

**The Future of Council Tax in Scotland
Response from the Low Incomes Tax Reform Group (LITRG) and
the Chartered Institute of Taxation (CIOT)**

1. Executive Summary

- 1.1. We welcome this consultation from the Scottish government and the Convention of Scottish Local Authorities (COSLA).
- 1.2. This consultation indicates a will to reform council tax to make it “fairer”. What is fair is subjective, however, we think that in order for a tax to be considered fair, it must tax the base that the policy aims to tax, and, that tax base must be accurately assessed or valued. We therefore welcome the fact that this consultation acknowledges the need for a full revaluation of domestic properties in Scotland.
- 1.3. We would like to see a commitment to regular revaluations in the future, perhaps every five years. This will help to ensure that people are paying the correct amount of tax and reduce the need for transitional reliefs at each revaluation.
- 1.4. A national model of setting council tax band property value thresholds would be preferable in order to provide equity across the country. It would need to be accompanied by redistribution of government grant funding.
- 1.5. In addition to a full revaluation, any reform should aim to increase the progressivity of the council tax system.
- 1.6. Transitional relief and a deferral scheme may be necessary, to assist those on low incomes. If there is an interest charge in respect of amounts deferred, this should not be punitive, particularly if the deferral scheme is restricted to those on low incomes. Transitional relief could also be restricted to those on lower incomes. Transitional relief and deferral schemes should be publicised and easy to understand and apply for.

2. About Us

CIOT

- 2.1. 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.
- 2.2. 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.
- 2.3. 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.
- 2.4. Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

LITRG

- 2.5. 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.litrg.org.uk, to help make a difference to people's understanding of the tax system.
- 2.6. 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.
- 2.7. The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3. Introduction

- 3.1. The consultation document explores options for how the council tax system in Scotland could be updated and improved. It recognises that there are questions as to whether the system still works as intended, since it has not changed fundamentally since its introduction over thirty years ago. It aims

to explore how to make the council tax system “fairer”, more responsive to property values and more supportive of those facing affordability challenges.

- 3.2. Previous consultations and commissions have explored the possible reform of council tax.¹ In particular, they have looked at how it could be made “fairer”. While there has generally been agreement that reform is needed, there has been a failure to reach a consensus on what form that should take.
- 3.3. 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.²
- 3.4. 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
- 3.5. The CIOT and its LITRG have continued to raise the discussion of council tax reform as part of the future of the devolved tax landscape in Scotland, particularly so in the last ten years. LITRG wrote a blog post in 2024 called, *Council tax – where do we go from here?*³ The blog explored some of the reasons for the perceived unfairness of council tax, and some suggestions as to how to resolve this.
- 3.6. 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

¹ These include (among others): the Commission on Local Tax Reform (<https://www.litrg.org.uk/submissions/whats-future-local-taxation-scotland>), a call for evidence on the Council Tax (Substitution of Proportion) (Scotland) Order 2016 (<https://www.litrg.org.uk/submissions/call-evidence-council-tax-substitution-proportion-scotland-order-2016>), a consultation on a fairer council tax (<https://www.litrg.org.uk/submissions/consultation-fairer-council-tax>) and a council tax inquiry (<https://www.litrg.org.uk/submissions/local-government-housing-and-planning-committee-scottish-parliament-council-tax-inquiry>).

² <https://www.tax.org.uk/ciot-publishes-poll-data-on-attitudes-to-council-tax-reform-in-scotland>

³ <https://www.litrg.org.uk/blog-post/council-tax-where-do-we-go-here>

equality); convenience; efficiency of collection.⁴ We also bear in mind the CIOT's stated objectives for the tax system⁵ and LITRG's seven principles for the tax system, as set out in its paper '*A better deal for the low-income taxpayer*'.⁶

- 3.7. 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 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.

4. Q. 1: Do you think the current council tax system in Scotland needs to be reformed?

- 4.1. Yes.
- 4.2. We have previously set out reasons why the current council tax system is often viewed as unfair.⁷ These include the use of valuations from 1991, the regressive nature of the charges, the operation of the banding system, the use of property value as a measure of ability to pay, the operation of discounts and exemptions and perceptions of value for money.
- 4.3. While what is fair is subjective, we think that in order for a tax to be considered fair, it must tax the base that the policy aims to tax, and, that tax base must be accurately assessed or valued.
- 4.4. The Scottish government has indicated that its principles for the Scottish tax system include certainty, convenience, efficiency and being proportionate to the taxpayer's ability to pay. While those represent the principles for the Scottish tax system when viewed as a whole, and one cannot expect each individual tax to meet all four principles at all times, it is notable that council tax is unique in having two types of regressivity built in,⁸ thus ensuring that it is far removed from being proportionate to the taxpayer's ability to pay.

⁴ <https://www.gov.scot/policies/taxes/>

⁵ <https://www.tax.org.uk/improving-tax-policy>

⁶ <https://www.litrg.org.uk/reports/better-deal-low-income-taxpayer>

⁷ See our written submission to the council tax inquiry of the Local Government, Housing and Planning Committee of the Scottish Parliament: <https://www.litrg.org.uk/submissions/local-government-housing-and-planning-committee-scottish-parliament-council-tax-inquiry>

⁸ 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. Secondly, the effective rate of council tax on the value of a property broadly decreases as property values move up the banding schedule.

- 4.5. We acknowledge the difficulty in reforming council tax and finding consensus. However, this will only become more difficult as more time passes, and the need for transitional measures and deferral schemes such as those explored in this consultation will only increase.

5. Q. 2: Do you think property values used to calculate council tax should be updated to reflect current market values, instead of using 1991 values (i.e. should there be a revaluation of every Property in Scotland)?

- 5.1. Yes.
- 5.2. As we have set out in previous submissions to the Scottish Parliament, Scottish Government and COSLA, we believe that a prerequisite for other changes to council tax is a full revaluation of all domestic properties in Scotland.
- 5.3. This is because it is not possible to assess and address the fairness of council tax in a meaningful way without first ensuring that the values to which you are spreading the burden of tax are in fact correct.

6. Q. 3: How often do you think property values should be reviewed and updated for council tax purposes?

- 6.1. Other.
- 6.2. We have previously recommended that valuations should be regularly updated following a full revaluation, with a suggestion of every three to five years. The Welsh government has committed to regular revaluations every five years, and we think this would be reasonable for Scotland too initially.⁹ It would appear to strike a reasonable balance between the administrative burden of updating valuations, ensuring the system is responsive to changes and ensuring that values are up-to-date so that people are paying the correct amount of tax. The longer the time period between revaluations, the greater the need for transitional measures for those who find themselves moving into a higher band.
- 6.3. We are aware of the growing availability of automated mass appraisal for carrying out valuation – the Valuation Office Agency is using a model assisted valuation approach to support its valuation of domestic properties in Wales for the 2028 revaluation.¹⁰ This should make it easier and cheaper to

⁹ <https://www.legislation.gov.uk/asc/2024/6/contents>

¹⁰ See <https://www.gov.uk/guidance/how-model-assisted-valuation-delivers-large-scale-property-valuations> and https://www.landcommission.gov.scot/downloads/68f737cad6890_Approaches%20to%20land%20valuation%20in%20the%20tax%20system.pdf

carry out full revaluations in the future. This may make it possible to re-evaluate the frequency of revaluation for council tax purposes in due course.

7. Q. 4: Following a revaluation, do you think council tax band property value thresholds should be set at a national level or vary by council area?

- 7.1. Thresholds should be set nationally to be the same across all council areas.
- 7.2. A national model would ensure council tax is applied evenly across the country. It would treat the nation as the unit within which properties exist, rather than each local authority. This would probably require adjustments to the grant funding provided by the Scottish government to each local authority, to ensure redistribution and balance between each local authority. We prefer the consistency and simplicity of this model.
- 7.3. The localised model would treat each local authority as a separate property market. This could mean that properties of equal value could end up in different bands depending where within Scotland they are located. We think the lack of consistency, the perceived unfairness and the complexity of this model work against it. Moreover, it would not support horizontal equity, which would seem to go against the principles Scotland has set itself for its tax system. This model would require more resource directed at education of the public as to how this system works, and why there are different thresholds in each local authority.
- 7.4. We think that it is important to not only consider distribution of the tax liability across households, but also to consider the distribution across the country, such that local authorities with fewer properties in higher bands do not get left behind.

8. Q. 5: Which of the following is most important to you in the design of council tax bands?

- 8.1. Other.
- 8.2. There are arguments in favour of both differentiation (such that bands are gradual and predictable) and progressivity (such that households in higher-value homes contribute more).
- 8.3. The council tax system is currently regressive in nature. Indeed, it was effectively designed at the outset to be that way, because of the banding system and the fact that the effective tax rate falls as you progress upwards through the bands. If one of the aims of this consultation is to address fairness, arguably one factor to consider would be how to make the tax more proportionate to ability to pay. Given property value is a measure of wealth, and is the tax base for council tax, it would make sense to focus on reducing the regressive nature of council tax.¹¹ Given the models that

¹¹ We acknowledge that the issue of ability to pay is not always straightforward when looking at property value, as there are some households that have low incomes although they are asset rich. However, it should be noted that there are other taxes that take into account an individual's level of income, (income tax and

are explored in the consultation, differentiation can assist to some extent with making the system fairer, but increased progressivity is essential.

9. Q. 6: Which of the potential council tax systems do you most support?

- 9.1. We do not have a preferred council tax system, although we think the current council tax system needs to be reformed, and revaluation with the eight existing bands does little to reform the system.
- 9.2. We note that the consultation does not include one of the models from the IFS report: a revalued continuous, proportional system.¹² That model is the only one in the IFS report that is not regressive. All the models contained in the consultation document are regressive, some are just less regressive than the current council tax system.

10. Q. 7: Which of the potential council tax systems do you least support?

- 10.1. The current council tax system and revaluation with the eight existing bands.
- 10.2. Council tax reform is essential. A prerequisite for reform is a revaluation. However, a simple revaluation would not address the extremely regressive nature of council tax. So, it is important that steps are taken both to revalue all properties and make reforms to the banding system.

11. Q. 8: Do you support the establishment of a transitional relief scheme to limit how much a household's council tax bill can increase each year following reform?

- 11.1. Yes.
- 11.2. We think a transitional relief scheme may be necessary to ease the changes for those moving to higher bills.
- 11.3. While we think a transitional scheme may be necessary for those moving to higher bills, sight should not be lost of the fact that an estimated 50% or more of properties have been in the wrong band.¹³ While some of these will end up facing higher bills, some will move to lower bands and lower bills,

National Insurance contributions), and council tax reliefs, such as council tax reduction, assist those on lower incomes.

¹² Revaluation and reform of council tax in Scotland: design considerations and potential impacts: <https://www.gov.scot/publications/revaluation-reform-council-tax-scotland-design-considerations-potential-impacts/>

¹³ According to the Institute for Fiscal Studies and their 2025 report, Scottish council tax: ripe for reform: <https://ifs.org.uk/publications/scottish-council-tax-ripe-reform>

because they are currently paying more than they would if the system were based on up to date property values.

- 11.4. Ideally a transitional scheme would focus support on those who actually need financial support (based on income levels), rather than those who can easily afford the increase. We do not think a transitional scheme should be open to all those whose bill increases. There should be eligibility criteria that take account of household income.
- 11.5. It could perhaps also be targeted at tenants rather than homeowners (if there is a deferral scheme for homeowners). If the deferral scheme works as a loan scheme, it might exclude some homeowners. In those cases, the transitional relief scheme could perhaps be opened to those homeowners, if they meet income eligibility criteria.
- 11.6. If a transitional scheme is available to all, then it could be applied automatically. If it is to be targeted at specified group, there would need to be an application process or other means of identifying eligible households. This could create complexity, so support and communications would be essential to ensure those eligible are able to access the transitional relief.

12. Q. 9: Which transitional relief scheme would you prefer?

- 12.1. Don't know.

13. Q. 10: Do you support the establishment of a council tax deferral scheme for homeowners?

- 13.1. Yes.
- 13.2. If there is a targeted transitional relief scheme for tenants with affordability concerns, there could be a deferral scheme for homeowners.

14. Q. 11: In your view, who should be eligible to receive support from a council tax deferral scheme?

- 14.1. Households experiencing financial hardship.
- 14.2. It is not clear to us why certain groups specified in the question should be eligible for a council tax deferral scheme regardless of their ability to pay. We think a deferral scheme should offer targeted support to those whose income is low.
- 14.3. It is likely that an application process would be needed or other means of identifying eligible households. This could create complexity, so support and communications would be essential to ensure those eligible are able to access the deferral scheme.

15. Q. 12: Should households who defer payment pay interest on the amount deferred?

- 15.1. Yes.
- 15.2. If the deferral scheme is limited to those whose income is low, then the interest rate should not be punitive. If the deferral scheme is available to anyone, no matter how high their income, then a low interest rate is likely to encourage households to defer their council tax even though they can afford it. Deferral should only be available to those who actually need it.
16. **Q. 13: Do you think the Council Tax Reduction scheme should be expanded to support more households following any reform?**
- 16.1. Don't know.
17. **Q. 14: Which changes to the Council Tax Reduction scheme would you support? [Select as many as you think should apply]**
- 17.1. Don't know.
18. **Q. 15: Do you have any information you wish to share that has not already been discussed in the paper on the impact of council tax reform on any of the following: groups who share protected characteristics; island communities; businesses or organisations in the public, private or third sector; your local area. Please provide details, making reference to the type of impact to which your comments relate.**
- 18.1. No.
19. **Q. 16: Please provide any other comments or views on the consultation themes or council tax reform that you have not been able to share above.**
- 19.1. 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 these challenges. A key remedy will be communications. It will be important to have guidance that explains the changes and the reasons for them clearly. The opportunity should also be taken to try to improve public understanding of council funding.
- 19.2. 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.

LITRG and CIOT
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