 - The review of property valuation bands.
 - A move away from a slab system. In addition to using percentage rates of tax rather than fixed charges for each band, apply each rate to the portion of the property value that falls within the relevant band.
- 7.3. Whatever reforms are made, it is likely that a system of reliefs and exemptions will continue to be necessary. Perhaps one of the most important, practical changes that could be made is to improve the take-up of discounts, reliefs and exemptions. This could be done by encouraging and assisting people to find out if they are eligible and helping them to apply.

8. About Us

CIOT

²¹ <https://www.tax.org.uk/scottish-election-special-a-look-at-the-parties-tax-proposals>

- 8.1. The Chartered Institute of Taxation (CIOT) is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.
- 8.2. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 8.3. The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.
- 8.4. Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

LITRG

- 8.5. The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those who are least able to pay for professional advice. We also produce free information, primarily via our website www.litr.org.uk, to help make a difference to people's understanding of the tax system.
- 8.6. LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

CIOT
LITRG
7 February 2025

Appendix 1**Argyll & Bute Council – council tax 2024/25²²**

The table below shows the Council Tax bands for Argyll & Bute Council for 2024/25. The column rate of tax/£1,000 (lower) is based on the lower level of each band. The column rate of tax/£1,000 (upper) is based on the upper level of each band. The rates between these points of value will vary.

It can be seen that, the rate of tax paid per £1,000 decreases within each band. It can also be seen that, in general, the rate of tax paid per £1,000 decreases from band to band.

Band	Property values	Council tax (£)	Rate of tax/£1,000 (lower)	Rate of tax/£1,000 (upper)
A	Below £27,000	986.13		36.52
B	£27,001 - £35,000	1,150.49	42.61	32.87
C	£35,001 - £45,000	1,313.84	37.54	29.20
D	£45,001 - £58,000	1,479.20	32.87	25.50
E	£58,001 - £80,000	1,943.50	33.51	24.29
F	£80,001 – 106,000	2,403.70	30.05	22.68
G	£106,001 – 212,000	2,896.77	27.33	13.66
H	Above £212,001	3,624.04	17.09	

²² <https://www.argyll-bute.gov.uk/council-tax-and-benefits/council-tax>