Institute for Fiscal Studies

Revaluation and reform: bringing council tax in England into the 21st century

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Preface

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Executive summary

Council tax bands in England are still based on property values in April 1991 – almost 30 years ago. Since then the relative prices of different properties have changed significantly: for example, official estimates suggest the average price in London is now more than six times what it was in 1995, compared with barely three times in the North East.

Moreover, the most valuable properties in 1991 (Band H) attract just three times as much tax as the least valuable properties (Band A), despite being worth at least eight times as much in 1991 and typically even more now, since prices have risen most in areas where they were already highest.

Council tax is therefore both increasingly out of date and arbitrary, and highly regressive with respect to property values. It is ripe for reform.

This report analyses the effect of updating and reforming council tax on different local authorities (LAs) and different household types in England. This is in the context of growing concerns about both wealth and regional inequalities, especially between the North and Midlands, where property values are much lower and have risen relatively slowly since 1991, and London and the South East, where they are much higher and have risen more.

Our main policy messages are:

- **Council tax is out of date, regressive and distortionary. It needs to be revalued and reformed.** Values of different properties have changed very differently since council tax was introduced – on average increasing more than twice as much in London as in the North East, for example – yet the tax has not changed to reflect that. This means properties are in increasingly arbitrary tax bands that may bear little relation to current reality: two households living in equally valuable properties in the same LA can find themselves paying tax bills hundreds of pounds apart just because their properties used to be worth different amounts in 1991. Council tax is also highly regressive with respect to property value, and the 25% discount for single-adult households encourages the inefficient use of property.

- **Whether funding from central government were adjusted alongside reforms to council tax would have a crucial effect on the reforms' impact across LAs.** If it were not, each LA would need to raise just as much council tax revenue as before if it wanted to maintain spending – implying no change in the average tax bill in each LA, even as the amounts paid by individual households went up and down. With full adjustment of funding, average bills would change to reflect changes in local tax bases. For example, making council tax proportional to up-to-date values would lead to average bills falling by more than 20% across most of the North and Midlands, where average property values are typically relatively low. Conversely, they would rise in areas where property values are high and have risen most, notably in London and nearby commuter areas. In what follows, we assume funding is fully adjusted.

- **Reform could make council tax much more progressive.** Revaluation alone would have little effect on the average tax bills of different household types. But a proportional council tax would reduce net council tax bills by the equivalent of 0.5–0.9% of household income, on average, for households in the bottom half of the income distribution, whilst increasing average bills by 0.7% of household income for those in the top 10%. Younger households, renters and those receiving disability benefits would see their average bills fall. However, ethnic minority households, who disproportionately live in London, would see their average bill rise, reflecting the high value of their properties compared with other regions in England.

- **While there may be particular concern about low-income losers from reforms, it is important to recognise they would be massively outnumbered by low-income winners.** For example, 24% of the poorest fifth of households would see their net tax bill fall by more than £200 a year under a proportional council tax, while just 4% would see it increase by more than £200 a year. Many would see little or no change because their bills are fully or largely covered by council tax support, which could be made more generous if the government wanted to mitigate the impact of reforms further. The government could also consider transitional relief and deferral of payments – although getting the design of deferral schemes right is vital to avoid undermining tax revenue.

- **Revaluation and reform of council tax could help narrow household and geographical wealth inequalities via effects on property prices.** Economic theory and empirical evidence suggest that changes in property taxes get largely or fully reflected in rents and property prices. This means that a proportional property tax would narrow the gap in property wealth between owners of high- and low-value properties and, if accompanied by redistribution of funding from central government, between areas with low and high property values. The scale of these impacts is highly uncertain, though.

1. Introduction

Council tax matters. It matters to local government as, at over £31 billion a year, it now makes up over half of its funding for non-education expenditure. It matters for households, for whom the bills take up an average of over 3% of their income. And it matters to central government, which is ultimately responsible for the sustainability and suitability of the local government finance system and, like local government, can be subject to political difficulties when the populace is unhappy with the system.

It is formally levied on the occupiers of residential properties, with the amount of tax depending on:

- the tax band a property is placed in (from A to H);

- the tax rate set by the various local authorities covering the area it is located in; and

- whether the occupier is entitled to an exemption or discount or must pay a premium over the standard rate.

But council tax bands in England are based on property values in April 1991 – almost 30 years ago. Moreover, while the difference in (1991) values between a property in Band A and Band H is at least eightfold, the difference in tax bills is just threefold. Council tax is therefore both increasingly out of date and arbitrary, and highly regressive with respect to property values. It is ripe for revaluation and reform.

We are, of course, not the first set of authors to call for such an undertaking. In 2011, IFS's own fundamental review of the tax system, the Mirrlees Review, called for the replacement of council tax with a new tax proportional to property values, and for the property values used to be updated frequently. Similar calls have been made by the likes of the Resolution Foundation's Intergenerational Commission (Corlett and Gardiner, 2018), the Joseph Rowntree Foundation (Leishman et al., 2014) and IPPR and the Trust for London (Murphy, 2019).

This report contributes to the debate in three main ways though.

First, it updates previous empirical analysis of the impacts of council tax reform and revaluation to account for the latest changes in property values across England.

Second, in doing so, it uses more comprehensive data and considers a wider range of issues than previous reports. For instance, impacts at the local authority (LA) level are estimated using administrative data on property characteristics and transactions, and household-level impacts are examined using survey data. And we consider impacts if property values adjust to reflect changes in tax bills (as economic theory suggests they should) – which would mean revaluation and reform having direct effects on wealth inequality.

Third, unlike many of the existing studies, we take full account of the fact that council tax is a tax levied and collected by local government – and is likely to remain so even if it is significantly reformed. This is because of the benefits of LAs having revenue-raising

powers as well as spending responsibilities, and the fact that property taxes are generally more appropriate for devolution to local government than most other taxes. Treating council tax as a local tax in this way has significant implications for our analysis and the impact of different reforms as their impacts across the country depend not only on changes to council tax itself, but also on any accompanying changes to other funding (for example, grants and business rates) that LAs receive. In particular, if this other funding is not adjusted, LAs would each need to collect just as much council tax as they do now in order to maintain spending, which would mean charging the same average bill as now. Revaluation and reform would therefore redistribute tax bills *within* LAs – individual properties could see their bill go up and down even if the average is the same – but not *across* them.

The rest of this report proceeds as follows. Chapter 2 describes the current system of council tax in England and explains why revaluation and reform are needed. Chapter 3 sets out the reform options we consider in the report and provides an overview of how we model them. Chapter 4 examines the impact of the reforms across different places, specifically LA areas. It shows impacts on LAs' tax bases, and the impacts on average tax bills, and other funding, depending on whether that other funding is adjusted or not. Chapter 5 examines the impact of the reforms across different types of households – such as low/high income, young/old household heads, housing tenure, disability status and family structure. Chapter 6 examines potential effects of revaluation and reform on property values if they change in response to changes in the tax bills that occupying property entails. Chapter 7 then focuses on tricky issues that are sometimes seen as making revaluation and reform of council tax especially difficult – such as low-income households living in high-value housing, and the big differences in property values between different parts of the country. Chapter 8 concludes. Finally, Appendix A provides more detail on our methodology and looks at the sensitivity of our property value estimates to changes to the precise methods we use to estimate property values, and Appendix B provides additional results. A full set of additional results can be found in our online spreadsheet appendix.

2. Council tax and the need for reform

2.1 How council tax works

Council tax was introduced on 1 April 1993 to replace the community charge ('poll tax'), a tax levied at a flat rate per adult, which had itself replaced the long-standing system of domestic rates – a tax proportional to the assessed market rental value of each property – in 1990 in England and Wales (following a one-year trial in Scotland).[1] Council tax was to some extent a compromise between domestic rates and the poll tax: liabilities are related to property values, but less closely than under domestic rates, and some of the 'per-person' character of the poll tax is retained in the form of a 25% discount for single-adult households.

Each of the 24.5 million residential properties in England is placed into one of eight valuation bands (A to H) according to its assessed capital value as of April 1991. Individual local authorities (LAs) across England set the overall level of council tax in their area by choosing a rate for Band D properties,[2] with the levels for other bands then determined as ratios of the Band D rate. The ratios between bands are set centrally for the whole of England. Those in the lowest band (A) pay two-thirds of the Band D rate, while those in the top band (H) pay twice the Band D rate. This means that those properties with the highest (1991) values attract three times as much tax as those with the lowest (1991) values.

Table 2.1 shows the current value bands and the proportion of properties in each band across England as a whole. Almost two-thirds of properties in England are in Bands A–C; fewer than one in ten fall in Bands F–H. Since most properties are below Band D, most households pay less than the Band D rate. Because of this, and also because of discounts and incomplete collection (see below), the average Band D rate set by LAs in 2019–20 is £1,750, but the average amount paid by households is significantly lower, at £1,327 per year, or just over 3% of households' average disposable income. Council tax is expected to raise £31.5 billion across England in 2019–20 (after discounts), about a third of local authorities' total revenue (or about half if we exclude grants specifically ring-fenced for schools).

Council tax in England is administered by 317 LAs known as 'billing authorities'. Much of England has a single tier of local government, and the billing authority is simply the local council: a unitary authority, metropolitan district or London borough, depending on the location.[3] The shire areas (broadly covering rural England), however, have a two-tier council structure, with each county council (responsible for matters such as education, transport, libraries, social care and fire services) covering an area with several district councils (responsible for matters such as housing, local planning, environmental health and refuse collection).[4] In two-tier areas, the billing authority is the district council.[5]

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[1] Northern Ireland still has a system of domestic rates.

[2] Since 2011–12, increases in these Band D tax rates are subject to referendums of local voters if an LA proposes an increase above a certain centrally determined percentage. In the coming year, the limit is 4% for LAs with social care responsibilities and 2% for other LAs.

[3] The City of London and the Council of the Isles of Scilly are also single-tier authorities.

[4] In total, there are 26 county councils and 192 district councils in England.

Table 2.1. Council tax bands in England

Band	Tax rate relative to Band D	Property valuation as of 1 April 1991	Percentage of dwellings in each band, September 2019
A	$^6/_9$	Up to £40,000	24.2%
B	$^7/_9$	£40,001 to £52,000	19.6%
C	$^8/_9$	£52,001 to £68,000	21.8%
D	1	£68,001 to £88,000	15.5%
E	$^{11}/_9$	£88,001 to £120,000	9.6%
F	$^{13}/_9$	£120,001 to £160,000	5.1%
G	$^{15}/_9$	£160,001 to £320,000	3.5%
H	2	Above £320,000	0.6%

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

However, while the billing authority administers council tax, 'precepting authorities' – including not only county councils but also parish councils, combined authorities, police and crime commissioners (PCCs) and fire authorities – can instruct the billing authority to collect and pay over an addition to the council tax rate it sets. Thus the Band D rate applying in a particular area is the sum of that set by the billing authority and those set by precepting authorities. Precepts account for just under half of the council tax raised across England, but this fraction varies greatly depending on the service responsibilities of billing and precepting authorities in different parts of the country. In particular, in shire areas, the district councils collectively pay over almost six times as much to county councils as they keep themselves.[6]

Council tax rates vary widely across LAs, as shown in Figure 2.1. Band D rates range from £755 in Westminster to £2,043 in Rutland, while average net council tax per dwelling ranges from £719 in Wandsworth to £2,207 in Elmbridge, Surrey. Average bills reflect the value of properties in the area and the prevalence of discounts as well as the Band D rate set by the council, so they vary in a different way across LAs. In fact, LAs with more valuable properties tend to set lower Band D rates; as a result, there is only a weak correlation between an LA's Band D rate and the average bill its residents have to pay.[7] So while Westminster and Wandsworth in London have both the lowest Band D rates and the lowest average bills in England, the areas around Teesside, County Durham and Northumberland in the North East have some of the highest Band D rates in the country, yet still relatively low average bills.

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[5] While London boroughs are technically single-tier areas, the existence of the Greater London Authority (GLA) as a major precepting authority means that, in practice, local government in London shares many of the characteristics of two-tier areas. However, the GLA does not have the same responsibilities as county councils: it does not cover education, social care or libraries, for example, while it does incorporate the Metropolitan Police Authority.

[6] Source: Authors' calculations using table 9 of MHCLG (2019a).

[7] The correlation coefficient is 0.21.

Figure 2.1. Band D rate and average tax bill by local authority in England, 2019–20

Band D rate, 2019–20

More than £2,000
£1,875 - £2,000
£1,750 - £1,875
£1,650 - £1,750
£1,525 - £1,650
£1,400 - £1,525
£1,200 - £1,400
£1,000 - £1,200
Less than £1,000

Average tax bill, 2019–20

More than £2,000
£1,875 - £2,000
£1,750 - £1,875
£1,650 - £1,750
£1,525 - £1,650
£1,400 - £1,525
£1,200 - £1,400
£1,000 - £1,200
Less than £1,000
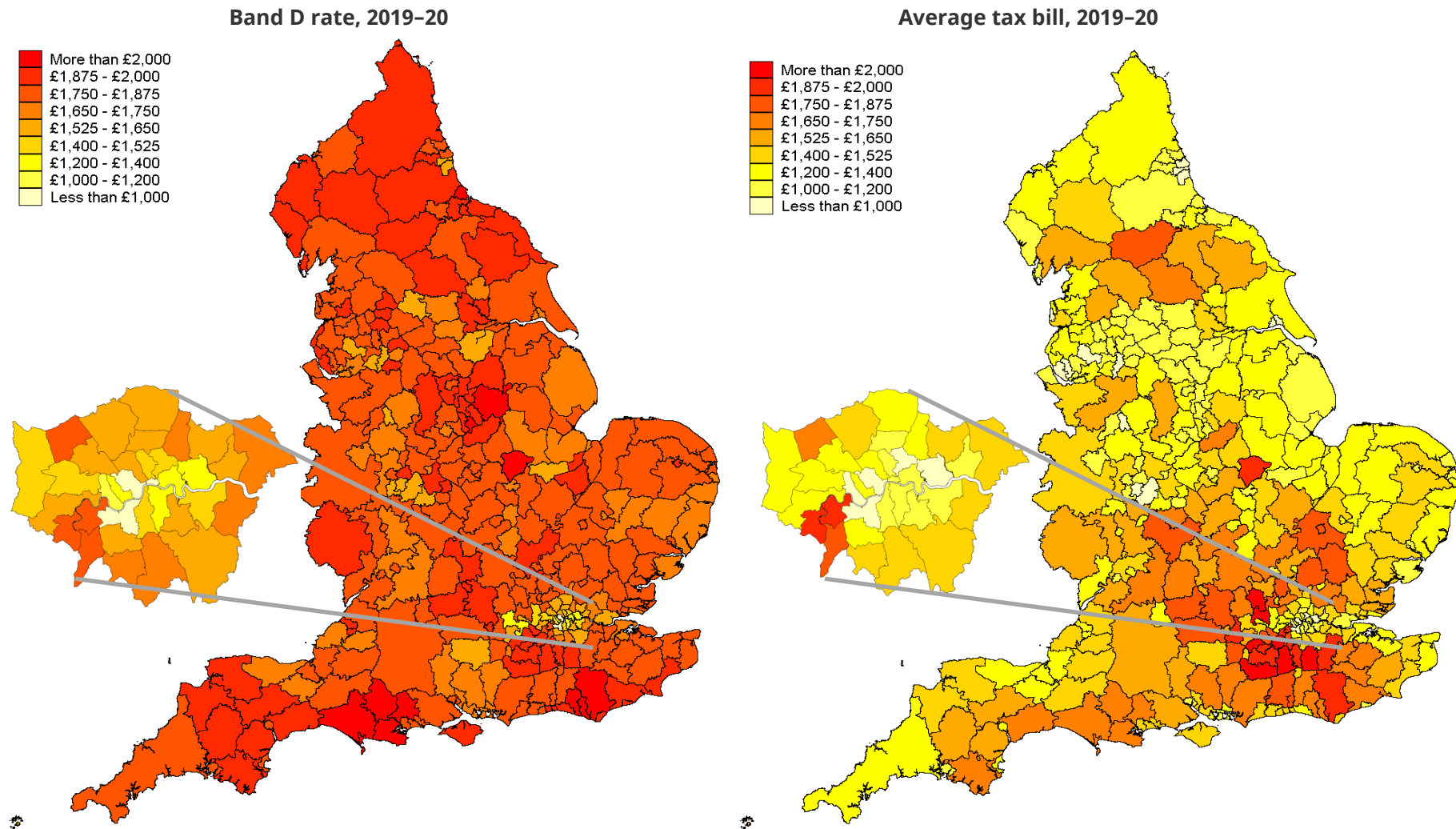
Source: Authors' calculations using MHCLG (2019b).

Figure 2.2. Average Band D rate and average council tax bill, by region
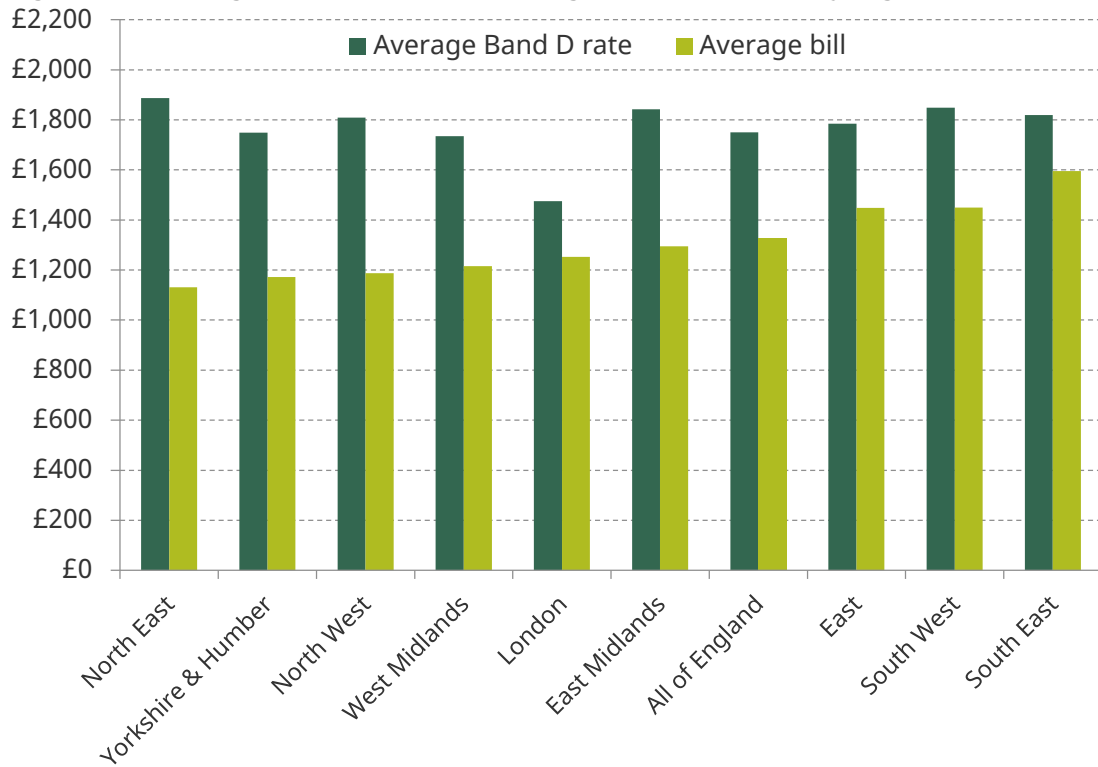
Source: Authors' calculations using MHCLG (2019b and 2019c).

Figure 2.3. Distribution of properties across council tax bands, by region
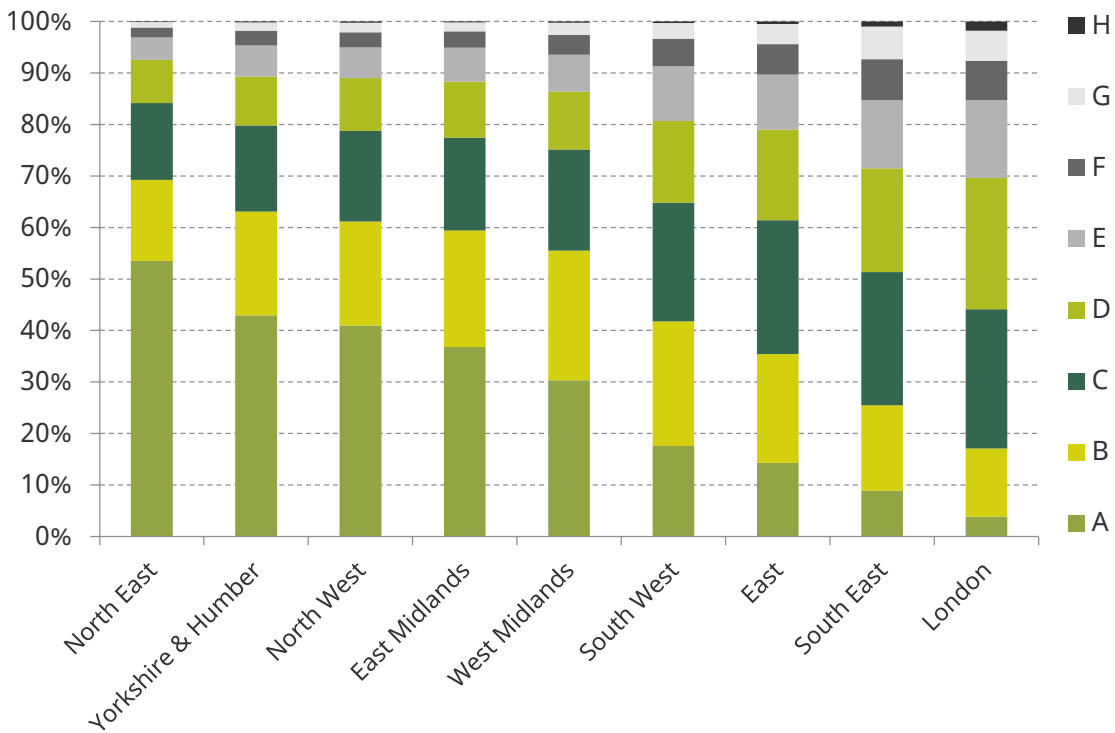
Source: Table CTSOP1.0_SUPP of VOA (2019).

Overall, the North East has the highest average Band D rates but the lowest average bills in England; London has by far the lowest Band D rates in England, but average bills there are similar to those in the rest of the country (see Figure 2.12). This reflects the varying distribution of properties across bands, shown in Figure 2.3: Band A covers the majority of properties in the North East, but less than 4% of those in London.

As already mentioned, there are a range of discounts, exemptions and premiums in the council tax system. Council tax bills are reduced by 25% if only one taxable adult lives in the household. About 8 million households in England, a third of the total, receive this single-person discount (MHCLG, 2019c). Some groups of adults are ignored for the purposes of counting the number of taxable adults in a residence. The largest such group is students undertaking full-time educational courses with a higher education institute; others include people in detention, carers, the severely mentally impaired, 18- and 19-year-olds in full-time (non-higher) education, members of religious communities, resident care-home and hospital patients, and residents of hostels or night shelters. Properties adapted for use by disabled people are moved down one council tax band (including Band A properties: these are reduced to 'Band A–', charged five-ninths of the Band D rate).

LAs can choose to give a discount of up to 50% for second homes or 100% for empty homes – though (with some exceptions) they can also choose to charge up to double the normal council tax on homes that have been empty for more than two years, treble after five years and (from 2021–22) quadruple after ten years.

Council tax support (CTS) is in place to reduce or eliminate liability for households with low income and financial assets. Since April 2013, individual LAs have had responsibility for designing their own CTS schemes for working-age households. With reduced funding made available to them by central government, most LAs have reduced the generosity of support (relative to the nationwide council tax benefit that the localised CTS replaced). This has most commonly been done by introducing minimum council tax payments, meaning that every working-age household, regardless of their circumstances, must pay at least a certain share of their gross council tax bill.[8] LAs are obliged to provide a centrally determined (and largely protected) level of support for pensioners. At any point in time, some 3.9 million households in England – a sixth of all those liable for council tax – are receiving council tax support, reducing LAs' council tax revenue by £3.5 billion (10%) in 2019–20.[9]

Legal liability for paying council tax usually rests with the occupants of a property, though in certain circumstances (such as empty homes) the owner is liable. The collection rate was 97.0% in 2018–19, a figure that has been stable since the late 2000s and a considerable improvement on the 92.6% achieved when council tax was first introduced in 1993–94 (MHCLG, 2011 and 2019d).

2.2   Council tax is increasingly out of date and arbitrary

Council tax bandings in England still depend on properties' assessed values on 1 April 1991, as they were when council tax was introduced in 1993. Unlike in Wales, where a

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[8]   For a full analysis of LAs' CTS scheme choices and their consequences, see Adam, Joyce and Pope (2019).

[9]   Source: number of claimants in Q2 2019–20 from MHCLG (2020); aggregate cost from MHCLG (2019c).

revaluation came into effect on April 2005 (based on property values as of April 2003),[10] there has never been a revaluation in England (or Scotland); one was planned for 2007 but was cancelled before implementation.[11] That means the valuations are now 29 years out of date – and counting.

This poses practical difficulties for the valuation of new properties, for which the Valuation Office Agency must assess what they would have been worth in 1991. It is particularly difficult in residential areas that did not exist in 1991: how do you value properties in what was a polluted industrial estate back in 1991, but is now a landscaped and leafy housing estate?

More fundamentally, the use of out-of-date valuations creates unfairness, both across LAs and across households within each LA.

The unfairness across LAs arises from using an out-of-date measure of the ability to pay of residents of different LAs in determining funding from central government.

The distribution of funding from central government to LAs is based in part on LAs' tax bases (as well as their needs): more money is provided to LAs with lower-value properties, reflecting the residents' lower ability to pay and so the council's lower ability to raise revenue for itself. Traditionally, the aim was that if all councils spent at the level the UK government judged that they need, they would all need to set the same Band D rate (i.e. levy the same tax on a given-band property).[12] But if the value bands are out of date, and property values have risen more since 1991 in some LAs than in others, then funding will no longer reflect local property values. Households in one LA will face higher council tax bills (or receive less services) than otherwise-similar households living in equally valuable properties in otherwise-similar LAs, just because properties in their area *used to be* more valuable than elsewhere 29 years ago.

This is not just a theoretical possibility: prices have changed in quite different ways in different parts of England. Since 1995 (the first year for which we have full sub-national data), house prices in England have grown by 6.4% a year on average, but the growth rate ranges from 4.7% in the North East to 7.8% in London. Over a quarter of a century, those differences in growth rates cumulate to create very large effects. The average London house price is now more than six times what it was in 1995, compared with barely three times in the North East (see Figure 2.4). And those regional averages conceal further variation across LAs within regions: in the most extreme cases, prices in County Durham are 2.6 times their 1995 level, whereas in Hackney the multiple is 9.2. Yet funding is still allocated as if relative property values had not changed since 1991. So, other things equal, councils in the North and the Midlands must now levy more tax on a household in (say) a £250,000 property than councils in the South, if both are to deliver the spending on services deemed necessary by central government.

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[10] In addition, an extra band (I) was added for the most valuable properties in Wales.

[11] See House of Commons Library (2005) and https://www.bbc.co.uk/news/uk-11401602.

[12] Various reforms to the funding system, including business rates retention and the New Homes Bonus, mean that a growing proportion of funding is allocated without reference to need. But the idea of *resource equalisation* is still a key part of the English local government finance system. See Chapter 4.

Figure 2.4. Average property price in November 2019 as a multiple of January 1995, by region
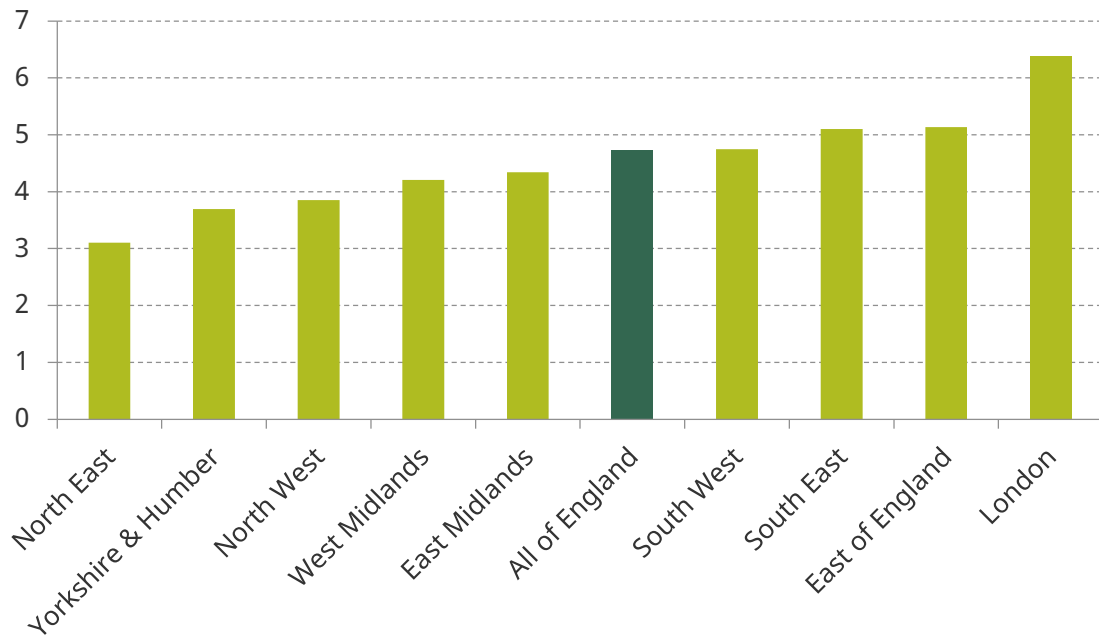
Source: Authors' calculations using data from HM Land Registry (2020).

This unfairness across LAs could, in principle, be rectified purely through the funding system – by redistributing grant across LAs in line with current property values – without necessarily reforming council tax itself at all. What cannot be rectified without reforming council tax is the unfairness across households within an LA. Two households living in equally valuable properties, receiving the same services from the same council, can have different tax bills because one property was worth more than the other 29 years ago. That kind of arbitrary variation in the tax liabilities attached to similar properties is indefensible. And that is the strongest argument for doing a revaluation – and for keeping valuations up to date in future.

2.3   Council tax is not proportional to property value

Lack of revaluation means that council tax liabilities do not reflect current property values. But they are not even proportional to 1991 values, for three main reasons:

1.   Council tax has a banded structure.

2.   Tax rates are regressive with respect to (banded) values.

3.   Single-adult households pay 25% less.

The banded structure

The banded structure means that two properties just on either side of a band cut-off can attract very different tax liabilities: 22% higher at the bottom of Band E than at the top of Band D, for example. Conversely, two properties at opposite ends of the same band attract the same tax liability, despite one being worth up to twice as much as the other (in the case of Band G). This issue becomes particularly acute at the two ends of the

spectrum, with a quarter of all properties lumped into Band A regardless of how far below the £40,000 cut-off they were, and all Band H properties in an LA attracting the same tax regardless of whether they were worth £325,000 (in 1991) or were multi-million-pound mansions.

There are practical advantages to a banded structure, in terms of reducing the need for precision in valuations and the scope for appeals (although while fewer people might disagree with a banding than a precise valuation, the amounts at stake are likely to be much larger, which can make it more worth appealing). But many other places manage to base property taxes on continuous valuations, including Northern Ireland. At the very least, a finer disaggregation of bands (particularly at the two extremes) would temper the unfairness of a banded structure.

The regressive tax rates

On top of the peculiarities of a banded structure per se, the relative tax rates attached to different bands make council tax highly regressive with respect to property value: that is, the tax is a lower percentage of property value for higher-value properties. Tax on a property in Band H is three times the tax on a property in Band A, despite the former being worth at least eight times as much (in 1991) and sometimes far more than that. A property that was worth £25,000 in 1991, in an LA charging the English average Band D rate, attracts tax (before discounts) equivalent to 4.7% of its 1991 value. In contrast, a property that was worth £500,000 in 1991 attracts tax equivalent to 0.7% of its value in that year, as shown in Figure 2.5. (The figure also shows the effect of the banded structure: for example, a property worth just below £88,000 – the boundary between Bands D and E – in 1991 is taxed at 2.0% of its 1991 value, whereas a property worth just over £88,000 is taxed at 2.4% of its 1991 value.)

Council tax has become more regressive since it was introduced. Property values have risen most quickly for properties and areas – such as London – where they were already above average, making the value distribution even more unequal than in 1991.

Figure 2.5. Annual council tax as a percentage of 1991 property value in an LA charging the 2019–20 English average Band D rate
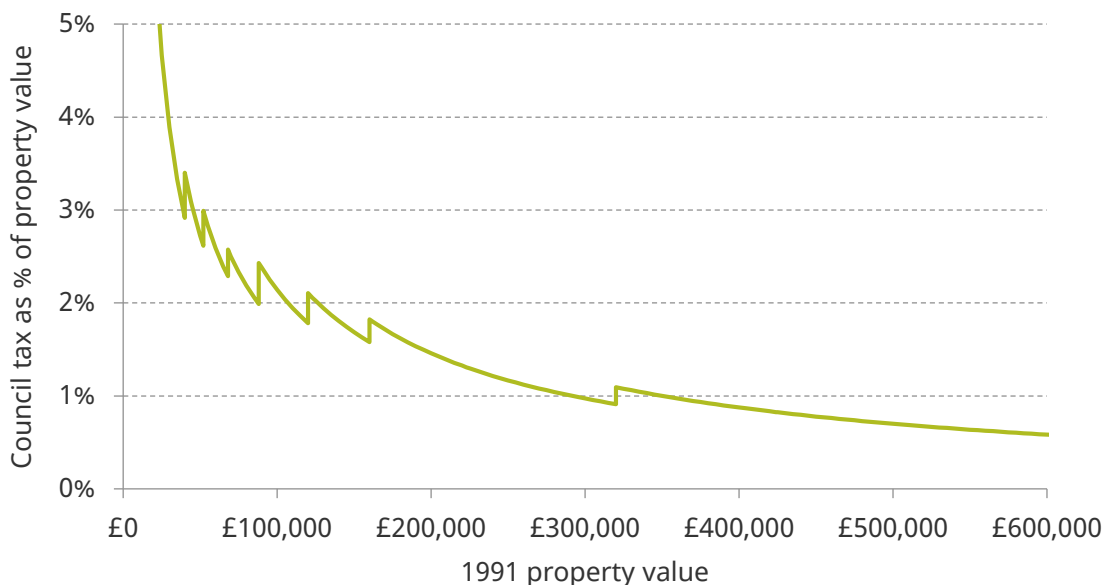
Figure 2.6. Average annual council tax as a percentage of estimated property value in 2019, before and after single-person discount (SPD) and council tax support (CTS)
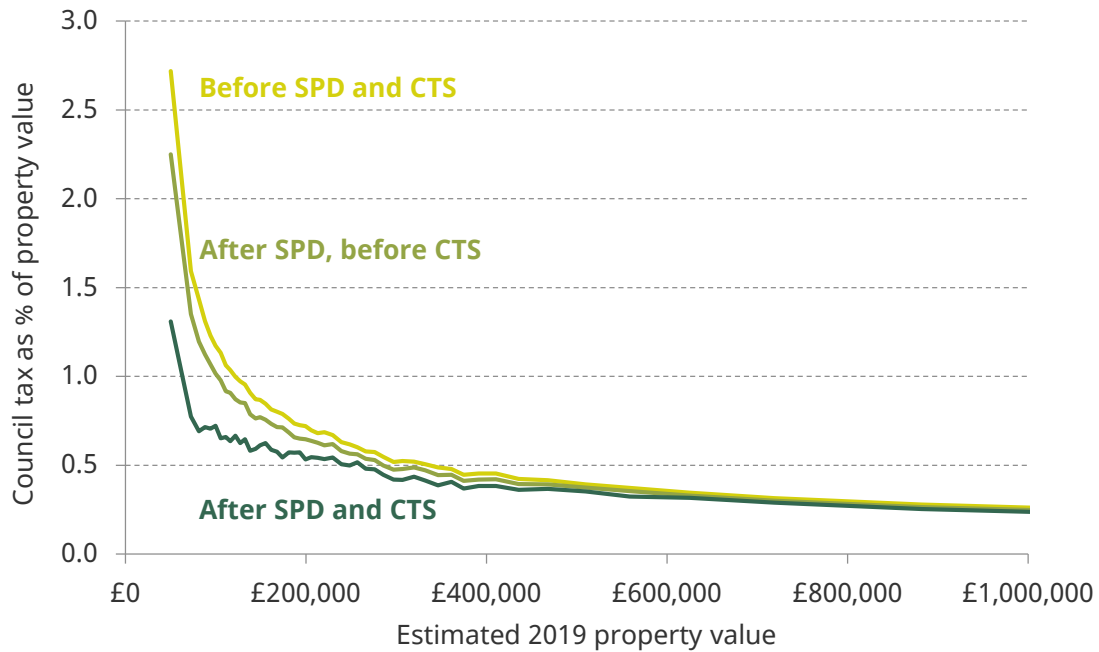
Note: Assumes full take-up of CTS. Plots average effective council tax rates for 30 quantile groups of estimated property values in Q1 2019.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 2.7. Average council tax as a percentage of average net income by household income decile, 2018–19
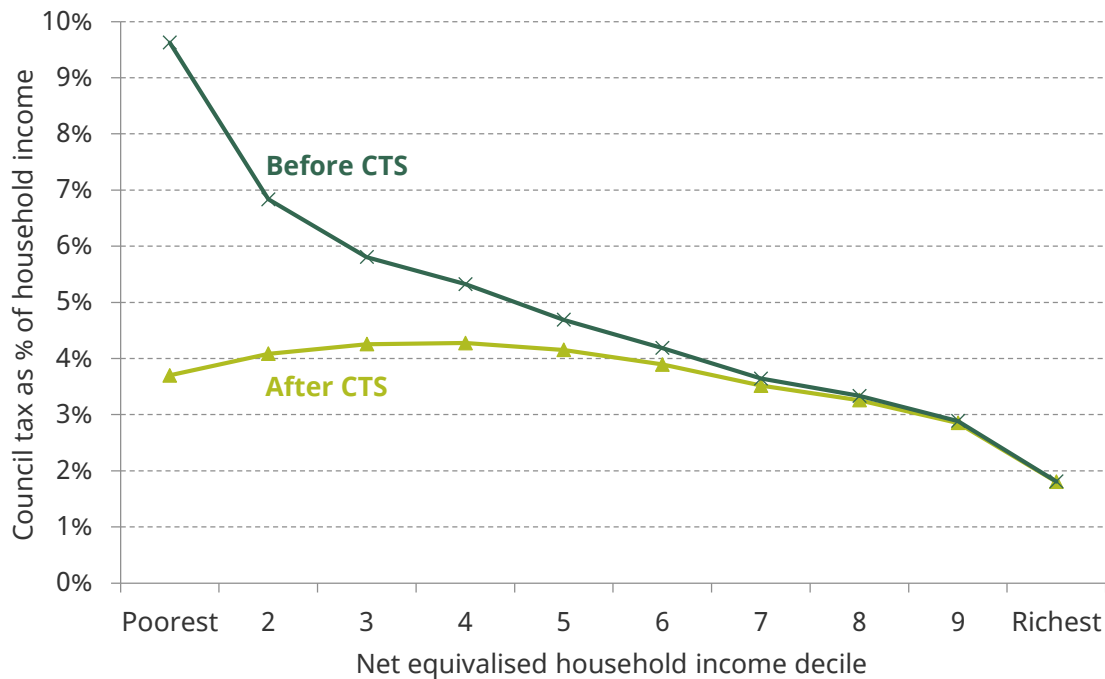
Note: Assumes full take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 2.6 shows our estimate of the regressivity of council tax with respect to property values in 2019, taking into account non-uniform price growth since 1995 and the different Band D rates and CTS schemes chosen by different LAs. The regressivity is somewhat ameliorated by the single-person discount (SPD) and CTS, both of which are more prevalent among low-value properties. But even with full take-up of discounts, we estimate that, on average, people in £100,000 properties pay about 0.7% of that value in council tax each year, double the 0.35% paid by people in £500,000 homes.

Higher-income people tend to live in more valuable homes, so the regressivity of council tax with respect to property value also means that it is regressive with respect to income, as shown in Figure 2.7. The figure also shows the impact of CTS across the income distribution, assuming full take-up: council tax is clearly less regressive after accounting for CTS than before. (The true impact will lie between the two lines, as non-take-up of CTS is significant.) But CTS does less to mitigate the regressivity of council tax now than in the past, as most LAs have reduced its generosity for working-age claimants following the localisation of support and reductions in funding in 2013–14 (Adam, Joyce and Pope, 2019).

Since council tax has become more regressive, it would need to be reformed just to have the effects originally intended. But the broader question is why a regressive structure should be desirable at all.

While most people would agree that the tax and benefit system as a whole should be progressive, that does not mean that every individual tax needs to be progressive. What matters is the distributional impact of the system as a whole. Individual taxes should be designed to best suit their purpose.

Tobacco duties, for example, are highly regressive (because poorer households spend a bigger share of their budgets on cigarettes, on average), but they are widely regarded as fair: by raising the price of tobacco to discourage smoking, they are seen as doing something sensible, and tobacco taxation would clearly not be a sensible tool to try to redistribute between richer and poorer households. It is better to use tobacco duties to discourage smoking, and other parts of the tax and benefit system to achieve the desired progressivity of the system as a whole.

This example makes clear that when thinking about how council tax should be structured, we need to think of its purpose and how it fits into the tax system as a whole. Council tax is not trying to encourage behaviour change like tobacco taxation (or alcohol or fuel taxation). It is simply attempting to reflect one aspect of households' ability to pay – the value of their housing wealth or consumption – and if we want to levy higher tax rates on those with more resources in general then it seems odd to levy *lower* tax rates on those with more of one particular resource (housing) as the current regressive structure does.

The IFS-led Mirrlees Review of the tax system (Mirrlees et al., 2011, chapter 16) examined the place of housing in the tax system as a whole. Housing is a consumption good (for the people who live in it) and an asset (for the people who own it), and should be taxed accordingly. Most consumption is taxed as a simple percentage of value, through VAT. But VAT is not levied on housing in the UK – unlike in many other countries – and housing consumption is therefore undertaxed relative to most other goods and services. The Mirrlees Review therefore advocated a proportional tax on the annual consumption value of housing, to stand in place of VAT, noting that such a tax would look much like council

tax, but levied in proportion to up-to-date property values and with no single-person discount.[13]

The usual argument made for not applying VAT to certain items (such as most food) is a distributional one: that such necessities make up a disproportionate share of poorer households' budgets and should be kept affordable. The Mirrlees Review rejected this argument, as preferential VAT rates for necessities is poorly targeted at distributional goals: the revenue forgone could be used more effectively in other ways. Council tax support is just one example, showing how a fraction of the revenue from taxing housing can be used to ensure that the tax does not make housing more expensive for those who can least afford it. But, in any case, the distributional argument against levying a proportional tax cannot possibly be used to justify a more regressive levy such as council tax (before CTS).

If council tax is seen as a tax on housing wealth, rather than housing consumption, it would seem no less odd to have marginal and average tax rates that decline with wealth levels: the opposite of what we do when taxing incomes, for instance. Proponents of wealth taxation rarely argue that the wealth tax should be regressive.[14]

If anything, it would be efficient to tax housing more heavily and more progressively than other goods. Property taxation is a relatively efficient way to raise revenue and redistribute, because it has less effect on behaviour than other redistributive taxes. It does little to discourage work or saving, and property cannot be moved abroad. The main disincentive effect it creates is a disincentive to build more housing. But taxing housing reduces housing development less than other taxes reduce production of other goods and services, since housing supply is relatively unresponsive to financial incentives: planning restrictions etc. are far more important (Caldera Sanchez and Johansson, 2011). To the extent that house-building does respond to financial incentives, that creates a further efficiency argument in favour of proportionality. The current regressive structure, taxing low-value housing more heavily than high-value housing, incentivises developers to build more high-value properties and fewer affordable homes. A progressive structure would do the opposite. A tax proportional to property value would discourage housing development in general – like VAT discourages the production of other goods and services – but would not distort the mix of housing built.

Making council tax proportional to property value would already be a radical reform, and has a clear rationale as a substitute for VAT on housing. In this report, we look at making council tax proportional to property value, and also consider less radical reforms that would reduce the regressivity of council tax with respect to property value and income, but we do not look at moving beyond proportionality to a progressive property tax.

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[13] Economically, it is the annual rental value, rather than the capital value, of the property that is relevant. Rent represents the price of the consumption services in a particular period, whereas the capital price is the value of the asset. Levying a tax as a percentage of capital value, rather than rental value, will tend to overtax properties that are expected to become more valuable (relative to others) and undertax properties that are expected to become less valuable. In practical terms, however, where owner-occupation is the norm, capital values might be easier to assess than rental values. Policymakers therefore face a choice between what is economically preferable and what is practically preferable.

[14] The Mirrlees Review argued against an annual wealth tax. The reader is referred there for discussion of this and of how the *returns* to wealth, including the returns to housing wealth, should be taxed.

We emphasise that we do not take a view on how progressive the tax and benefit system overall should be. If the government did not want to change the overall progressivity of the tax system, it could broadly offset the distributional effects of the reforms we discuss by making other taxes (such as stamp duty land tax or income tax) less progressive. Making council tax less regressive while making more distortionary taxes such as stamp duty land tax or income tax less progressive could roughly maintain the overall degree of progressivity in the tax system while making it more efficient.

But the government might want to increase overall progressivity, and particularly to tax those with high property consumption, or high property wealth, more heavily overall than it does at present. Concern about wealth inequality has been rising, with rising house prices an important part of that. This also feeds into debates about intergenerational inequality, since older people tend to have more housing wealth (and have especially benefited from house price rises) and to live in bigger properties relative to their household size.

The single-person discount

The third way in which council tax departs from being proportional to 1991 property values – the 25% discount for single occupancy – is by far the most damaging to economic efficiency. The single-person discount originated in the attempt to make council tax a hybrid between domestic rates and the poll tax, as described at the start of this chapter. The idea was that, if council tax is half property tax and half poll tax, single people should pay only half as much of the poll tax part as couples – a reduction of a quarter of the total.

This logic was not fully followed through: three-adult households do not pay a premium, for example. But there is a more fundamental sense in which council tax fails as a hybrid. Under council tax, unlike the poll tax, the reduction for single-adult households depends on the value of the property. Less council tax is payable in total if a single person occupies an expensive property and a couple a cheap property than the other way round. That was not the case under either domestic rates or the poll tax.

In distributional terms, if for some reason we want to redistribute from multi-adult to single-adult households, it is not clear why the extent of that redistribution should be related to the value of the property they occupy. And because the discount is linked to property value, it encourages inefficient use of the housing stock, with single-adult households living in bigger properties, and multi-adult households living in smaller properties, than they otherwise would. With property scarce, a discount that makes it scarcer for those who most need space does not look like sensible policy. Although much less widely discussed than the out-of-date valuations and regressive structure, this is a major weakness of the current council tax system.[15]

Is council tax partly a 'benefit tax'?

Both the regressive rate structure and the single-person discount may reflect a view that council tax is not intended purely as a tax on property value. It is sometimes argued that council tax is partly a 'benefit tax', reflecting households' use of council services. With this in mind:

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[15] Note that a more accurate hybrid between domestic rates and the poll tax would have been to set the single-person discount equal to half the Band A rate. That would be more progressive and would not have the same distortionary effect.

- **If council tax is intended to be a pure benefit tax, it does a remarkably bad job.**
  Use of the main council services (such as adult and child social care) bears little relation
  to property value. A significant number of households pay little or no council tax
  because of CTS, and these include many with the highest use of local government
  services. If we really wanted a benefit tax approach, that would more likely mean
  charging directly for more council services, and levying higher taxes on households with
  more children and elderly people, and more vulnerable and infirm people – not those
  living in more valuable properties. A pure benefit tax would bear little, if any,
  relationship to property value.[16] **Council tax is perhaps more plausible as a hybrid of
  a property tax and a benefit tax**, reflecting its origins as a compromise between
  domestic rates and the poll tax. The poll tax element could be seen as a crude, flat-rate
  charge for local services, with the extra tax paid on higher-band properties being the
  property tax element.

- **The historical accident of council tax's origins is not a good principled basis for
  designing or evaluating the tax. But, in any case, when people talk about council
  tax being a charge for local government services, it is not clear that they mean its
  rates should be structured so that the distribution of payments reflects different
  households' use of services.** Domestic rates, which were levied in proportion to
  (rental) value, were also sometimes described as a charge for local services. Likewise
  business rates, the other (semi-)local tax, are sometimes said to be a charge for the
  local amenities that firms benefit from, but no one argues that business rates should
  therefore be less than proportional to value, perhaps as a hybrid of a per-business
  ('poll') tax and a property tax. On the contrary, business rates are levied as a lower
  proportion of value for low-value properties than high-value properties. The description
  above of what a genuine benefit tax approach would involve serves to illustrate how far
  it is from what anyone actually advocates. There has been little praise for the poll tax
  since it was abolished, let alone advocacy of levying more tax on the old and vulnerable
  than on those less likely to require local government services.

- **In some ways, it would seem somewhat anomalous to design council tax alone as
  a benefit tax.** All taxes are ultimately paying for public services, and despite the long
  history of benefit taxation as a concept, governments in practice do not tend to design
  taxes so that the distribution of payments reflects different households' use of services
  (the TV licence fee being the most obvious exception). If the taxes people paid were
  commensurate with services received, the tax system would not do any redistribution.
  Instead, services are provided universally or according to need, and taxes levied broadly
  according to people's ability to pay (or to correct for market failures, as with alcohol,
  tobacco and fuel duties).

- **There is one way in which council tax differs from other taxes, though: it is the
  only tax whose level is set by LAs rather than national government.** One could
  argue that redistribution based on ability to pay should be the preserve of national
  government, leaving LAs the option of raising more or less for the services they provide
  via a 'benefit tax' approach that does not seek to redistribute.[17] However, this line of

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[16] In fact, the spending needs formulas used as part of the local government finance system include the share of
older adults living in high-tax-band properties as a predictor of *lower* spending needs, which would imply
lower tax rates for such properties under a benefit tax approach.

[17] On the other hand, one could also argue that any system that gives LAs only one tax instrument with which to
raise revenues – whether a pure benefit tax, council tax or a proportional property tax – is overly restrictive.

reasoning leaves open the question of why the local tax should be related to property value at all, even in a less-than-proportional way.

Overall then, we cannot say definitively that there is no role for the benefit tax approach in local taxation, and therefore for a regressive local tax. But it is not an easy argument to sustain. And it does nothing to undermine the earlier case for a proportional tax on housing. The rest of the tax system undertaxes housing because of the absence of VAT, and there is therefore a strong case for a housing tax that is (at least) proportional to value. Any case for a different kind of local tax would be on top of that, not instead of it.

2.4   What would a good property tax look like?

Taking the above discussion together, a good property tax would:

- be based on up-to-date values;

- be proportional to value; and

- avoid distorting behaviour in undesirable ways as the single-person discount currently does.

Ideally, therefore, there should be a revaluation as soon as possible, and council tax should be levied as a simple percentage of those up-to-date property values, with no discount for sole occupancy.

Crucially, revaluations should then happen regularly – perhaps annually, but certainly no less often than the three-yearly cycle now adopted for business rates – to prevent the present unsatisfactory situation arising again.[18] Frequent, regular revaluations would mean that the associated changes in bills would be small, gradual and routine – and therefore much less disruptive and politically difficult than the revaluation we analyse in this report, which reflects the pent-up effects of decades of relative price changes.

This model of a tax proportional to up-to-date property values is in line with the recommendations of the Mirrlees Review,[19] and, as noted in the introduction, a number of other reports have since made broadly similar recommendations.

This benchmark guides the analysis we undertake in the rest of this report and the reform options we set out in the next chapter. These include intermediate options such as systems that keep the banded structure but make the tax rates applying to bands proportional to value, or at least less regressive than now. While such options would not solve all the problems with the current council tax system, there may be practical or political reasons that make them more palatable as a first step.

This view would imply that giving LAs control over a wider range of tax instruments – for introducing a local income tax, localising decisions on the level of business rates, or simply allowing LAs to choose the council tax band relativities and discounts themselves – could be desirable (Amin-Smith, Harris and Phillips, 2019).

[18] If full revaluations happen less than once a year, a simple local house price index should be used to update valuations for years in between. This would deliver a reasonable approximation with minimal effort.

[19] The Mirrlees Review also proposed that stamp duty land tax (SDLT) on housing should be abolished and the revenue recouped through higher council tax, but we do not consider SDLT in this report.

3. Analysing reforms to council tax

3.1 The reforms we analyse

As discussed in the previous chapter, revaluation and reform of council tax are clearly desirable. But before making changes, it is important to understand empirically the impacts they would have. In this report, we look at the council-level and household-level impacts of a range of reforms, starting with a bare minimum revaluation-only option and then adding in further changes in steps culminating in the full Mirrlees Review recommendation of a fully proportional council tax, as follows:

1. Using updated property values to assign properties to council tax bands ('pure revaluation').

2. As option 1 but also making relative tax rates proportional to the median price of properties in each tax band ('revaluation with proportional bands').

3. As option 2 but adding additional tax bands at the bottom and top of the distribution ('revaluation with extra and proportional bands').

4. As option 1, adding additional tax bands at the bottom and top of the distribution and making the band relativities less regressive – though not, as in options 2 and 3, fully proportional ('revaluation with extra bands and reduced regressivity').

5. Applying a fixed percentage tax rate to updated (continuous) property values, but retaining existing discounts, premiums and exemptions ('revaluation with a continuous and proportional system').

6. As option 5 but also abolishing the single-person discount ('revaluation with a continuous and proportional system without a single-person discount').

To keep this report manageable, we show many of our results just for options 1 and 5, but present our key findings for all of them. Since these reforms build up by additional components, broadly speaking the intermediate options tend to be in between the two cases that we focus on, though this is not always the case. Full results for all reforms are available in an online spreadsheet appendix (www.ifs.org.uk/research/english-council-tax).

We restrict attention to revenue-neutral reforms. Local government funding is tight and local authorities (LAs) might be looking to raise more revenue in the process of reform, though this would not be the purpose of reforms. But tax rates could be increased (or reduced) under any of these options, or indeed the existing system. In order to focus on the structure of the system, we separate that issue from the question of how high taxes should be.

3.2   What we look at in this report

In the next two chapters, we model the impacts of these council tax reforms both across areas (Chapter 4) and across households (Chapter 5).

First, we look at how the different reforms would affect each LA's tax base, and how that would in turn affect its overall resources if the UK government decided to redistribute grant funding in line with this updated tax base. We show the implications of these grant adjustments for average council tax bills in each LA assuming LAs maintain their spending.

We then turn to look at the impacts on individual households, looking at how tax bills would change for households of different ages, incomes, housing tenures, etc.

3.3   Data and methodology

LA-level analysis

The LA-level analysis uses data from: the Valuation Office Agency (VOA) on the stock of properties in England by lower super output area (LSOA); the Land Registry on the prices paid for properties that transacted between 2010 and 2018; information on additional characteristics of properties that have transacted from Energy Performance Certificates (EPCs), from the Ministry of Housing, Communities and Local Government (MHCLG); and additional data from MHCLG on the council tax bases and rates and grant funding of different LAs, and the characteristics of different local areas including population density.

We estimate the value of the full stock of properties in England in four stages.

The first is to use data from between 2010 and 2016 to estimate Q4 2016 property values for all properties that transacted over that period. We do this because the EPC data available to us cover the period up to the end of 2016 only, and they include property characteristics that are important determinants of values (such as number of bedrooms and other rooms, and size in square metres) but which are unavailable in other public data. We use an approach called hedonic regression and in this stage include a range of property characteristics (dwelling type, number of bedrooms, bathrooms and other rooms, size in square metres, whether it is new build) and location characteristics (such as which small neighbourhood – each containing about 1,500 people – it is located in, deprivation, and various environmental characteristics such as noise, flood risk, and proximity to water and green space).

The second stage is to use a second regression that excludes some of the detailed property characteristics (those in the EPC data only) to index our initial estimates from Q4 2016 to Q4 2018.

The third stage is to use published Office for National Statistics (ONS) estimates of the change in LAs' average property values between Q4 2018 and Q1 2019 to index our second-stage estimates to Q1 2019 levels.

The final stage is to use the VOA's data on the stock of properties by LSOA to reweight the data to account for the fact that certain types of properties in certain areas are more likely

to transact than others: for instance, new-build private housing is far more likely to transact than social housing.

It is possible that this approach could lead us to overstate (understate) the values of properties that do not transact, if they are systematically less (more) desirable than properties that do transact with the same observed characteristics. However, controlling for such unobserved differences is difficult and beyond the scope of this project.

The impacts of reforms on LAs' tax bases, grant funding and average tax bills are modelled using a model designed and built specifically for this project. It uses our estimates of the Q1 2019 value of each property in England, alongside MHCLG data on the council tax bases and rates and grant funding of different LAs, to do this, taking into account the proportion of households in each LA entitled to different exemptions, discounts and premiums and in receipt of support from CTS schemes.

Household-level analysis

The household-level analysis uses data from wave 8 (2016–18) of Understanding Society, a representative panel survey of 14,672 households in England. The data are linked to administrative data from the VOA on households' council tax bands, from which we deduce households' pre-reform council tax liabilities (given the LAs in which they live). There are 2,399 households for which linked VOA data are not available; where possible, we impute their council tax bands using their reported house values or rent, local authority and property characteristics.[20]

The data contain self-reported house values for homeowners, which we uprate to Q1 2019 using the LA-level House Price Index for the appropriate dwelling type (detached, semi-detached, terraced etc.). Property values for renters are imputed using a hedonic regression on property characteristics (dwelling type, number of bedrooms and other rooms, existing council tax band), location characteristics (local authority, rurality, population density, LSOA deprivation levels[21]) and household characteristics (income, household composition and demographics[22]). Reported and imputed property values are then used to calculate households' council tax liabilities after revaluation and reform.

It is possible that this approach could lead us to overstate (understate) the values of rented properties, if they are systematically less (more) desirable than owner-occupied properties with the same observed characteristics. This would in turn lead us to overestimate (underestimate) the council tax liabilities of households that rent after revaluation and reform. However, controlling for unobserved differences is difficult and beyond the scope of this project.

The impacts of reforms are modelled using the IFS tax and benefit microsimulation model, TAXBEN. To simulate post-reform incomes and tax liabilities, we drop 2,652 households

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[20] These include tenure type (distinguishing between private and social rentals), dwelling type interacted with the number of rooms, LSOA-level Index of Multiple Deprivation (IMD) decile group and whether the property is in a rural or urban area. The imputation is based on an ordered logistic regression.

[21] Based on deciles of specific components of the IMD: income, employment, housing, education and health.

[22] These include whether the household contains a couple, the number of adults, the number of children in different age groups, the highest qualification in the household, the age of the oldest household member and whether anyone in the household is in receipt of disability benefits or reports having a longstanding illness or disability.

with incomplete information on incomes and household characteristics. We further drop 721 households for which we cannot impute council tax bands (largely because of missing house values or rents). This leaves us with a final sample of 11,299 households in England, which we reweight to match the distribution of council tax bands in the administrative data. The final sample closely matches the (representative) overall Understanding Society sample in terms of the distributions of income, local area deprivation (IMD), age of the oldest household member and household size.[23]

We model reforms under the 2018–19 tax and benefit system (which corresponds to Q1 2019), assuming universal credit is fully rolled out and that benefit cuts that apply to new claimants or children (such as the two-child limit) are fully in place. This allows us to capture the long-run effect of revaluation and reform.

Assumptions on grant adjustment

As discussed in more detail in the next chapter, the impact of revaluation and reform of council tax will depend crucially on whether grant funding is adjusted to reflect changes in the tax bases of different LAs. In the LA-level analysis, we can explicitly account for this, working out how much each council would need to change its tax rates and average tax bills if grants are and are not adjusted. However, in the household-level analysis, we are unable to do this as samples at the LA level are too small to be properly representative. We therefore model changes at the regional level rather than at the level of individual LAs.

In the 'no grant adjustment scenario', reforms are calibrated to be revenue neutral at the regional level. In the 'full grant adjustment scenario', we model grant adjustments across regions based on changes to regional tax bases. Our modelling preserves current differences in Band D rates between LAs in any given region. For reform options that retain a banded council tax structure, this is done by calculating the change in average Band D rate for each region, and scaling the current Band D rates of all council areas within each region by this (region-specific) factor. For reform options involving a continuous rate, we first calculate rates at the regional level, and then scale this at the council level by the ratio of Band D rates to the regional average Band D rate.

Assumptions about incidence and capitalisation

We consider two alternative assumptions about who would bear the economic burden of council tax. Council tax is generally payable by the occupier of a property. But it is not necessarily the occupier who ultimately bears the burden of the tax. In particular, in the case of rental housing, rents may adjust in response to council tax changes, in effect passing the effect of higher/lower council tax bills on to the landlord. This need not happen explicitly or deliberately, but can be the result of changes in the demand for housing affecting the market rent. Higher council tax, for example, will reduce the amount that potential tenants are willing and able to pay in rent, which may force landlords to reduce the rent they charge. That would shift at least part of the burden of council tax on to property owners.

We therefore consider two alternative extremes: one in which the incidence of council tax changes is fully on the occupier, and one in which rents adjust so that it is fully on the owner. Reality is likely to be somewhere in between – although theory and evidence

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[23] The final sample slightly under-represents multi-family households, specifically those containing unrelated families or related families of the same generation. See Chapter 5 for more details.

suggest it is probably closer to the latter. Unfortunately, while the household survey data available record information on the rental income landlords receive, they do not record information on the number or location of their rental properties. This means we cannot allocate gains/losses as a result of the revaluation and reform of council tax to individual landlords. Instead, we show impacts for landlords as a group and give some indication of their characteristics.

If council tax changes do affect the annual rental value of a property, this can be reflected in the capital value of the property. Potential landlords will be willing to pay less for a property if the rental income they can get from it is lower. And the same is true for owner-occupied housing, even though the owner and the occupier are the same person (so the rental value of the property is not actually paid): potential buyers of the property will not be willing to pay as much for it if the property has a higher annual council tax bill attached to it, so the market value of an owner-occupied property will fall if its council tax bill rises (and rise if it falls). We show how council tax changes would affect property values if they were fully 'capitalised' in this way. Again, reality will not be this extreme, though theory and evidence suggest property tax changes do get reflected in property prices to a high degree.[24]

Further information on our methodology can be found in Appendix A. We now turn to our analysis and findings.

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[24] Høj, Jørgensen and Schou (2018) provide a review and show that changes in property taxes in Denmark are fully capitalised into house prices, for instance.

4. The impact of revaluation and reform across places

This chapter examines the impact of revaluation and reform across different places – specifically, different local authority (LA) areas. We consider impacts on tax bases, average tax bills, and receipts of central government funding – with the last two depending crucially on whether central government funding allocations are updated to reflect the changes in tax bases that revaluation and reform would result in. Indeed, without such adjustments to central government funding, revaluation and reform would redistribute tax bills *within* LA areas, but not necessarily *across* them. This is because, if such funding is unadjusted, each LA would need to raise as much council tax as prior to revaluation and reform if it wanted to maintain spending levels – implying that even if individual households' tax bills went up or down, the average net bill charged by each LA would have to be the same.

Figure 4.1. Estimated (mean) average property values by billing authority area, Q1 2019
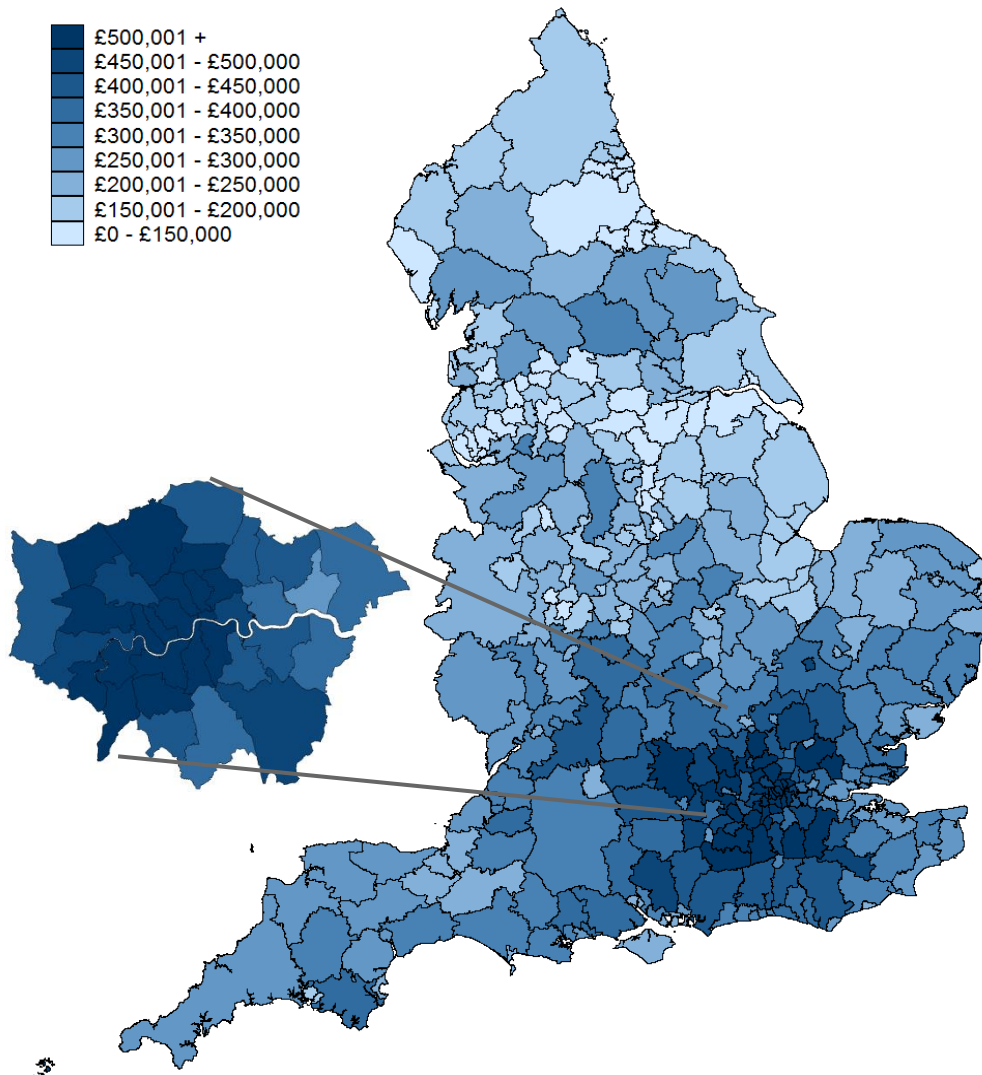
Source: Authors' calculations using HM Land Registry (2019), MHCLG (2019e) and VOA (2018).

Table 4.1. Estimated (mean) average property values in the 10 billing authority areas with the highest and lowest values, Q1 2019

10 billing authority areas with highest estimated (mean) average values		10 billing authority areas with lowest estimated (mean) average values	
Kensington & Chelsea	£1,536,000	Kingston upon Hull	£101,000
Westminster	£1,176,000	Hartlepool	£101,000
Camden	£889,000	Hyndburn	£104,000
City of London	£856,000	Blackpool	£104,000
Richmond upon Thames	£834,000	Middlesbrough	£106,000
Elmbridge	£777,000	Burnley	£108,000
South Bucks	£776,000	Sunderland	£117,000
Hammersmith & Fulham	£762,000	Stoke-on-Trent	£117,000
Islington	£679,000	County Durham	£117,000
Chiltern	£657,000	Pendle	£118,000

Note: Values rounded to the nearest full thousand pounds.

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

As discussed in Chapter 3, the first step in our analysis is to estimate up-to-date property values for the current stock of properties in England. Doing this, Figure 4.1 shows our estimate of the average (mean) property price by billing authority area as of Q1 2019. Values are higher in London and its environs (especially to the West) and are lower in the Midlands and North of England, especially in urban and historically industrial areas. For example, Table 4.1 shows that of the ten billing authorities with the highest average values, seven are in London and three are nearby commuter areas to the West of London. On the other hand, all ten of the billing authority areas with the lowest values are urban and historically industrial areas of the North of England, with the exception of Stoke-on-Trent which is a similar area in the North of the West Midlands region. The table also shows just how significantly the estimated mean price of properties varies across the country, ranging from £101,000 in Kingston upon Hull and to £1,536,000 in Kensington & Chelsea.

Of course, underlying this variation in average values across LA areas is much greater variation across neighbourhoods and individual properties. In the analysis that follows, we take full account of the property-level variation in values, building our estimates of the impacts on different LA areas from the bottom up. Table B.1 in Appendix B provides detail on the distribution of values by region, and detail on the distribution of values at the LA level is available in our online spreadsheet appendix.

4.1   Updated tax bands and relativities

Given estimates of Q1 2019 property values, we can assign properties to bands based on these values. For systems that have the same number of bands as now (options 1 and 2), band thresholds are set so that the same proportion of properties would be in each band as presently across England as a whole – although the proportion in each LA area would change depending on how relative property values have changed since the last revaluation date in 1991. For systems with additional bands at the top and the bottom, we do the following: Bands A and B are split into four bands (A1, A2, B1, B2), each with the same proportion of properties in; and Band H is split into two bands (H and I), each with the same proportion of properties in.

Table 4.2 shows the new band thresholds and tax rate relativities for the systems that have the same number of bands as now (options 1 and 2). It shows that the thresholds for lower tax bands would have to increase by less than those for higher tax bands if based on Q1 2019 values, reflecting the fact that the variation in property values as well as the level of properties' values has increased over the last near-30 years.[25] For example, the lower threshold for Band B would be around 3.5 times higher if based on Q1 2019 values, the lower threshold for Band E around 4.7 times higher, and the lower threshold for Band H around 5.5 times higher.

The table also shows how moving to proportional bands would significantly increase the progressivity of the council tax with respect to property value. For instance, the relative tax rate on Band A properties would fall from 67% to 29% of that on a Band D property, if it reflected differences in the average value of properties in Band A relative to Band D. Conversely, the relative tax rate on a Band H property would increase from 200% to 680% of that on a Band D property, if it reflected differences in the average value of properties in these tax bands.

Table 4.3 shows the band thresholds and tax rate relativities for the systems that have additional bands at the top and the bottom. It shows that adding additional bands at the bottom would allow for significantly narrower tax bands for low-value properties. It also shows that the threshold for the new top band would be such that Band I would include properties with a very wide range of values.

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[25] This reflects the fact that prices have increased more in London and much of its environs, where they started off higher, than in the North and Midlands, where they started off lower. Unfortunately, our data do not allow us to assess whether the variation in prices of properties *within* different parts of the country (e.g. differences in the prices of small flats versus large detached properties) has increased over time as well.

Table 4.2. Band structures, thresholds and relativities of the reforms we model: 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 $^6/_9$ 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).

Table 4.3. Band structures, thresholds and relativities of the reforms we model: 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 $^{22}/_{100}$ 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).

4.2 The impact of revaluation and a continuous and proportional-to-value council tax on different LA areas

With up-to-date values, and new tax bands and relativities, we can estimate the impact of revaluation and reform. In what follows, we first focus on two of the six reform options outlined in the last section:

- option 1, a **pure revaluation**, which we consider the bare minimum that needs to be done; and

- option 5, a **continuous and proportional system**, which in addition to revaluing properties, removes the banded structure and applies a fixed proportional tax rate to the exact estimated value of each property. In doing so, it maintains the current set of discounts, exemptions and premiums (including the single-person discount) as proportional reductions or additions to this fixed tax rate. As highlighted in Chapter 2, there is a strong case to abolish the single-person discount, as in option 6.

Options 2, 3 and 6 – which are all variants of a proportional council tax – have similar effects across LA areas to option 5 – although the effects on individual households can differ significantly.[26] The effects of option 4 – which is less regressive with respect to property value than the current tax structure but not fully proportional – lie in between those of options 1 and 5. We provide a summary of the effect of these options across LA areas in Section 4.3; full sets of results for each reform option can be found in our online spreadsheet appendix.

Impacts on local tax bases

The first impact we consider is on the tax base of different LAs. This is a measure of the (relative) amount that would be raised in council tax in different LA areas if they all set the same notional tax rate – for example, the national average tax rate. It is important because historically it was used by the government as part of its calculations of how much Revenue Support Grant (RSG) funding to provide to different LAs to top up their council tax revenues: all else equal, LAs with smaller tax bases got more grant funding (and vice versa), with the aim of allowing them to fund services without having to charge higher-than-average tax *rates* to make up for their small tax *base*.

The government stopped using such an approach in 2014–15, since when it has either taken no account of council tax when determining changes in grant allocations (in 2014–15, 2015–16 and in the coming financial year, 2020–21) or has taken account of council tax revenues given the *actual* tax rate set by each council (in 2016–17 to 2019–20). However, neither of these more recent approaches is suitable for use in the long term,[27] and the

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[26] For example, compared with option 5, option 6 removes the single-person discount and so would lead to higher tax bills for households with one (taxable) occupant and lower tax bills for other households. And, again compared with option 5, the retention of a banded structure in options 2 and 3 would lead to lower tax bills for the very most expensive properties.

[27] Taking no account of council tax bases or revenues when determining grant funding allocations, for example, would see overall funding for LAs with low tax bases fall (or rise) if grant funding increased by a smaller (or larger) percentage than council tax revenues. This could generate significant changes in relative funding allocations for different LAs that bear little relation to changes in their needs or revenue-raising capacity. Taking account of actual council tax revenues rather than tax bases would strongly incentivise councils to cut

government plans to reintroduce allocation based on tax bases from 2021–22 as part of its so-called Fair Funding Review (MHCLG, 2018c). In particular, with RSG set to be abolished and local government instead retaining 75% of business rates revenues, the baseline funding levels for the business rates retention scheme (BRRS) – that is, the amount of business rates LAs are assessed to 'need' – will account for LAs' council tax bases. In order to simplify the exposition in what follows, we will refer to RSG and baseline funding levels together as 'general central government funding'.

Figure 4.2 shows our estimates of the changes in tax bases that would result from a pure revaluation (the left-hand map) and from, in addition, abolishing the banded structure and implementing a continuous and proportional-to-value council tax (the right-hand map). Exact figures for each LA area can be found in our online spreadsheet appendix.

Under a **pure revaluation**, changes in tax bases reflect different numbers of properties moving up and down tax bands in different LA areas as a result of changes in relative property values since April 1991, the date used for the last revaluation. The left-hand panel of Figure 4.2 shows:

- Such movements would result in increases in tax bases in (especially inner) London (and to a lesser extent surrounding suburban and rural areas) and a number of other cities in southern England such as Brighton & Hove, Bristol, Cambridge and Oxford. These increases reflect particularly rapid increases in property values in these areas since 1991 – as highlighted previously in Figure 2.4 in the case of London – which means more properties would move up rather than down bands. This is illustrated for the case of London in the left-hand panel of Figure 4.3 in Box 4.1.

- Conversely, with just two exceptions (Manchester and Trafford), we estimate that tax bases would fall for LAs across the North and Midlands of England, reflecting slower growth in property values in these regions, which means more properties would move down rather than up bands. This is illustrated for the North East of England in the right-hand panel of Figure 4.3 in Box 4.1. In addition, tax bases would also fall, albeit to a generally lesser extent, in large parts of southern England away from London and its commuter areas – including most of Devon, Dorset, Somerset, Wiltshire and the Isle of Wight. This reflects the fact that not all parts of the South of England have seen above-average property value growth over the last three decades.

- The billing authority areas with the biggest estimated falls in tax bases are Fylde (–17%), Wyre (–16%), Ribble Valley (–14%) and South Ribble (–14%) in Lancashire and Stockton-on-Tees (–14%), Redcar & Cleveland (–14%), Hartlepool (–14%) and Middlesbrough (–13%) in Teesside.

- The billing authority areas with the biggest estimated increases in tax bases are all in inner London: Hackney (+37%), Waltham Forest (+25%), Lambeth (+24%) and Lewisham (+23%). The areas with the biggest increases outside of London are Brighton & Hove (+17%), Cambridge (+13%) and Bristol (+12%).

their tax rates as the difference would be made up in additional grant funding. Such incentives would undermine council tax as a source of revenue.

Figure 4.2. Changes in council tax bases, by billing authority area
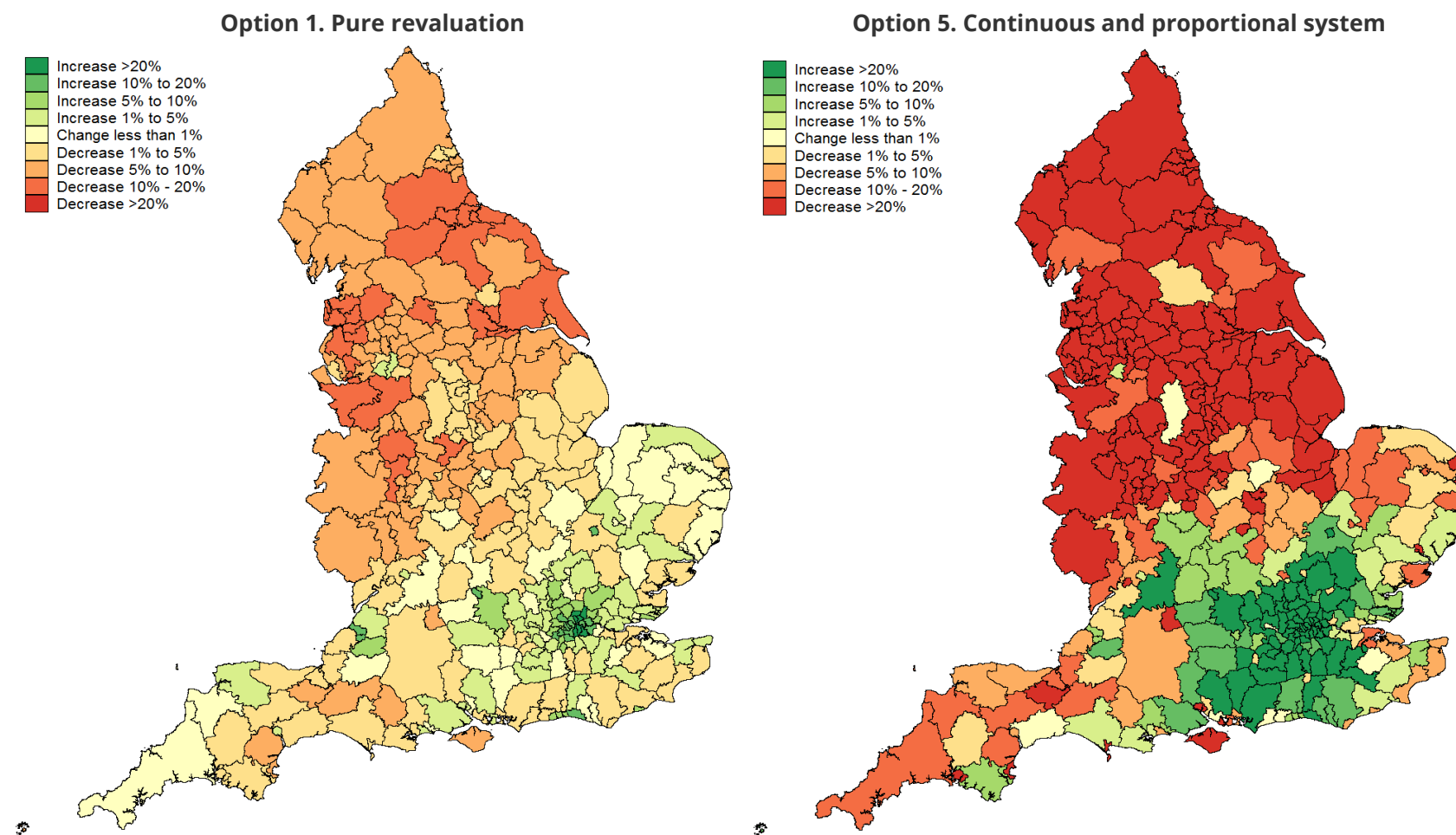
Note: Our measure of change in tax base for a pure revaluation is the change in the number of Band D equivalents (after exemptions, premiums, discounts and the council tax reduction scheme). Our measure of the change in tax base for a continuous and proportional system is based on a notional tax rate that would raise the same revenue as the current banded structure if it were applied across England as a whole.

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

Box 4.1. Estimated changes in the proportions of properties in each tax band, by region and LA area

As highlighted in Section 4.1, for ease of comparison with the current system, we set band thresholds in our pure revaluation scenario such that the number of properties in each band is the same across England as a whole after revaluation as is currently the case. However, changes in relative values of different properties mean individual properties would move up and down bands, and the proportion moving up and down would differ across regions and LA areas, reflecting the stark geographical differences in property value changes illustrated in Figure 2.4.

Full estimates of the proportion of properties by tax band currently and following revaluation can be found for each region of England in Tables B.2 and B.3 in Appendix B, and for each billing authority area in our online spreadsheet appendix. Figure 4.3 shows estimates for the two regions that we estimate would see the biggest changes in the proportions of properties in different tax bands: London and the North East of England.

Figure 4.3. Proportions of properties in each tax band
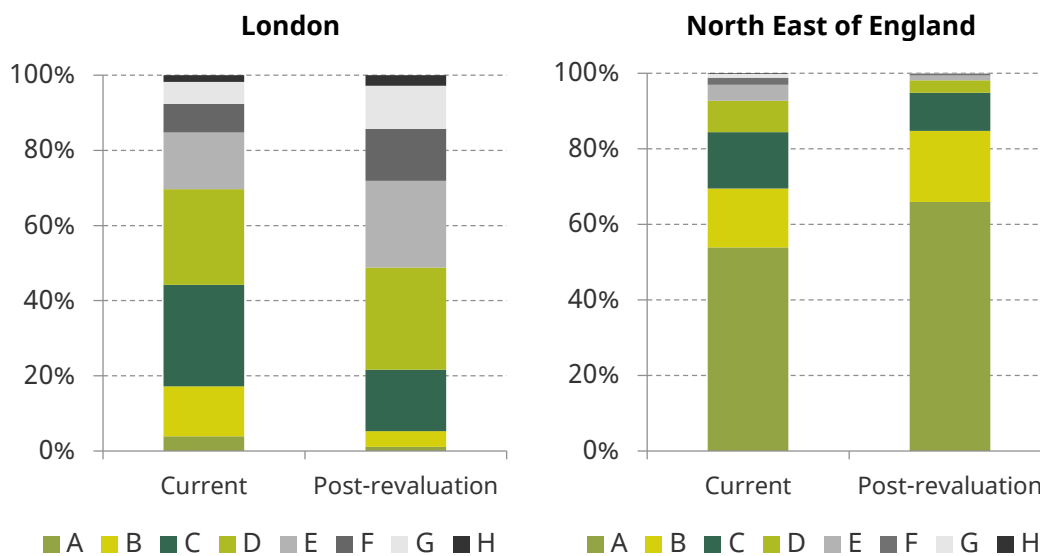
Source: Authors' calculations using HM Land Registry (2019), MHCLG (2018a, 2018b and 2019e) and VOA (2018).

In London, for example, we estimate that the proportion of properties in Bands A–C would halve from 44% to 22%, while the share in Bands F–H would almost double from 15% to 28%. As highlighted in the main text, this reflects the higher-than-average property value increases seen in London since 1991. Conversely, in the North East of England, lower-than-average property value increases mean the share of properties in Band A would rise from 54% to 66%, and in Bands A–C from 84% to 95%. It is important to note that some properties would move down bands in London and some would move up bands in the North East following a revaluation – for example, in neighbourhoods that have seen their attractiveness to house buyers particularly decrease or increase; it is just that there are many more moving up bands in London and down bands in the North East.

That the changes in tax bases are not larger given the large differences in property value changes around the country shown in Figure 2.4 reflects two factors. First, relatively wide tax bands mean that relative property values have to change quite substantially in order to generate moves up or down tax bands. Second, the fact that the current council tax structure is regressive with respect to property value means that the difference between the taxes charged on properties in different bands is much smaller than the differences in their average values.

Under a revalued **continuous and proportional council tax system**, it is both differences in value *levels* and relative value *changes* that would determine the effect of such a reform on LAs' tax bases. In particular, the move from a regressive to a proportional tax structure would, all else equal, lead to increases in tax bases in LA areas where average property values are relatively high, and decreases in areas where they are relatively low. And the fact that this proportional tax structure would be applied to updated as opposed to April 1991 values means that, all else equal, tax bases would increase for LA areas where property values have increased a lot, and fall for LA areas where property values have increased relatively little. The right-hand panel of Figure 4.2 shows that this means that:

- Because property values have increased more in parts of the country that had higher values to start with (such as London and much of its environs), the effects of revaluing and of moving to a proportional tax structure reinforce each other, increasing tax bases in London and its environs, as well as a few other areas such as Bath & North East Somerset, Bristol, South Hams, Trafford and most of Dorset, and reducing tax bases in the rest of the country, especially in the Midlands and North of England.

- Changes in tax bases would be substantially larger than under a pure revaluation. This partly reflects the reinforcing effect just described. But it also reflects the fact that value levels vary by more than value changes since 1991 do, and the move to a proportional tax system makes tax bases much more sensitive to differences in average property values than under the current regressive council tax structure.

- The billing authorities with the biggest estimated falls in tax bases include Hartlepool (−61%), Blackpool (−61%), Middlesbrough (−59%) and Kingston upon Hull (−59%) – areas where values are low and have increased relatively slowly since 1991. The billing authorities with the biggest estimated increases in tax bases include Kensington & Chelsea (+246%), Westminster (+175%), Camden (+140%) and Richmond upon Thames (+104%) – areas where values are high and have increased relatively rapidly since 1991.

Changes in average tax bills if grant funding is unadjusted

After estimating the effect of revaluation and reform on LAs' tax bases, the next stage of our analysis is to estimate the impact on the average tax bill faced by residents of different LA areas. In doing this, it is reasonable to assume, at least as a first approximation, that revaluation and reform of council tax would not affect how much different LAs want or need to spend on local public services. This means that if general central government funding were not adjusted to reflect changes in LAs' tax bases, each LA would need to raise just as much council tax revenue as prior to revaluation and reform. As highlighted at the start of the chapter, this would mean each LA charging its residents the same average tax bill post- as pre-revaluation-and-reform, although, of course, individual households could see their bills go up or down. Under a pure revaluation, for example, that would mean LAs seeing a fall in their tax base having to set a higher Band D rate to

offset that fall and leave average tax bills unchanged. Conversely, those LAs seeing an increase in their tax base could set a lower Band D rate and still have an unchanged average tax bill and unchanged revenues.

If each part of the country were covered by just one LA that levied council tax, this would mean no change in average council tax bills in each LA area. But in fact multiple LAs delivering different services levy council tax on residents of the same area. For example, in areas with two-tier local government, council tax is levied by a lower-tier district council and an upper-tier county council. Police and crime commissioners levy council tax to pay for local police services and in many areas separate fire authorities levy council tax to pay for fire services. The average bill charged by each of these LAs would be unchanged but, because they overlap, the average *overall* council tax bill in each district – which acts as the billing and collection authority – area would change.[28]

To understand this, consider the average tax bill for residents of a lower-tier district council where the tax base falls, but which is part of wider county, fire and police authorities where the tax base rises. They would pay, on average, the same council tax to the lower-tier district, which would set its Band D rate higher to raise the same revenue as before. But they would, on average, pay less council tax to the county council and fire and police authorities, which would set their Band D rates lower to raise the same revenue as before given their larger tax bases.[29] Their average *overall* council tax bill would therefore fall.

Without adjustment to general central government funding, average tax bills would therefore go down in shire district and other billing authority areas where the tax base falls relative to other parts of higher-level county, police and fire authority areas – that is, areas where values have risen by less or are lower than average compared with neighbouring areas. Average tax bills would go up in shire district and other billing authority areas where the tax base rises relative to other parts of higher-level county, police and fire authority areas.

Figure 4.4 illustrates this for both a pure revaluation (left-hand map) and a continuous and proportional-to-value council tax (right-hand map). It shows that:

- Under a **pure revaluation**, overall average council tax bills would change by less than 5% for all billing authority areas, with the exception of Cambridge (+10%), Oxford (+7%) and Tamworth (+5%). This reflects several factors.

    First is that changes in property values and hence tax bases of billing authorities within higher-level county, police and fire authority areas are generally fairly similar – for example, falling relative to the national average in all of Lancashire and Teesside, and increasing relative to the national average in all of London (see the left-hand panel of Figure 4.2). This means that the share of the higher-level authorities' revenues being

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[28] In parts of England, parish councils also levy small additions to council tax to pay for hyper-local services. These tend to be relatively small though, and all parish councils are within a single billing authority area. Any changes they make to their Band D rate to offset changes in their tax base therefore do not have the same effects on average tax bills by LA as changes that higher-level authorities make to their Band D rates.

[29] Conversely, residents of *other* shire districts in these county, police and fire authority areas would pay more council tax, on average.

contributed by residents of each billing authority area would often change relatively little following revaluation of council tax.

The second factor is that in areas with single-tier local government, such as London, metropolitan districts and unitary authorities, the council tax bills charged by higher-level police and fire authorities make up a relatively small fraction of overall council tax bills. Therefore even relatively large percentage changes in the amount paid to these higher-level authorities translate into relatively small percentage changes in *overall* council tax bills. In areas with two-tier local government, higher-level counties' bills make up a large proportion of overall council tax bills, meaning changes in counties' bills lead to bigger changes in *overall* council tax bills.

The interaction of these two factors explains why the changes in average tax bills would be highest in Cambridge and Oxford: these two cities have seen significantly larger increases in property values than surrounding county areas; and they are areas with two-tier local government, where most of people's council tax bill is accounted for by the county council.

- Under a revalued **continuous and proportional council tax system**, there would be larger changes in overall average council tax bills by billing authority areas. In general, they would rise in those that have the highest house values in their wider county, police and fire authority areas, and fall in those that have the lowest house values in their wider county, police and fire authority areas – reflecting the shift from a regressive to a proportional-to-value tax structure. The biggest effects are again in areas with two-tier local government, given that counties' tax bills make up a high share of overall council tax bills.

  For example, our estimates suggest the biggest falls in average tax bills would be in Fenland (–26%), Nuneaton & Bedworth (–26%), Hyndburn (–25%), Gosport (–25%) and Stevenage (–25%): shire district areas with significantly lower property values than the rest of their counties. On the other hand, the biggest increases in average tax bills would be in Sevenoaks (+36%), South Bucks (+32%), Cambridge (+32%), Derbyshire Dales (+31%) and Rushcliffe (+29%): shire district areas with significantly higher property values than the rest of their counties.

The key takeaway message is that without changing general central government funding, revaluation and reform of council tax would lead to redistribution of tax bills within county, police and fire authority areas, but not across them.

Figure 4.4. Changes in average tax bills if general central government funding is unadjusted, by billing authority area
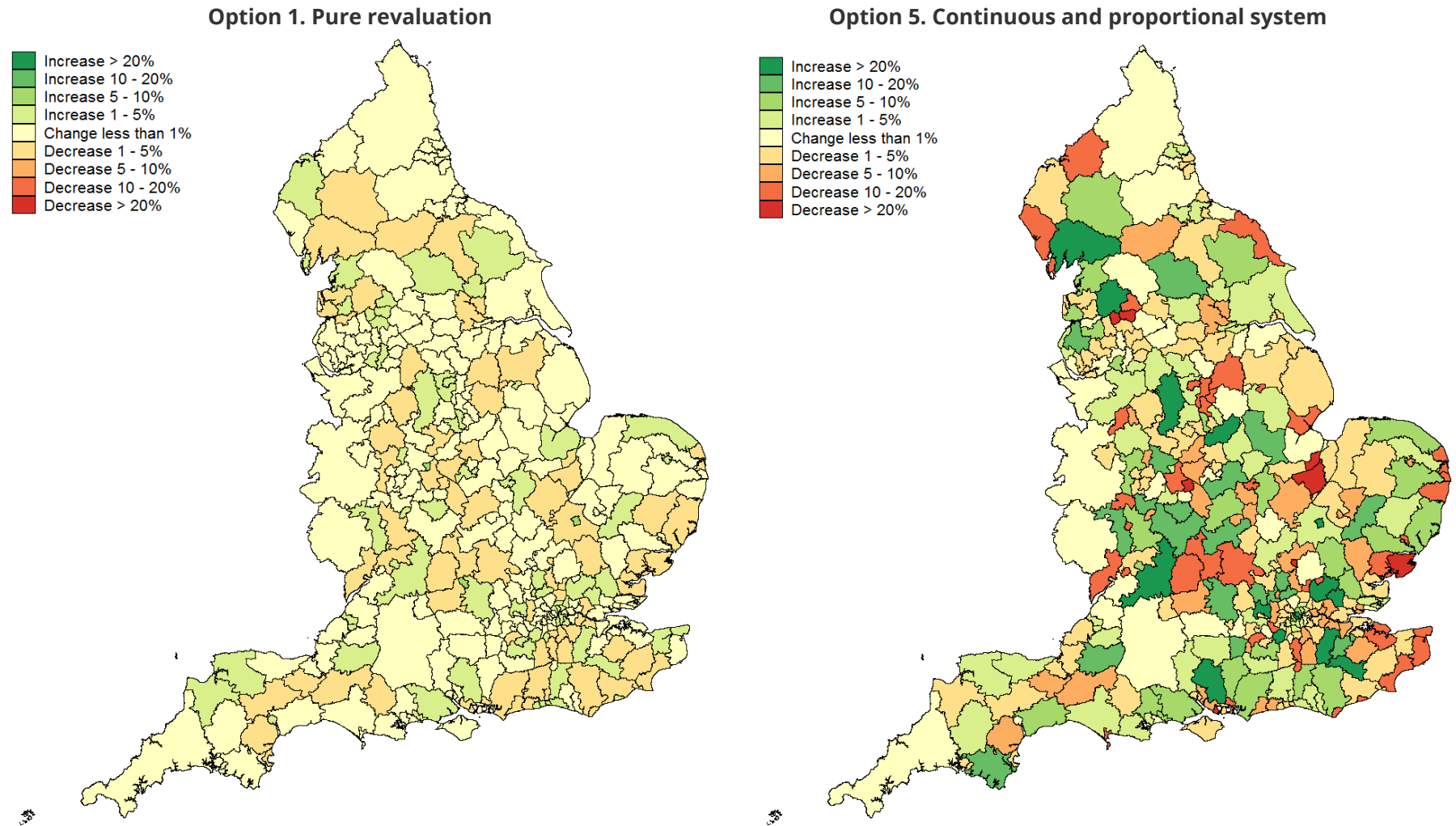
Option 1. Pure revaluation

Increase > 20%
Increase 10 - 20%
Increase 5 - 10%
Increase 1 - 5%
Change less than 1%
Decrease 1 - 5%
Decrease 5 - 10%
Decrease 10 - 20%
Decrease > 20%

Option 5. Continuous and proportional system

Increase > 20%
Increase 10 - 20%
Increase 5 - 10%
Increase 1 - 5%
Change less than 1%
Decrease 1 - 5%
Decrease 5 - 10%
Decrease 10 - 20%
Decrease > 20%

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

Adjusting grants to offset changes in tax bases

However, it is highly unlikely that the government would want to leave general central government funding unadjusted. As highlighted earlier in this chapter, a process of *resource equalisation* was historically at the heart of the English local government finance system. While this system was complex, the idea underlying it is relatively simple: such funding was allocated to LAs in such a way as to offset differences in their tax bases and assessed spending needs.

The aim of this was to allow each LA to afford broadly the same range and quality of services if they each set their (Band D) tax rate at a centrally defined reference rate. LAs with small tax bases (and/or high assessed spending needs) received relatively more funding to reflect the fact they could raise less council tax at that tax rate, while those with large tax bases (and/or low assessed spending needs) received relatively less funding to reflect the fact that they could raise more. Thus, people living in properties with the same assessed value (as of April 1991) could face the same tax bill unless their council set higher or lower tax rates to fund levels of local public service spending that were higher or lower than the reference level.

As noted above, the government moved away from this form of equalisation in 2014–15, but plans to reintroduce it from 2021–22, as part of its Fair Funding Review.[30] In this context, if the government wanted to continue with *resource equalisation* following revaluation and reform of council tax, it would have to adjust the initial funding levels it sets for LAs to reflect the resulting changes in council tax bases: increasing them for those whose tax base falls, and reducing them for those whose tax base rises. If it did not, LAs whose tax bases fall would have to increase their council tax rates if they wanted to maintain revenues and spending, while those whose tax bases rise could cut their tax rates and still maintain revenues and spending. This would mean residents of the former LAs facing higher council tax bills than residents of the latter LAs who live in properties with the same (updated) assessed value, even if both groups of LAs were spending at the reference level underlying the government's resource equalisation system. That is something the local government finance system was historically designed to avoid; and something that the new system for 2021–22 and beyond is designed to avoid, except to the extent that councils are meant to benefit or lose out if their business rates revenue grows faster or slower than inflation.

Of course, the government has discretion over the degree of resource equalisation it undertakes. In the remainder of this chapter, we assume it undertakes full equalisation, so that general central government funding levels are updated to *fully* account for changes in tax bases[31] – although, as we discuss in Chapter 7, partial equalisation is possible as well.

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[30] However, it is important to note that once the baselines are set, LAs will be able to gain or lose if their business rates revenue grows faster or slower than inflation, until the baselines are reset after a period of several years. This is to provide incentives for LAs to take efforts to boost their tax bases (such as supporting and encouraging local property development) and tackle the drivers of spending needs. See Harris, Hodge and Phillips (2019).

[31] In doing this, we assume that the notional council tax rate used to measure councils' pre-revaluation-and-reform tax bases is the current average tax rate, and the rate used to measure their post-revaluation-and-reform tax bases is the tax rate that would raise the same revenue across England as a whole as under the current system. This achieves full equalisation of changes in tax bases.

Full equalisation would mean that LAs would continue to only have to set different tax *rates* if they wished to spend more or less than the reference level, or their business rates revenues had grown faster or slower than inflation, *not* because they had seen their council tax bases go up or down as a result of revaluation and reform. And it would also mean that changes in tax bases as a result of revaluation and reform would be fully reflected in changes in average tax *bills*, which unsurprisingly means bigger changes in average tax bills in most, but not all, parts of the country (relative to no adjustment to general central government funding), as we show shortly.

First, though, Table 4.4 shows the changes in general central government funding that would be needed to fully offset changes in tax bases in the case of our two main reform options for each region of England. Figures 4.5 and 4.6 then show how these changes compare with the levels of funding that billing authorities and county councils get from such funding as of 2018–19, also by region.[32] Table 4.5 shows the number of billing authorities and counties that would need changes in general central government funding of different sizes in order to fully offset changes in tax bases, again by region. Full estimates by LA are available in our online spreadsheet appendix.

Table 4.4. Changes in general central government funding required to fully offset changes in tax bases, by region

Region	Revaluation		Continuous and proportional	
	Per capita	**Aggregate**	**Per capita**	**Aggregate**
East Midlands	+£17	+£81,300,000	+£119	+£571,000,000
East of England	−£12	−£73,400,000	−£38	−£237,200,000
London	−£73	−£647,100,000	−£349	−£3,106,500,000
North East	+£38	+£101,400,000	+£211	+£561,200,000
North West	+£34	+£251,500,000	+£166	+£1,208,700,000
South East	−£8	−£71,700,000	−£93	−£851,700,000
South West	+£5	+£27,000,000	+£36	+£202,800,000
West Midlands	+£26	+£150,900,000	+£120	+£708,100,000
Yorkshire and Humber	+£33	+£180,100,000	+£172	+£943,500,000

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

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[32] We include Revenue Support Grant, retained income from the business rates retention scheme, and Public Health Grant in our definition of 'general central government funding'.

Figure 4.5. Average change in general central government funding per capita with full equalisation under a pure revaluation, and comparison with existing comparable funding, by region (billing authorities and counties only)
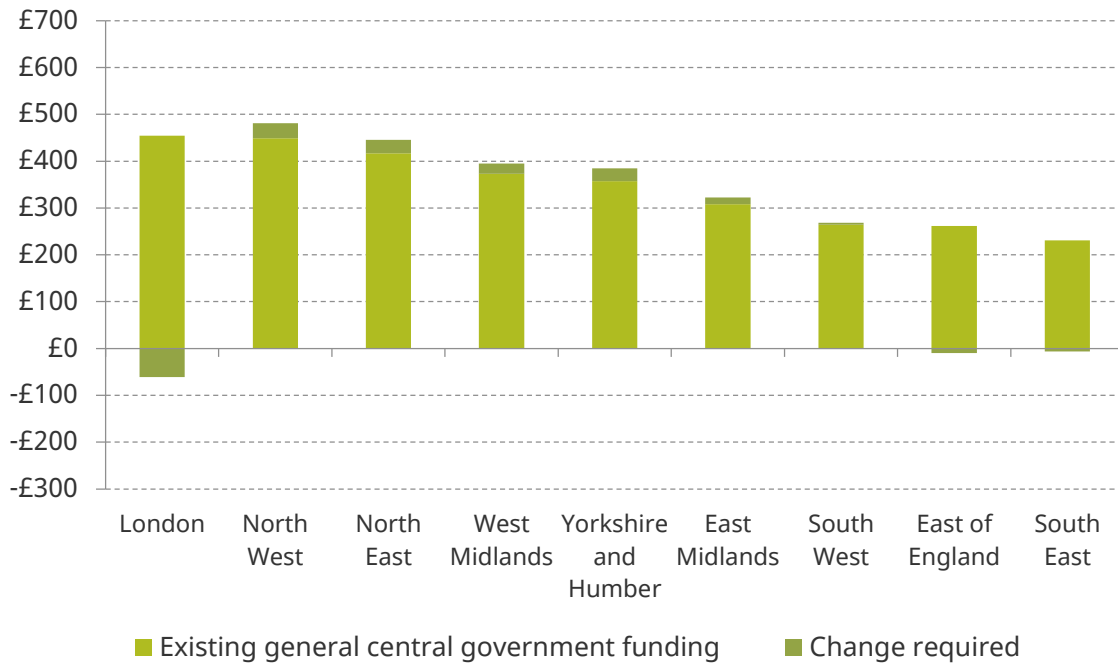
Note: Existing funding includes RSG, retained business rates income, and Public Health Grant.

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

Figure 4.6. Average change in general central government funding per capita with full equalisation under a continuous and proportional council tax, and comparison with existing comparable funding, by region (billing authorities and counties only)
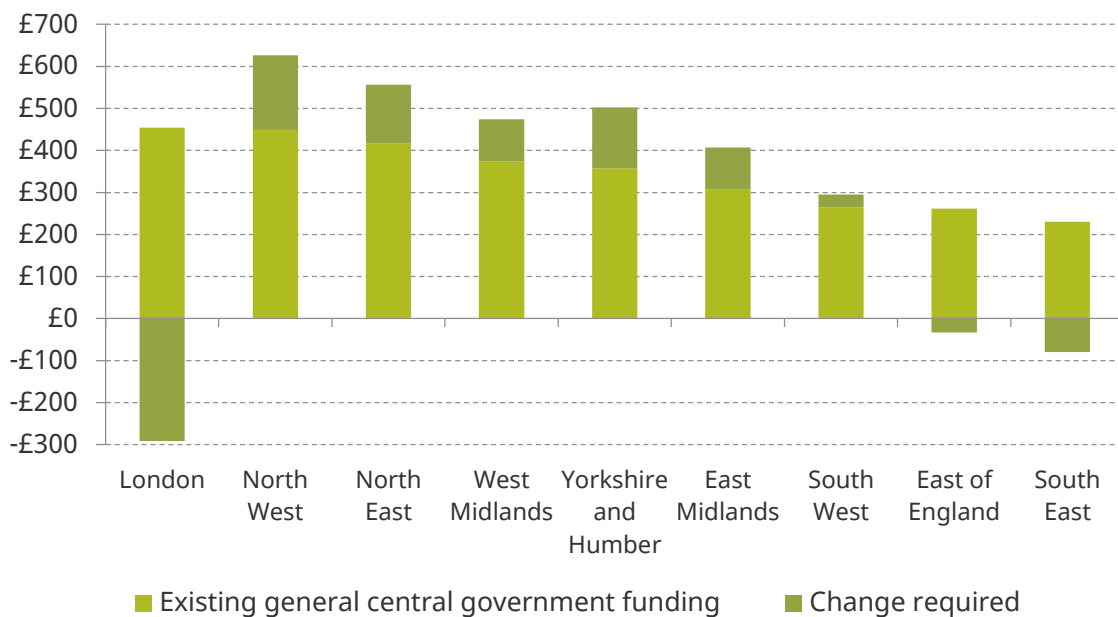
Note: Existing funding includes RSG, retained business rates income, and Public Health Grant.

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

Table 4.5. Number of billing authorities and counties requiring different-sized changes in general central government funding (measured as a percentage of existing equivalent funding) with full equalisation, by region

		Decrease >100%	Decrease 50–100%	Decrease 10–50%	Change 0–10%	Increase 10–50%	Increase 50–100%	Increase >100%
Pure revaluation	East Midlands	0	0	0	41	4	0	0
	East of England	0	0	6	46	0	0	0
	London	0	0	20	13	0	0	0
	North East	0	0	0	8	4	0	0
	North West	0	0	0	28	13	0	0
	South East	0	0	6	66	1	0	0
	South West	0	0	2	31	8	0	0
	West Midlands	0	0	0	19	14	0	0
	Yorkshire and Humber	0	0	0	14	8	0	0
Continuous and proportional	East Midlands	0	0	0	6	38	1	0
	East of England	3	7	10	18	14	0	0
	London	8	7	16	2	0	0	0
	North East	0	0	0	0	10	2	0
	North West	0	0	0	1	33	7	0
	South East	13	11	22	19	8	0	0
	South West	0	1	4	19	17	0	0
	West Midlands	0	0	1	2	29	1	0
	Yorkshire and Humber	0	0	0	1	18	3	0

Note: 'Existing equivalent funding' includes RSG, retained business rates income, and Public Health Grant.

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

The tables and figures show that under a **pure revaluation** with full equalisation:

- The changes in funding required would be fairly modest for a large majority of billing authorities and county councils. Three-quarters would see a change of no greater than 10%, for instance, and none would see a change of more than 50%.[33] This means that the change in general central government funding would amount to no more than 8% of existing equivalent funding on average in all regions bar London.

- General central government funding would be redistributed away from London and, to a lesser extent, the East and South East of England, to the Midlands and North of England. Taking account of the Greater London Authority and police and fire authorities, the reduction in grant and baseline funding for London would equate to £73 per capita, while the increase for the North East, North West and Yorkshire & the Humber would equate to £33–£38 per capita. Focusing on billing authorities and county councils only, this corresponds to a reduction of 13% in the case of London, and an increase of between 7% and 8% for the northern regions of England.

- While there are clear regional patterns, there would be variations in impacts across regions. For example, in the South West, while two billing authorities would see a reduction in such funding of over 10%, eight billing authorities would see an increase of over 10%. Intra-region differences reflect differences in property value changes since 1991 within regions, and differences in existing funding levels.

Under a revalued **continuous and proportional council tax system** with full equalisation:

- Significantly larger changes in general central government funding would be required. This partly reflects the fact that the revaluation and moving to a proportional system reinforce each other, amplifying effects on tax bases and hence the changes in funding required for equalisation. But it also reflects the fact that value levels vary by more than value changes since 1991 do.

- General central government funding for LAs in London would need to be reduced by a total of over £3 billion, equivalent to £349 per head. Focusing on billing authorities only, the reduction would amount to 64% of their existing equivalent funding. Such funding would also be reduced for LAs in the South East (34% for billing authorities and county councils, on average) and East of England (13%). This is because most LAs in these regions would be expected to rely more on council tax payers for funding given the higher tax base they would have under a continuous and proportional council tax system (due to their high property values).

- Conversely, average general central government funding for LAs in other English regions would increase. Taken together, LAs in the North West would see an increase of over £1.2 billion, and Yorkshire & the Humber over £0.9 billion, for example. Focusing

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[33] The largest decrease would be in Richmond upon Thames (–45%), an area that has seen significantly higher-than-average increases in house prices since 1991, and is also affluent so therefore receives relatively little funding from grants and business rates currently (which means a given cash change in grant and baseline funding translates into a large percentage change). The largest increase would be in Cheshire East (+33%), an area that has seen significantly lower-than-average increases in house prices since 1991, but remains relatively affluent so also receives relatively little funding from grants and business rates currently.

on billing authorities and county councils, this would amount to around 40% of existing equivalent funding for these regions.

- There would be significant variation across LAs within regions, reflecting differences in average property values (and hence whether general central government funding would increase or decrease under a proportional council tax if changes in tax bases were equalised for) and existing equivalent funding (which will affect the *percentage* change for a given cash-terms change).

- Twenty-four billing authorities and counties would require reductions in funding larger than the amount they received in 2018–19: 13 in the South East of England, 8 in London and 3 in the East of England. This reflects both the large increases in tax bases that those LAs with the highest property values would see under a continuous and proportional council tax system, and the fact that a number of these authorities (especially those outside London) receive little general central government funding due to their affluence. It means that if the government wanted to adjust funding to fully equalise on the basis of updated tax bases, it would have to do one (or both) of two things:

  - First, it could reduce other funding streams, especially for London boroughs and county councils, such as the Dedicated Schools Grant which funds LA-maintained schools; these LAs would have to fund the expenditure these specific grants are provided for from council tax payers instead.

  - However, the district councils that would be in this position receive relatively little in the way of other funding from the government that could be reduced. The government would therefore have to consider whether it was willing to place a levy on the council tax revenues of such LAs, in effect redistributing a portion of what local council tax payers pay to other parts of the country. This would require changes to legislation that currently forbids the government from doing so. If it was not willing to do this, it would be unable to fully equalise changes in tax bases for all LAs.

  Alternatively, the government could undertake less-than-full equalisation – an option we discuss in further detail in Chapter 7 of this report. As well as meaning smaller changes in grant and baseline funding, it would also mean smaller changes in average tax bills across LA areas.

Therefore, while a pure revaluation could be accommodated within the local government finance system in a relatively straightforward manner, implementation of a continuous and proportional council tax system would require more significant changes to the system. In particular, the government would need to think carefully about what to do with those LAs whose tax base would be so large they would be assessed capable of raising more from council tax than they need in funding overall. These additional considerations do *not* mean that a reform that is desirable in principle would not be implementable in practice – just that especially careful planning would be required.

Changes in average tax bills if funding is fully adjusted

How would average tax bills change if the government did decide to fully adjust general central government funding to offset changes in tax bases? Figure 4.7 shows our estimates for our two main reform options, under the assumption that LAs set their tax

rates so that their overall revenues (council tax revenues plus adjusted grant and business rates funding) were unchanged, allowing them to maintain spending.

The left-hand panel shows that under a **pure revaluation**:

- In parts of the country where property values have increased by more than average since April 1991, such as London (and surrounding areas), Brighton, Bristol, Cambridge and Oxford, average tax bills would increase. This is because LAs in these areas would see a reduction in general central government funding to reflect their larger tax bases, and hence would need local council tax payers to pay more to maintain spending levels, which implies an increase in the average tax bill. The largest increases would be in Hackney (+45%), Wandsworth (+34%) and Lambeth (+30%) in inner London, but only four areas outside of London (Brighton & Hove, Bristol, Cambridge and Oxford) would see increases of over 10%.

- Conversely, in parts of the country where property values have increased by less than average, such as most of the North and Midlands (but also parts of the South West), average bills would decrease. This is because LAs in these areas would see an increase in their grant funding to reflect their smaller tax bases, and hence would require less council tax from their residents to maintain spending levels – meaning a fall in the average tax bill they would have to charge. The biggest reductions would be in Fylde (−15%), Wyre (−15%) and Ribble Valley (−13%), all in Lancashire.

The right-hand panel shows that under a revalued **continuous and proportional council tax system**:

- Changes in average tax bills by billing authority area would be substantially larger. As already highlighted when discussing changes in tax bases and changes in grant and baseline funding, this reflects two factors: first, that the effects of revaluation and moving to a proportional system reinforce each other, amplifying effects on average tax bills; and second, that property value levels vary considerably more than property value changes.

- The biggest reductions in average tax bills would be in the predominantly urban northern and Midlands areas with the lowest property values. Average bills would fall by an estimated 60% in Kingston upon Hull, 57% in Stoke-on-Trent and 56% in Blackpool, for example. More generally, average bills would fall by more than 20% across most LAs in the North and northern parts of the Midlands. And in only two billing authority areas north of Birmingham would they increase: Trafford (+4%) and Derbyshire Dales (+1%).

Figure 4.7. Changes in average tax bills if general central government funding is fully adjusted, by billing authority area
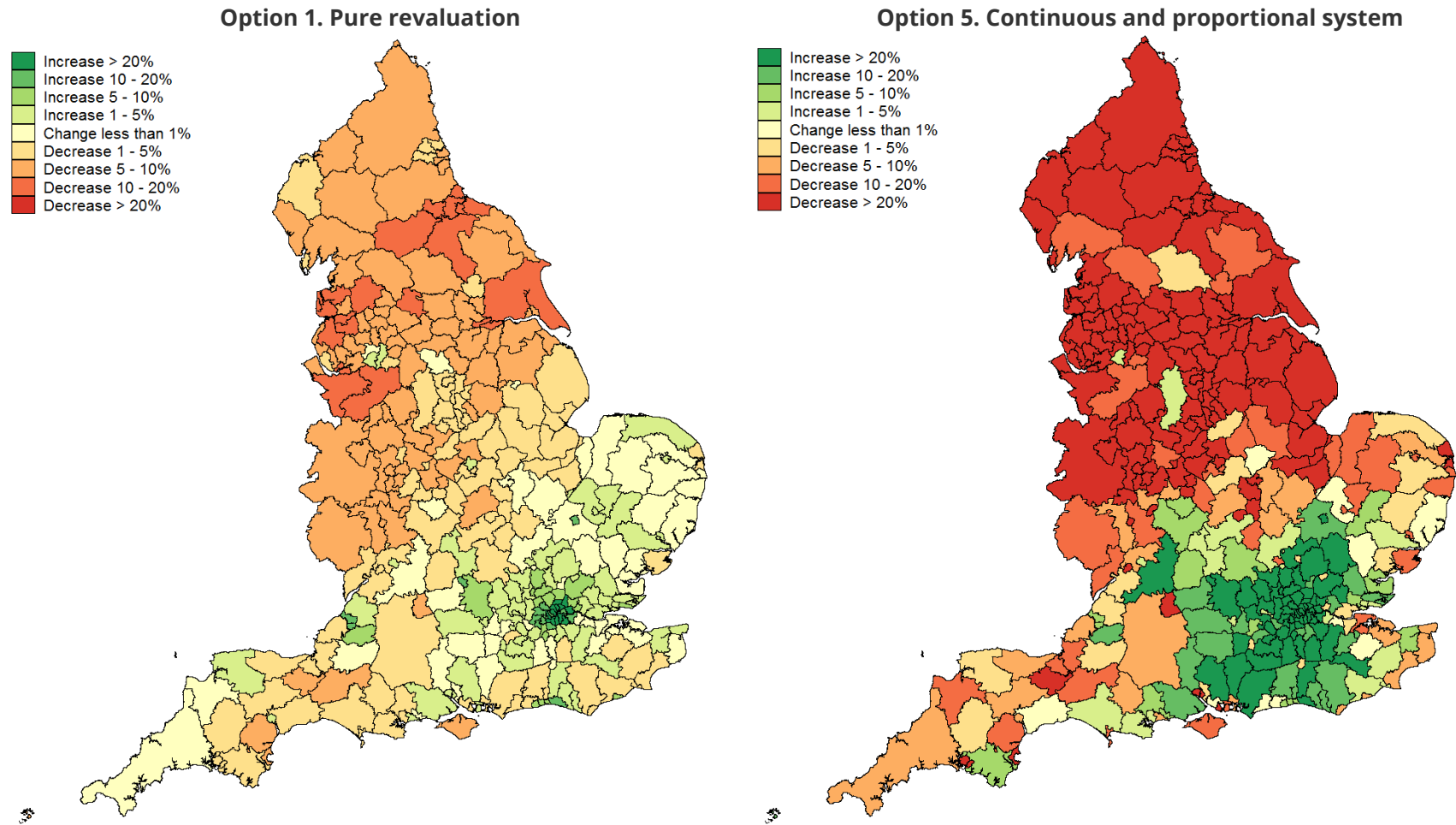
Source: Authors' calculations using HM Land Registry (2019), MHCLG (2018a, 2018b and 2019e) and VOA (2018).

- The biggest increases in average tax bills would be in inner London, with increases estimated at 410% in Westminster, 358% in Kensington & Chelsea and 166% in Wandsworth. This reflects two main factors. First and most obvious is that property values are very high in these areas.[34] Second is that Westminster and Wandsworth currently set very low council tax *rates*. Full adjustment of grant and baseline funding on the basis of changes in tax bases given *average* tax rates therefore means they would have to increase those low tax rates to offset the reduced grant and baseline funding they would receive. The combination of a higher tax *base* and having to set a higher tax *rate* leads to particularly large percentage changes in tax bills for these LA areas.

- More generally, average tax bills would increase by more than 20% in most London boroughs and most surrounding districts, with exceptions being less affluent towns with relatively low property values such as Crawley (down 3%), Harlow (down 5%), Luton (down 15%) and Stevenage (down 4%). Outside the immediate London area, average bills would increase notably in Bristol and Bath but fall in much of the rest of the South West, as well as in most of northern East Anglia and eastern Kent.

Figure 4.8 shows that under a **continuous and proportional council tax system**, the significant variation across the country in council tax bills as a percentage of property values that the existing regressive council tax system entails would be much reduced (again if grant and baseline funding were adjusted to reflect changes in tax bases). The remaining differences would reflect different councils choosing to raise relatively more or less from council tax by setting different tax rates, differences in the share of properties subject to discounts and exemptions, and the CTS scheme in different LA areas.

For example, based on Q1 2019 estimated property values and actual 2018–19 tax rates, average council tax bills in Hartlepool and Hyndburn were equivalent to over 1% of average property values. And effective council tax rates averaged over 0.8% of property value in a further 12 northern billing authority areas, such as Burnley, Copeland, Redcar & Cleveland and County Durham. What all these areas have in common is their low average property values, as well as the fact that property values have increased by significantly less than average since 1991, the year existing tax bands are based on. The regressive structure of the existing council tax system therefore subjects properties in these LA areas to relatively high effective tax rates. The same is true, albeit to a lesser extent, across much of the North and Midlands of England.

In contrast, average council tax bills in Westminster and Kensington & Chelsea are equivalent to less than 0.1% of average property values. And a further eight London boroughs have average effective council tax rates of less than 0.2% of average property values. This partly reflects the low Band D tax rates set by a number of London boroughs, such as Wandsworth and Westminster. However, it largely reflects the regressive structure of the existing council tax system that subjects the high (and much increased) values of properties in these areas to relatively low effective tax rates. The same is true, albeit to a lesser extent, for most of London and its environs.

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[34] In addition, property prices have increased by more than average since 1991 in these areas.

Figure 4.8. Average tax bill as a % of average property value if general central government funding is fully adjusted, by billing authority area
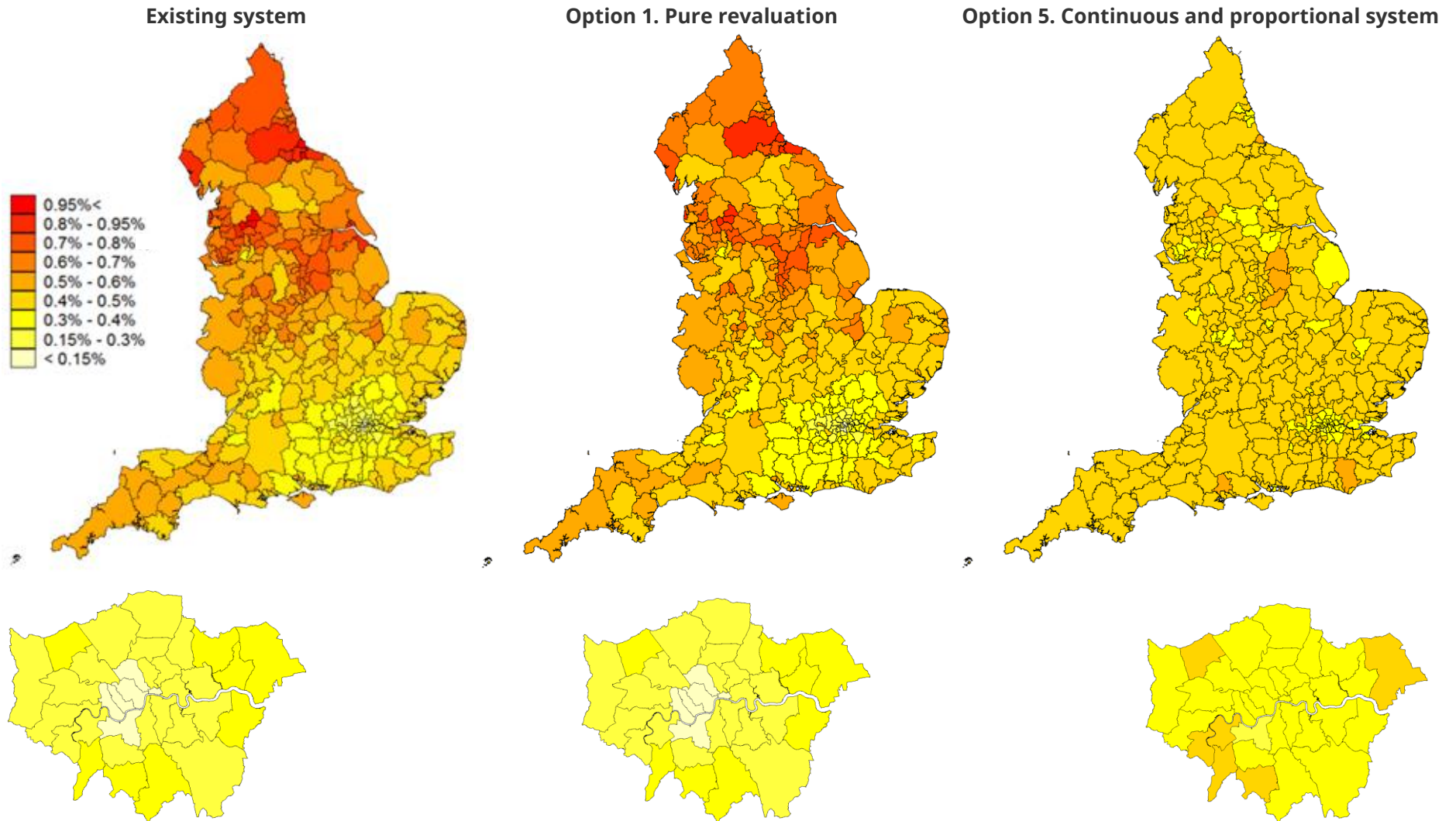
| Existing system | Option 1. Pure revaluation | Option 5. Continuous and proportional system |

Legend:
- 0.95% <
- 0.8% - 0.95%
- 0.7% - 0.8%
- 0.6% - 0.7%
- 0.5% - 0.6%
- 0.4% - 0.5%
- 0.3% - 0.4%
- 0.15% - 0.3%
- < 0.15%

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

Under a **continuous and proportional council tax system**, average effective council tax rates would be between 0.4% and 0.5% in a large majority of billing authority areas, including Hyndburn (0.45%) and Hartlepool (0.5%).

Effective tax rates would be less than 0.4% in around one-in-five billing authority areas, mostly in London (27 out of 33 boroughs) and a number of other major urban areas in Greater Manchester, South and West Yorkshire, Tyneside and the West Midlands. This reflects the fact that LAs in these areas typically choose to set lower-than-average Band D rates (and spend commensurately less) – which, if they continued to do, would allow them to set a lower percentage tax rate under a continuous and proportional system. And a relatively large share of properties in these areas tend to be subject to exemptions (for example, for students), discounts, and CTS schemes that reduce tax bills and which we assume would remain in place in this reform option.

Some variation in effective tax rates is inevitable, though, unless local discretion on council tax rates were removed and exemptions, discounts, premiums and CTS schemes abolished. This would be a very radical departure both in terms of the financing of local government if rate-setting power is centralised and in terms of the tax bills faced by low-income households if CTS is abolished. But as we discussed in Chapter 2, a strong case can be made for removing most of the exemptions and discounts in place, and our sixth reform option does just that by modelling the impact of a continuous and proportional system without a single-person discount.

4.3   Other options for reform

The previous section focused on two main reform options: a pure revaluation (option 1 from our original list in Chapter 3) and, in addition, moving to a continuous and proportional council tax system (option 5). In this section, we briefly consider the effects on different LA areas of the other reform options from our original list in Chapter 3:

- option 2: revaluation with proportional bands;

- option 3: revaluation with extra and proportional bands;

- option 4: revaluation with extra and less regressive bands;

- option 6: revaluation with a continuous and proportional system without a single-person discount.

Full details can be found in our online spreadsheet appendix. Table 4.6 shows how many billing authorities and counties in each region would see changes in their general central government funding of different sizes under each of these reform options. It shows that:

- Full equalisation under each of the proportional systems (2, 3, 5 and 6) would require broadly similar changes to general central government funding levels of different LAs. In particular, those in the northern and Midlands regions would generally require increases of more than 10% (and often substantially more so), while those in the South East and London would mostly require reductions of more than 10% (and often substantially more so). The one notable difference is that the number that would

require a reduction of more than 100% would be larger under the continuous and proportional options (5 and 6) than under the banded proportional options (2 and 3). This reflects the fact that the very highest valued properties would see higher taxes under the continuous systems than under the banded systems. This would push up the tax bases of those LAs where these very high valued properties are concentrated under the continuous options, necessitating bigger reductions in funding under full equalisation. Nevertheless, 20 billing authorities and county councils are still estimated to require a reduction in general central government funding equivalent to more than 100% under the banded proportional systems. This means the government would still need to consider carefully how the local government finance system operates if some LAs are assessed to be able to raise more themselves via council tax than they are assessed to need to spend overall.

- The impact of revaluing and moving to a less regressive (but still not fully proportional) banding structure (option 4) would lie in between the impact of a pure revaluation and the impact of a fully proportional system. For the particular system we model, we estimate three billing authorities would require reductions in general central government funding that exceed the amount received in 2018–19: Chiltern, East Hertfordshire and Richmond upon Thames. While the government would still need to consider how to address such cases, the effect on the wider system of equalisation would be less significant if only a handful of LAs were affected.

Tables 4.7–4.9 show the impact on average council tax bills by billing authority area if general central government funding were fully adjusted. They show that:

- As with the changes in funding, the change in average bill under banded proportional systems (options 2 and 3) would be very similar to the change under the continuous proportional systems (options 5 and 6) in most billing authority areas. The notable exceptions are those LAs where the highest-value properties are concentrated – most notably Kensington & Chelsea, Westminster and Camden – and, to a much lesser extent, those LAs where the lowest-value properties are concentrated – such as Hartlepool, Burnley and Kingston upon Hull. That is because under continuous systems, the very most expensive and the very cheapest properties would face higher and lower taxes respectively, than under a banded system.

- The similarity of effects at the LA area level is even truer when comparing options 5 and 6: the continuous and proportional systems with and without the single-person discount retained. The change in average bills would typically be a little higher under option 6 than under option 5 in urban areas where relatively more households claim the single-person discount.[35] Average bills would typically be a little lower in parts of London that are affluent and/or have high Asian populations, where relatively few households claim the single-person discount.

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[35] Table 4.9 shows those billing authority areas with the biggest *percentage point* difference in changes in average tax bills under options 5 and 6. If we focused on the biggest percentage differences, the billing authority areas where average bills would be highest under option 6 (abolishing the single-person discount) relative to option 5 (keeping it) would be mostly deprived urban areas in the North of England, such as Blackpool, Kingston upon Hull and South Tyneside.

Table 4.6. Number of billing authorities and counties requiring different-sized changes in general central government funding (measured as a percentage of existing equivalent funding) with full equalisation, by region

Reform	Percentage change in comparable funding	East Midlands	East of England	London	North East	North West	South East	South West	West Midlands	Yorkshire & Humber
Option 1	Decrease >100%	0	0	0	0	0	0	0	0	0
	Decrease 50–100%	0	0	0	0	0	0	0	0	0
	Decrease 10–50%	0	6	20	0	0	6	2	0	0
	Increase or decrease 0–10%	41	46	13	8	28	66	31	19	14
	Increase 10–50%	4	0	0	4	13	1	8	14	8
	Increase 50–100%	0	0	0	0	0	0	0	0	0
	Increase >100%	0	0	0	0	0	0	0	0	0
Option 2	Decrease >100%	0	3	5	0	0	12	0	0	0
	Decrease 50–100%	0	7	10	0	0	14	1	0	0
	Decrease 10–50%	0	11	17	0	0	21	6	1	0
	Increase or decrease 0–10%	6	19	1	0	1	18	18	2	1
	Increase 10–50%	39	12	0	12	35	8	16	29	18
	Increase 50–100%	0	0	0	0	5	0	0	1	3
	Increase >100%	0	0	0	0	0	0	0	0	0
Option 3	Decrease >100%	0	3	5	0	0	12	0	0	0
	Decrease 50–100%	0	7	10	0	0	14	1	0	0
	Decrease 10–50%	1	11	17	0	0	20	6	1	0
	Increase or decrease 0–10%	5	19	1	0	1	19	18	2	1
	Increase 10–50%	39	12	0	11	35	8	16	29	18
	Increase 50–100%	0	0	0	1	5	0	0	1	3
	Increase >100%	0	0	0	0	0	0	0	0	0

Option 4	Decrease >100%	0	1	1	0	0	1	0	0	0
	Decrease 50–100%	0	1	3	0	0	9	0	0	0
	Decrease 10–50%	0	16	26	0	0	29	3	0	0
	Increase or decrease 0–10%	24	33	3	0	6	33	29	9	3
	Increase 10–50%	21	1	0	12	35	1	9	24	19
	Increase 50–100%	0	0	0	0	0	0	0	0	0
	Increase >100%	0	0	0	0	0	0	0	0	0
Option 5	Decrease >100%	0	3	8	0	0	13	0	0	0
	Decrease 50–100%	0	7	7	0	0	11	1	0	0
	Decrease 10–50%	0	10	16	0	0	22	4	1	0
	Increase or decrease 0–10%	6	18	2	0	1	19	19	2	1
	Increase 10–50%	38	14	0	10	33	8	17	29	18
	Increase 50–100%	1	0	0	2	7	0	0	1	3
	Increase >100%	0	0	0	0	0	0	0	0	0
Option 6	Decrease >100%	0	3	8	0	0	13	0	0	0
	Decrease 50–100%	0	7	6	0	0	11	1	0	0
	Decrease 10–50%	0	10	17	0	0	22	4	1	0
	Increase or decrease 0–10%	6	19	2	0	1	19	20	2	1
	Increase 10–50%	39	13	0	10	34	8	16	29	18
	Increase 50–100%	0	0	0	2	6	0	0	1	3
	Increase >100%	0	0	0	0	0	0	0	0	0

Note: 'Existing equivalent funding' includes RSG, retained business rates income, and Public Health Grant. Reform options are: (1) pure revaluation; (2) revaluation with proportional bands; (3) revaluation with extra and proportional bands; (4) revaluation with extra and less regressive bands; (5) revaluation with a continuous and proportional system; and (6) revaluation with a continuous and proportional system without a single-person discount.

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

Table 4.7. Number of lower-tier council areas seeing different-sized changes in average council tax bills with full equalisation, by region

Reform	Percentage change in average council tax bill	East Midlands	East of England	London	North East	North West	South East	South West	West Midlands	Yorkshire & Humber
Option 1	Decrease >50%	0	0	0	0	0	0	0	0	0
	Decrease 25–50%	0	0	0	0	0	0	0	0	0
	Decrease 10–25%	0	0	0	5	10	0	0	0	4
	Decrease 0–10%	39	12	0	7	27	27	26	29	17
	Increase 0–10%	1	34	12	0	2	38	10	1	0
	Increase 10–25%	0	1	12	0	0	2	1	0	0
	Increase 25–50%	0	0	9	0	0	0	0	0	0
	Increase >50%	0	0	0	0	0	0	0	0	0
Option 2	Decrease >50%	0	0	0	0	1	0	0	1	1
	Decrease 25–50%	17	2	0	12	31	0	2	15	14
	Decrease 10–25%	16	9	0	0	6	5	9	9	5
	Decrease 0–10%	4	10	0	0	0	13	13	3	1
	Increase 0–10%	3	10	2	0	1	14	9	2	0
	Increase 10–25%	0	8	3	0	0	18	4	0	0
	Increase 25–50%	0	7	10	0	0	14	0	0	0
	Increase >50%	0	1	18	0	0	3	0	0	0
Option 3	Decrease >50%	0	0	0	1	2	0	0	1	1
	Decrease 25–50%	17	2	0	11	30	0	2	14	14
	Decrease 10–25%	16	9	0	0	6	5	9	10	5
	Decrease 0–10%	4	10	0	0	0	13	13	3	1
	Increase 0–10%	3	10	2	0	1	15	9	2	0
	Increase 10–25%	0	8	3	0	0	17	4	0	0
	Increase 25–50%	0	7	11	0	0	14	0	0	0
	Increase >50%	0	1	17	0	0	3	0	0	0

Option 4	Decrease >50%	0	0	0	0	0	0	0	0	0
	Decrease 25–50%	0	0	0	4	4	0	0	1	2
	Decrease 10–25%	15	1	0	8	30	0	3	17	16
	Decrease 0–10%	22	13	0	0	4	12	18	10	3
	Increase 0–10%	3	23	4	0	1	38	14	2	0
	Increase 10–25%	0	10	10	0	0	17	2	0	0
	Increase 25–50%	0	0	11	0	0	0	0	0	0
	Increase >50%	0	0	8	0	0	0	0	0	0
Option 5	Decrease >50%	0	0	0	3	5	0	0	1	2
	Decrease 25–50%	17	2	0	9	28	0	2	17	13
	Decrease 10–25%	16	9	0	0	5	6	9	7	5
	Decrease 0–10%	4	10	1	0	0	12	14	3	1
	Increase 0–10%	3	10	1	0	1	14	9	2	0
	Increase 10–25%	0	8	5	0	0	18	3	0	0
	Increase 25–50%	0	5	10	0	0	13	0	0	0
	Increase >50%	0	3	16	0	0	4	0	0	0
Option 6	Decrease >50%	0	0	0	3	3	0	0	1	2
	Decrease 25–50%	17	2	0	9	30	0	2	16	14
	Decrease 10–25%	16	9	0	0	5	6	9	8	4
	Decrease 0–10%	5	10	1	0	0	14	14	3	1
	Increase 0–10%	2	10	1	0	1	12	9	2	0
	Increase 10–25%	0	8	5	0	0	18	3	0	0
	Increase 25–50%	0	6	9	0	0	14	0	0	0
	Increase >50%	0	2	17	0	0	3	0	0	0

Note: As for Table 4.5. Reform options are: (1) pure revaluation; (2) revaluation with proportional bands; (3) revaluation with extra and proportional bands; (4) revaluation with extra and less regressive bands; (5) revaluation with a continuous and proportional system; and (6) revaluation with a continuous and proportional system without a single-person discount.

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

Table 4.8. Change in average council tax bill relative to the pre-reform system in the billing authority areas where whether a proportional system was banded or continuous would make the biggest difference to average council tax bills

Five billing authority areas where the average bill under option 5 would be highest relative to the average bill under option 2			*Five billing authority areas where the average bill under option 5 would be lowest relative to the average bill under option 2*		
Billing authority area	**% change relative to existing average bill**		**Billing authority area**	**% change relative to existing average bill**	
	Option 2	**Option 5**		**Option 2**	**Option 5**
Kensington & Chelsea	+224%	+358%	Hartlepool	−44%	−52%
Westminster	+282%	+410%	Burnley	−43%	−51%
Camden	+122%	+155%	Kingston upon Hull	−53%	−60%
Elmbridge	+65%	+81%	Middlesbrough	−45%	−52%
Merton	+79%	+91%	Hyndburn	−48%	−55%

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

Table 4.9. Change in average council tax bill relative to the pre-reform system in the billing authority areas where whether the single-person discount was abolished or not would make the biggest difference to average council tax bills

Five billing authority areas where the average bill under option 6 would be highest relative to the average bill under option 5			*Five billing authority areas where the average bill under option 6 would be lowest relative to the average bill under option 5*		
Billing authority area	**% change relative to existing average bill**		**Billing authority area**	**% change relative to existing average bill**	
	Option 5	**Option 6**		**Option 5**	**Option 6**
Hackney	+110%	+114%	Westminster	+410%	+399%
Norwich	−16%	−12%	Kensington & Chelsea	+358%	+351%
Islington	+107%	+110%	Wandsworth	+166%	+160%
Hastings	−8%	−5%	Merton	+91%	+87%
Eastbourne	−10%	−8%	Ealing	+50%	+47%

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

- The impact of a less regressive (but not fully proportional) banded structure (option 4) would lie between the impact of a pure revaluation and the impacts of fully proportional structures. If accompanied by full adjustment of general central government funding, it would still generate significant decreases in average tax bills in most of the North and Midlands of England, and increases in London and its environs – especially the western parts of London and south-western and north-western commuter areas with the highest property values. But they would be notably smaller than under a fully proportional tax system, which can be seen by comparing Figure 4.9 with the right-hand panel of Figure 4.7. For example, the increase in average council tax bill would be 96% in Westminster (as opposed to 410% under a fully proportional system) and 70% in Kensington & Chelsea (rather than 358%). Conversely, the reduction in Blackpool would be around 30% (as opposed to 56%) and the reduction in Kingston upon Hull 28% (as opposed to 60%).

Figure 4.9. Changes in average tax bills if general central government funding is fully adjusted, by billing authority area

Option 4. Less regressive banded system
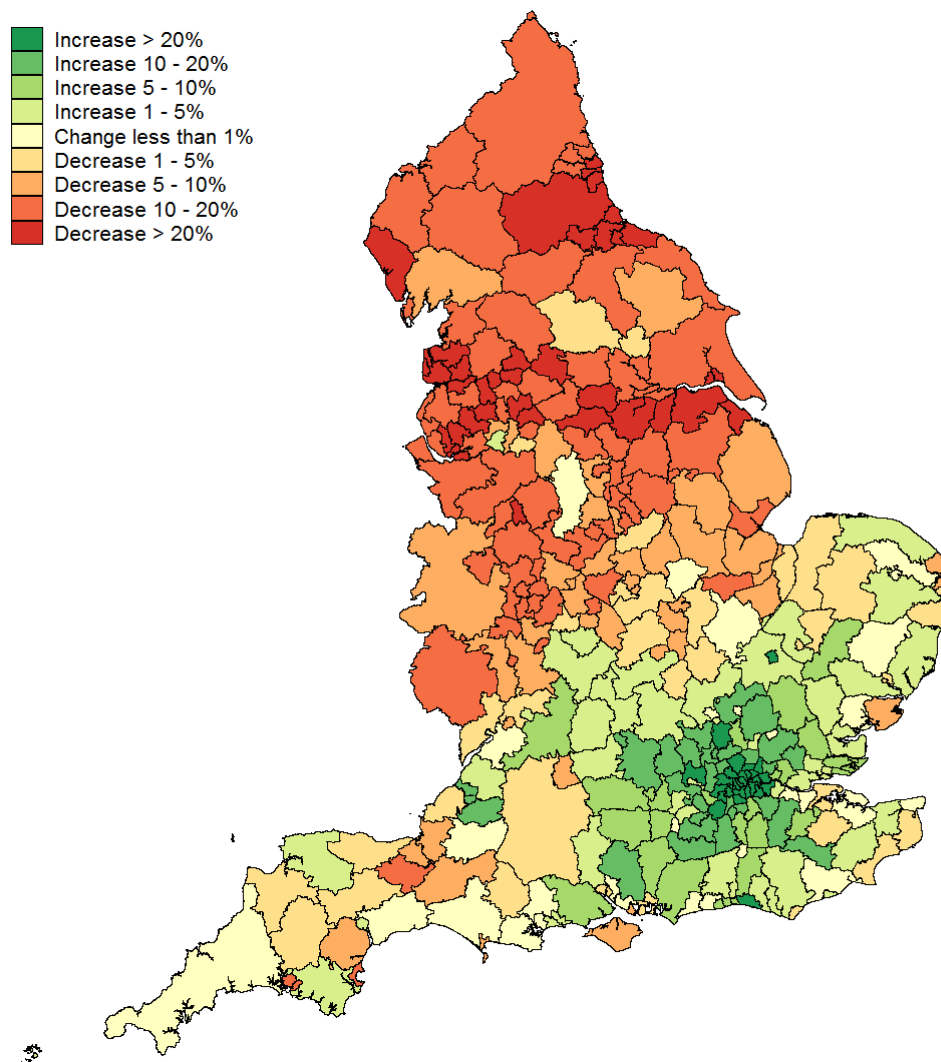
Source: Authors' calculations using HM Land Registry (2019), MHCLG (2018a, 2018b and 2019e) and VOA (2018).

5. The impact of revaluation and reform across households

Understanding how the impacts of revaluation and reform are distributed across households is important given concerns about income inequality and intergenerational fairness, and in order to understand the impact on people with protected characteristics.

This chapter examines the effect of revaluation and reform across households: by income, family composition, age, disability status, ethnicity and housing tenure. We focus here on average changes in council tax liability. Of course, reforms that have little effect on average may still produce many winners and losers. The distribution of impacts for key groups of interest – including low-income households and pensioners – is explored in Chapter 7. Estimates of the proportions of winners and losers among other groups can be found in Appendix B and our online spreadsheet appendix.

The results presented in this chapter focus on the 'full grant adjustment' scenario. Given the government is reintroducing a system of resource equalisation as part of its Fair Funding Review, we consider this a more appropriate option than maintaining the current general central government funding allocations, which are partly based on estimates of tax bases given outdated 1991 property values. Results if this funding were not adjusted are given in our online spreadsheet appendix, and we note where results depend on funding adjustment assumptions. We also present some analysis under an assumption of partial funding adjustment in Chapter 7. As explained in Chapter 3, due to sample size restrictions we model funding adjustments at the regional level, preserving current differences in Band D rates between local authorities in any given region.

We focus on households' council tax bills after council tax support (CTS) is accounted for – referred to hereon as 'net council tax bills' – assuming full take-up of CTS. Modelling take-up of CTS is challenging for reasons discussed in Section 5.2. Where assumptions on take-up affect the pattern of results, we discuss impacts on council tax bills before CTS ('gross council tax bills'), which is equivalent to assuming no take-up of CTS. The reality will lie somewhere between the two scenarios, although as we discuss further below, estimates of CTS expenditure based on the assumption of full take-up more closely match actual expenditure than estimates based on estimated take-up rates.

For most of this chapter, we model effects assuming that changes in council tax would be borne by the occupiers of properties and, in particular, would not affect rents. But landlords, at least of privately rented properties, may adjust rents in response to changes in council tax liabilities. In Section 5.4, we discuss how different assumptions on whether changes in council tax are ultimately borne by occupiers (including tenants) or property owners affect the results presented.

The chapter proceeds as follows. Section 5.1 summarises the distribution of gains and losses from our two main policy options – pure revaluation and a continuous and proportional system – across all households. Section 5.2 examines the average impact these reform options would have across different household types. Section 5.3 considers alternative reform options, including a proportional and less-than-proportional banded system and removing the single-person discount. Section 5.4 discusses how the results

presented in the chapter would change if changes in council tax were borne by landlords instead of tenants as a result of changes in rents.

5.1 Overall effects

The reforms we model are revenue neutral, so by definition there would be no change in average council tax bills (after CTS) across all households in England. However, many households would lose and many others gain from both reform options.

Figure 5.1 shows the distribution of cash changes in households' net council tax bills from a pure revaluation and a continuous and proportional system, assuming grants fully adjust to reflect changes in regional tax bases. A pure revaluation would lead to modest changes for most households in England. The majority of households (61% or 14.5 million households) would see changes of less than £50 a year if grants were fully adjusted. However, some households would see large changes, with 2.6 million households (11%) gaining by more than £200 a year, and around the same number losing by more than £200 a year.

A continuous and proportional system would lead to larger changes in council tax bills, with 18.7 million or around four-fifths of households seeing changes of more than £50 a year. More households would benefit substantially from the reform than lose out substantially. Under full grant adjustment, 10.1 million households (42%) would gain more than £200 a year, compared with just 4.2 million (17%) that would lose over £200 a year. However, those who lose from the reform lose more on average: the average loss among households losing more than £200 a year is around £1,230, compared with an average gain of around £480 among those gaining more than £200 a year. The prevalence of large gains partly reflects the effect of adjustments to general central government funding: if grants were to remain fixed, the number (share) of households gaining over £200 a year would be 8.6 million (36%) instead of 10.1 million (42%).[36]
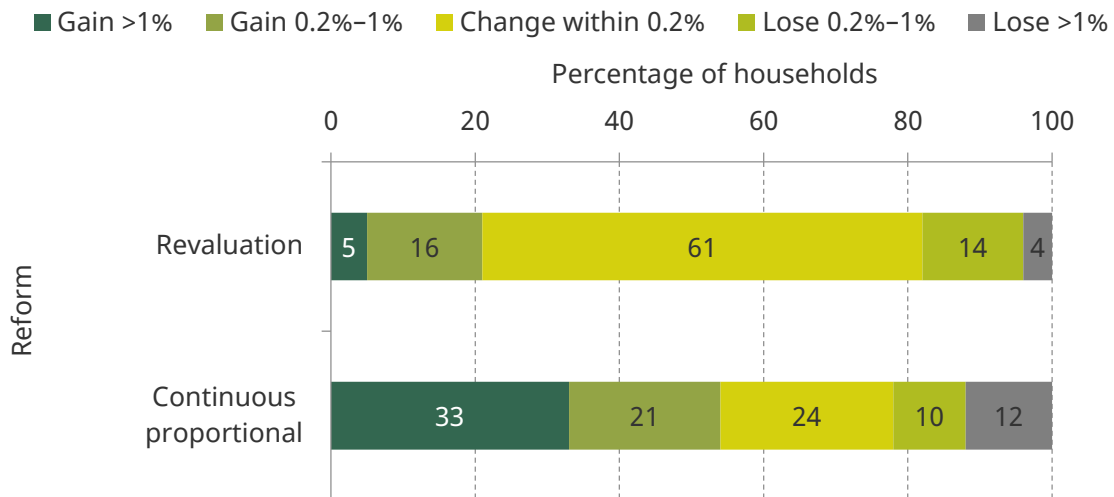
Figure 5.1. Distribution of cash changes in net council tax bills (per year)
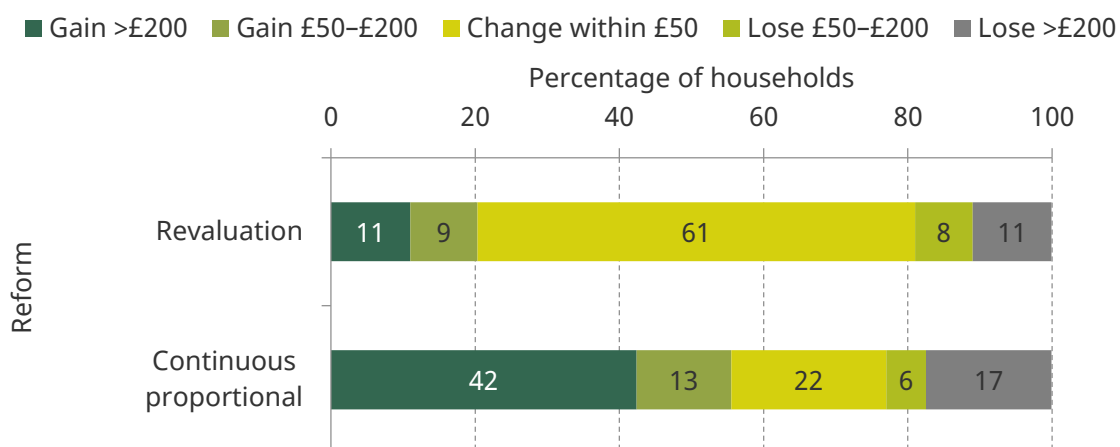
Note: Assumes full grant adjustment and full take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

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[36] Reallocation of such funding from London and the South East to the Midlands and North would increase the numbers of households gaining in the latter by more than numbers would fall in the former.

Figure 5.2. Distribution of percentage changes in household disposable incomes

■ Gain >1%   ■ Gain 0.2%–1%   ■ Change within 0.2%   ■ Lose 0.2%–1%   ■ Lose >1%

Note: Assumes full grant adjustment and full take-up of CTS. Net household income is defined as income after taxes and benefits.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.2 shows the distribution of changes in council tax bills as a share of net household incomes, after taxes and benefits. This can be interpreted as the distribution of percentage changes in households' disposable incomes after paying their council tax bills. The majority of households (61% or 14.5 million) would see their disposable incomes change by less than 0.2% under pure revaluation. Only 1.1 million (5%) would see their disposable incomes rise by more than 1%, and only 1.0 million (4%) would see their disposable incomes fall by more than 1%. Under a continuous and proportional system, 18.2 million households (76%) would see changes of more than 0.2%; 8.0 million (33%) would see their disposable incomes rise by over 1%, whilst 2.8 million (12%) would see a fall of over 1%. The rest of this chapter (as well as the first part of Chapter 7) shows that gains, losses and hence the average effects of reforms differ across household types.

5.2   Effects by household type

In this section, we examine the average changes in council tax bills across different types of households: by income level, family composition, age of the oldest household member, whether any household members have a longstanding illness or disability, whether any household members belong to ethnic minorities, and households' housing tenure. We discuss each of these breakdowns in turn.

In each case, we start by showing the average council tax bills currently paid by different household types. We then show how average council tax bills would change; combining the two, one can easily deduce the levels of council tax bills, in cash terms, after revaluation and reform. Given that current council tax bills are closely correlated with current property values, and to a lesser extent with current household incomes (see Figures 2.6 and 2.7 in Chapter 2), the figures of average council tax bills shown below also give us an indication of the average property values and income levels of different household types in England.

Household income

Figure 5.3 shows how much households of different income levels currently pay, on average, in annual council tax bills after CTS. Household incomes are measured after taxes and benefits and adjusted for household size (using the modified OECD equivalence scale). Higher-income households pay more council tax on average, with households in the top 10% of the income distribution paying nearly £1,900 a year, compared with £440 a year in the poorest 10%.

There is substantial variation in council tax bills, especially among low-income households. Of the poorest 10% of households in England, nearly 30% pay no council tax (that is, are exempt or have their bills fully covered by CTS), and half pay less than £210 a year.

A pure revaluation would have essentially no effect on average council tax bills across the income distribution, as shown in Figure 5.4 – although, as we discuss in Chapter 7, low-income households would be less likely to either gain or lose than middle- and high-income households, as for many it is their CTS that would change rather than what they have to pay themselves.

Figure 5.3. Current annual net council tax bill, by net equivalised household income decile
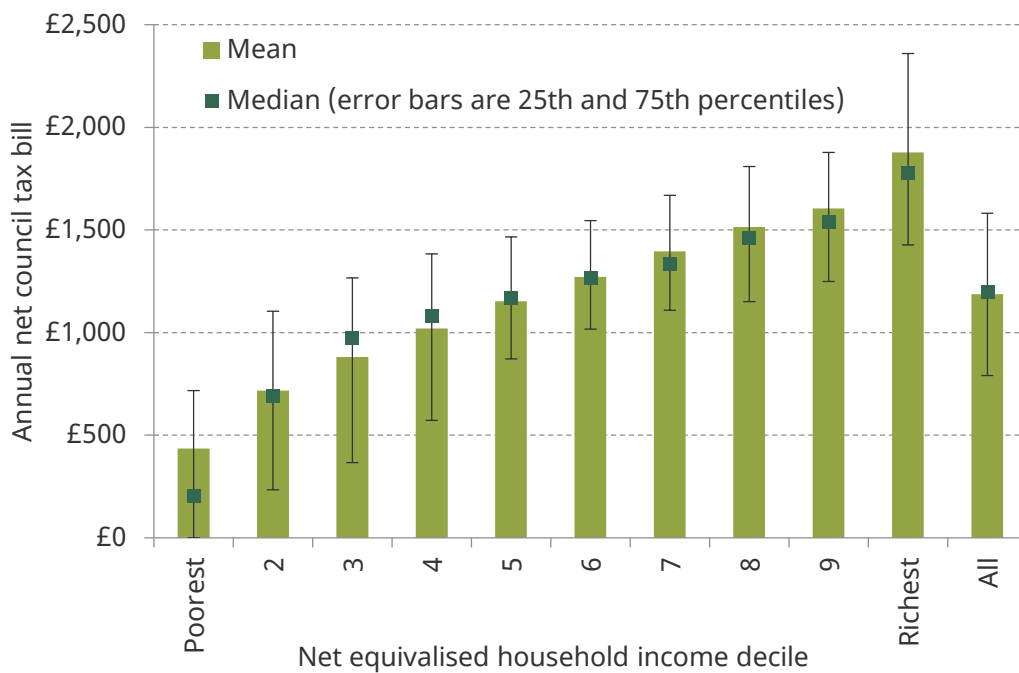
Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.4. Average change in net council tax bill, by household income decile
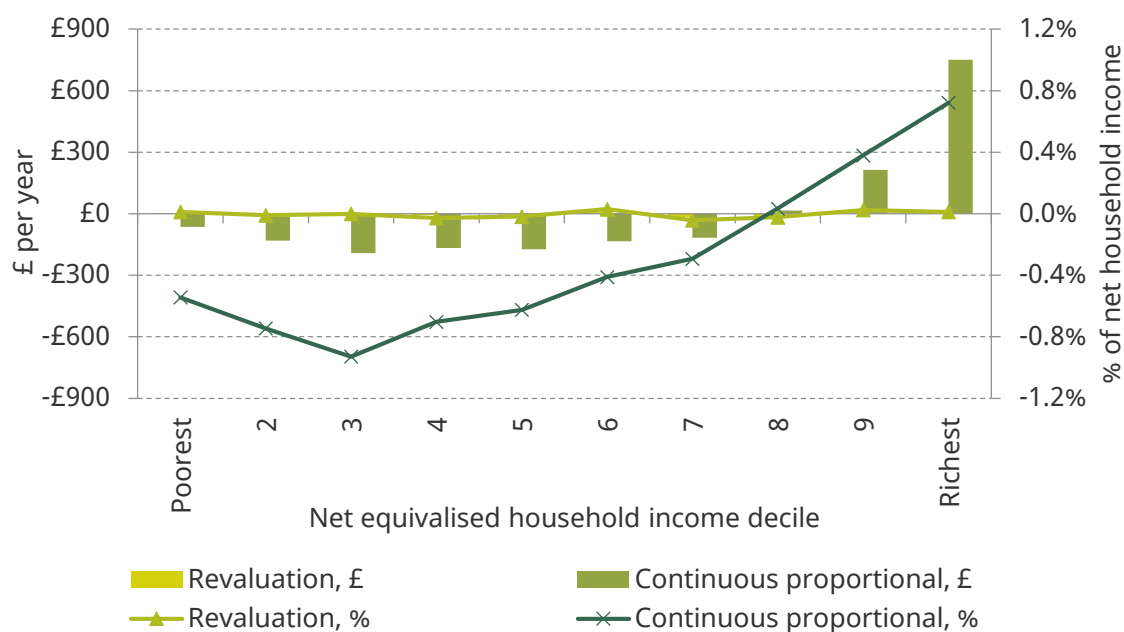
Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

A continuous and proportional system would have a progressive effect across the household income distribution. In cash terms, average council tax bills would fall by around £60 a year among the poorest 10% of households and by up to £190 slightly further up the income distribution, but would rise by around £750 a year among the highest-income 10% of households. As a share of household incomes, changes at the bottom are more comparable to changes at the top: average council tax bills would fall by 0.5% of average household incomes in the bottom income decile, fall by 0.7–0.9% in the next three deciles, and rise by 0.7% of average household incomes in the top income decile.

Part of the progressivity comes from the effect of funding adjustments between regions. This is because higher-income households disproportionately live in London and the South of England, the regions that have the highest property values (and have seen the largest increases in value since 1991). The reduction in general central government funding these regions would see would push up bills for higher-income households, on average. With no such funding adjustments, moving to a continuous and proportional system would increase bills among the top 10% of households by £570, compared with £750 under full funding adjustment.

The lower cash gains among the bottom two decile groups of households compared with households slightly further up the income distribution in Figure 5.4 reflect the impact of CTS. Because many of the poorest households are eligible for CTS, falls in their council tax bills largely reduce the CTS they receive, rather than lowering their out-of-pocket council tax bill payments.

Our analysis assumes full take-up of CTS. Actual take-up of CTS is far from complete though: in 2009–10, the last year in which Department for Work and Pensions (DWP) statistics are available, take-up of council tax benefit (CTB, the precursor to CTS) in England and Wales ranged between 62% and 69% (DWP, 2013). Unfortunately, modelling less-than-full take-up of CTS is difficult for a number of reasons. First and most importantly, previous IFS research on council tax benefit shows that the modelled total expenditure on CTB assuming full take-up closely approximates actual expenditure on CTB according to administrative data (Adam and Browne, 2012). This is because modelling based on household survey data underestimates *entitlement*; assuming full take-up among those eligible then offsets this error, leading to a good estimate of overall spending on this support. In contrast, assuming less-than-full take-up would lead to an underestimate of spending on CTB/CTS. Second, take-up of CTB (and presumably also CTS) was lower among certain types of households – for example, pensioner households and those that do not take up housing benefit (DWP, 2013). As a result, without linked survey and administrative data, it would be difficult to accurately model this non-random take-up of CTS.

Instead of attempting to model incomplete take-up, we consider how much our results are driven by the effect of CTS, by estimating average changes in gross council tax bills (*without* CTS). The impact of moving to a proportional continuous rate both with and without CTS is shown in Figure 5.5 by household income level. The results without CTS can be interpreted as the effect of the reform assuming no take-up of CTS (but with council tax rates still set to maintain revenue neutrality after full take-up of CTS).

Figure 5.5. Average change in council tax bill from a continuous and proportional system, by household income decile, under different CTS take-up assumptions
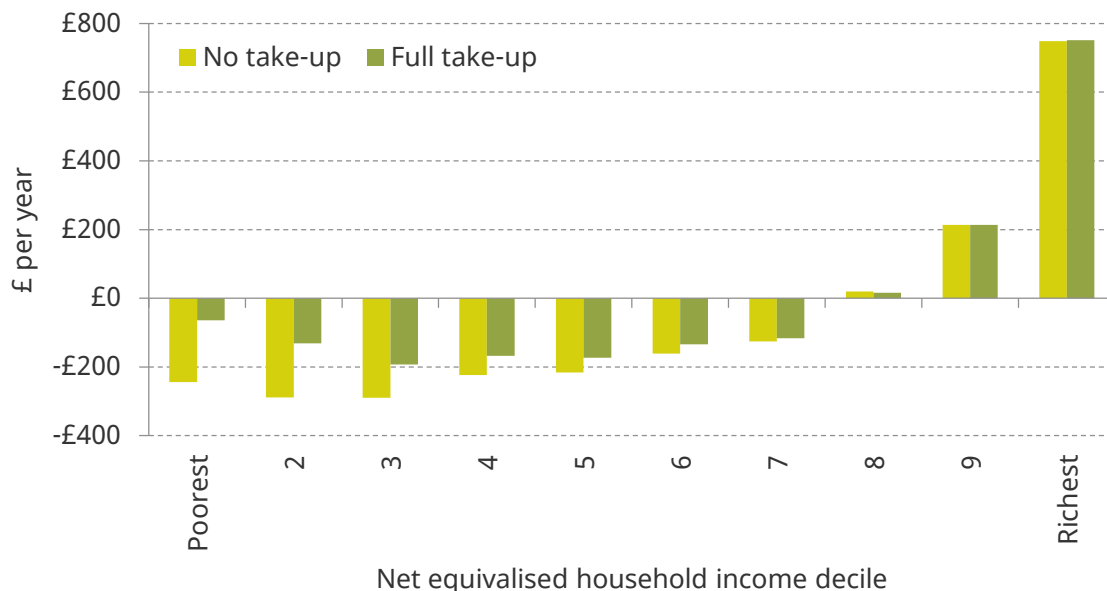
Note: Assumes full grant adjustment. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Assuming no take-up of CTS, cash gains would be substantially larger among low-income households. The poorest decile of households would gain by around £240 a year, compared with just £60 a year assuming full take-up. The second poorest decile would gain by £290 a year compared with £130 a year.[37] Since actual take-up of CTS lies between these two extremes, we would expect the actual fall in council tax bills to lie between these two figures. Assumptions on CTS take-up have a much smaller effect on results further up the income distribution, and no effect on the richest fifth of households, as these households are not entitled to CTS.

Household composition

Figure 5.6 shows average council tax bills by household composition: whether the household has children, whether household members are of working age or above the state pension age, and whether the household contains a single adult, a couple or multiple families living together. It shows that average council tax bills are lower among single-adult households. This partly reflects the fact that they live in smaller and less valuable properties, but also reflects the single-person discount and the fact that these groups are more likely to be entitled to CTS. 19% of single pensioners, 9% of single working-age adults and 14% of lone parents are eligible to pay no council tax under the current system, and the average share of their council tax bill covered by CTS is 21%, 38% and 48% respectively. Multi-family households in our sample have slightly lower council tax bills than couples, partly because they tend to live in properties with lower gross bills and partly because they are more likely to receive CTS.[38]

People from minority ethnic groups in England are more likely to live in multi-family households. A quarter (25%) of households with at least one member from an ethnic minority are multi-family households, compared with just 17% of households in which everyone is white British. We analyse effects by ethnic group separately later in this section.

The average effect of a pure revaluation would be close to zero across most household types, as seen in Figure 5.7. The exception is pensioner couples, who would see a small fall in their annual council tax bills by around £50 a year on average. This reflects the fact that pensioner couples disproportionately live in areas where property values have risen by less since 1991.

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[37] The fact that gains are larger for the second decile than for the bottom decile is likely to reflect measurement error in incomes at the very bottom of the distribution. This is well documented elsewhere; for example, Bourquin et al. (2019) show that expenditure poverty and material deprivation are lower at the very bottom of the income distribution than slightly further up.

[38] It is worth noting that multi-family households make up a slightly smaller share of households in our sample than in the (estimated) overall population, and the types of multi-family households in our sample are not representative. Based on the Understanding Society data, multi-family households make up 21% of all households in England. 69% of multi-family households consist of intergenerational families living together (for example, adult children living with their parents or elderly parents living with their children), with the rest consisting of house shares between unrelated families or families of the same generation (for example, siblings). To model changes in council tax liabilities, we have restricted the sample to households for which current council tax bands are known or can be imputed (see Appendix A). On most dimensions (such as property value, income and age of the oldest household member), the restricted sample is representative of the overall sample. However, information on council tax bands and rent or property value (used to impute council tax bands) is missing for many multi-family households that are not related across generations. As a result, multi-family households represent 18% of our (weighted) sample, and 89% of multi-family households in our sample are intergenerational families.
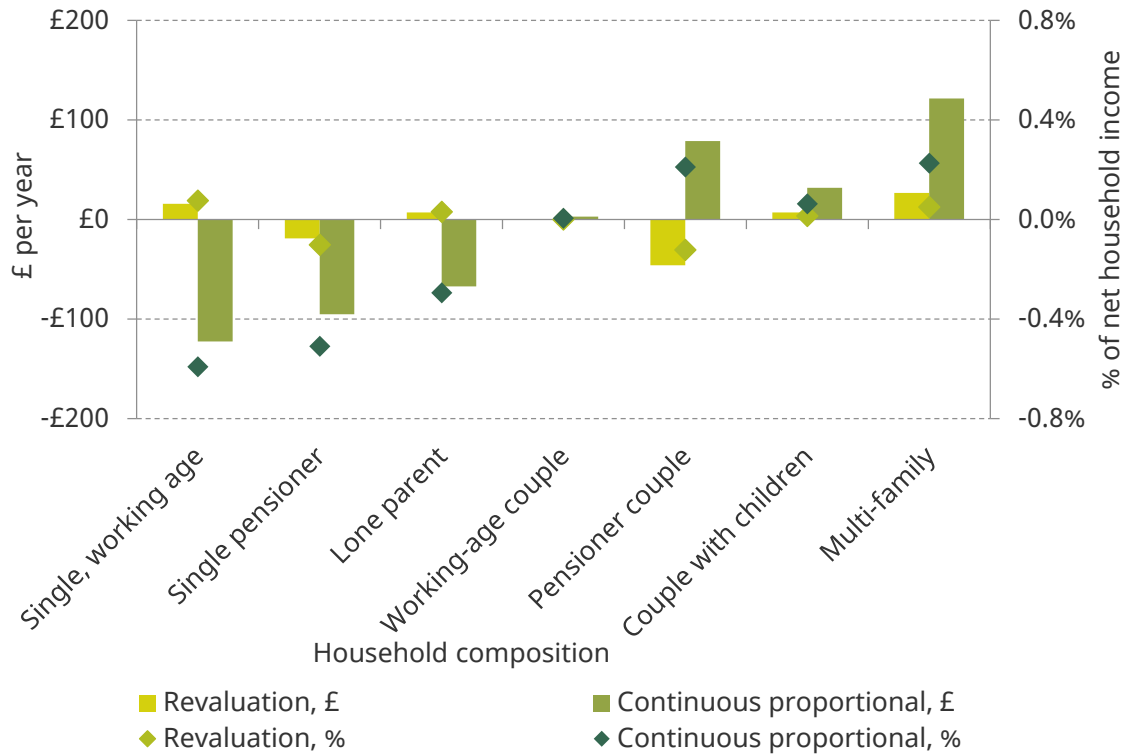
Figure 5.6. Current annual net council tax bill, by household composition
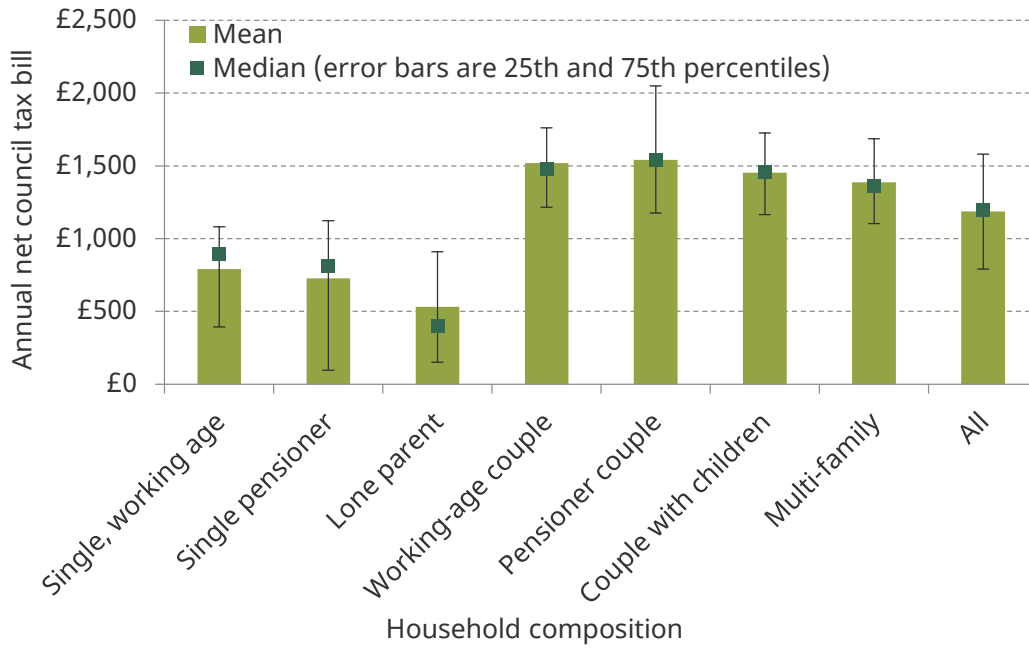
Note: Assumes full grant equalisation and full take-up of CTS. Multi-family households are households with more than one benefit unit.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.7. Average change in net council tax bill, by household composition
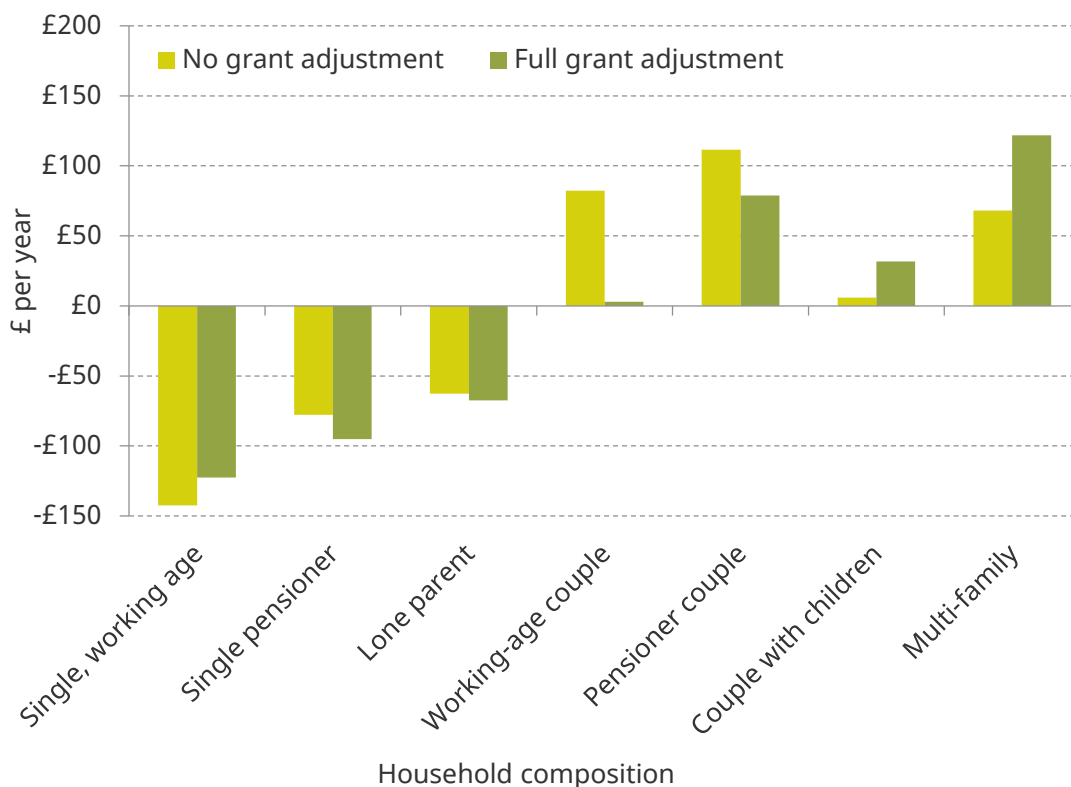

Note: Assumes full grant equalisation and full take-up of CTS. Multi-family households are households with more than one benefit unit.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

A continuous and proportional system would redistribute from pensioner couples and multi-family households (who tend to live in larger, more valuable properties) towards single-adult households (who tend to live in smaller, less valuable properties). In cash terms, the fall is smaller for single pensioners than for working-age adults, and smaller still for lone parents, which reflects differences in CTS eligibility between these groups (discussed below). The reform would have little effect, on average, on working-age couples both with and without children, but would create significant numbers of both winners and losers among these groups (see Table B.5 in Appendix B).

The results in Figure 5.7 are partly driven by adjustments to general central government funding. Figure 5.8 compares the effects of a continuous and proportional system under full adjustment and under no adjustment to this funding. It shows that the increase in bills among pensioner couples would be larger, and the fall in bills among single pensioners smaller, if such funding remained fixed. This is because pensioners disproportionately live in regions outside London that would gain from funding adjustments. In contrast, multi-family households disproportionately live in London (16% compared with 11% among all other household types), so would see a smaller rise in bills if general central government funding remained fixed.

Figure 5.8. Average change in net council tax bill from a continuous and proportional system, by household composition

Note: Assumes full take-up of CTS. Multi-family households are households with more than one benefit unit.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.9. Average change in council tax bill from a continuous and proportional system, by household composition, under different CTS take-up assumptions
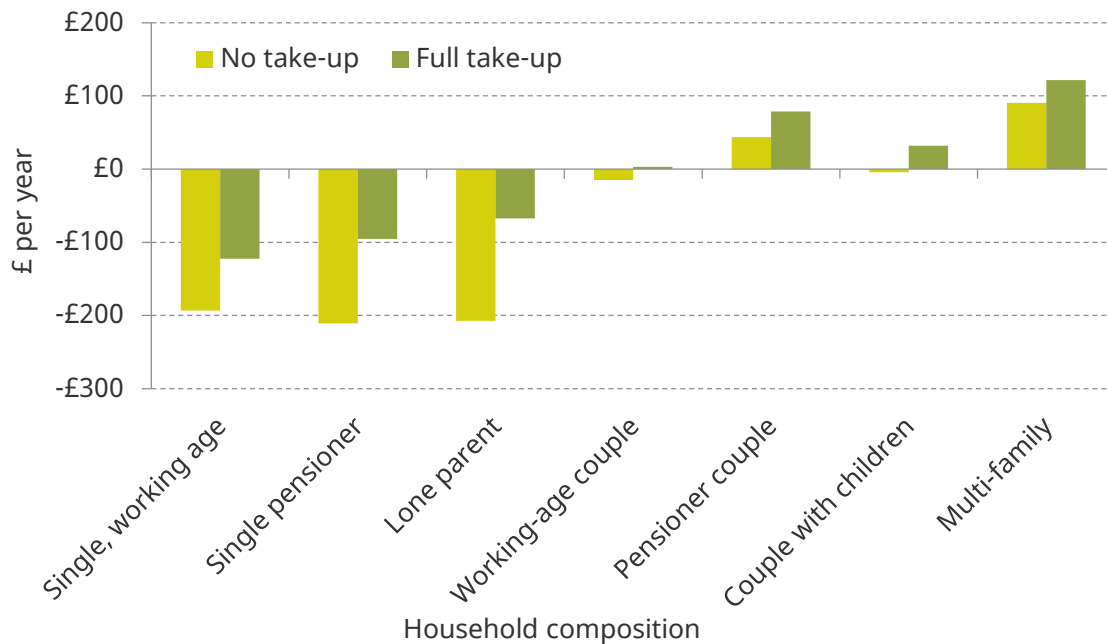
Note: Assumes full grant equalisation. Multi-family households are households with more than one benefit unit.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

The results for lone parents and single pensioners in particular are sensitive to assumptions on CTS take-up (see Figure 5.9). These groups are eligible to have a higher share of their bills covered by CTS, which also insulates them somewhat from changes in council tax. Without CTS, single pensioners would see their average council tax bills fall by around £210 a year, compared with £100 a year with CTS. Given that take-up of CTS and its predecessors is particularly low among pensioner households (estimated at 54–61% in 2009–10 (DWP, 2013)), the actual gain to single pensioners would lie between these two extremes. Lone parents would see their average council tax bills fall by £210 a year without CTS (or assuming no take-up of CTS), compared with just £70 a year with full CTS take-up. Take-up for CTB, the precursor to CTS, was relatively high for lone parents though (estimated at 80–89% in 2009–10), so we would expect the true impact to be closer to the 'full take-up' estimate.

Age of oldest household member

Figures 5.7–5.9 above show that the effects of revaluation and reform would be different for working-age and pensioner households. We can also look directly at intergenerational effects by examining impacts by the age of the oldest household member.

Younger and older households currently pay less council tax, due to a combination of living in properties in lower bands and receiving more CTS (see Figure 5.10). Average council tax bills are £930 a year for households under 35, £1,170 a year for 35- to 44-year-old households and around £1,300 for middle-aged households (45–64). There is substantial variation in council tax bills among the oldest age group. A quarter of households in which the oldest member is 65 or over pay less than £490 a year and are entitled to have most of their bills covered by CTS, whilst a quarter pay more than £1,630 a year on highly valuable properties.
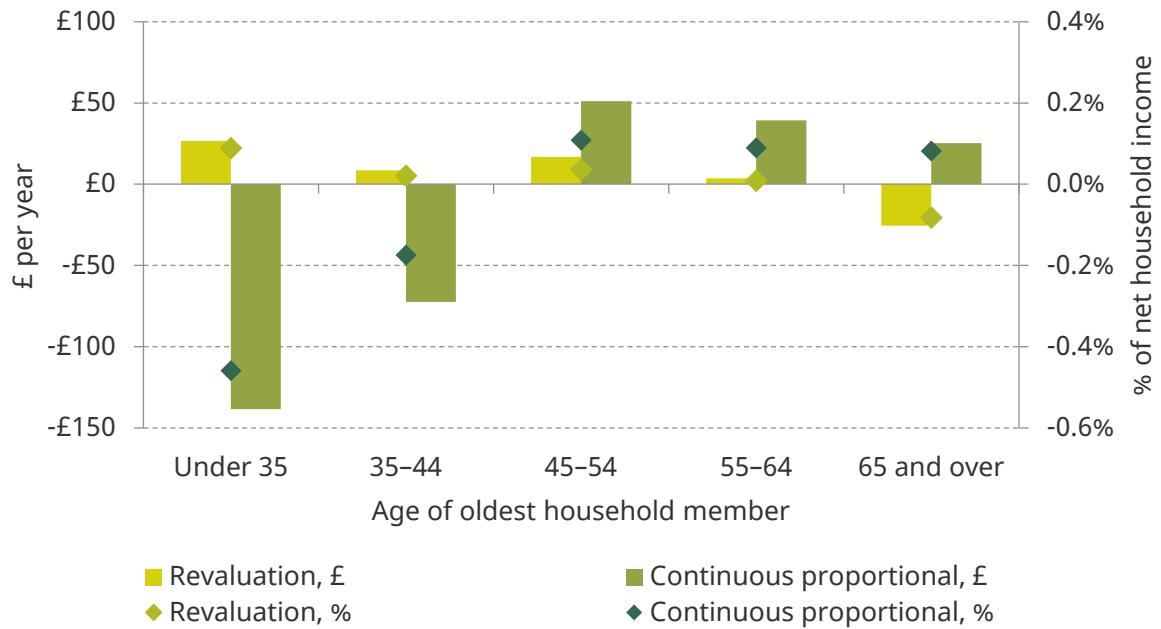
Figure 5.10. Current annual net council tax bill, by age of oldest household member
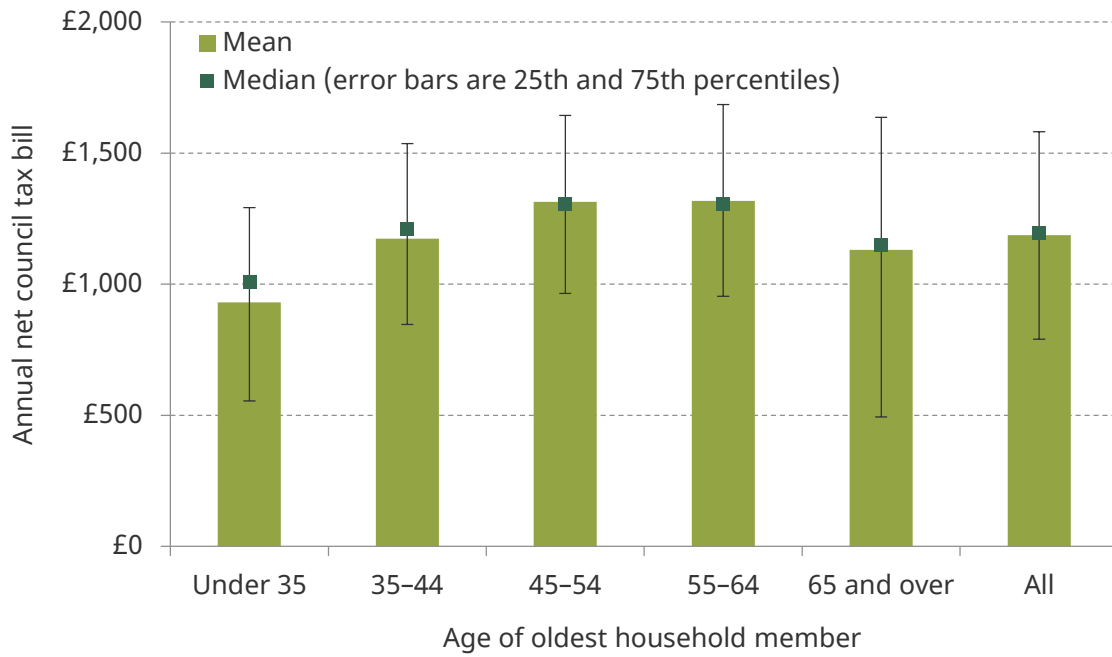
Note: Assumes full grant adjustment and full take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.11. Average change in net council tax bill, by age of oldest household member

Note: Assumes full grant adjustment and full take-up of CTS. Net household income is defined as income after taxes and benefits.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

A pure revaluation would very slightly increase council tax bills among younger households, who tend to live in areas such as London in which property values have risen most steeply since 1991, and very slightly reduce them among the oldest households (see Figure 5.11). Average changes would be minor – within 0.1% of household incomes. There would be winners and losers among all groups though, as shown in Table B.4 in Appendix B.

A continuous and proportional system would redistribute from older households towards younger ones. Households under 35 would gain around £140 a year on average, and households in which the oldest member is 35–44 would gain around £70 a year. Middle-aged households (45–64) would lose £40–£50 a year, and the oldest households (65 and over) would lose £30 a year on average. After the reform, households in the youngest age group would pay just £790 a year in council tax bills on average, compared with £1,100–£1,360 among other age groups.

Disability status

To examine impacts on households by disability status, we distinguish between three groups: households in receipt of disability benefits, 'other disabled households' and 'non-disabled households'. Disability benefits include disability living allowance, incapacity benefit, employment & support allowance, personal independence payment and other disablement allowances.[39] Households are classified as 'other disabled' if any adult in the household reports having a longstanding illness or disability, or if any child in the household has a limiting longstanding illness.

A high proportion of households in England in the Understanding Society survey are classed as disabled by this measure: 14% are on disability benefits, and a further 44% have at least one household member who reports having a longstanding illness or disability (but does not receive disability benefits). It is important to note that our measure of 'other disabled' is much wider than the most commonly used measure of disability – used, for example, in the government's employment gap targets (DWP, 2020) – where an individual is defined as disabled if they have a longstanding illness *and* that illness reduces their ability to carry out day-to-day activities. The Understanding Society survey does not ask respondents whether their longstanding illness limits their day-to-day activities, so we are unable to impose this restriction.

Some disabled households in England are eligible to have their council tax bills reduced by one valuation band, if they can demonstrate that they live in a larger property than would be needed were they not disabled (for example, if there is an extra bathroom or kitchen for the disabled person, or if there is extra space inside the property for using a wheelchair).[40] This reduction is assessed on a case-by-case basis and is not tied to receipt of other benefits. As such, we are unable to account for this reduction in our microsimulation modelling, which may have some effect on our results below. The effect is unlikely to be large, as only 0.5% of properties in England receive a disability reduction (MHCLG, 2019c), whereas the majority (58%) of households in England are classified as disabled by our measure.

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[39] Other allowances include severe disablement allowance, war disablement allowance, industrial injury disablement allowance and other disability-related benefit or pay.

[40] See https://www.gov.uk/council-tax/discounts-for-disabled-people.

Figure 5.12. Current annual net council tax bill, by disability status
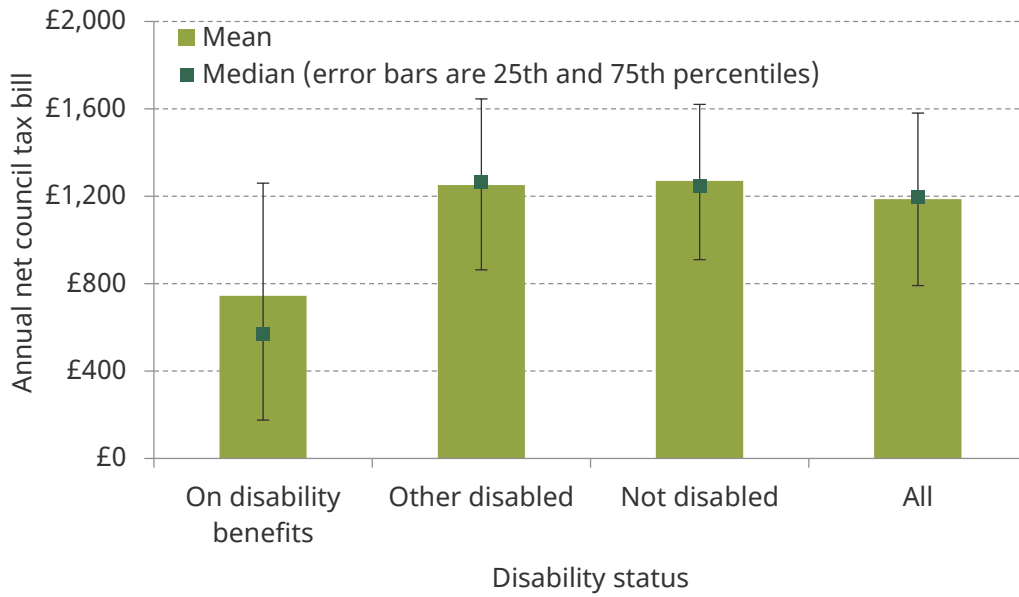
Note: Assumes full grant adjustment and full take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.13. Average change in net council tax bill, by disability status

Note: Assumes full grant adjustment and full take-up of CTS. Net household income is defined as income after taxes and benefits.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.12 shows current council tax payments by disability status. Households on disability benefits have much lower council tax bills on average, both because they live in lower-value properties and because they have a higher share of their council tax bills covered by CTS. The average bill among households on disability benefits is around £740 a year, and 15% pay no council tax at all. 'Other disabled' households look very similar to non-disabled households in terms of their council tax payments. They are also similar in terms of their net household incomes and (estimated) property values.

A pure revaluation would have virtually no effect on average bills by disability status – changes would be within 0.02% of average incomes for each group (see Figure 5.13) – although there would be households both gaining and losing substantially more among all groups (see Table B.4 in Appendix B). A continuous and proportional system would substantially reduce average council tax bills for households on disability benefits, by around £100 a year, and increase them by around £40 a year for non-disabled households.

The effect is partly driven by adjustment to general central government funding, as non-disabled households are more likely to live in regions that would lose grant under a continuous and proportional system. 42% of non-disabled households live in London and the South of England, compared with just 35% of households on disability benefits and 39% of other disabled households. If this other funding for local government were to remain fixed, average council tax bills would fall by a smaller £80 among households on disability benefits, and rise by a smaller £20 among non-disabled households.

Ethnic group

Households are classified as white British if all adults in the household are white British, and as ethnic minority if any adult in the household is not white British. Figure 5.14 shows that the distribution of current council tax bills among ethnic minority households is very similar to that of white British households.

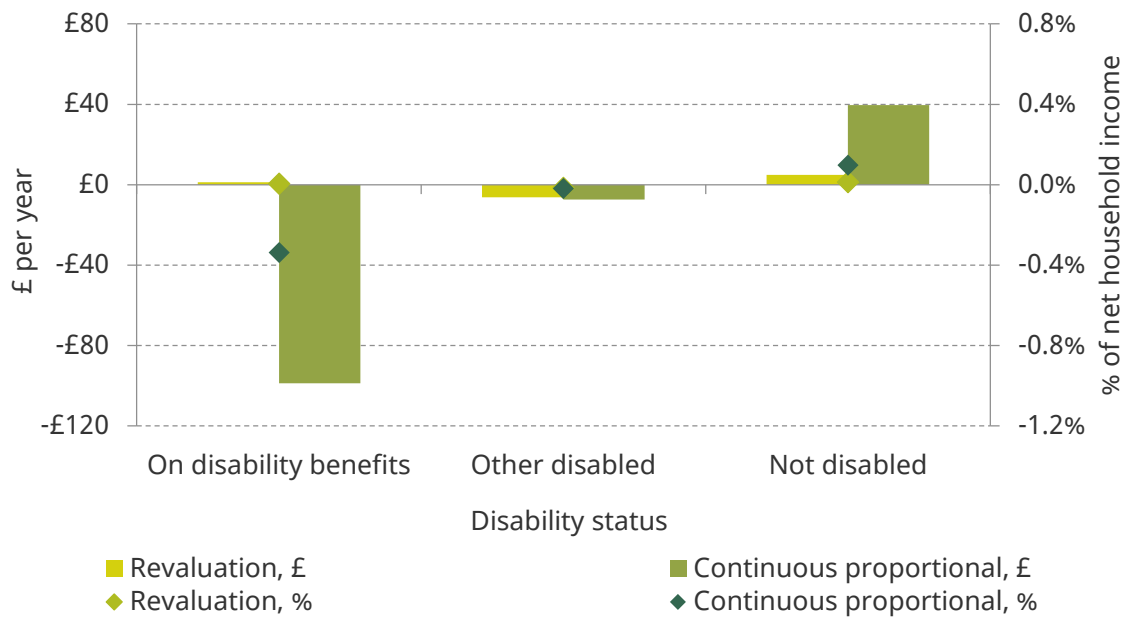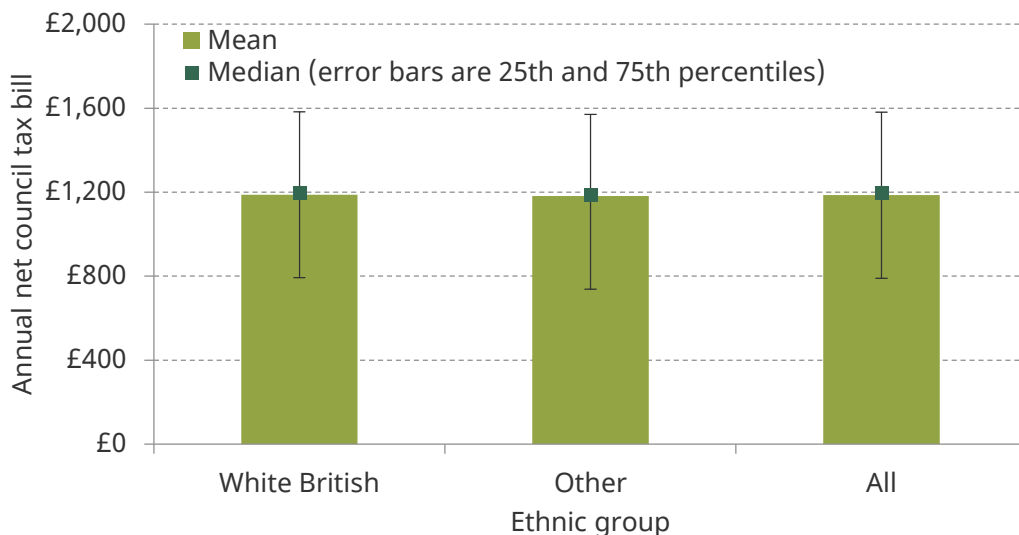**Figure 5.14. Current annual net council tax bill, by ethnic group**

Note: Assumes full grant adjustment and full take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.15. Average change in net council tax bill, by ethnic group
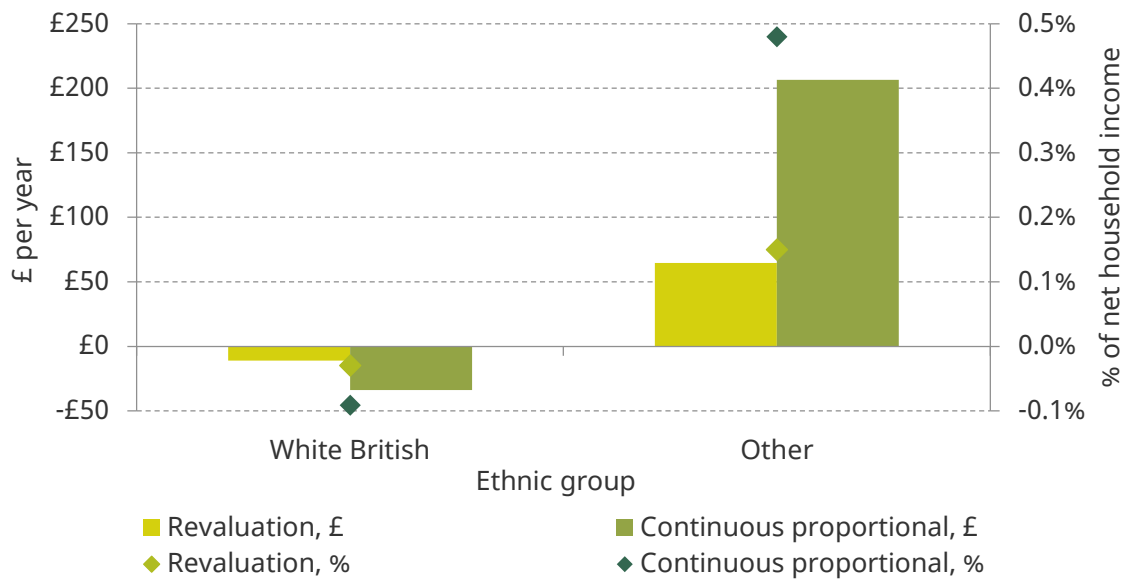
Note: Assumes full grant adjustment and full take-up of CTS. Net household income is defined as income after taxes and benefits.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

A pure revaluation would increase average council tax bills among ethnic minority households by around £60 a year, while moving to a continuous and proportional system would increase their council tax bills further by around £210 a year (see Figure 5.15). This reflects the effect of adjustments to general central government funding rather than reform of council tax per se. A third (34%) of ethnic minority households live in London, where property values have risen sharply since 1991, compared with just a twelfth (8%) of white British households. If this other funding for local government were to remain fixed, moving to a continuous and proportional system would slightly reduce average council tax bills among ethnic minority households by £10 a year. This is to say that ethnic minority households tend to live in properties that are slightly less valuable than other properties in their area – but they tend to live in areas such as London, where properties are valuable compared with properties in other areas of England.

Housing tenure

Finally, we consider impacts across households with different housing tenures. Based on the Understanding Society sample, nearly two-thirds (62%) of households own their homes in England, around one in five (21%) live in rented social housing and around one in seven (14%) rent privately.[41] 2% of households in England in the sample have other housing tenures (for example, squatting) or are missing housing tenure information.

Figure 5.16 shows that owner-occupier households pay around £1,430 a year in council tax bills on average, private renters pay around £920 a year and social renters around £630 a year. Average council tax bills are lowest among social renters both because they live in

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[41] It is worth noting that the share of social renter households in Understanding Society is somewhat higher, and the share of private renter households somewhat lower, than in the Family Resources Survey (FRS). In 2017–18, 19% of households in the FRS reported being in private rentals and 17% in social rentals. The share of owner-occupiers in the two surveys is very similar though.

properties with lower (gross) bills and because they tend to receive CTS. On average, social renter households (are eligible to) have 44% of their council tax bills covered by CTS under the current system, and 16% pay no council tax at all. The very small proportion of households with other or unknown tenures look similar to all households in terms of their council tax bills, so in the following analysis we omit this group and focus on the known groups.

The effect of revaluation and reform on households that rent their homes partly depends on whether rents adjust in response to changes in council tax. In this subsection – as with the above subsections – we assume that rents would not adjust, and so changes in council tax are borne by tenants rather than landlords. We discuss the implications of alternative assumptions on who ultimately pays for council tax changes in Section 5.4 below.

It is also worth noting that, as discussed in Chapter 3, our methodology for estimating property values may be imprecise for rented (especially socially rented) properties if they differ from owner-occupied properties in unobserved ways. For example, if rented properties are systematically less desirable than owner-occupied properties with the same observed characteristics (dwelling type, size, location and so on), our methodology would lead us to overestimate property values of rented properties and therefore overstate their council tax bills after reform.

Notwithstanding these caveats, Figure 5.17 plots the changes in council tax bills across households of different housing tenures. It shows that a pure revaluation would very slightly increase council tax bills for renters, who disproportionately live in London, and very slightly reduce them for owner-occupiers. Again, the effects are small – within 0.1% of average household incomes. Again, there would be both winners and losers in each of these groups – see Table B.4 in Appendix B.

Figure 5.16. Current annual net council tax bill, by housing tenure
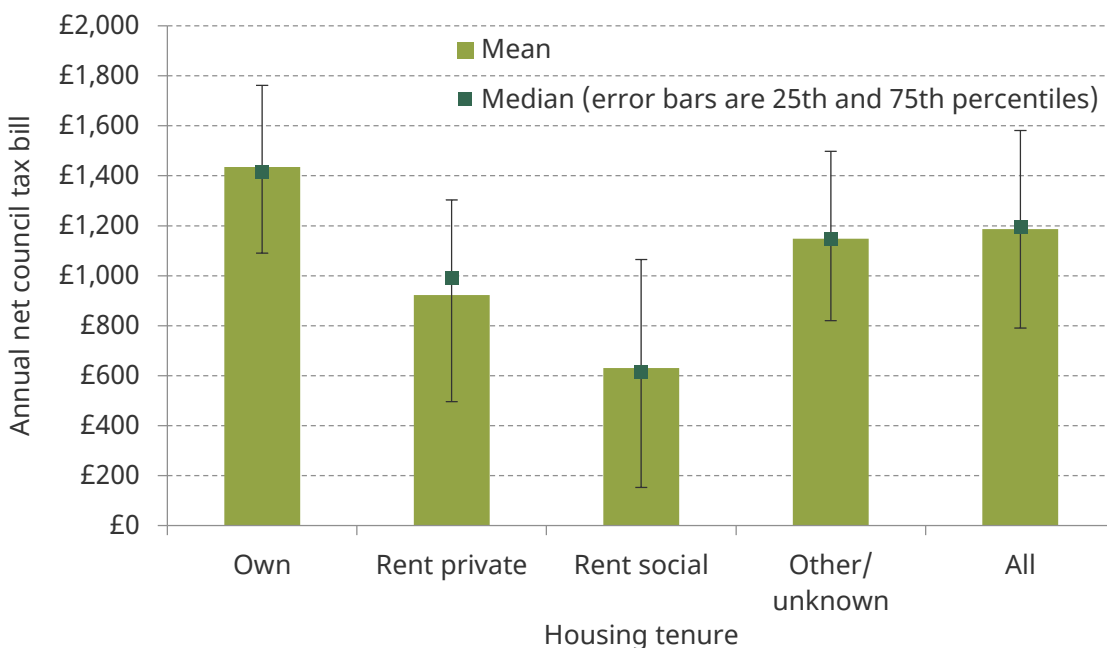
Note: Assumes full grant adjustment and full take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.17. Average change in net council tax bill, by housing tenure
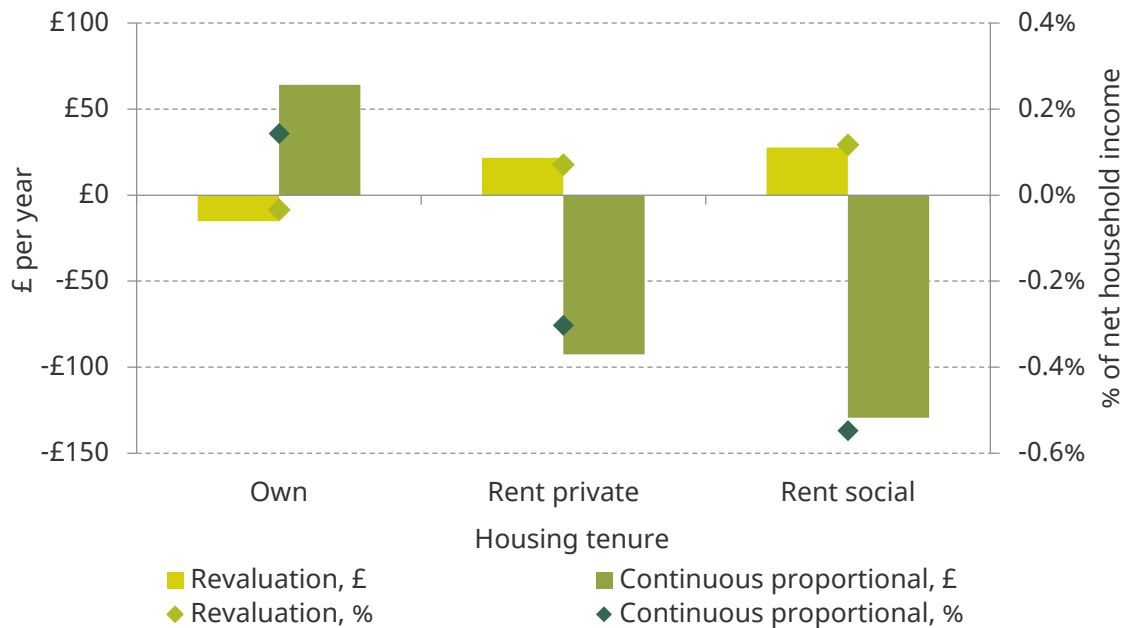
Note: Assumes full grant adjustment and full take-up of CTS. Net household income is defined as income after taxes and benefits.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

A continuous and proportional system would redistribute from owner-occupiers to renters, as the former tend to live in more valuable properties. Average council tax bills would rise by around £60 a year among owner-occupiers under such a system, and fall by around £90 and £130 a year among private and social renters respectively. Council tax bills are already much lower among social renters than among other housing tenures; after the reform, households that rent socially would pay just £500 a year in council tax bills on average.

The fall in council tax bills among renters, in particular private renters, would be tempered by adjustments to general central government funding. 16% of renter households live in London, compared with just 9% of owner-occupier households, so the reduction in grants to London councils would push up their council tax bills. This would have a larger effect on private renters, who have less of their bills covered by CTS. If this other funding for local government were to remain fixed, social and private renter households would both see their average council tax bills fall by £140 a year.

The results for renters are sensitive to assumptions around CTS take-up (see Figure 5.18). As discussed above, renters – in particular social renters – are much more likely to be eligible for CTS, which partly insulates them from changes in council tax. Without CTS, or assuming no take-up of CTS, a continuous and proportional system would reduce council tax bills by £320 a year on average among social renters (rather than £130 a year) and by £230 a year among private renters (rather than £90 a year). Assumptions on the take-up of CTS have a much smaller effect on the estimated impact on owner-occupiers, who do not generally receive CTS.

Figure 5.18. Average change in net council tax bill from a continuous and proportional system, by housing tenure, under different CTS take-up assumptions
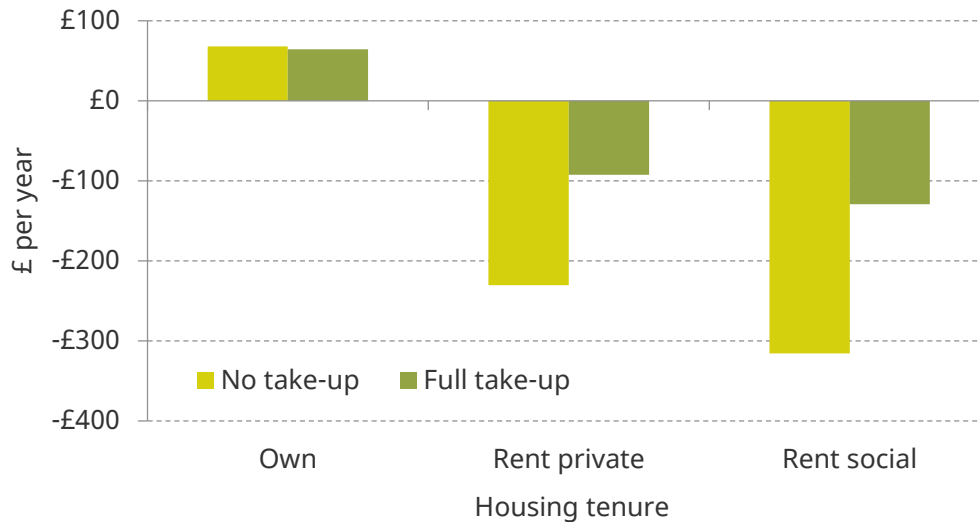
Note: Assumes full grant adjustment.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

5.3   Other reform options

The previous section focused on two main reform options: revaluation retaining the current banded structure (including the current band proportions and relativities), and a continuous rate that is fully proportional to property values. In this section, we consider the effects of alternative reform options across households. These include 'intermediate' reform options that retain the current banded structure but make council tax bills more proportional to property values in each band, and an option that takes the proportional continuous rate even closer to a pure property tax, by removing the single-person discount.

'Intermediate' banded options

We start by considering two options for reform that retain the current banded structure but make band relativities proportional to the median property values in each band. The first of these (labelled 'banded proportional') retains the current shares of properties in each band, whilst the second (labelled 'extra bands proportional') adds additional bands at the top and bottom of the property value distribution, as detailed in Chapter 3.

Figure 5.19 plots the average change in council tax bills by property value under revaluation, a continuous and proportional system and the two 'intermediate' banded proportional options. It shows that at an aggregate level, the two banded options would approximate a continuous and proportional system very closely. Adding extra bands at the bottom would make the system slightly more progressive in property values: households in the lowest decile of property values would see their council tax bills fall by around £340 a year on average, compared with around £290 a year without extra bands. Under a fully proportional continuous rate, households with the lowest decile of property values would see their council tax bills fall by around £370 a year.

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Figure 5.19. Average change in annual net council tax bill, by decile of property value
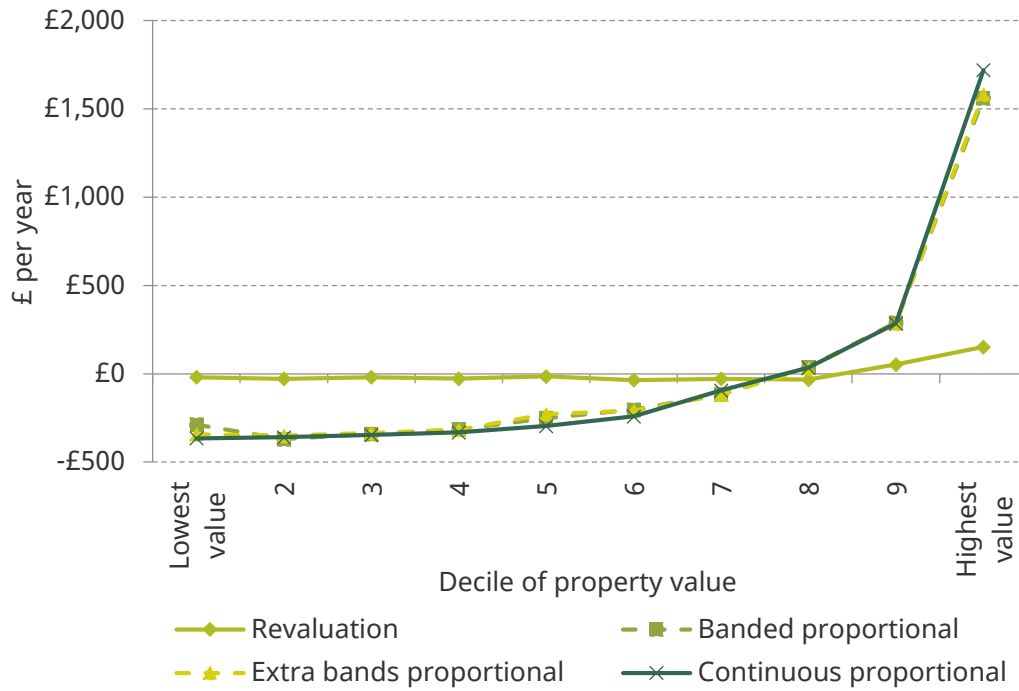
Note: Assumes full grant adjustment and full take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.20. Average change in annual net council tax bill, by household income decile

Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

The average effects of the two intermediate options would also closely approximate those of the continuous and proportional system along other breakdowns of household types discussed above. Average changes in council tax liabilities by household income level are shown in Figure 5.20.

The fact that banded proportional systems have similar effects to a continuous and proportional system on the aggregate level does not mean, however, that individual households would face the same council tax bills. Comparing a fully proportional continuous rate with the banded proportional option with extra bands at the bottom and top, council tax bills would be more than £100 a year higher under the continuous rate for 18% of households, and more than £100 a year higher under the banded option for 45% of households. The asymmetry arises because there is a long tail of very high council tax bills under the continuous system – fewer households face higher bills, but those that do face much higher bills. For households whose council tax is over £100 higher under the continuous rate, the average difference is around £720 a year, compared with around £290 a year for those whose bills are over £100 higher under the banded option.

We also consider an alternative reform option with extra bands at the top and bottom of the distribution and with band ratios that are less regressive than the current system but not fully proportional to property values (option 4 in Chapter 3). The impact of this reform across households with different property values is shown in Figure 5.21. The reform would reduce council tax liabilities among properties in the lower half of property values and raise liabilities among the highest-value properties, with effectively no change on average between the 50th and 80th percentiles. The effects would lie between those of revaluation alone and a fully proportional continuous rate.
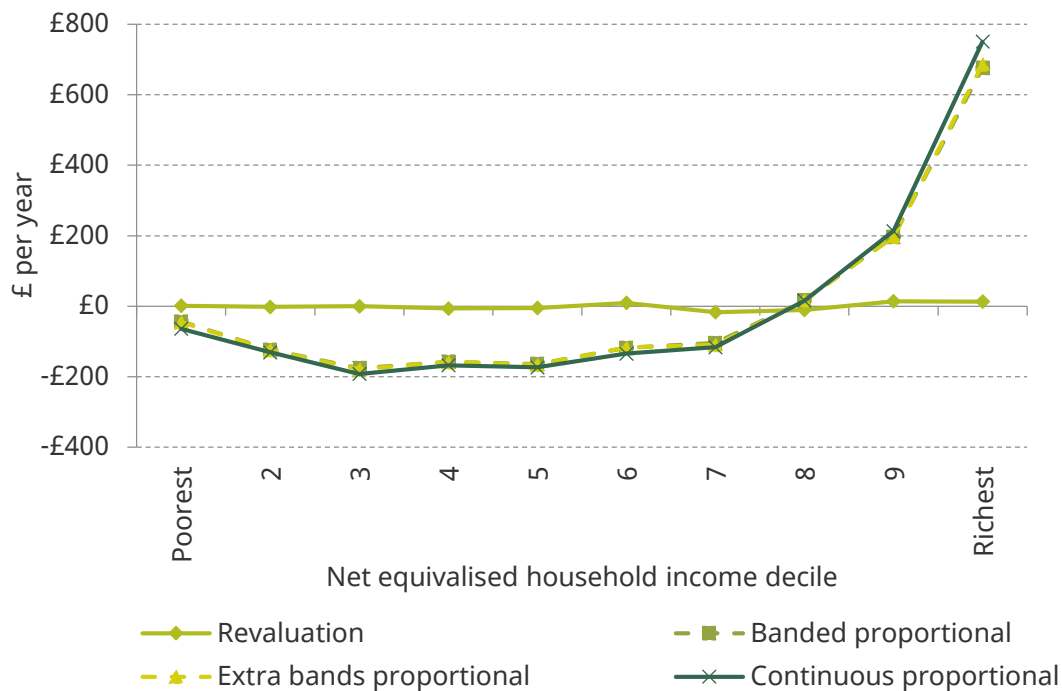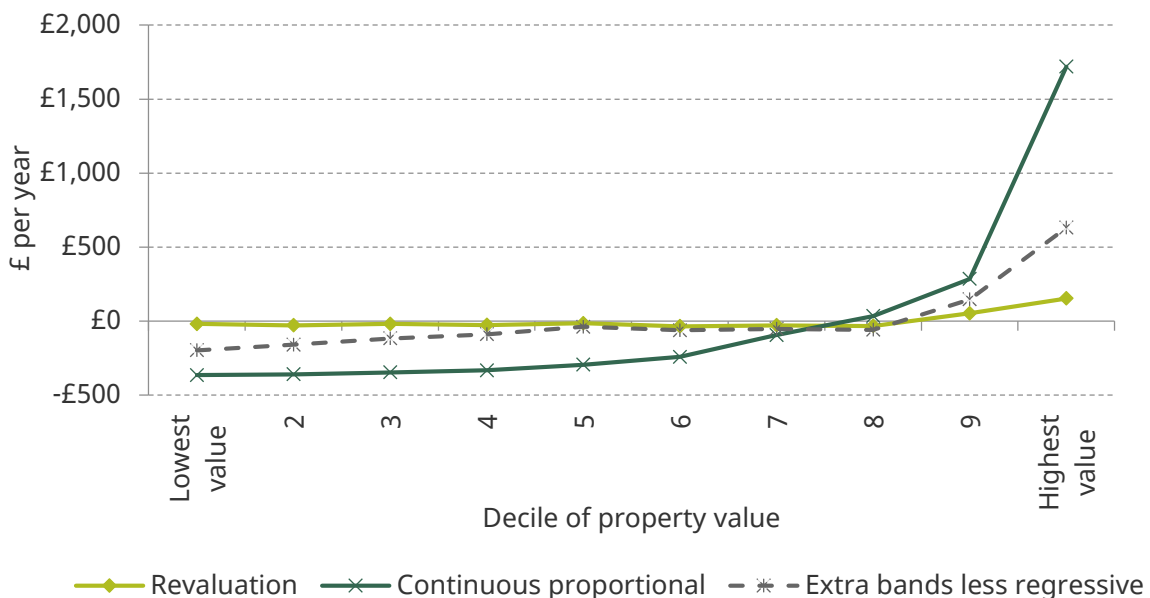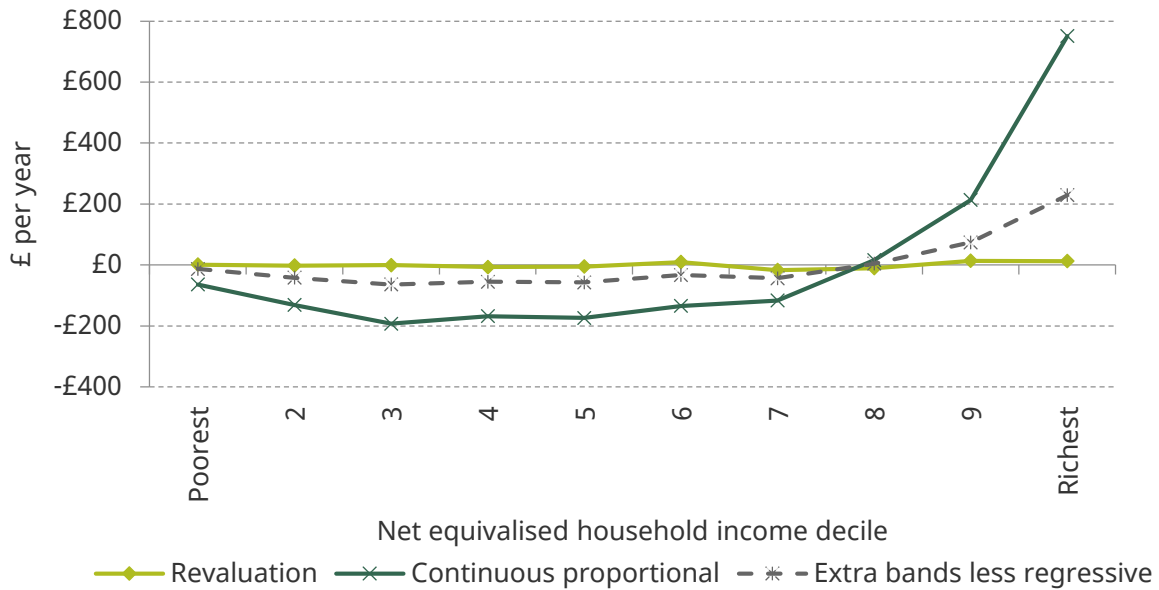
Figure 5.21. Average change in annual net council tax bill, by decile of property value

Note: Assumes full grant adjustment and full take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.22. Average change in annual net council tax bill, by decile of household income

Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.22 shows the average effects of this reform across the income distribution. The reform would be more progressive in household incomes than revaluation alone, but considerably less progressive than a fully proportional continuous rate. The average reduction in council tax bills faced by the poorest 60% of households under this reform would be around 20–30% of the reduction under a continuous and proportional system.

Removing the single-person discount

As discussed in Chapter 2, a continuous and proportional council tax system would still fall short of being a good property tax without reforming the single-person discount. It encourages inefficient use of the housing stock, with single-adult households living in bigger properties – and multi-adult households in smaller properties – than would otherwise be optimal. In the following analysis, we consider the effects of removing the single-person discount alongside a continuous and proportional rate. This is our preferred reform option, as recommended by the Mirrlees Review (Mirrlees et al., 2011).

Figure 5.23 shows the effect of a continuous and proportional system by household composition, with and without removing the single-person discount (SPD). Removing the SPD would substantially reduce gains from a proportional system among single-adult households. Under a continuous and proportional system without the SPD, average council tax bills would rise £20–£40 a year for single-adult households, instead of falling by £70–£120 a year under a proportional system that retains the SPD. However, the move to a proportional system would still offset most of the rise in council tax for single-adult households that would otherwise result from removing the single-person discount.

Figure 5.23. Average change in net council tax bill from a continuous and proportional system, by household composition, with and without SPD

Note: Assumes full grant adjustment and full take-up of CTS. Multi-family households are households with more than one benefit unit.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 5.24. Average change in net council tax bill from a continuous and proportional system, by age of oldest household member, with and without SPD
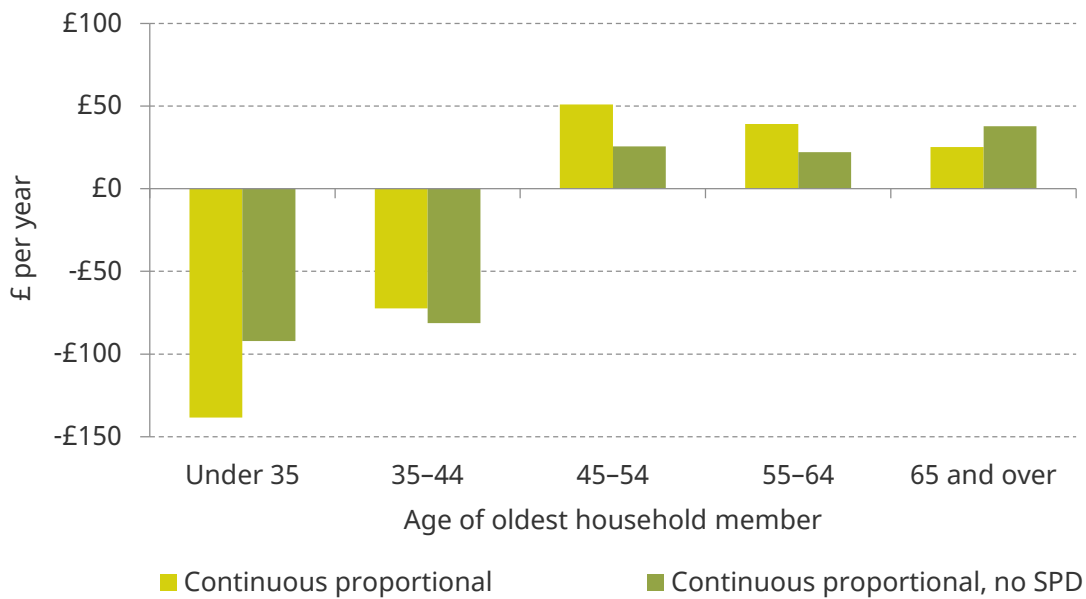
Note: Assumes full grant adjustment and full take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

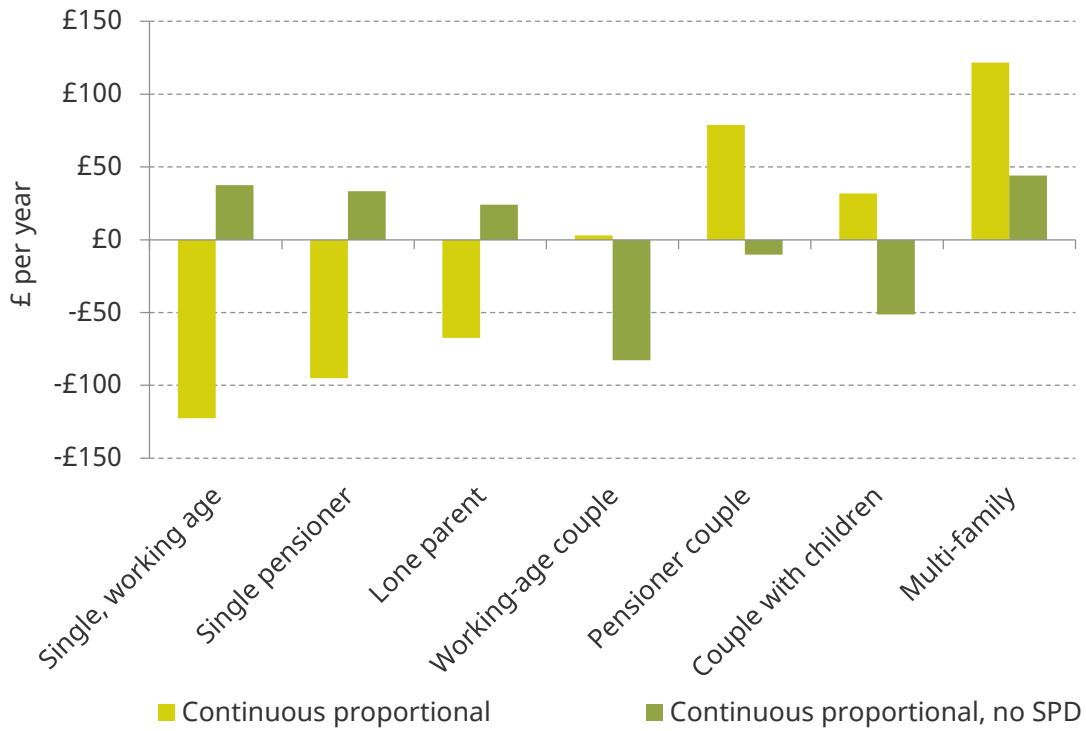Households with two or more adults would benefit from the removal of the single-person discount, since without it the council tax rate required to maintain revenue neutrality would be lower. However, multi-family households would still face slightly higher council tax bills, on average, than under the current system.

The youngest and oldest households are more likely to be single-adult households, so removing the single-person discount would increase council tax bills for these groups. As shown in Figure 5.24, households in which the oldest adult is under 35 would gain slightly less from a continuous and proportional system without the SPD (relative to a continuous and proportional system with the SPD), and households in which the oldest adult is aged 65 or over would lose very slightly more. Removing the single-person discount – and thereby reducing the revenue-neutral council tax rate – would benefit households in the middle of the age distribution, who are less likely to live in single-adult households. That said, a continuous and proportional system without the single-person discount would still substantially redistribute from older towards younger households.

Looking across the income distribution, we find that lower-income households are more likely to be single. As such, removing the single-person discount would slightly reduce gains among the lowest-income households and slightly reduce losses among the highest-income households. A continuous and proportional system without the single-person discount would still redistribute from higher-income to lower-income households, as shown in Figure 5.25. On average, the poorest 10% of households would gain by around £50 a year, and the highest-income 10% of households lose by around £680 a year, compared with around £60 and £750 respectively retaining the single-person discount.

Figure 5.25. Average change in net council tax bill from a continuous and proportional system, by household income decile, with and without SPD

Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

5.4   Incidence

In our analysis so far, we have assumed that changes in council tax do not affect rents. But rents – at least private rents – are determined by the supply of and demand for rental properties. If the supply of rental properties is relatively fixed, as is likely the case at least in the short term, private landlords could adjust the rent they charge to at least partly compensate for changes in council tax. That is, council tax could be partly incident on owners of privately rented properties rather than on tenants.[42] Social rents, which are set by a formula, are perhaps less likely to adjust to changes in council tax.

Figure 5.17 above shows that under a continuous and proportional system, average council tax bills among households that rent privately would fall by around £90 a year. (They would change little on average under revaluation alone.) If rents did not adjust at all, this reduction in council tax would translate into higher disposable incomes for households in privately rented properties. But if landlords were able to put up their rents to fully absorb the fall in council tax, households in privately rented properties would experience effectively no change in their disposable income after council tax and rent,[43] and the gain of around £90 per property would accrue to landlords instead. Given that changes in property taxes have been shown to be highly capitalised into property values (see Chapter 6 below), we would expect council tax changes to be borne in part by landlords, as otherwise the values of rental properties would not be affected.

The Understanding Society survey unfortunately does not contain information about the properties that landlords own, so we are unable to calculate gains and losses to landlords of different demographic groups, if council tax changes were partly borne by landlords instead of tenants. But the data do contain some information on the characteristics of landlords and tenants, so we can say something about how different assumptions about incidence affect the results presented above.

Figure 5.26 shows the distribution of private landlords and renters by household income. It shows that private landlords are skewed towards the top of the income distribution, whilst private renters are skewed towards the bottom and middle of the distribution. Over half (56%) of private landlords are in the highest-income 20% of households, and only 15% are in the bottom half of the income distribution. The pattern is reversed for private renters: of households that rent privately, 59% are in the bottom half, and only 16% in the highest-income 20%.

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[42] See, for example, England (2016).

[43] The change to tenants is not exactly zero, as changes in rent may lead to changes in universal credit (or housing benefit in the legacy system). For example, if a household's council tax bill falls and the incidence is on landlords, their rent will rise by an equivalent amount. But if they receive the housing component of universal credit, the rent they pay out-of-pocket will rise by less than the full amount, so they can still gain from the reform. The reverse holds if the household's council tax bill rises. But, in aggregate, the change for private tenants is very close to zero.

Figure 5.26. Distribution of private landlord and private renter households, by household income decile
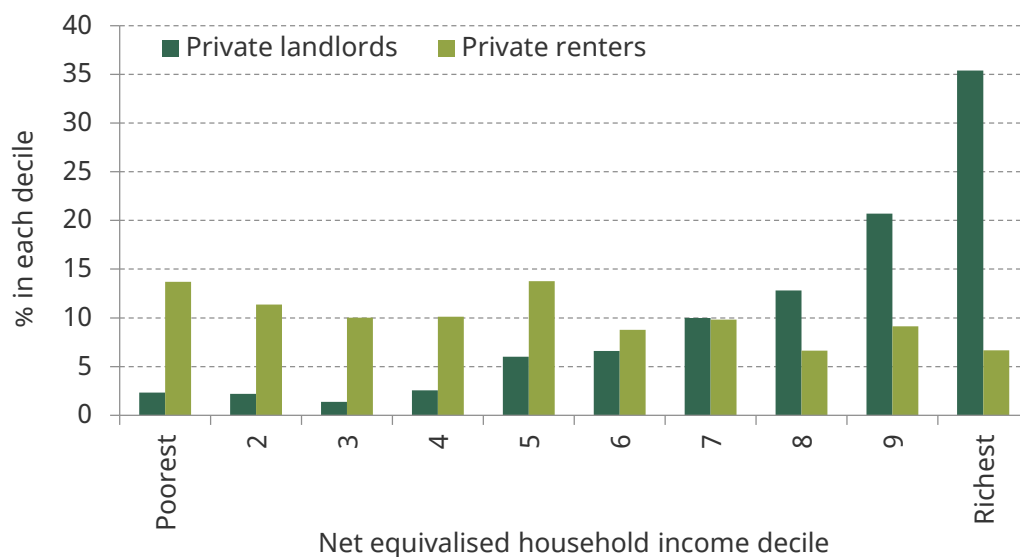
Note: Private landlords are identified as households that receive any rental income. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8.

This means that if council tax were partly incident on property owners rather than tenants, a continuous and proportional system would be less progressive in incomes than Figure 5.4 above implies. Landlord households would lose from higher council taxes on their owner-occupied properties, but gain from lower council tax on the properties they rent out, which would allow them to put up rents on those properties. On the other hand, gains at the bottom and middle of the income distribution would be smaller, as low-income households living in privately rented homes would see their rents rise to offset falls in council tax.

More generally, private renter households disproportionately live in lower-value properties, whilst households that are private landlords disproportionately live in the highest-value properties (see Figure 5.27). This implies that if council tax changes are partly borne by landlords rather than tenants, the effects of moving to a continuous and proportional system (which redistributes from those with higher-value properties to those with lower-value properties) would be smaller than the results above suggest.

For example, single working-age households and lone-parent households – which make up a disproportionate share of private renters – would gain less from the reform on average, since part of the reduction in council tax for these groups would be offset by higher rents. On the other hand, working-age couples – which make up a disproportionate share of private landlords – would gain more (or lose less) from the reform on average, as they would benefit from being able to charge higher rents on rented properties.

The incidence of council tax could also affect the geographic distribution of gains and losses discussed in Chapter 4 above. This would be the case if landlords owned rental properties in different areas from where they lived. For example, Figure 5.28 shows that 19% of households in London live in privately rented accommodation, whereas only 8% of

households in London are landlords of rented properties. It is, of course, possible that private landlords in London own a large number of properties on average. But if some of the rental properties in London were owned by landlords outside London – for example, in the East of England where the ratio of private renters to landlords is much smaller – then some of the increase in council taxes in London would be borne by households in other regions. This would imply that at a household level, the losses in London would be smaller than would otherwise be the case, and conversely that (landlord) households in other areas would lose more (or gain less) from revaluation and reform.

Figure 5.27. Distribution of private landlord and private renter households, by decile of value of main residence
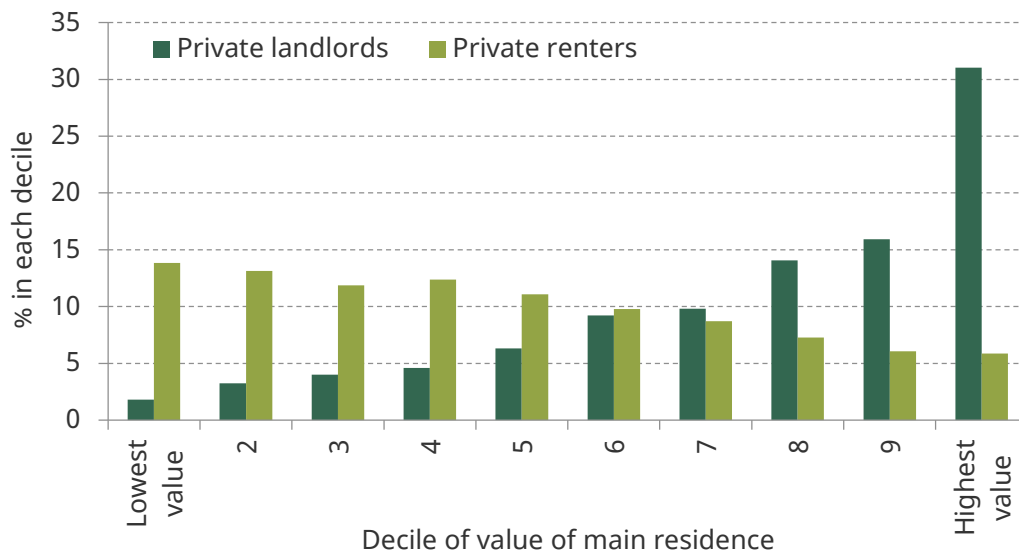
Note: Private landlords are identified as households that receive any rental income.

Source: Authors' calculations using Understanding Society wave 8.

Figure 5.28. Distribution of private landlord and private renter households, by region

Note: Private landlords are identified as households that receive any rental income.

Source: Authors' calculations using Understanding Society wave 8.

6. The potential impacts on rents and property values

Because property values are determined by the supply of and demand for housing, changes in council tax bills would be expected to be reflected in proper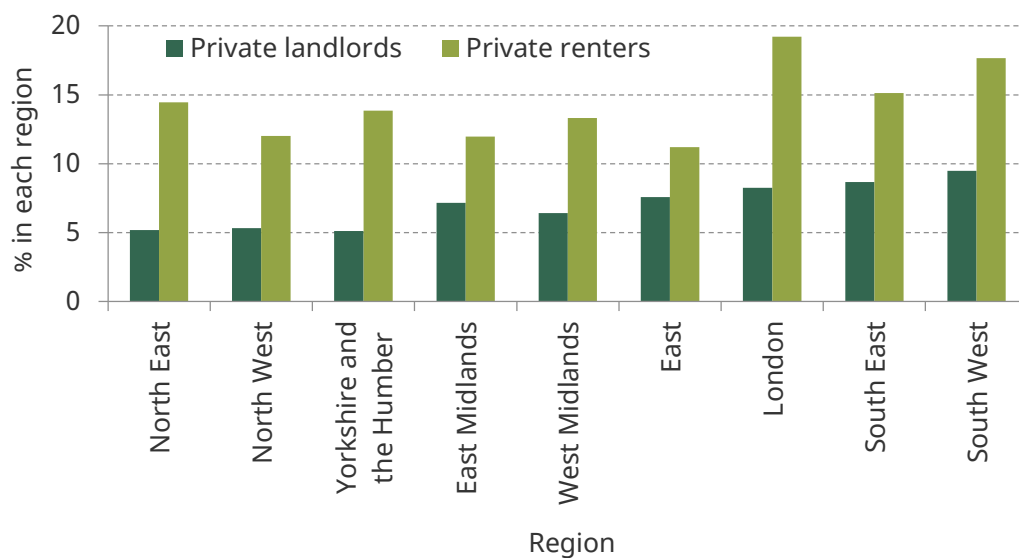ties' market values. Properties that see a fall in their council tax bills would be expected to rise in value, whilst those that see a rise in their bills would be expected to fall in value, in a process called capitalisation. Economic theory suggests that tax changes will be highly capitalised into property prices where housing supply is relatively fixed (Oates, 1969).

A number of studies provide evidence of significant capitalisation of property taxes in the UK. Bond et al. (1996) find that 45–85% of changes in business rates fed through into changes in commercial property rents in the course of just a few years, whilst a more recent study by Bond, Gardiner and Tyler (2008) finds that reductions in business rates in enterprise zone areas are almost entirely capitalised into rents. Housing supply in the UK is found to be unresponsive to property prices (Caldera Sanchez and Johansson, 2011), which, all else equal, would imply a high degree of capitalisation. Studies find that local public goods provision – the corollary to local taxes – is highly capitalised into property prices in the UK (see, for example Hilber, Lyytikainen and Vermeulen (2011) on grant funding and Gibbons and Machin (2008) on school quality). Many studies on other countries have also found nearly full capitalisation of property taxes (Capozza, Green and Hendershott, 1996; Palmon and Smith, 1998; Høj, Jørgensen and Schou, 2018).[44] There is therefore strong empirical backing for the theoretical prediction that property prices would be affected by changes to property taxes such as council tax.

For owner-occupied properties, the reason for capitalisation is straightforward: when deciding how much they are willing to pay for a home, households consider the future stream of council tax payments that they would have to pay in that property (as well as any amenities those council tax payments pay for). For rental properties, capitalisation is likely to happen only if council tax is incident on property owners, rather than tenants, as discussed in Section 5.4 above – that is, if a rise (fall) in council tax reduces (increases) the rent landlords are able to charge on the property, and therefore reduces (increases) the value of the property to landlords.

In this chapter, we consider the impact of revaluation and reform on property values in England. We model the effect of complete capitalisation, which can be seen as the upper bound on potential impacts. We model capitalisation as a one-off change in property values by the discounted change in tax liability, assuming this is permanent. That is, we assume that revaluation or reform is based on property values *before* any expectations of changes are priced in, and that people expect the reform to be a one-off and permanent event (they do not expect the tax change to be reversed, nor do they expect any further changes in real tax liabilities in the future as a result of the reform).

The amount by which property values change depends not only on the change in council tax bills, but also on the rate by which future tax payments are discounted. The more households discount the future, the smaller the impact on market values, because future tax payments are worth less in today's terms. In the following analysis, we use a 2% real

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[44] For a literature review, see Hilber (2015).

discount rate as our central estimate, consistent with the Office for Budget Responsibility's assumptions about long-term productivity growth, and discuss how different assumptions about the discount rate affect our results.[45]

It is important to note that people whose bill increases (falls) do not lose (gain) twice over from both the increase (fall) in their tax bill and the fall (increase) in the value of their property: on the one hand, if they continue living in the property indefinitely, they lose or gain as a result of the change in their tax bill; on the other hand, if they sell and move, they lose or gain as a result of the change in their property value. However, it does mean that it is the owner of a property at the time of revaluation and reform who loses or gains in full as a result: future purchasers will be willing to pay less (more) for the property if the tax bill associated with it is higher (lower).

The chapter proceeds as follows. Section 6.1 summarises the overall effects of our two main reform options – pure revaluation and a continuous and proportional system – on property values under full capitalisation, and discusses how sensitive estimates are to assumptions about the discount rate. Section 6.2 examines changes in property values across LA areas and Section 6.3 examines changes across households of different income levels.

6.1 Overall effects

Figure 6.1 shows how revaluation and reform would affect average property values, if changes in council tax were fully capitalised into values. We group properties in England into 100 equally sized groups based on our estimate of the Q1 2019 property value, and plot the average property value in each group after the reform. Note that since the reforms we model are revenue neutral, they would have no effect on average property values across England as a whole.

A pure revaluation would have little effect on the distribution of property values. The lighter green dots on Figure 6.1 lie very close to the 45-degree line, which means that properties of a given value (say £200,000) today would still be worth, on average, approximately the same amount on average (around £200,000) after revaluation. This reflects the fact that while some properties of this value would move up one or more council tax bands and see their tax bills rise and value fall, others would move down one or more council tax bands and see their tax bills fall and value rise.

The average changes are not exactly zero though. Properties with relatively low values would, on average, see their value increase slightly, while those with high values would, on average, see their value fall slightly. This reflects the fact that values have increased more in parts of the country – such as London and its environs – where they were already highest. For example, properties in the bottom fifth of the value distribution would see their value increase by around 1%, while those in the top tenth would see their value fall by around 1%.

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[45] Historically, real interest rates (which reflect real discount rates) have been higher than the rate of productivity growth. However, since the financial crisis, real interest rates have been below the rate of productivity growth. Our assumption is therefore consistent with real interest rates rising from current levels but not returning to pre-financial crisis levels.

Figure 6.1. Effect of reforms on property values, assuming 2% real discount rate
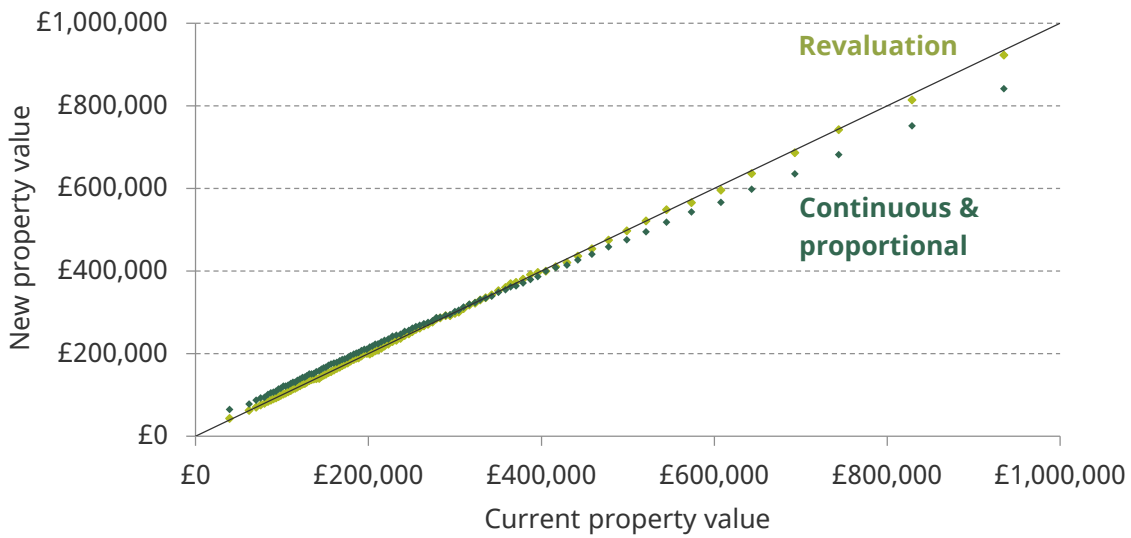
Note: Assumes full grant adjustment. Shows 100 bins of current property values. Omits the three highest percentile groups, for which average value of properties are all over £1 million.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

A continuous and proportional system would increase the value of lower-value properties and reduce the value of higher-value properties, narrowing the distribution of property values in England, and wealth inequalities (at least among homeowners).

With a 2% real discount rate, the cheapest tenth of properties would see a 35% rise in their values. On the other hand, the most expensive tenth of properties would see their value fall by around 10%, on average – which would be bigger in cash terms than the increases in value of cheaper properties. However, as Figure 6.1 shows, three-quarters of properties are clustered at values below £300,000 and would see their values rise, on average, as a result of the reform.

Figure 6.2. Changes in property value due to capitalisation of changes in council tax bills given different assumptions about discount rates
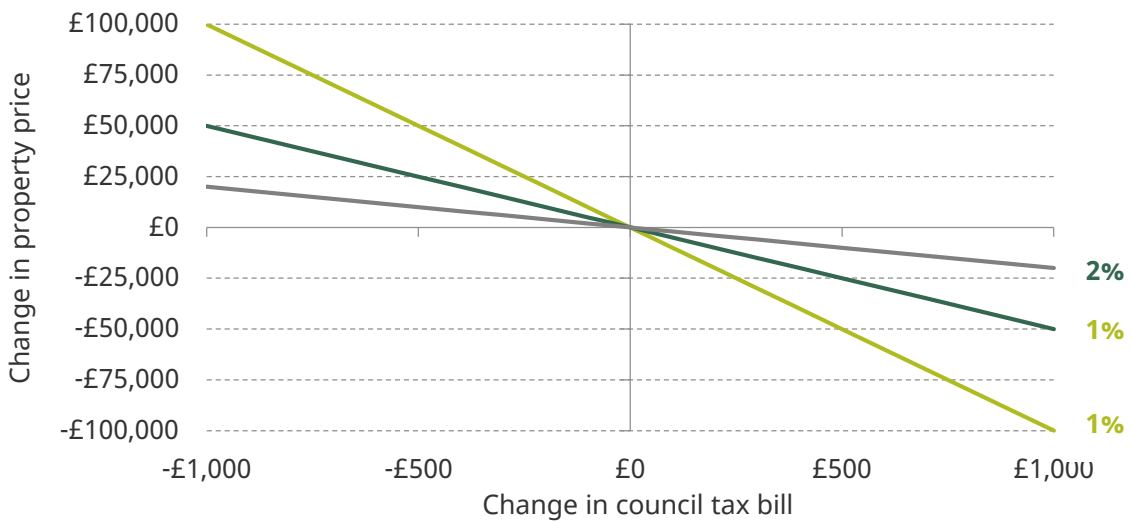
Source: Authors' calculations.

Figure 6.3. Effect of a continuous and proportional system under different discount rates
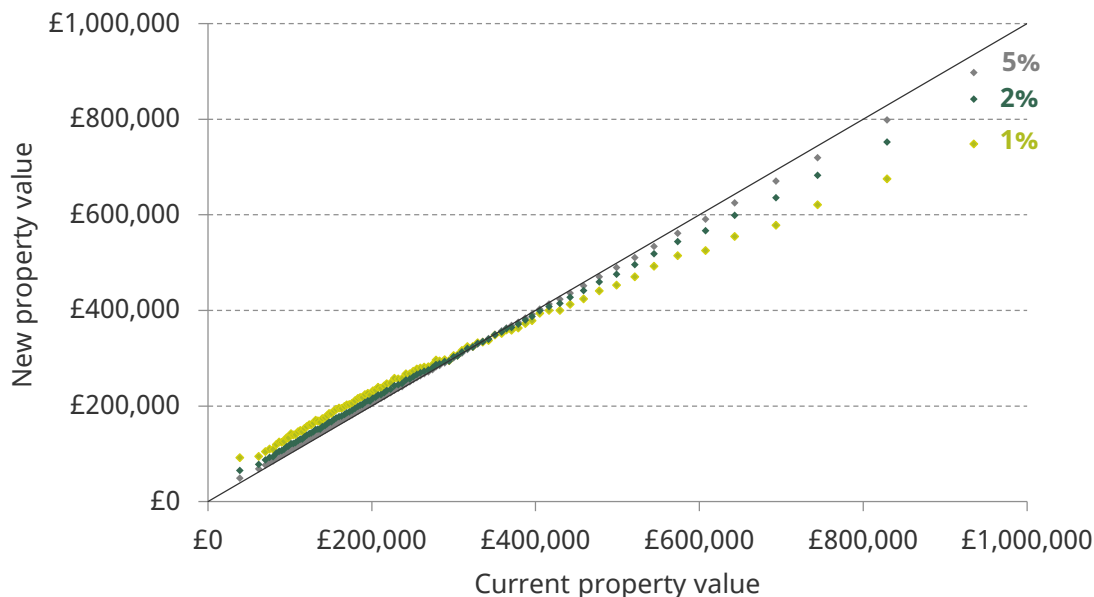
Note: Assumes full grant adjustment. Shows 100 bins of current property values. Omits the three highest percentile groups, for which average value of properties are all over £1 million.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

The estimated change in property values from a given change in council tax liabilities is highly sensitive to the discount rate assumed though, as shown in Figure 6.2. For example, if council tax changes are fully capitalised into property values, an increase in annual council tax bills of £500 would reduce property values by £25,000 under a 2% discount rate. If a 5% discount rate is assumed instead, property values would fall by just £10,000; under a 1% discount rate, property values would fall by £50,000.

As a result, our estimates of changes in property value arising from council tax reforms are also highly sensitive to assumptions about the discount rate.

Figure 6.3 shows that if households discount future tax payments heavily, by 5%, a continuous and proportional system would have much less effect on the distribution of property values in England. For example, the average value of the cheapest tenth of properties would rise by 14% (as opposed to 35%) and the average value of the most expensive tenth would fall by 4% (as opposed to 10%).

On the other hand, if households place high value on future tax payments – having a low discount rate of 1% – a continuous and proportional system would lead to large increases in property values among lower-value properties and large falls towards the top of the distribution.

Uncertainty about how much people would discount future tax payments – especially given uncertainty about how interest rates will change in future – therefore means impacts on property prices are highly uncertain, even assuming a particular degree of capitalisation.

6.2   Effects across billing authority areas

As with changes in average tax bills, changes in average property values across LAs if tax bills are capitalised will depend crucially on whether general central government funding is redistributed to reflect changes in tax bases. If it is not, each LA would still need to raise the same revenue if it wanted to maintain spending, and hence charge the same average tax bill. Thus, average property values would be little changed across LA areas,[46] even though within LA areas some properties (for example, moving up a band) would see their tax bill rise and their value go down, and others vice versa.

With full adjustment of this other funding, average tax bills would change to reflect changes in tax bases if LAs wanted to maintain spending levels. This could lead to significant changes in property values by LA area.

Figure 6.4 shows our estimates of the effect on average property values by LA of a pure revaluation (left-hand map) and a continuous and proportional tax system (right-hand map), assuming a 2% discount rate. Table 6.1 summarises impacts by region. Together, they show that:

- A **pure revaluation** would lead to relatively modest changes in average property values across most billing authority areas in England. Property values would increase in those parts of the country where average property values have increased by less than average since 1991 and hence where average council tax bills would fall following revaluation (provided general central government funding were adjusted). This includes most of the North and Midlands, but also parts of the South such as large parts of Devon, Dorset and Somerset. Conversely, property values would fall in those areas where property values have increased the most since 1991 and hence where average council tax bills would rise, including London and its environs and a few other areas such as Bristol.

- Because property values would typically rise in areas where they are currently relatively low (such as much of the North and Midlands) and fall in areas where they are currently relatively high (such as London and its environs), revaluation would lead to a modest reduction in geographical wealth inequalities among homeowners.

- The largest increases in average property values would be in Fylde (+£10,400), Ribble Valley (+£9,900) and Wyre (+£9,300), while 36 billing authority areas (all in the North and Midlands with the exception of Torbay and the former Taunton Deane area) would see an increase of £5,000 or more. The increases would average around £4,000 in the northern regions of England, around 2–3% of average property values as of Q1 2019.

- The largest reductions in average property values would be in Hackney (–£20,500), Lambeth (–£16,200) and Waltham Forest (–£16,000). Outside of London, the biggest reductions would be in Brighton & Hove (–£9,800) and Cambridge (–£9,200), and only seven billing authority areas outside London would see a reduction of £5,000 or more.

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[46] As discussed in Chapter 4, there would not be zero effect on average bills and hence average property prices by LA area, because of changes in how much residents in each LA contribute to the police and crime commissioner's council tax revenue requirement. But these changes would be modest, reflecting the fact that the PCC precepts account for around 16% of overall bills.

The reductions would average £9,000 (1.6%) in London, £900 (0.2%) in the South East and £1,400 (0.4%) in the East of England.

- Under a **continuous and proportional** council tax, there would be significantly larger effects on property values if changes in tax bills were capitalised. Assuming a 2% discount rate, full capitalisation would mean average property values increasing by around £20,000 in the North of England (between 11% and 17% of Q1 2019 average values) and around £14,000 in the Midlands (around 7% of Q1 2019 values). This is because these areas have relatively low property values currently and would therefore see a fall in average council tax bills under a proportional council tax system (at least if grant and baseline funding were adjusted). Conversely, average property values in London would fall by around £43,000 (almost 8%). This would have the effect of significantly reducing geographical disparities in property values and homeowner wealth in England.

- The biggest increases in property values would be in those areas where values are currently the lowest in Lancashire and Teesside including Hyndburn (+£29,100), Hartlepool (+£28,900) and Pendle (+£27,800). The biggest reductions would be in those places with the highest values, most notably Kensington & Chelsea (–£230,400), Westminster (–£156,500) and Camden (–£98,500). It is important to note while these are much larger in cash terms than the increases in the North, in percentage terms they are smaller given the very high average values in these areas (over £1.5 million in the case of Kensington & Chelsea).

- To put these changes in context, the 15% fall in Kensington & Chelsea compares with the 26% fall seen in that LA between April 2008 and March 2009, and a subsequent 37% increase between April 2009 and March 2010. Property values in this area were broadly unchanged between mid 2014 and mid 2019, but increased by 80% in the preceding five years. The 10% fall in Camden would take prices back to mid-2016 levels. And prices increased by 40% over the preceding five years between mid 2011 and mid 2016.[47] In other words, the potential falls as a result of the capitalisation of changes in council tax bills would likely undo only a small part of the increases in property prices seen in London since the late 2000s recession.

As already highlighted though, the impact of revaluation and reform on property values would depend on several factors. These include supply and demand conditions in property markets: the less responsive the supply of property is to changes in values, the greater the effects on property values will be. But the impact of revaluation and reform also depends on the discount rate with which property purchasers discount future tax bills (and rental receipts, in the case of landlords). This is illustrated in Table 6.2, which shows the effects of a continuous and proportional council tax system on property values by region under discount rates of 1%, 2% (our main assumption) and 5%.

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[47] Authors' calculations using HM Land Registry (2020).

Figure 6.4. Effect of reforms on average property values by billing authority area, assuming 2% real discount rate
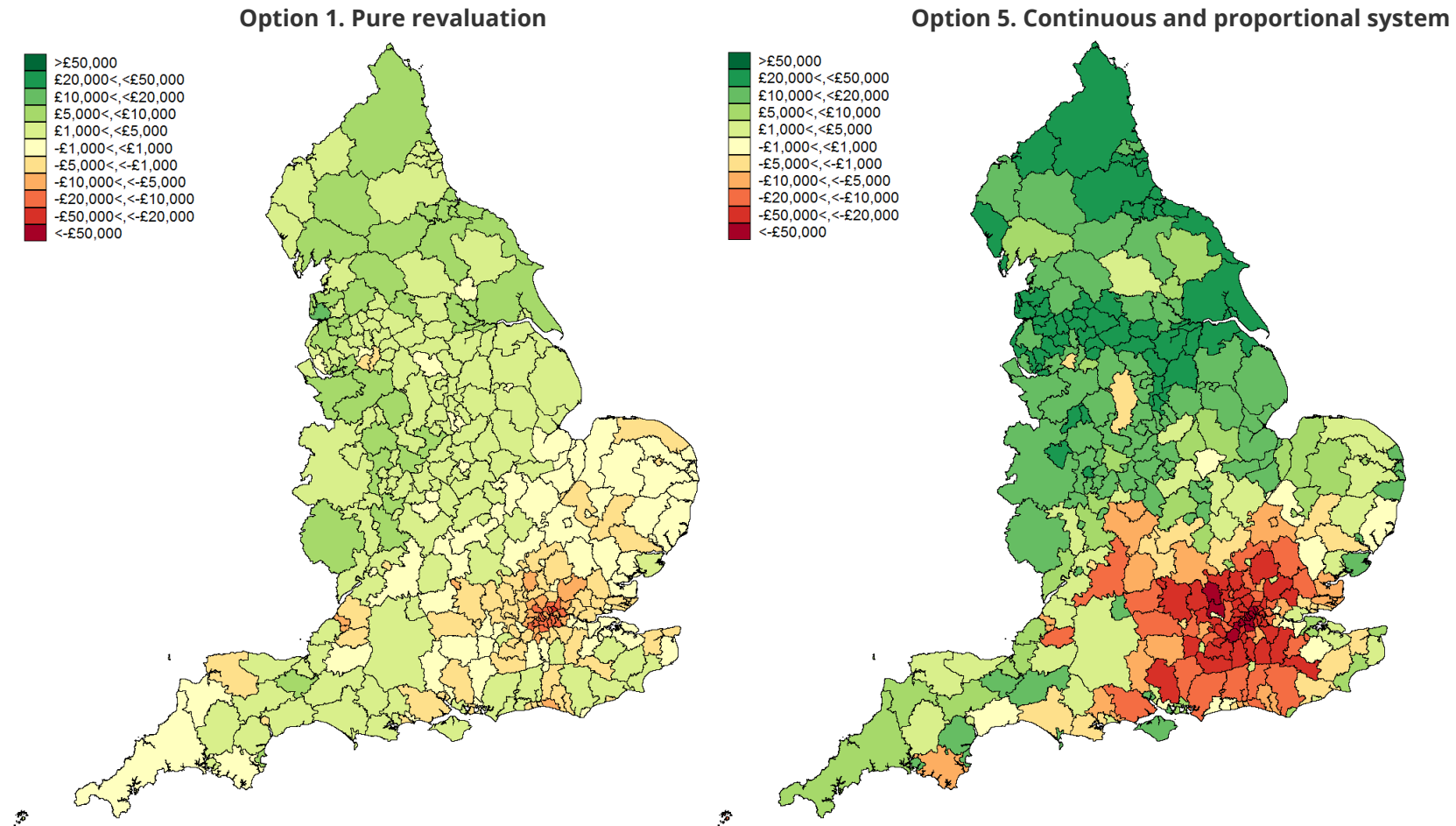
Option 1. Pure revaluation

Legend:
- >£50,000
- £20,000<,<£50,000
- £10,000<,<£20,000
- £5,000<,<£10,000
- £1,000<,<£5,000
- -£1,000<,<£1,000
- -£5,000<,<-£1,000
- -£10,000<,<-£5,000
- -£20,000<,<-£10,000
- -£50,000<,<-£20,000
- <-£50,000

Option 5. Continuous and proportional system

Legend:
- >£50,000
- £20,000<,<£50,000
- £10,000<,<£20,000
- £5,000<,<£10,000
- £1,000<,<£5,000
- -£1,000<,<£1,000
- -£5,000<,<-£1,000
- -£10,000<,<-£5,000
- -£20,000<,<-£10,000
- -£50,000<,<-£20,000
- <-£50,000

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

Table 6.1. Effect of reforms on average property values by region, assuming 2% real discount rate

Region	Average value, Q1 2019	Change under pure revaluation		Change under continuous and proportional system	
		Cash	%	Cash	%
North East	£135,680	+£4,187	+3.1%	+£23,171	+17.1%
Yorkshire and the Humber	£172,649	+£3,804	+2.2%	+£19,924	+11.5%
North West	£177,450	+£3,929	+2.2%	+£18,884	+10.6%
East Midlands	£206,502	+£1,992	+1.0%	+£13,985	+6.8%
West Midlands	£211,373	+£3,097	+1.5%	+£14,540	+6.9%
South West	£287,296	+£537	+0.2%	+£4,034	+1.4%
East	£333,038	−£1,387	−0.4%	−£4,480	−1.3%
South East	£385,038	−£931	−0.2%	−£11,067	−2.9%
London	£566,394	−£9,016	−1.6%	−£43,279	−7.6%

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

Table 6.2. Effect of a continuous and proportional council tax on average property values under different discount rate assumptions, by region

Region	Average value, Q1 2019	1%	2% (main assumption)	5%
North East	£135,680	+£46,342	+£23,171	+£9,268
Yorkshire and the Humber	£172,649	+£39,848	+£19,924	+£7,970
North West	£177,450	+£37,768	+£18,884	+£7,554
East Midlands	£206,502	+£27,970	+£13,985	+£5,594
West Midlands	£211,373	+£29,080	+£14,540	+£5,816
South West	£287,296	+£8,068	+£4,034	+£1,614
East	£333,038	−£8,960	−£4,480	−£1,792
South East	£385,038	−£22,134	−£11,067	−£4,427
London	£566,394	−£86,558	−£43,279	−£17,312

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

6.3   Effects by household income

This section considers how revaluation and reform would affect the property values of households across the income distribution. We can do this only for owner-occupied properties, as we do not have information on the value and location of rental properties owned by landlords. We therefore show the average impact across all privately rented properties. As discussed in Section 5.4, private landlords tend to be in the top of the income distribution, so changes in the value of privately rented properties would generally be borne by higher-income households if changes in council tax bills were capitalised.

The impact on social housing values is shown for completeness, but we do not comment on these results as the changes are not directly borne by households.

Figure 6.5 shows that a pure revaluation would have little effect on the average values of owner-occupied homes across the income distribution, or on landlords of privately rented properties. Under a continuous and proportional system, the effects are essentially the mirror image of Figure 5.4.

Owner-occupier households in the bottom 70% of household incomes would see their property values rise, reflecting a fall in the tax bill due on the homes they own. Households in the third income decile, who see the largest gains, would see their property values rise by 5%.

Figure 6.5. Average change in property value, by household income decile, as a percentage of average property value
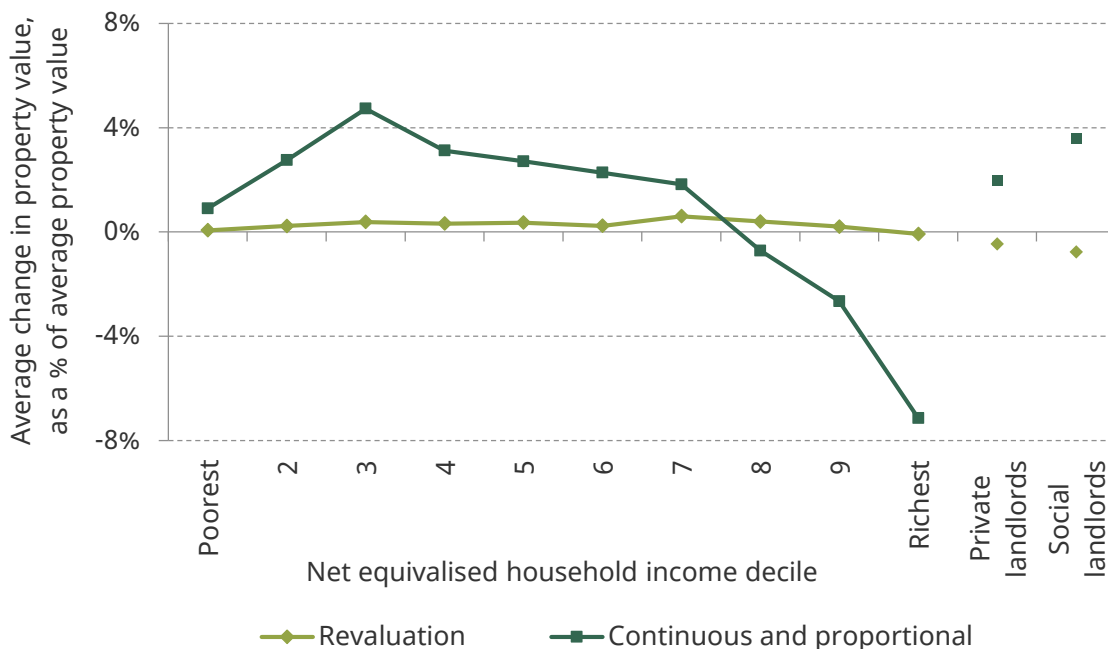
Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 6.6. Average change in property value under a continuous and proportional system, by household income decile, as a percentage of average property value
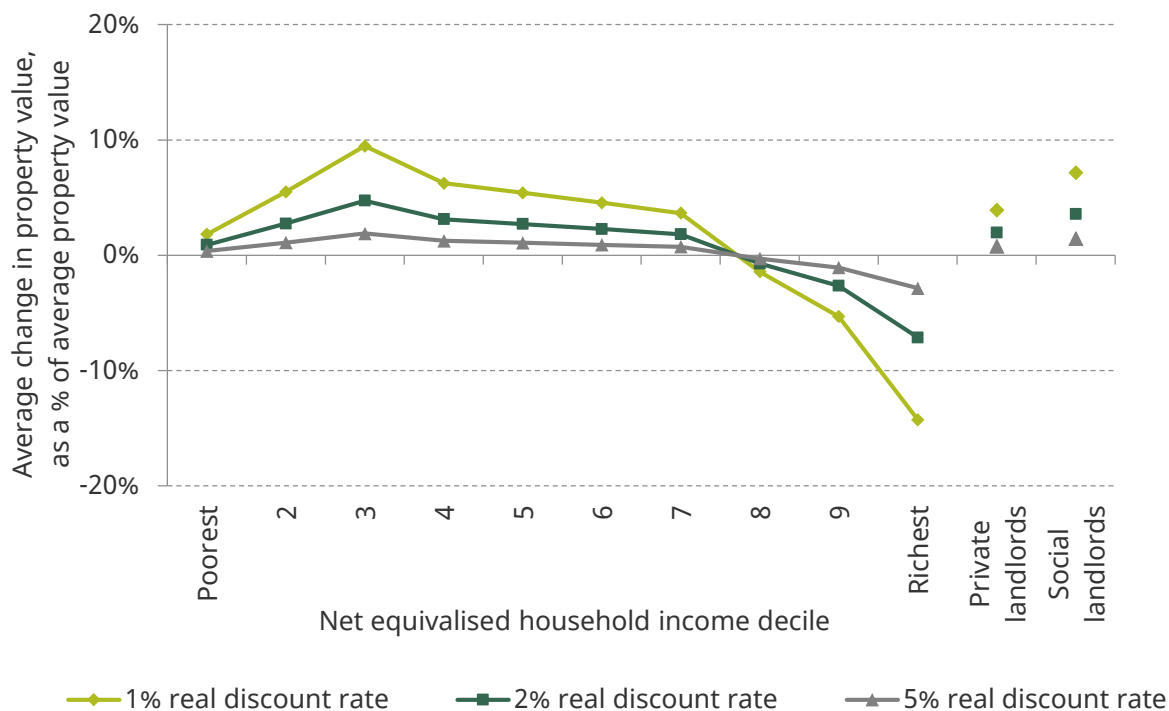
Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

The reverse holds for the highest-income 10% of owner-occupiers, whose tax bills rise and whose property values fall by around 7% on average. However, Figure 6.5 also shows that the values of privately rented properties would increase by around 2% under a continuous and proportional system. Since private landlords are disproportionately in the top two income deciles in England, the full effect of capitalisation at the top of the income distribution can be expected to be less negative than the chart suggests.

The results are sensitive to assumptions about the discount rate, as shown in Figure 6.6. Under a lower discount rate of 1% (that is, assuming that people care more about future tax payments), average property values of owner-occupied properties would rise by around 9% for the third decile of households (who see the largest gains) and fall by around 14% for the highest-income decile. Under a high discount rate of 5%, on the other hand, changes in average property values across the income distribution would be small – within 3% of average pre-reform values.

7. Addressing potential bottlenecks to revaluation and reform

So far in this report, we have outlined the rationale for revaluing and reforming council tax, and analysed the potential impacts across different LA areas and groups of households. This analysis shows that revaluation and reform can make council tax more progressive with respect to both property values and household incomes, and can ensure that sometimes substantial changes in *relative* property values since 1991 are fairly reflected in households' council tax bills.

But, of course, revaluation and reform will come with political and practical challenges. If undertaken on a revenue-neutral basis, by definition it will mean losers (who are liable to be at least somewhat unhappy) as well as winners (who may not be quite so demonstrative about their gains). Some could lose significantly if the relative value of their home has increased significantly, or their property is currently 'undertaxed' given the existing regressive tax structure. There may be a particular concern about low-income losers – including pensioners who own properties that have appreciated significantly in value, but who have low current incomes, and low-income people renting from private or social landlords in expensive parts of the country.

In this chapter, we look at how significant such issues are likely to be – for example, how many low-income pensioners and residents of London could lose significantly from revaluation and reform. And we discuss options to ameliorate the impacts on these groups, including deferred implementation and transitional arrangements, deferred payment schemes, and reforms to council tax support schemes.

As part of this, we discuss whether using different band thresholds in different parts of the country is a good way to help address these issues and tackle a more general concern that it is 'unfair' for households with similar incomes but living in different parts of the country to find themselves with very different council tax bills because of differences in average property values. We argue it is not – as what leads to different average tax bills between places with high and low property values is the redistributive local government funding system which implicitly redistributes revenues from the former to the latter. If we think areas with high property values should be able to keep some of the revenue in order to spend more or cut tax rates, this should be done by changing the degree of redistribution in the funding system. Setting different band thresholds is just an opaque and inflexible way of doing it.

7.1 How many low-income losers could there be from revaluation and reform?

Chapter 5 showed that the council tax bills of low-income households would, on average, be no higher or lower than now following a council tax revaluation. Moreover, if council tax were reformed to make tax payments more progressive with respect to property values, it would also be more progressive with respect to income: low-income households would gain on average, as they typically live in less expensive properties.

Of course, there would be some relatively low-income losers from revaluation and wider reform though: those living in properties that have increased in value relative to other properties since 1991, the year on which council tax bands are currently based; and those living in expensive properties, especially in more expensive parts of the country.

Table 7.1. Proportion of gainers and losers from revaluation and a continuous and proportional council tax system, by income level

	Income quintile group				
	Poorest	**2ⁿᵈ**	**3ʳᵈ**	**4ᵗʰ**	**Richest**
Option 1. Revaluation					
Gain >£200	2.9%	5.9%	9.9%	16.5%	20.0%
Gain £50–£200	4.8%	10.5%	11.9%	11.7%	7.5%
Lose or gain £0–£50	84.8%	69.7%	57.7%	49.2%	42.1%
Lose £50–£200	4.8%	8.2%	10.2%	9.5%	7.5%
Lose >£200	2.7%	5.7%	10.4%	13.0%	22.8%
Average gain among gainers (£)	100	159	227	282	354
Measured as % of net income	0.7%	0.7%	0.7%	0.7%	0.4%
Average loss among losers (£)	36	57	87	101	155
Measured as % of net income	0.2%	0.3%	0.3%	0.2%	0.2%
Option 5. Continuous and proportional					
Gain >£200	23.8%	46.1%	55.6%	51.7%	34.6%
Gain £50–£200	20.6%	13.3%	11.6%	10.9%	9.4%
Lose or gain £0–£50	48.4%	29.6%	14.2%	9.4%	6.0%
Lose £50–£200	3.6%	4.0%	5.4%	6.3%	8.4%
Lose >£200	3.7%	7.0%	13.2%	21.6%	41.5%
Average gain among gainers (£)	228	348	395	404	379
Measured as % of net income	1.6%	1.6%	1.3%	0.9%	0.5%
Average loss among losers (£)	207	323	577	693	1,261
Measured as % of net income	1.4%	1.4%	1.9%	1.6%	1.6%

Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale. Each quintile contains 4.78 million households.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Table 7.1 shows the proportions of gainers and losers from a pure revaluation (the top panel) and a fully proportional council tax system (the bottom panel) across the income distribution in England. It is based on the scenario where general central government funding for LAs is adjusted in full to compensate for changes in local tax bases, and assumes full take-up of council tax support (CTS) schemes by eligible households.

The table shows that under a pure revaluation, most low-income households would see little or no change in their council tax bill. For example, 85% (or 4.1 million) of households in the poorest fifth of households in England would see a loss (i.e. an increase in net council tax) or gain (i.e. a decrease in net council tax) of less than £50 a year. Only 3% (0.13 million) would lose more than £200 a year, and roughly the same proportion (0.14 million) would gain more than £200 a year. In contrast, much bigger proportions of households in the richest fifth of households would see losses or gains of more than £200 a year.

Some of this reflects the fact that low-income households are more likely to live in properties in a low council tax band and with a low value. And as a result of the banding relativities for low bands (for example, $^6/_9$ for a Band A, $^7/_9$ for a Band B), even if a property moves up or down a band, the resulting change in council tax bill will be less than £200 a year. In contrast, richer households are more likely to live in properties in a high council tax band. The band relativities for these (for example, $^{11}/_9$ for a Band E, $^{13}/_9$ for a Band F) are such that moving up or down a band will lead to a bigger change in tax bill.

But it also reflects the operation of council tax support. Because many low-income households have a large part of their council tax waived as part of this scheme, they see little change in their net council tax bill if their gross tax bill changes. Indeed, without CTS, rather more low-income households would see either a loss of £50 or more as their council tax bill rose (20% or 1.0 million) or a gain of more than £50 as their tax bill fell (20% or 1.0 million), as shown in Table B.6 in Appendix B.

Thus, council tax support would play an important role in insulating low-income households from big losses from a council tax revaluation – but would also mean few see big gains either.

The bottom panel of Table 7.1 shows that a fully proportional council tax (option 5) would see significantly more low-income households gain than lose. This is a very important point to remember, and is what drives the average gains for low-income households that we saw in Figure 5.4. But 4% (0.18 million households) among the poorest fifth and 7% (0.33 million) among the next poorest fifth would lose £200 or more, and the average loss among the poorest households that lose would be £207.

Again council tax support would play an important role in insulating low-income households from the biggest losses – without it, 11% of the lowest-income fifth of households would lose £200 or more, and the average loss among low-income losers would be much higher, at £619.

Certain groups of low-income households are more likely to lose than others

Before we move on to consider further policies that could ameliorate the impact on the relatively small proportion of low-income households that would lose, it is worth noting

that some sub-groups of the low-income population may be more likely to lose than others – or at least might expected to be.

Pensioners

For example, pensioners may have bought their house many years ago – when their incomes were higher and property values much lower. This means we might expect a relatively larger share of low-income pensioner households to live in high-value properties than low-income working-age households (who will generally have bought or rented the property more recently).

It turns out that this is true within local areas – but not when considering the picture across the country as a whole. That is because relatively few old people live in London where average values are highest (although relatively few also live in urban areas of the Midlands and North where average values are lowest).

As shown in Figure 7.1, low-income pensioners would gain less, on average, from a continuous and proportional council tax than other low-income households.

But this is because low-income pensioners (in the bottom fifth of the income distribution) can still have their council tax covered in full by CTS no matter where they live in England. When council tax support was localised, local authorities (LAs) were not allowed to reduce the generosity for pensioners, unlike working-age households for whom most councils have introduced minimum payments no matter how low their income is (Adam, Joyce and Pope, 2019). Therefore most low-income pensioners neither gain nor lose much when their underlying council tax bill changes, as can be seen in Table 7.2 – 77% would see a change of £50 a year or less under a continuous and proportional council tax system, for example, compared with 32% of low-income working-age households. And as among the

Figure 7.1. Change in average council tax bill from a continuous and proportional council tax, by income level and age of oldest household member
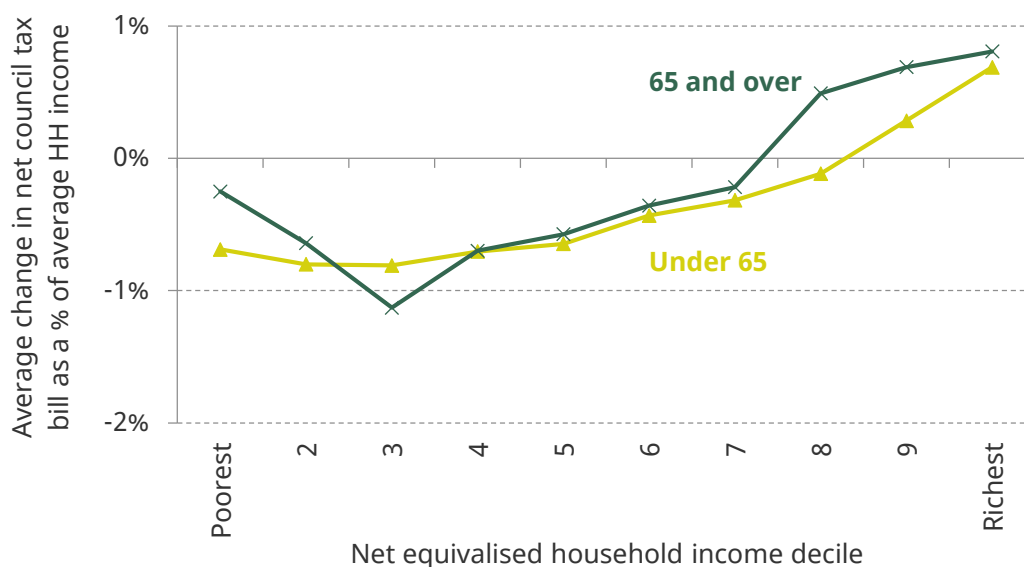
Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Table 7.2. Proportion of gainers and losers from a continuous and proportional council tax for pensioner households by income level

	Income quintile group		
	Poorest	**2nd**	**3rd**
Pensioner households			
Number of households (million)	1.75	2.06	1.64
Gain >£200	16.0%	41.5%	51.6%
Gain £50–£200	5.1%	7.5%	7.8%
Lose or gain £0–£50	76.6%	43.0%	21.1%
Lose £50–£200	1.1%	2.7%	6.5%
Lose >£200	1.2%	5.2%	13.1%
Average gain among gainers (£)	194	331	375
Measured as % of net income	1.4%	1.8%	1.5%
Average loss among losers (£)	53	204	524
Measured as % of net income	0.4%	1.1%	2.1%

Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

low-income population as a whole, of those that would see a change in their net council tax bill, it would much more likely be a fall than an increase.

Residents of more expensive parts of England, especially London

Low-income residents of more expensive parts of England would be more likely to lose from both a revaluation and a continuous and proportional council tax system than residents of cheaper areas – although this effect would only be significant if the general central government funding given to LAs were adjusted to compensate for changes in local tax bases.[48]

Figures 7.2 and 7.3 illustrate this, showing that households of all income levels (including low-income households) in London would see bigger losses, on average, than those in the rest of the South of England, who in turn would fare less well than those in the Midlands and North from both these reforms.

[48] If it were not, the LAs in parts of the country with high-value properties would retain the benefits of their larger tax bases in full, and could reduce the tax rate they charge, meaning no change in the average tax bill charged by a LA, as already highlighted in Chapter 4. Low-income households in high-value areas would therefore generally gain or lose just as much as those in parts of the country with low-value properties.

Figure 7.2. Change in average council tax bill from revaluation, by income level and region
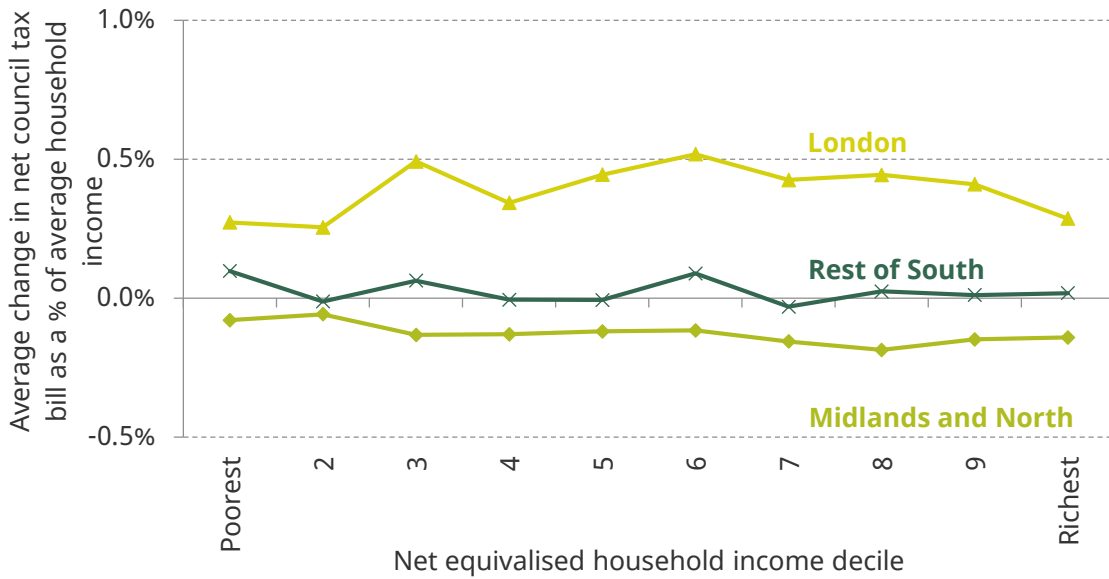
Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 7.3. Change in average council tax bill from a continuous and proportional council tax, by income level and region
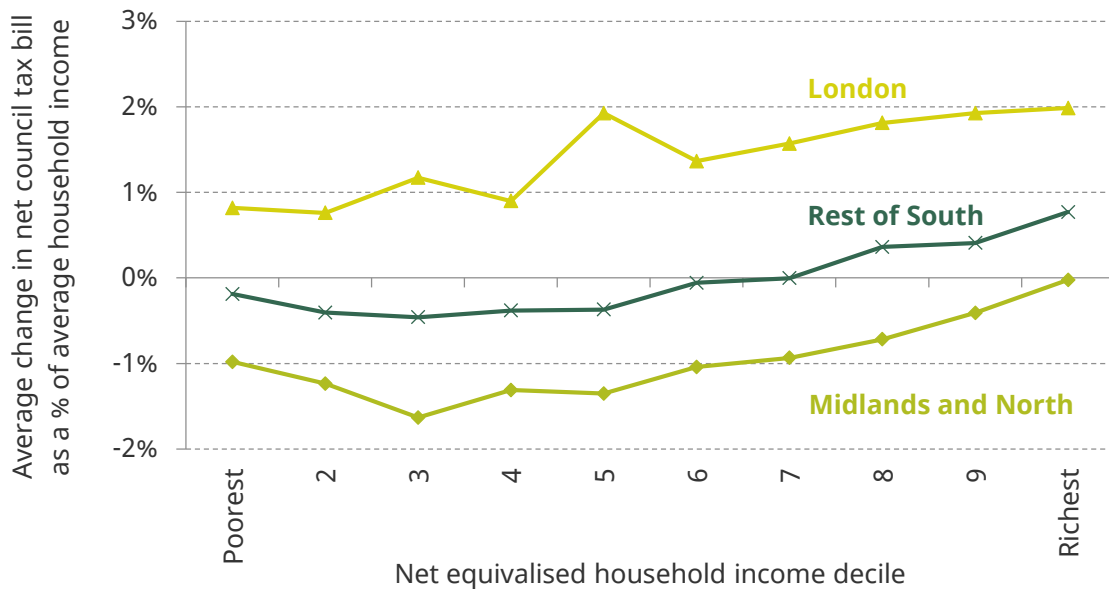
Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Table 7.3. Proportion of gainers and losers from a continuous and proportional council tax, for Londoners by income level

	Income quintile group		
	Poorest	**2nd**	**3rd**
Households in London			
Number of households (million)	0.46	0.48	0.45
Gain >£200	2.1%	2.9%	2.6%
Gain £50–£200	4.3%	3.8%	7.6%
Lose or gain £0–£50	56.6%	45.6%	19.7%
Lose £50–£200	20.2%	17.5%	7.7%
Lose >£200	16.8%	30.3%	62.3%
Average gain among gainers (£)	62	68	146
Measured as % of net income	0.4%	0.3%	0.4%
Average loss among losers (£)	300	470	732
Measured as % of net income	1.7%	1.9%	2.2%

Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Indeed, significantly more low-income households in London would lose from a continuous and proportional-to-value council tax than would gain, as shown in Table 7.3. But as for the low-income population as a whole, council tax support would insulate many such households from the full extent of both the losses and gains they would otherwise face as a result of moving to such a council tax system.

However, the fact that working-age households now generally have to pay at least part of their council tax bill means low-income households living in expensive property in central London could still face substantial increases in their net tax bill even if they are entitled to 'full' council tax support. For example, those on a scheme mandating 20% minimum payments facing an increase in their gross tax bill of £1,500 would see their net bill increase by £300 – a sizeable amount for a low-income household.

7.2   What policies could be used to ameliorate the impacts of revaluation and reform on these groups?

With this in mind, we may want to do more to support the relatively small number of low-income households that could lose significantly from revaluation and reform. This includes not only those receiving CTS but still having to pay part of their tax bill, but also those who do not claim the support to which they are entitled and/or those above the

income and capital cut-offs for CTS but still of relatively modest means. What other policies could further ameliorate the impacts?

Transitional relief arrangements – i.e. phasing in increases in tax bills due to revaluation and reform over a period of several years. For example, under a pure revaluation, households moving up more than one tax band could be provided with relief so that their net tax bill increased by the equivalent of moving up only one band each year.[49] Under a more proportional council tax system, households could be provided with relief limiting the increase in their bill as a result of revaluation and reform to a particular percentage or cash-terms amount per year. Such arrangements would give households facing a big increase in their tax bill time to adapt – including by selling and moving to a less expensive property – before facing the full change in tax bill.

The cost of phasing in increases in tax bills could be paid for by phasing in decreases in tax bills for those due a reduction as a result of revaluation and reform. This is how the transitional relief scheme that operates in England when non-domestic property is revalued works. Alternatively, the UK government could fund a transitional scheme by providing additional grant funding to English LAs specifically to provide relief to those households seeing large increases in their tax bills as a result of revaluation and reform. This was the approach taken by the Welsh government for funding the transitional relief scheme that accompanied the revaluation in Wales in April 2005 (based on April 2003 values), for example.

It is important to note that a transitional relief scheme would involve a degree of additional complexity for both the UK government and LAs. A scheme would need to be designed, approved and legislated for. And LAs would need to operate the scheme alongside a council tax system that is already complex (given the number of exemptions, discounts and premiums), which may require changes to software provided by external providers. There is therefore a trade-off between the potential benefits of phasing in big changes in tax bills against the potential administrative (and potentially revenue) costs involved.

Deferred implementation – i.e. deferring the implementation of any changes in tax bands and tax bills for a period of several years after they have been announced. This would mean households could take action (again including moving house) once they knew their new tax band and likely new tax bill, but before that band and bill come into effect. Of course, delay would mean living with an out-of-date and regressive council tax structure for longer. And there would be an increased risk that political difficulties or opportunism would lead to a cancellation of the changes before they come into effect: opposition politicians could campaign on the basis of cancelling revaluation and reform, and government ministers could face significant lobbying over time.

Deferred payment – i.e. allowing at least some households that own their property and have equity in it to defer paying part or all of their bill for a period of time – for example, until sale or death, or some fixed time period (say 5 or 10 years) – by taking out a loan to cover the part they do not pay immediately. Such schemes are in place in parts of the US and Canada and in Ireland. And in the UK, somewhat similar schemes are available for

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[49]   Note that properties would still technically move to their new tax band immediately at the point of revaluation: this is required by legislation. But they would be taxed as if they moved up only one band per year.

people facing high social care costs – with the council paying in the short term, and being repaid when the owners sell their property or die.

There would, of course, be costs associated with administering and designing a deferral scheme, which would need to be traded off against the potential benefit to beneficiaries' immediate financial position. Drawing on Adam (2013), Box 7.1 discusses a number of important issues that must be taken into account when designing a deferral scheme, including how widely to make it available. Probably the key risk with such a scheme would be political: a future government could forgive the deferred tax liabilities as a result of political pressure or in anticipation of political gain. This could mean that restricting eligibility to only those who are assessed to be unable to pay their council tax bill out of their current income could be wise, in order to limit the potential costs involved from the risk of a possible future write-off of deferred tax liabilities.

Box 7.1. Issues and options for deferred payment schemes

The purpose of offering deferral would be to deal with situations where the taxpayer was not permanently poor but rather lacked the liquidity (income) to immediately pay the tax that they would be liable for. It would only be suitable for those with assets against which the deferred tax could be secured – such as homeowners with positive equity. It would not be suitable for those who lack both income *and* assets – support for this group is better provided via CTS, which pays their council tax bills in full or part.

It is crucial that any deferral be with interest, so as to not encourage those who could pay to instead defer the bill and earn interest on what they have saved in the meantime, and because of the potential for default. For example, Ireland charges a 4% rate of interest currently for its deferral scheme, and British Columbia charges rates between 1.95% and 3.95% depending on household characteristics.

In designing a deferral scheme, a key decision would be to decide who was eligible for deferral. In principle, if interest were charged at an appropriate rate, the government/LAs should be indifferent about whether people pay up front or defer and pay with interest: in present-value and risk-adjusted terms, they would receive the same tax revenues either way. But, in practice, most countries restrict eligibility to certain groups. Ireland, for example, uses income thresholds – individuals with income below €15,000 and couples with income below €25,000 can defer in full, while individuals and couples with incomes below €25,000 and €35,000, respectively, are able to defer half of their bill. British Columbia operates deferral schemes for the over-55s, widows and widowers, people with disabilities and families with children.

It would be important to ensure the deferred tax is secured against the value of the property the tax is liable for, in order to reduce the risk of default. For example, the deferral scheme for social care costs requires LAs to register a charge against a property with the Land Registry. This is unproblematic for homes owned outright but is not always possible for properties with a mortgage still in place – as some mortgage contracts do not allow other charges against a property until the mortgage is paid off. Mortgagees in such circumstances would be unable to take part in a deferral scheme.

The UK government or LAs would also need to decide how long payments could be deferred for. Sale of property and death of a sole resident make sense as points at which deferred taxes (with interest) become due. But one may also want to put a time limit on deferral – for example, 5 or 10 years – especially for households headed by working-age adults, to avoid the accrual of large tax debts.

The biggest risk with a deferral scheme would probably be political: a future government could forgive the deferred tax liabilities as a result of political pressure or in anticipation of political gain. This may be especially likely if a future government significantly reformed (or even abolished) council tax: insisting on payments of deferred taxes under the old system (presumably replaced because it was seen as flawed or unfair in some way) could be difficult in such circumstances. A revenue-neutral deferral scheme would become *ex post* a costly exemption scheme. And if taxpayers anticipated this risk, they might opt to defer their council tax bill even if they could afford to pay immediately and interest were charged – precisely because they anticipate some chance of not having to pay the deferred tax bill at all. Hence restricting eligibility to only those who cannot pay out of their current income could be wise, in order to limit the potential costs involved from a possible future write-off of deferred tax liabilities.

Another type of risk is that take-up could be low among those low-income high-wealth individuals a deferral scheme would be focused on helping, as with the council tax support scheme. As it would be a new scheme, significant investment in publicity would likely be needed to encourage take-up.

More generous council tax support schemes – i.e. increasing the generosity of the schemes for those households already eligible or extending eligibility to households with higher incomes or assets than currently covered.

As already discussed, most LAs have CTS schemes that require working-age households with even the lowest incomes to pay part of their council tax bills. Adam, Joyce and Pope (2019) find that 80% of LAs require a minimum payment, averaging 19% of the full liability (up from 70% of LAs requiring an average 15% minimum payment in 2013–14, the first year of localisation). Almost 20% of LAs require a minimum payment of at least 25% of the bill and one LA (North Lincolnshire) requires a minimum payment of 50%.

This has not been the only change since the localisation of council tax support in 2013–14. Adam, Joyce and Pope (2019) also note that around a third of LAs in England cap council tax support at a particular tax band – most usually Band D – which means that low-income households moved into higher tax bands as a result of revaluation and reform may have none of the extra council tax liability covered.

An obvious option to provide additional support to low-income households would be to return to a system that fully covers the tax bills of those with the lowest incomes. Such a system remains in place for pensioners in England, and a very similar scheme is in operation in Wales.

Figure 7.4. Proportion of low-income households seeing bills decrease or increase from a continuous and fully proportional council tax system, with current and pre-2013 CTS scheme
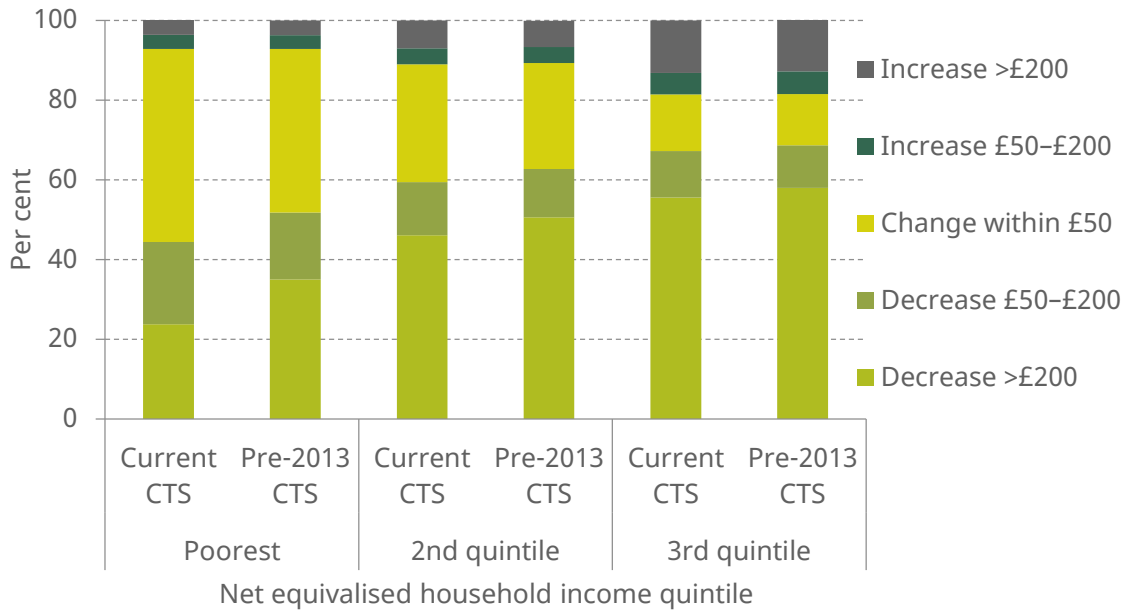
Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Figure 7.4 shows that doing this in combination with a revalued and fully proportional council tax would further increase the share of low-income households gaining from the policy. Of the poorest 20% of households, 52% would see their net council tax bill fall by more than £50 a year, compared with 44% under the current CTS scheme. The share of the poorest households that see their bills rise by more than £50 a year would remain at 7%, but average losses among this group would fall slightly, from £460 a year to £450 a year.

The effect on overall losses is small because the poorest households that lose substantial amounts from council tax reform are generally not entitled to CTS, either under the current or the previous system. For example, of households in the poorest quintile that lose more than £200 under the current CTS scheme, 71% are not entitled to CTS under the current CTS scheme and 62% would still not be entitled to CTS under the pre-2013 scheme.

Figure 7.5 shows the distribution of changes in bills in London, where a substantial number of low-income households would lose from a continuous and proportional system. Reverting to the pre-2013 CTS scheme in conjunction with a proportional council tax system would mean that 33% of households in the poorest 20% would see their net bills fall by more than £50 a year, compared with just 6% under the current CTS scheme, and the share of the poorest quintile seeing their net bills increasing by more than £50 a year would fall from 37% to 22%.

Figure 7.5. Proportion of low-income households seeing bills decrease or increase in London from a continuous and fully proportional council tax system, with current and pre-2013 CTS scheme

Note: Assumes full grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.
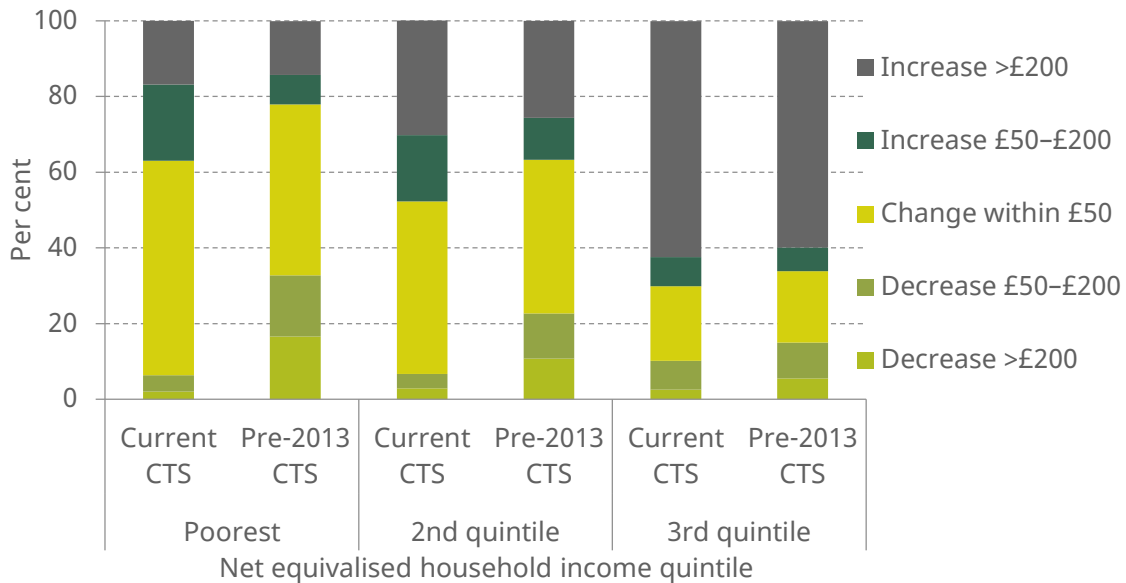
Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

We estimate that such a reform to CTS would cost around £400 million, which is the equivalent of approximately 1.3% of total council tax revenue (net of CTS) in England. This cost could be covered by central government or by local government, either through reductions in other spending or through increases in the council tax bills charged to other council tax payers. Of course, if it were covered by other council tax payers, the average Band D rate or average proportional council tax rate would have to rise slightly to pay for this, which would slightly alter the distribution of gains and losses shown here.

Because pensioners remain, in effect, on the pre-2013 CTS scheme, it is also worth noting that such a reform would only benefit working-age households. However, it would be possible to go further in extending the generosity of council tax support for pensioners and non-pensioners alike.

The generosity of the schemes could be increased by increasing the capital limits, increasing the income thresholds, or reducing the taper rate at which support is withdrawn as income rises. Each option would target somewhat different groups. For example, the same amount of money would help more households if spent on reducing the taper rate than if spent on raising the income thresholds, but less of the additional support would be targeted at those just above the existing thresholds.

It is also worth noting that changing the thresholds and taper rate in this way would affect work incentives. For example, reducing the taper rate would increase the incentive for those currently on the CTS taper to increase their earnings or hours of work a bit, as less would be lost in the form of paying more towards their council tax. On the other hand, those households not currently entitled to council tax support but who would be entitled to some after the reduction of the taper rate would face weaker work incentives – as they would now lose some of this support as their income rises.

Changing other taxes. It would also be possible to change other taxes to partially offset the impacts of reforming council tax for particular groups of households, although the differences in tax bases mean it would not be possible to target such measures precisely. If one were particularly concerned about the impact of reforming council tax on property values for high-value properties and/or in expensive parts of the country, one option would be to reduce rates of stamp duty land tax (SDLT) – which has a highly progressive structure currently – on them. The revenue to pay for such a reform could be raised through increases in SDLT on lower-value properties or through increases in the level of council tax. The Mirrlees Review, for example, argued that reducing the economically inefficient SDLT (which disincentivises mutually beneficial property sales) and offsetting the reductions in revenue via increases in council tax would be sensible policy (Mirrlees et al., 2011).

7.3 Why is the application of different band thresholds in different parts of the country a poor idea?

Another policy that has been suggested for ameliorating the impact of revaluation and reform of council tax on households in more expensive parts of the country more generally is to have band thresholds that vary across the country. In particular, the idea is that by setting lower band thresholds in cheaper parts of the country and higher band thresholds in more expensive areas, two issues could be addressed:

- **Lack of differentiation in tax bills across properties within some localities and regions.** Currently, in some parts of the country, large shares of properties find themselves in just one or two bands. Consider the North East of England, for example, where low property values mean we estimate that 66% of properties would be in Band A and 95% in Bands A–C following a pure revaluation using national thresholds. This would mean that properties in quite different parts of the local and regional property value distribution were facing the same or very similar council tax bills. Application of region-specific council tax bands could avoid this problem by ensuring band thresholds are set with reference to regional value distributions.

- **Big differences in tax bills for similar properties in different localities and regions resulting from big differences in property value levels.** Consider a three-bedroom terraced house. In the North East, the median three-bedroom terraced house would be a Band A property under revalued council tax bands, but in London it would be a Band E property. This means the tax due on such a property would be 1.8 times higher in London following a pure revaluation if the same Band D rate were set as in the North East. Even more starkly, the tax due in London would be 4.7 times higher under a system where band relativities were proportional to median property values in each band. Region-specific council tax bands could be set so that similar properties in different regions find themselves in more similar bands, perhaps making some adjustment for differences in regional income levels as well.

However, varying bands in this way **conflates two issues** and would make decisions about the extent to which the council tax system redistributes between parts of the country with high and low property values **opaque and inflexible**. There are better ways to address these issues:

- **Lack of differentiation in taxes across properties can be addressed by adding additional bands or moving to a continuous-value system.** For example, with additional bands at the lower end of the property value distribution, there would be more differentiation in tax bands and hence bills even in localities and regions with low average property values. For example, splitting Bands A and B into four bands would see around 41% of properties in the North East in the lowest band (A1) as opposed to 66% in Band A if we simply updated band thresholds for the current eight bands. And a continuous-value system would mean tax bills differ according to the exact estimated value of a property, as in Northern Ireland (although bills are capped for the very highest value properties in Northern Ireland).

- **Differences in average tax bills across regions are a result of general central government funding being distributed to reflect differences in local tax bases, not the use of national tax bands per se.** As discussed in Chapter 4, if such funding is *not* adjusted to reflect changes in tax bases following revaluation and reform of the council tax, while tax bills would change *within* upper-tier LA areas, the average tax bill of upper-tier LA areas would not change. This is because the same amount of council tax would still need to be raised in each upper-level LA area as previously. Thus while properties in the parts of the country where values have increased less, such as the North East, could find themselves in a lower tax band following a national revaluation, and those where values have increased more, such as London, could find themselves in a higher tax band, they would on average see little change in their bill. This is because Band D rates would need to increase in the North East, for example, to maintain average tax bills despite properties moving down bands, and Band D rates could be cut in London to maintain average tax bills even though properties were moving up bands. It is if general central government funding is adjusted to reflect the changes in tax bases that changes in average tax bills in different parts of the country arise – to offset those changes in other funding.

It would be up to the government how much, if at all, to change general central government funding in response to changes in tax bases following revaluation and reform. In Chapters 4 and 5, we showed two options – no adjustment and full adjustment – both to illustrate the importance of this choice, and because historically the English local government finance system has aimed at fully equalising differences in tax bases across the country to allow different LAs to afford comparable levels of service for the same tax rate, despite differences in tax bases.

But other options are available, including capping changes in this other funding (for example, at a certain cash amount per person or at a percentage of existing funding levels) or only offsetting a proportion of the change in tax bases (for example, 50% or 60%). Doing this would imply average tax bills would change across upper-tier LA areas and wider regions as a result of revaluation and reform – increasing in London, for instance – but overall by not as much as if this other funding were fully adjusted. In essence, LAs with increased tax bases would be allowed to retain some but not all of the benefit so that they did not have to increase average tax bills so much as under full adjustment of general central government funding, while LAs with reduced tax bases would have to bear some of the cost of their reduced tax base themselves, limiting their ability to reduce average tax bills.

To illustrate this, Figure 7.6 shows the change in average tax bills by billing authority area under a continuous and proportional council tax if changes in general central government funding offset 100% (left-hand panel) and 60% (right-hand panel) of the changes in tax bases that would result.

It shows that if this other funding were only partially adjusted to offset changes in tax bases, changes in average tax bills across LAs would be smaller (notice the paler greens and reds). However, in some cases, the changes would still be significant (although smaller than under full equalisation). For example, the average tax bill in Hyndburn would still fall by 43% (as opposed to 55% under full equalisation), with another 20 billing authority areas (such as Bradford, Burnley, Middlesbrough and Wigan) seeing reductions of over 30%. Conversely, the average bill in Westminster would increase by 257% (as opposed to 410% under full equalisation) and three other billing authority areas would see an increase of 100% or more (Kensington & Chelsea, Hammersmith & Fulham and Wandsworth).

Moreover, there are a number of (mainly lower-tier district) billing authority areas where the change in average tax bill would be larger under partial than under full equalisation. This is because the effect of revaluation and reform when one partially equalises is not between *zero* and the effect when one fully equalises grant and baseline funding; it is between the effects when one undertakes no equalisation and when one undertakes full equalisation. Figure 4.4 showed that because residents of billing authority areas pay council tax to multiple tiers of local government (such as lower-tier district and upper-tier county councils), average bills can change substantially at billing authority area level even if general central government funding and average bills at upper-tier LA level are completely unchanged. For example, residents of lower-tier districts with property values higher than the rest of the county would have to pay more to their county council under a proportional council tax than at present, and vice versa, even though the county council would need to raise just as much from all its residents if it wanted to maintain spending. Under full equalisation, these intra-county effects on average bills could be offset by the redistribution of grant and baseline funding to or from the county if its average property value was lower or higher than the national average.

A number of billing authority areas illustrate this point. For example, Derbyshire Dales in Derbyshire and Rushcliffe in Nottinghamshire have high property values relative to the rest of their counties, but not relative to the whole of England. This means that if there were no equalisation, residents of these billing authority areas would see a substantial rise in their average council tax under a continuous and proportional system as they effectively contribute a larger share of their counties' overall council tax revenues. But if grant and baseline funding were fully adjusted, the fact that property values are not especially high relative to the country as a whole means residents of these billing authority areas would see little change in average tax bills. The effects of partial equalisation lie in between the no and full equalisation scenarios. In Derbyshire Dales, therefore, whereas the average council tax bill would increase by 1% under full equalisation, it would increase by 13% if general central government funding were adjusted to offset 60% of the change in tax bases. And in Rushcliffe, whereas the average council tax bill would fall by 2% under full equalisation, it would increase by 11% under this partial equalisation scenario.

Figure 7.6. Change in average council tax bill from a continuous and proportional council tax if general central government funding is adjusted by varying degrees, by billing authority area
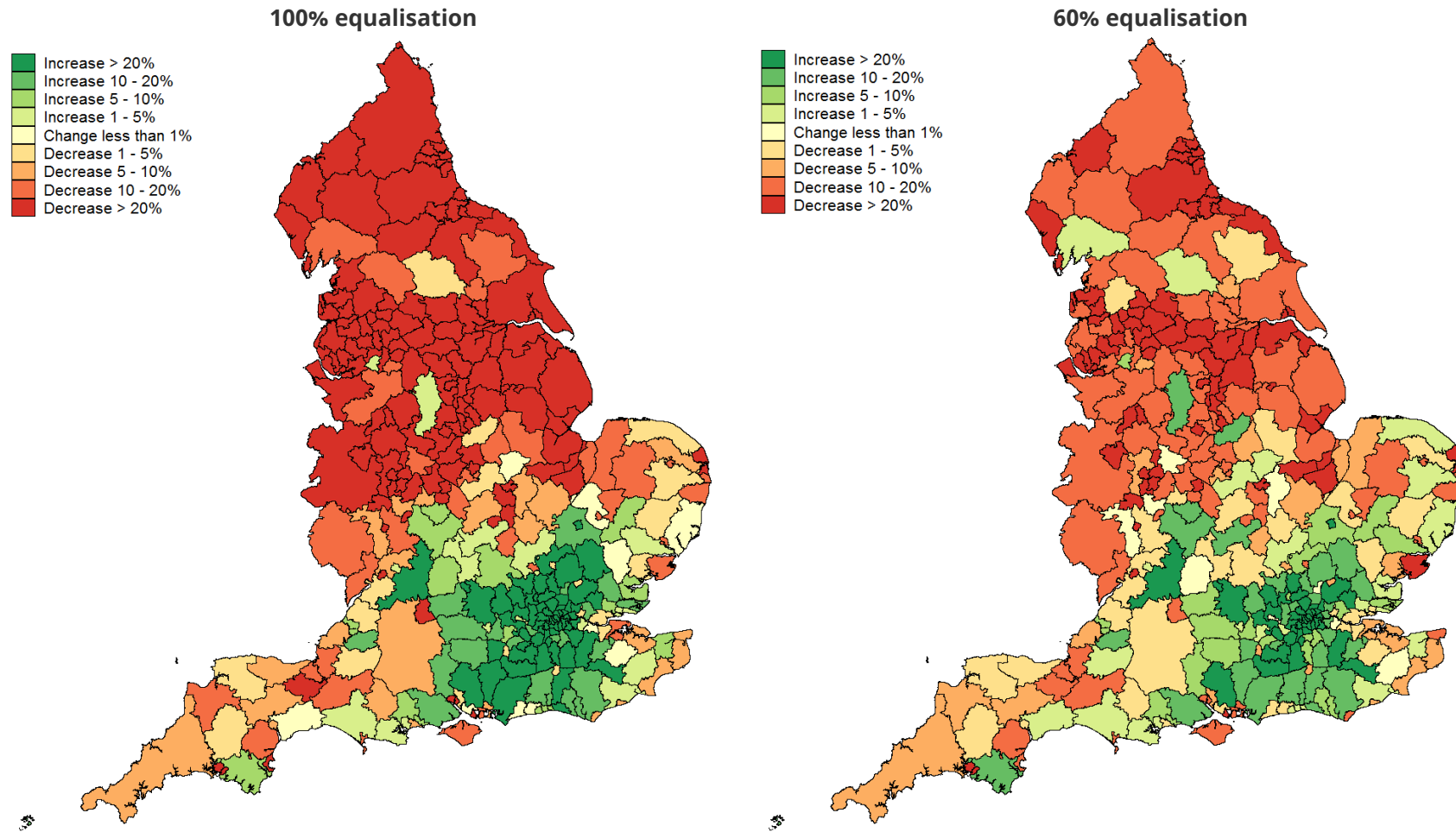
Source: Authors' calculations using HM Land Registry (2019), MHCLG (2018a, 2018b and 2019e) and VOA (2018).

Figure 7.7. Change in average council tax bill from a continuous and proportional council tax, by income level and region, with 60% equalisation
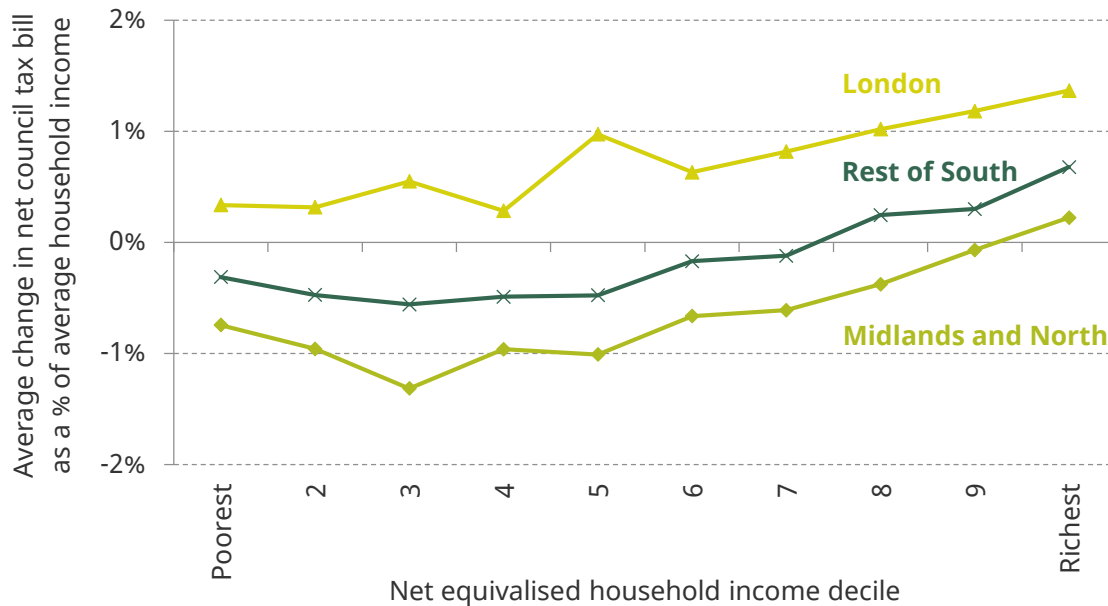
Note: Assumes 60% grant adjustment and full take-up of CTS. Incomes are measured after taxes and benefits but before housing costs are deducted and equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Thus, while partially rather than fully equalising grant and baseline funding alongside revaluation and reform would *reduce* the scale of the largest changes in billing-authority-level average tax bills, it would *increase* the scale of changes in average tax bills in some areas: generally those district areas where property value levels and changes differ significantly from those in the wider county area, but do not differ significantly from those in England as a whole.

Comparing Figures 7.7 and 7.3 shows that partial equalisation would significantly reduce the increase in average tax bills for households in London – including low-income households. On the flip side, it would mean smaller gains for households in the North and Midlands – again including low-income households.

For banded council tax systems, setting higher and lower band thresholds in London and in the North and Midlands, respectively, could be used to achieve a similar effect. But the degree of resource equalisation across the country would be much less transparent, and would be less flexible: once set, the band thresholds would remain in place until the next revaluation. Given governments may have different preferences over how redistributive the local government funding system should be in the context of differences in local tax bases, both a lack of transparency and a lack of flexibility are problematic. A lack of transparency could mean governments set different band thresholds in ways that significantly change the degree of redistribution in the local government system without proper scrutiny. And a lack of flexibility means new governments would not easily be able to change the system to reflect their redistributive preferences.

We therefore think that the idea of setting different band thresholds in different regions is not very compatible with a local government funding system where at least some *resource equalisation* is undertaken. Moreover, for a continuous and proportional council tax, there is no obvious analogue to setting different band thresholds as no thresholds exist. If the government wants to limit differences in tax bills that result from differences in property values between different parts of the country, it is better to do that via the allocation of general central government funding.

8.   Conclusions

This report started by arguing that council tax must be revalued and should be reformed. Why?

First, the fact that in England (and Scotland), properties are still subject to tax bands based on their estimated value as of April 1991 means that the tax bills different households face are increasingly arbitrary and unfair. The funding different local authorities (LAs) get from central government also reflects the values of properties in their areas almost 30 years ago, rather than today.

Second, the current banded structure is highly regressive with respect to property value and, as a result, is regressive with respect to incomes. A progressive tax system does not require that every tax should be progressive – what matters is the effect of the system as a whole – but regardless of how redistributive we want the tax system to be overall, it is hard to see why a tax on housing wealth or housing consumption should be less than proportional to value, especially given rising concerns about geographical and wealth inequalities.

And third, the single-person discount encourages the inefficient use of properties, contributing to both underoccupation and overcrowding.

Revaluation and reform can address these problems and move us towards a fairer and more efficient property tax: up-to-date, proportional-to-value and less distortionary.

Of course, there would be losers as well as winners. The losers are likely to be more vocal, so such reforms would not be without their political challenges. But it is untenable for council tax to continue to be based on 1991 values indefinitely, and the longer revaluation is delayed, the bigger and more difficult the eventual changes to tax bills will be. In this vein, if revaluation had taken place back in the mid 2000s as the then Labour government originally proposed (and the Labour administration in Wales actually went ahead with), the changes required now would be smaller and therefore almost certainly politically easier to implement.

The desirability of revaluing and reforming council tax is something that IFS researchers and a range of other organisations have highlighted previously. The key contributions of this report have been to provide a detailed assessment of the effects on different LAs and household types, recognising how these depend critically on the wider local government finance system and how the property market responds to changes in council tax bills.

What our analysis has shown is that revaluation and reform, done on a revenue-neutral basis, could:

- lead to many more winners than losers, especially among those who are on low and middle incomes, those who are younger, and those who have disabilities – though across the population as a whole, the average losses of those who did lose would be bigger than the average gains of the winners; and

- depending on how other funding for LAs is adjusted at the same time, redirect central government funding to, and reduce average tax bills in, places where economies and property values are lowest and have fallen behind more affluent areas.

We have also highlighted crucial decisions that the UK government would need to take if – as we argue it should – it does revalue and reform council tax.

First is the extent to which funding from central government would be reallocated to reflect the changes in council tax bases that revaluation and reform would lead to. Without reallocation, tax bills would be updated to reflect changes in relative property values *within* upper-tier LA areas, but not across them. It is only if general central government funding were adjusted that the average tax bills faced by residents of different LAs would change to reflect today's property values, rather than those of 29 years ago.

The government is currently deciding to what extent the funding it allocates to different LAs should take account of differences in council tax bases under the current system. Historically, the aim was to take full account of these differences in revenue-raising capacity, so that each LA could charge the same Band D tax rate if it chose to spend at the level the government deemed necessary (though the government has departed somewhat from this principle over the last decade). But if the government does not want to redistribute funds as radically as this would imply, it could decide to only partially adjust for these differences. Similar questions arise whether considering revaluation or increasing the progressivity of council tax.

In this context, it is important to note that the government has strongly suggested it wants to improve the relative economic performance and living standards in more deprived areas, particularly in the North and Midlands ('levelling up'), and that it sees changes in how public spending is allocated as part of this. Council tax revaluation and reform, accompanied by full or significant adjustment of grant and baseline funding, would be a natural element of this.

Since council tax was introduced, property values have risen more than twice as fast in London as in the North East, for example. But neither council tax nor central government funding allocations reflect this surge in London's property values relative to the rest of the country, and especially the North and Midlands. LAs in London therefore receive more grant and baseline funding than they would if allocations were based on an updated assessment of their ability to raise council tax, and those in the North and Midlands less. Residents of London pay bills that are much lower as a share of their home's value than those in the North. Redistributing funding on the basis of updated values, allowing LAs in the North and Midlands to charge their residents less council tax (or to improve local services), and asking those in London and parts of the South and East to pay more (or accept cuts to services), would address these issues. Making council tax proportional to value as well as up to date would reallocate even more funding to the North and Midlands from the East, South East and especially London.

Changes to funding from central government could, of course, be made without actually revaluing individual properties. But that would only address inequities between LAs. It would still leave unfairness within LAs, with residents of properties with the same value today facing tax bills hundreds of pounds apart just because they were worth different amounts in 1991. Only revaluing individual properties can address this issue too.

A second big decision for central government relates to what measures it should put in place to ease the transition to a new regime, and mitigate adverse impacts on particular households or places, such as people with low incomes living in properties with high and/or significantly increased values.

Our analysis has shown that moving to a proportional council tax system in particular would mean far more low-income winners than losers, and that council tax support (CTS) insulates many low-income households – and especially low-income pensioners – from increases (as well as from reductions) in their gross council tax bill. But high and increased property values in London mean there would be substantially more low-income losers than winners in the capital, at least if central government funding were largely or fully adjusted, as discussed above. And the fact that most LAs now require even those working-age households with the very lowest incomes to make some contribution to their council tax bill means that revaluation and reform would lead to the relatively small number of low-income households that live in very valuable properties facing sizeable increases in their tax bills and cost of living.

Several options exist for mitigating these impacts and the big changes in tax bills that some middle- and higher-income households would also face. The government would almost certainly want transitional arrangements to phase in big increases in tax bills, perhaps funded by phasing in big decreases too. Particular support could be provided to low-income households by increasing the generosity of CTS, perhaps via reintroduction of a national scheme. And asset-rich, cash-poor households (such as the 'grannies in mansions') could be given the option of deferring their tax payments until their property is sold or they die or for some other fixed time period. Getting the design of such schemes right is important – appropriate interest must be charged to ensure LAs are not left out of pocket – and careful consideration of who should be eligible for such schemes would be needed. The government should start the process of scoping and developing such schemes alongside preparations for revaluation and reform of council tax itself.

Third is to decide how up-to-date property values would be estimated. When properties were valued the first time round for council tax, information technology (IT) was far less developed than now. Properties were valued manually, with valuation agents visiting properties to record their characteristics and place them in value bands. One of the reasons the Conservative party has used in the past to argue against a revaluation is that such a process is 'intrusive'.

But with better IT, the Valuation Office Agency (VOA) could use statistical valuation techniques broadly of the kind we have used in this report to estimate the value of properties,[50] potentially making the valuation process quicker and cheaper. We do not

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[50] Using publicly available information on properties and locales, our equations can explain 80–85% of the variation in observed property transaction prices, depending on region. This is far from a perfect prediction, but perfect prediction is probably the wrong benchmark. Some of the variation in actual transaction prices will reflect the fact that some transactions may take place at prices a bit above and others a bit below 'market value', depending on the specific buyers, sellers and circumstances involved. Moreover, some of the variation in transaction prices will reflect differences in property characteristics that the statistician cannot observe and which the VOA would not want to take account of anyway. For example, in order to avoid discouraging homeowners from keeping their properties in a good state of repair and presentation, when valuing properties for council tax purposes, the VOA probably does not want to take account of whether a property has top-end kitchen units, or has terrible decor, damp and an overgrown garden. Some difference between actual transaction prices and the estimated values used for council tax purposes is therefore probably desirable.

discuss the merits of statistical versus manual valuation here (or how they might be combined). But in planning for a revaluation – and regular future revaluations – the government and the VOA should investigate the options carefully. And they should invest in linking the various public and other government-held data on properties and their characteristics and carefully consider which should form the basis of valuation, so that estimated values would be most appropriate and reliable.

The government should also put in place plans to ensure that the country does not find itself in a similar situation to now in another 30 years. Regular revaluations – every three years, for example, or even annually – should take place, as they do with business rates, and indexation based on published regional or LA-level price indices should be introduced for the years in between revaluations. This would ensure council tax more fairly reflects contemporaneous property values, and would generally mean smaller, less jarring changes to council tax bills than if changes in relative values are allowed to build up over decades.

Finally, and in the context of broader discussions about fiscal devolution, the government may also want to consider whether it gives local government greater discretion over council tax. Devolving the valuation and banding process itself, so that council tax would potentially be based on different valuation dates and different structures in each LA, seems unappealing in practical terms, and would make the allocation of funding from central government much more complicated and less transparent. But LAs could be allowed to change the relative tax liabilities attached to high- versus low-value properties. Or perhaps they could be given greater freedom on exemptions and discounts. Our view is that the single-person discount is highly distortionary and should be abolished. But LAs could be given discretion over it, as they already have over CTS and the treatment of second and empty homes. Given the need to raise additional revenues to cope with rising service costs and demands, LAs could then decide whether their priority is to keep council tax low for single-adult households (via the single-person discount), low-income households (via CTS) or everyone (via the Band D rate).

When allocating funding across LAs, the government would still need to use a single, common measure of LAs' ability to raise their own revenue (as it already does in respect of locally varying CTS schemes and treatment of second and empty homes): a benchmark system. The more council tax varies across the country, the more contentious the choice of benchmark becomes, as the distribution of funding is in essence a zero-sum game.[51] So even if the government decides to devolve additional powers over council tax exemptions, discounts and tax rates, it would remain the case that the process of revaluation and reform needs to start with and be led by national government. With a secure majority and a mandate to tackle the significant inequalities that have grown between London and its environs and much of the rest of the country, this is something the government should do.

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[51] One possible option would be to use the average policy used by LAs across the whole country. LAs would still gain or lose if they made their exemptions and discounts less or more generous, for example – the effect of a change in any one of their policies would only have a very modest effect on the national average policy. But the benchmark system would track the changes being made by the sector as a whole, in an automatic and mechanical way that could reduce political frictions.

Appendix A. Methodology

This appendix provides further detail on our methodology. Section A.1 provides information on the hedonic regressions we use to estimate property values for all properties in England using data from Energy Performance Certificates, the VOA and the Land Registry, including the sensitivity of our value estimates to changes in sample and specification. Section A.2 provides information on the hedonic regressions we use to estimate property values for properties in England in the Understanding Society survey used for our household-level analysis. Section A.3 provides further information on our modelling of council tax, including assumptions about discounts, exemptions, premiums and CTS.

A.1   Hedonic regressions for LA-level analysis

Matching transactions and property characteristics data

The first stage of our analysis is to match data on property transactions from the Land Registry to data on property characteristics from MHCLG's data set based on Energy Performance Certificates. We match properties on the basis of their street addresses and postcodes, achieving an overall match rate of 89%.

Table A.1 shows that our match rate is lower for flats than it is for houses. However, even for flats, we match in around three-quarters of cases, meaning that sample size is not a particular concern. However, if the properties that we are unable to match for differ in some unobservable way that is important to their value from those we can match for, our estimates of values may be biased upwards or downwards. Controlling for unobserved differences in properties is difficult and beyond the scope of this project though. And observable differences in property characteristics – i.e. those in our data such as the number of bedrooms, number of bathrooms and size – can be and are accounted for by our hedonic regressions.

Further analysis shows that match rates are lower in both the most rural and most urban areas. For example, the match rate is 81.4% in Derbyshire Dales, 83% in Cotswolds and 83.3% in Cornwall, largely rural areas, and is 67.6% in Westminster, 73.8% in Hammersmith & Fulham and 77.1% in Salford, very urban areas. This likely relates to the difficulty matching named detached properties in rural areas, and flats with sometimes inconsistent addresses in urban areas. And it means that there is more risk that our estimated values are subject to a degree of bias in these most rural and most urban areas. At a regional level, the match rate is highest in the North East of England (92%) and lowest in London (84%).

We also merge in locality-level data using postcodes to match, achieving a 99.9% match.

Table A.1. VOA–Land-Registry match rate

	Detached	Flat	Semi-detached	Terraced
Match rate	89.7%	77.6%	93.3%	92.0%

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

Main hedonic regression specification

As discussed in the main text, our property price estimation involves several steps.

The hedonic regressions for the first step include the following property and area characteristics, including:

- dwelling type, which includes information on whether the property is a flat/maisonette, bungalow or house and whether it is terraced (mid or end), semi-detached or detached;

- number of habitable rooms excluding bathrooms and kitchens, capped at 15, with 10–14 as a single category;

- the size of the property in square metres, with the effect of an additional 1% increase in size allowed to vary depending on five size categories which were determined by statistical analysis;

- whether the property is new build or not, interacted with the LA it is located in;

- whether the property is leasehold or freehold;

- the LSOA the property is located in;

- the deprivation of the LSOA the property is located in;

- the population density of the LSOA the property is located in;

- the share of land nearby that is water, roads, open space or gardens;

- the noise rating and flood risk of the postcode the property is in;

- whether the property is located in green-belt land; and

- the year and quarter the property transaction took place in, interacted with the LA the property is located in, to allow for differential time trends by LA.

The hedonic regression is run in log-log form, whereby the log of the property transaction price is regressed on the above variables in either indicator form (for example, separate dummy variables indicating whether a property has 1, 2, 3, 4, 5, 6, 7, 8, 9, 10–14, or 15 or more habitable rooms) or in log form (for example, log of the property size).

Data from the period 2010–16 are included in this first step, and separate regressions are run for each region of England to allow each of the variables above to have different effects by region.

There are thousands of explanatory variables in the regressions (most of which are the LSOA and LA×time interaction dummy variables), meaning the full set of estimated regression coefficients cannot be shown here, but they are available from the authors on request. They need to be interpreted carefully because they show the effect of each variable *conditional* upon all other variables. The regressions explain the following percentage of the variation in property transaction values over the period in question:

- 81% in the North East;

- 83% in the North West;

- 83% in Yorkshire and the Humber;

- 83% in the East Midlands;

- 84% in the West Midlands;

- 87% in the East of England;

- 88% in London;

- 87% in the South East;

- 81% in the South West.

These regressions are used to estimate prices as of Q4 2016. To uprate prices to Q4 2018, a second set of regressions is run using just the Land Registry data. These regressions are again done separately by region and include the variables in the primary regression excluding the number of habitable rooms and the size in square metres. Information on property type is limited to whether it is a flat, or detached, semi-detached or terraced house or bungalow. However, unless changes in value within LAs vary by these omitted variables, this should not be an issue as the second regression is used only to calculate the percentage change in property value for each property that transacted between 2010 and 2016 for the period Q4 2016 to Q4 2018. (As discussed in Chapter 3, the UK House Price Index (ONS, 2019) is then used to uprate prices from Q4 2018 to Q1 2019 levels.)

As discussed in the main body of the report, data on (matched) properties that transacted between 2010 and 2016 are then weighted according to estimates of the number of properties by type (flat, detached, semi-detached and terraced) and by new-build status by LSOA. This is to allow for the fact that some types of properties are less likely to transact – such as social housing – and others more likely to transact – such as new builds. Ideally, we would have weighted by additional characteristics such as number of bedrooms and size, but the VOA does not publish breakdowns of the stock of property by these characteristics despite its data including them. A real-life revaluation and reform of council tax using statistical means would avoid this multi-stage process. For example, transactions data could be matched to the VOA's Council Tax and Property Attribute data set. Unfortunately, these data were not available to us for this project, but would be for the government.

In general, weighted estimates of mean values by LA area (as well as different quantiles by LA area) are lower than unweighted estimates. This is because properties with lower values (such as social housing) are less likely to transact than the average property. This effect is most notable for urban areas where a significant amount of social housing is found. In contrast, in a number of rural areas, weighted estimates of the mean and quantiles of the value distributions are *higher* than unweighted estimates. This implies that in these areas, properties with higher values (such as large country houses) are less likely to transact than the average property.

Sensitivity of price estimates to hedonic regression specification

In order to have confidence about our estimates, we tested a number of variants of our first-stage hedonic regressions with different specifications. These include:

- Specifications where the years of transactions included were restricted to the period from 2012 onwards, or 2014 onwards. If there have been different time trends between different neighbourhoods within LAs, restricting the estimation sample to more recent years may provide better estimates. However, restricting the period of analysis like this may mean estimates for some neighbourhoods within LAs may be based on very small sample sizes, which may mean poor out-of-sample predictions (those transactions may not be representative).

- A specification where rather than allowing underlying values to vary by LSOA, they are allowed to vary by larger medium super output areas (MSOAs). The trade-off is between the potential for greater accuracy using LSOAs but larger sample sizes for MSOAs.

- A specification where rather than truncate habitable room numbers, untruncated versions of the variables are included. The trade-off is again between the potential for greater accuracy and sample sizes.

Analysis of the estimated values shows that:

- Estimates of the property value distributions by region and LA are robust to changes in sample and specification, although the differences are somewhat larger for the very bottom and very top of the distribution (for example, the 1st percentile and below, and the 99th percentile and above). Restricting the sample to the last three years of data and including MSOA rather LSOA dummies makes more of a difference than the other changes we have examined. This suggests that accounting for differences in values between small areas is likely to be important in a real-life revaluation, where there can be a trade-off between using the most up-to-date information and ensuring sufficient sample sizes.

- The correlation between estimated values for specific properties under our different specifications is very high (more than 99% in all cases), especially for properties between the 1st and 99th percentiles of the property value distribution. For example, Table A.2 shows that differences are larger for the bottom 1% and the top 1% of property values. This suggests that in a real-life revaluation, estimates for properties in these parts of the distribution should be subject to additional checks and/or be supplemented via manual valuations if statistical valuation is used more generally.

- Ad hoc investigations have also shown that estimates of the values of atypical properties that transact infrequently are particularly sensitive to the specification used. These properties include purpose-built student accommodation (which is exempted but still subject to valuation), annexes to properties (which are sometimes exempted), and park homes and static caravans used as permanent residences. As with properties at the very top (and bottom) of the property value distribution, it is likely that more bespoke approaches to valuation would be required for such properties.

Table A.2. Maximum percentage differences in values between main and variant hedonic regression specifications for given percentages of properties

	5 years	3 years	MSOA	Untruncated
All properties				
% of properties				
50%	0.9%	1.7%	3.7%	0.0%
75%	1.6%	3.1%	6.6%	0.0%
90%	2.5%	4.7%	10.5%	0.1%
95%	3.3%	6.0%	13.5%	0.2%
99%	5.1%	9.2%	21.5%	0.6%
Top 10% of properties (excluding top 1%)				
% of properties				
50%	1.1%	2.2%	4.3%	0.1%
75%	2.0%	3.9%	7.8%	0.2%
90%	3.0%	5.8%	11.9%	0.4%
95%	3.7%	7.2%	15.2%	0.8%
99%	5.4%	10.4%	23.2%	2.5%
Top 1% of properties				
% of properties				
50%	1.7%	4.0%	5.3%	0.2%
75%	3.0%	6.5%	9.8%	0.7%
90%	4.2%	8.7%	15.1%	2.2%
95%	5.1%	10.4%	19.1%	3.6%
99%	7.2%	14.1%	29.8%	8.7%
Bottom 1% of properties				
% of properties				
50%	2.1%	3.3%	6.8%	0.0%
75%	3.6%	5.8%	12.7%	0.0%
90%	5.2%	8.7%	20.2%	0.0%
95%	6.5%	11.2%	25.5%	0.0%
99%	10.3%	16.9%	45.7%	0.1%

Note: 'Main' is the main specification used in our analysis; '5 years' is the specification using data from 2014 to 2018 only; '3 years' is the specification using data from 2016 to 2018 only; 'MSOA' is the specification using MSOA rather than LSOA dummies; and 'Untruncated' is a specification using untruncated versions of bedrooms, rooms and bathrooms data.

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

A.2   Hedonic regressions for household-level analysis

The Understanding Society data contain self-reported property values for homeowners, which we uprate to Q1 2019 using the LA-level House Price Index (HPI) for the appropriate dwelling type (detached, semi-detached, terraced etc.). We find that the distribution of uprated self-reported property values closely matches the distribution of Land Registry property values in 2019 by region and dwelling type. For households that acquired their properties in or after 2000, the distribution of self-reported property values also closely matches the distribution of reported purchase prices, uprated using the LA- and dwelling-type-level HPI. This provides reassurance on the quality of self-reported property prices in the survey data we use.

Property values for renters are imputed using a regression on property characteristics (dwelling type, number of bedrooms and other rooms, existing council tax band), location characteristics (local authority, rurality, population density, LSOA deprivation levels[52]) and household characteristics (income, household composition and demographics[53]). Note that the aim of the exercise is to predict property prices as closely as possible, *not* to model the price of specific housing amenities – it is not a 'hedonic regression' in the traditional sense of the term. As such, variables that do not directly affect property values that are nonetheless predictive of property values, such as household incomes and the number of children in the household, are included in the regression.

The regression explains 81% of the variation in property prices for homeowners. Regression coefficients for the main characteristics are listed in Table A.3. Property prices are regressed in log form. To impute values for rental properties, a random error (drawn from the distribution of errors among homeowners) is added to the predicted log property price, which is then converted back into pound values.

It is possible that this approach could lead us to overstate (understate) the values of rented properties, if they are systematically less (more) desirable than owner-occupied properties with the same observed characteristics. This would in turn lead us to overestimate (underestimate) the council tax liabilities of households that rent after revaluation and reform. However, controlling for unobserved differences is difficult and beyond the scope of this project.

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[52] Based on deciles of specific components of the Index of Multiple Deprivation (IMD): income, employment, housing, education and health.

[53] These include whether the household contains a couple, the number of adults, the number of children in different age groups, the highest qualification in the household, the age of the oldest household member and whether anyone in the household is in receipt of disability benefits or reports having a longstanding illness or disability.

Table A.3. Regression of log property prices, selected coefficients

Variable	Coefficient	Standard error
Dwelling type (ref: detached)		
Semi-detached	−0.0384	(0.0597)
Terraced	−0.138	(0.0703)
Flats/maisonettes	−0.176	(0.111)
Other dwelling type	0.913	(0.103)
Dwelling type unknown	−0.0523	(0.109)
Government region (ref: North East)		
North West	0.0707	(0.0988)
Yorkshire and the Humber	0.153	(0.109)
East Midlands	0.211	(0.101)
West Midlands	0.199	(0.0988)
East	0.472	(0.111)
London	0.646	(0.120)
South East	0.566	(0.108)
South West	0.332	(0.102)
Number of bedrooms (ref: 1)		
0	−0.926	(0.532)
2	0.191	(0.0447)
3	0.296	(0.0451)
4	0.382	(0.0474)
5	0.472	(0.0540)
6	0.608	(0.121)
7 or more	0.332	(0.271)
Number of other rooms (ref: 1)		
2	0.0177	(0.0129)
3	0.0861	(0.0144)
4	0.141	(0.0252)
5	0.0975	(0.0427)
6	0.120	(0.0866)
7 or more	0.426	(0.142)
Unknown	0.270	(0.146)

Council tax band (ref: Band D)		
A	−0.500	(0.0789)
B	−0.250	(0.0673)
C	−0.107	(0.0661)
E	0.341	(0.0794)
F	0.465	(0.0735)
G	0.455	(0.0932)
H	1.005	(0.158)
Dwelling x Region interactions	Yes	
Council tax band x Region interactions	Yes	
Interview quarter	Yes	
Household composition (couple, number of adults, number of children aged 0–2, 3–4, 5–11, 12–15)	Yes	
Demographics (highest qualification, age of oldest household member, self-reported disability or longstanding illness, disability-related benefits)	Yes	
Location (rurality, upper-tier LA dummies, population density and squared, LSOA-level deprivation deciles)	Yes	

Source: Understanding Society wave 8.

A.3 Further information on modelling council tax

Further information on modelling council tax in the LA-level analysis

In order to model reforms to council tax, we need information on: up-to-date property values (see Section A.1); existing bands and tax rates; and eligibility for discounts, exemptions, premiums and CTS.

Our information on the existing council tax bands for properties by LSOA is from September 2018. Tax rates are from 2018–19, the last full financial year for which data are available. Information on the tax base, including discounts, exemptions, premiums and CTS, is as of September 2018.

Information on tax rates and eligibility for discounts, etc. is available only at the LA level, separately by tax band. In reality, however, tax rates and eligibility for discounts, etc. varies within LA areas. For example, different community councils charging different precepts cover different neighbourhoods, and eligibility for discounts, etc. is defined at the individual property level. We therefore cannot model changes in tax bills *within* LA

areas, and have to approximate the impact of discounts, etc. on tax bases, following revaluation and reform.

To do this, we use information on the proportion of properties in each tax band in each LA that are eligible for different discounts, exemptions, premiums and CTS, and the share of properties that are in each tax band in each LA. For example, suppose that in a particular LA, 20% of properties are in Band A, and that, taken together, discounts, exemptions, premiums and CTS reduce the amount of tax paid by those properties by 30%. Following revaluation, we assume that, taken together, discounts, etc. will reduce the amount of tax paid on the 20% lowest-valued properties in that LA by 30%, whatever band they end up in. So, for example, if 10% of properties end up in Band A and 10% in Band B following revaluation, we assume that discounts, etc. would reduce the amount of tax paid by properties in both Band A and Band B by 30%.

To model CTS fully accurately, full information on the incomes and assets of every household in England would be required. This is because some households not currently entitled to CTS may gain entitlement following revaluation and reform, and vice versa. This means changes in tax bills can lead to non-linear changes in CTS costs. Unfortunately, the data available to us only allow us to take account of the linear effect of people currently eligible being eligible for more or less support. Again, however, it is highly unlikely that this will have a significant effect on our results.

When calculating changes in general central government funding for each LA, we also take account of the actual CTS scheme it has in place rather than a notional CTS. In reality, one would want to use a notional CTS scheme so that LAs were not incentivised to increase the generosity of their scheme in the knowledge that the reduction in their tax base would be offset by additional general central government funding. However, the data are not currently available for us to model a notional CTS scheme; the government is currently working out how to do this so that it can update estimates of LAs' revenue-raising capacity as part of the Fair Funding Review.

Further information on modelling council tax in the household-level analysis

To model reforms to council tax at the household level, we need (a) up-to-date property values, (b) current council tax bands and (c) council tax liabilities at the LA level, taking into account LA-specific tax rates, eligibility for discounts and exemptions (such as the single-person discount and student exemptions) and LA-specific CTS schemes. We abstract from empty homes discounts, since our data only capture information on primary residences, and from disability-related discounts that cannot be identified in the data.

The process for deriving up-to-date property values was given in Section A.2.

We use linked VOA data to determine households' current council tax bands. It is worth noting that the Understanding Society data also contain self-reported council tax bands. However, we consider these to be less reliable than the council tax bands from the administrative data: they differ from the VOA data in a third of all cases, and the distribution of self-reported council tax bands differs from the VOA data on all properties in England. (Specifically, self-reports tend to overstate the share of properties in Band D, which may reflect the fact that the Band D rate is often listed at the top of council tax bills.)

Linked VOA data are not available for 16% of the households in our data. Where possible, we impute their council tax bands using their reported house values or rent, local authority and property characteristics. This is done using an ordered logistic regression, run separately for homeowners, private renters and social renters. For each tenure type, we regress VOA-linked council tax band on self-reported house price or monthly rent (whichever is relevant), housing characteristics (house type interacted with number of rooms), location characteristics (rurality, IMD decile) and LA dummies. We then randomly select a council tax band for those with missing values from the predicted probability distribution. The results are robust to alternative imputation methods, including an ordered probit regression and nearest-neighbour matching based on reported house values or rent, dwelling type, upper-tier LA and the number of rooms.

Table A.4 shows the distribution of council tax bands using different data sources. It shows that the distribution of council tax bands in Understanding Society (USoc), using linked VOA data and including imputations (row 4), closely matches the distribution of council tax bands in England as a whole (row 1). To ensure our results are representative by region, we further reweight our data so that they match the *regional* distribution of council tax bands in the administrative data. The final sample closely matches the (representative) overall Understanding Society sample in terms of the distributions of income, local area deprivation (IMD), age of the oldest household member and household size.

To calculate council tax liabilities, the impacts of reforms are modelled using the IFS tax and benefit microsimulation model, TAXBEN. This contains council tax rates and CTS schemes at the local authority level.[54] We model reforms under the 2018–19 tax and benefit system (which corresponds to Q1 2019), assuming universal credit is fully rolled out and that benefit cuts that apply to new claimants or children (such as the two-child limit) are fully in place. This allows us to capture the long-run effect of revaluation and reform.

Table A.4. Distribution of council tax bands in different data sources (%)

Data source	Council tax band								
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**
1. VOA: all England	24.4	19.6	21.8	15.5	9.6	5.1	3.5	0.6	0.0
2. USoc: self-reported	20.7	19.2	19.6	20.0	9.0	5.2	4.7	1.6	0.0
3. USoc: VOA	22.5	19.7	22.4	16.0	10.2	5.9	3.1	0.3	0.0
4. USoc: VOA with imputations	23.4	19.9	22.5	15.6	9.7	5.6	3.0	0.3	0.0

Source: VOA (2018) and Understanding Society wave 8.

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[54] See Adam, Joyce and Pope (2019) for more details on localised CTS schemes. CTS schemes are assumed to stay the same under universal credit as under the legacy system.

Appendix B. Additional results

Table B.1. Percentile of estimated property values (Q1 2019), by region

Region	5th	10th	25th	50th (median)	75th	90th	95th	Mean
North East	£43,887	£53,861	£74,931	£112,451	£166,311	£242,519	£304,284	£135,680
Yorkshire & Humber	£56,492	£69,431	£96,594	£143,945	£211,686	£314,215	£408,705	£177,450
North West	£57,027	£70,123	£96,996	£142,182	£207,362	£304,947	£393,163	£172,649
East Midlands	£78,243	£93,722	£127,442	£173,422	£244,578	£348,740	£442,351	£206,502
West Midlands	£76,415	£92,293	£126,448	£172,994	£250,595	£367,280	£472,174	£211,373
South West	£109,672	£135,136	£178,167	£240,749	£335,947	£482,889	£609,065	£287,208
East	£120,859	£147,512	£197,847	£276,049	£388,175	£566,839	£729,707	£333,038
South East	£136,868	£167,985	£226,011	£311,283	£444,609	£662,621	£868,683	£385,038
London	£202,105	£241,305	£316,615	£421,024	£605,921	£943,489	£1,321,328	£566,394

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

Table B.2. Percentage of properties by tax band (8-band structure), by region

Band	North East		Yorkshire & Humber		North West		East Midlands		West Midlands	
	Existing	**Revalued**	**Existing**	**Revalued**	**Existing**	**Revalued**	**Existing**	**Revalued**	**Existing**	**Revalued**
A	53.86%	65.90%	43.11%	49.92%	41.13%	48.97%	36.98%	32.71%	30.48%	33.12%
B	15.66%	18.88%	20.15%	24.35%	20.18%	24.25%	22.62%	30.53%	25.21%	29.72%
C	14.86%	10.09%	16.65%	15.41%	17.55%	15.69%	17.97%	21.53%	19.60%	20.60%
D	8.31%	3.23%	9.49%	6.08%	10.20%	6.30%	10.83%	9.13%	11.21%	9.27%
E	4.28%	1.29%	5.97%	2.81%	5.96%	2.92%	6.54%	3.95%	7.09%	4.57%
F	1.86%	0.44%	2.86%	1.01%	2.90%	1.24%	3.17%	1.51%	3.86%	1.86%
G	1.05%	0.15%	1.62%	0.39%	1.88%	0.58%	1.73%	0.60%	2.33%	0.81%
H	0.12%	0.01%	0.15%	0.01%	0.21%	0.05%	0.15%	0.03%	0.23%	0.04%

Band	South West		East		South East		London	
	Existing	**Revalued**	**Existing**	**Revalued**	**Existing**	**Revalued**	**Existing**	**Revalued**
A	17.63%	11.83%	14.31%	8.81%	8.91%	5.69%	3.86%	1.05%
B	24.25%	24.06%	21.17%	18.47%	16.64%	13.15%	13.31%	4.21%
C	23.02%	31.94%	25.98%	29.78%	25.84%	28.51%	27.01%	16.33%
D	15.83%	17.15%	17.56%	21.48%	20.12%	23.85%	25.48%	27.20%
E	10.58%	8.88%	10.72%	11.64%	13.19%	14.46%	15.09%	23.09%
F	5.35%	4.03%	5.84%	5.89%	7.98%	8.02%	7.58%	13.84%
G	3.02%	1.96%	3.90%	3.59%	6.38%	5.69%	5.90%	11.51%
H	0.31%	0.15%	0.51%	0.33%	0.96%	0.65%	1.77%	2.78%

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

Table B.3. Percentage of properties by tax band (11-band structure), by region

Band	North East	Yorkshire & Humber	North West	East Midlands	West Midlands	South West	East	South East	London
A1	41.17%	25.33%	25.10%	11.31%	11.84%	3.23%	2.15%	1.42%	0.19%
A2	21.35%	19.83%	20.72%	17.52%	17.39%	6.68%	5.20%	3.34%	0.65%
B1	13.13%	15.89%	16.23%	18.45%	18.36%	11.07%	8.07%	5.27%	1.44%
B2	9.14%	12.17%	12.23%	15.97%	15.25%	14.91%	11.87%	8.81%	2.98%
C	10.09%	15.41%	15.69%	21.53%	20.60%	31.94%	29.78%	28.51%	16.33%
D	3.23%	6.08%	6.30%	9.13%	9.27%	17.15%	21.48%	23.85%	27.20%
E	1.29%	2.81%	2.92%	3.95%	4.57%	8.88%	11.64%	14.46%	23.09%
F	0.44%	1.01%	1.24%	1.51%	1.86%	4.03%	5.89%	8.02%	13.84%
G	0.15%	0.39%	0.58%	0.60%	0.81%	1.96%	3.59%	5.69%	11.51%
H	0.00%	0.03%	0.01%	0.02%	0.03%	0.09%	0.22%	0.38%	1.26%
I	0.00%	0.02%	0.00%	0.01%	0.01%	0.06%	0.11%	0.26%	1.52%

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

Table B.4. Proportion of gainers and losers from revaluation, by household type

	No. of households (million)	Gain >£200	Gain £50–£200	Lose/gain £0–£50	Lose £50–£200	Lose >£200
HH composition						
Single, working age	3.9	4.1%	12.4%	64.8%	11.1%	7.6%
Single pensioner	3.9	6.4%	9.9%	75.1%	5.1%	3.5%
Lone parent	1.2	2.1%	7.1%	80.3%	7.3%	3.3%
Working-age couple	3.0	15.2%	9.3%	51.7%	9.0%	14.9%
Pensioner couple	3.3	20.5%	7.3%	55.7%	6.4%	10.1%
Couple with kids	4.1	14%	9.5%	51.9%	8.8%	15.8%
Multi-family	4.4	11.2	7.9%	57.1%	8.0%	15.8%
Age of oldest HH member						
Under 35	2.8	4.9%	11.4%	63.2%	10.0%	10.5%
35–44	3.4	9.5%	10.6%	59.0%	8.3%	12.6%
45–54	4.8	12.2%	8.1%	55.4%	10.6%	13.8%
55–64	4.6	12.1%	9.8%	56.9%	8.4%	12.8%
65 and older	8.2	12.6%	8.5%	65.8%	5.5%	7.6%
Disability status						
On disability benefits	3.4	4.5%	7.0%	78.3%	6.1%	4.0%
Other disabled	10.1	12.4%	9.3%	59.6%	7.7%	11.0%
Not disabled	10.4	11.9%	10.1%	56.0%	8.9%	13.1%
Ethnicity						
White British	20.6	11.7%	9.8%	61.6%	7.5%	9.5%
Other	3.3	7.3%	6.4%	55.5%	11.1%	19.7%
Housing tenure						
Own	15.0	15.8%	10.6%	53.2%	7.9%	12.5%
Rent private	3.4	5.3%	10.6%	65.0%	8.8%	10.3%
Rent social	5.0	0.6%	4.6%	81.1%	7.8%	5.9%

Note: Assumes full grant adjustment and full take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Table B.5. Proportion of gainers and losers from a continuous and proportional system, by household type

	No. of households (million)	Gain >£200	Gain £50–£200	Lose/gain £0–£50	Lose £50–£200	Lose >£200
HH composition						
Single, working age	3.9	44.9%	18.6%	20.4%	4.7%	11.4%
Single pensioner	3.9	35.0%	7.3%	46.3%	3.6%	7.8%
Lone parent	1.2	22.2%	28.7%	36.4%	5.9%	6.7%
Working-age couple	3.0	51.7%	12.9%	8.3%	6.5%	20.6%
Pensioner couple	3.3	41.7%	8.5%	22.3%	6.1%	21.4%
Couple with kids	4.1	46.7%	13.0%	10.5%	6.6%	23.2%
Multi-family	4.4	42.6%	13.0%	15.1%	5.8%	23.5%
Age of oldest HH member						
Under 35	2.8	46.9%	18.2%	18.7%	4.7%	11.5%
35–44	3.4	47.3%	15.0%	14.6%	7.0%	16.0%
45–54	4.8	43.7%	15.9%	12.9%	6.2%	21.3%
55–64	4.6	44.0%	15.2%	13.5%	5.9%	21.3%
65 and older	8.2	37.2%	7.9%	34.9%	4.7%	15.4%
Disability status						
On disability benefits	3.4	30.8%	21.5%	38.2%	3.1%	6.5%
Other disabled	10.1	44.6%	11.4%	21.1%	5.4%	17.5%
Not disabled	10.4	44.0%	12.1%	16.5%	6.5%	20.8%
Ethnicity						
White British	20.6	44.5%	13.2%	21.7%	4.9%	15.8%
Other	3.3	29.6%	13.0%	20.4%	9.7%	27.3%
Housing tenure						
Own	15.0	45.7%	10.7%	15.2%	6.1%	22.2%
Rent private	3.4	43.2%	15.8%	23.5%	5.1%	12.5%
Rent social	5.0	32.6%	18.3%	39.1%	3.8%	6.3%

Note: Assumes full grant adjustment and full take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

Table B.6. Proportion of gainers and losers from revaluation and a continuous and proportional council tax system, by income level, without CTS

	Income quintile group				
	Poorest	**2nd**	**3rd**	**4th**	**Richest**
Option 1. Revaluation					
Gain >£200	7.8%	8.0%	10.8%	17.0%	20.1%
Gain £50–£200	12.3%	15.0%	13.9%	11.9%	7.6%
Lose or gain £0–£50	59.8%	54.2%	51.1%	47.1%	41.4%
Lose £50–£200	12.1%	12.8%	12.1%	9.9%	7.6%
Lose >£200	7.9%	10.0%	12.1%	14.2%	23.2%
Average gain among gainers (£)	239	232	257	292	355
Measured as % of net income	1.6%	1.0%	0.8%	0.7%	0.4%
Average loss among losers (£)	67	77	91	105	156
Measured as % of net income	0.5%	0.3%	0.3%	0.2%	0.2%
Option 5. Continuous and proportional					
Gain >£200	71.9%	69.4%	65.3%	55.2%	35.6%
Gain £50–£200	7.0%	8.9%	9.2%	9.8%	9.2%
Lose or gain £0–£50	5.9%	5.3%	4.8%	5.8%	5.0%
Lose £50–£200	3.9%	4.0%	5.7%	6.3%	8.4%
Lose >£200	11.4%	12.4%	15.0%	22.9%	41.9%
Average gain among gainers (£)	463	446	437	423	384
Measured as % of net income	3.2%	2.0%	1.4%	1.0%	0.5%
Average loss among losers (£)	619	556	639	733	1265
Measured as % of net income	4.2%	2.5%	2.1%	1.7%	1.6%

Note: Assumes full grant adjustment and no take-up of CTS.

Source: Authors' calculations using Understanding Society wave 8 and TAXBEN, the IFS microsimulation model.

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