



Institute for Fiscal Studies

**IFS Report**

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# Scottish council tax: ripe for reform



Economic  
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# 3. Scottish council tax: ripe for reform

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Council tax is levied on the occupiers of residential property to help fund the provision of local services. Individual Scottish councils set the tax rates for their area, but it is the Scottish Government that determines the tax base to which the tax rates apply. With properties still assigned to tax bands based on an assessment of how much they were (or would have been) worth in April 1991, this tax base is now over a third of a century out of date. The tax rates are a lower share of property value for high-value properties: the tax is regressive with respect to property value. And a range of discounts and exemptions distort the usage of residential property, in particular contributing to both the overcrowding and the underoccupation of property. Revaluation and reform of council tax could improve the fairness and efficiency of Scotland's tax system, especially if combined with reforms to Scotland's other property taxes. With a process of stakeholder engagement on reform of council tax set to take place this year, it is an opportune time to consider the options and potential impacts on different types of Scottish households.

This chapter of our Budget Report sets out the case for revaluing and reforming Scotland's council tax, analyses the potential impact of two example reforms on different types of households, and discusses a number of practical considerations for a successful reform, such as transitional arrangements and legislation for regular future revaluation.

## Key findings

1. The Scottish Government reformed council tax in 2017 to make it less regressive, but failed to tackle the most obvious problem with the tax: the lack of a property revaluation since its introduction over 30 years ago. In the intervening years, the values of different properties have increased by vastly different amounts. Properties now worth similar amounts can face bills that differ by hundreds of pounds because they used to be worth different amounts in 1991; conversely, those now differing in value by hundreds of thousands of pounds can face the same tax bill. This is unfair and we estimate that over half of properties are now effectively in the 'wrong band', in the sense that if the

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same number of properties were in each band but based on current rather than 1991 values, over half would be in a different band. Revaluation would address this.

2. Wider reform could further improve the fairness and efficiency of the tax. Despite the 2017 reform, council tax is still highly regressive with respect to property value. If the Scottish Government wanted to continue to make the overall tax system more progressive, doing so through council tax would have less-damaging effects on work incentives, tax avoidance and migration than doing so through income tax. Reforming the single person discount could also remove a distortion that currently makes it cheaper for single-adult households, and more expensive for multi-adult households, to live in higher-band properties – which contributes to both underoccupation and overcrowding.
3. Updating the allocation of grant funding to councils would be vital alongside council tax revaluation and reform if tax bills across Scotland were to fully reflect the reformed system. In the absence of any redistribution of grant funding, if councils wanted to maintain their spending they would each need to raise as much council tax as now, and so levy the same average tax bill. In that case, revaluation and reform would redistribute bills between households within council areas (e.g. within Edinburgh) but not across council areas (e.g. between Edinburgh and Glasgow).
4. If properties were revalued for council tax on a revenue-neutral basis and grant funding redistributed accordingly, we estimate that around 60% of households would see little change to their net bill – those whose band did not change and/or whose bill was covered by the means-tested council tax reduction scheme (CTRS). Roughly equal numbers would see increases and decreases, with an estimated 11% seeing a cut of over £200 per year and 11% seeing an increase of over £200. The average change in bill would be close to zero at all income levels, although a higher share of low-income households would see no change to their net bill due to the CTRS.
5. Making council tax less regressive with respect to property value would, on average, reduce bills for lower- and middle-income households and increase them for higher-income households. Under a system where tax rates were proportional to the (up-to-date) median property value in each band, for example, households in the poorest four-fifths of the income distribution would see their bills fall by £56 a year on average (with the biggest reductions for the second-poorest fifth). The top fifth would see an increase of £227, on average. More households would see their bills cut than increased, but there would be more very large increases than cuts: for example, while 6% would see a cut of at least £500, 10% would see an increase of at least £500.

6. We would expect changes in a property's annual council tax bill to be reflected to a large extent in changes in the property's value. The winners (losers) from falls (rises) in council tax bills would therefore primarily be the existing owners of properties at the time any reform is introduced, rather than whoever is living in them and actually paying the council tax bills in subsequent years (who would face lower (higher) tax bills but have to pay correspondingly more (less) for the property).
7. The Scottish Government could phase in any changes – particularly more radical ones – using a transitional relief scheme. It could also consider a scheme to allow the 'asset-rich, cash-poor' to defer the payment of part of their bills (with interest) until they sell their property or die, or some other time limit (e.g. 10 years). Such schemes operate in Ireland, and British Columbia in Canada, and have been used in the UK to help people defer the cost of residential care home fees.
8. The Scottish Government should follow Wales's lead and legislate for regular future council tax revaluations to reduce the risk of another third of a century (or more) passing before the issue is tackled again. Advances in computing mean it is now quicker and cheaper to revalue properties than it used to be, making regular revaluations more practical.

### 3.1 Council tax and the case for reform

The Scottish Government shares control of council tax policy with Scottish councils. Broadly speaking, the Scottish Government determines the structure of the tax, while councils set the overall tax rate in each of their areas. As will become clear below, there is significant room for improving the design of this tax. But while the current Scottish Government committed to reforming council tax in its 2021 election manifesto (Scottish National Party, 2021), no concrete proposals for reform currently exist. Hopefully that may change soon: in line with a commitment in the Tax Strategy published alongside the 2025–26 Scottish Budget (Scottish Government, 2024a), on 11 February the Scottish Government announced a programme of engagement aimed at 'building consensus on council tax reform' (Scottish Government, 2024b). Expert independent analysis will be commissioned (including modelling of alternative reform options), followed by a formal public consultation, public events and stakeholder discussions later this year, and finally 'a Scottish Parliament debate on the findings and proposed policy reforms'. This is a promising development, and we hope that the analysis presented in this chapter is a useful contribution to the process. But it will fall to whoever is in office after the 2026 Scottish election to decide whether to go ahead with any reform.

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How is council tax currently structured? And what types of reforms should be made?

### What is council tax?

Council tax is levied on the occupiers of residential property and is collected and retained by councils to help fund the services they provide (although Scottish Government grants provide the majority of funding for these services). It is set to raise £3.0 billion in 2024–25, roughly equal to the amount raised by business rates, and approximately 19% of councils' general funding for day-to-day (resource) spending (Scottish Government, 2024c).

The amount of tax due on a property depends on:

- the tax band a property is placed in (from A to H), which in turn depends on its assessed value as of April 1991, which is determined by regional valuation boards;
- the tax rate set by the council 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 as a result of rules set by the Scottish Government or local council.

Table 3.1 shows each band's 1991 property value thresholds, share of properties across Scotland as a whole, and associated tax bill based on the average tax level set by Scottish councils. The bill for a property in band A is 67% of the bill for a band D property, while the charge for a property in band H is 245% of the bill for a band D property. A majority of properties (58%) are in the bottom three bands, A to C, while only a relatively small fraction are in the top three bands, F to H (14%).

**Table 3.1. Scottish council tax bands and bills, 2024–25**

Band	1991 value range	Share of properties	Tax rate relative to band D	Standard gross tax bill, Scotland average
A	Up to £27,000	19.1%	0.667	£945
B	£27,001 to £35,000	22.3%	0.778	£1,103
C	£35,001 to £45,000	16.3%	0.889	£1,261
D	£45,001 to £58,000	14.0%	1.000	£1,418
E	£58,001 to £80,000	13.9%	1.314	£1,863
F	£80,001 to £106,000	8.4%	1.625	£2,304
G	£106,001 to £212,000	5.4%	1.958	£2,777
H	Above £212,000	0.6%	2.450	£3,474

Source: Share of dwellings in each band and average bills calculated using data from <https://www.gov.scot/publications/council-tax-datasets/>.

Exemptions are provided for, among other things, properties solely occupied by students and care leavers aged 18–26, properties that have been repossessed, and properties usually occupied solely by someone currently receiving care in a hospital or care home or living elsewhere to provide care to another person. Discounts are provided for properties with only one taxable adult in residence (‘taxable adults’ excludes, for example, students, care leavers, and certain care givers and recipients) and those whose home has been adapted to meet needs due to a disability. Discounts generally take the form of a percentage discount off the standard bill applicable to a property in a given tax band, but the disabled person discount reduces the bill on a property to that applicable to the next tax band down. Means-tested reductions in bills are also provided to those with low incomes and savings.

### Why revaluation and reform of council tax are needed

There are a number of significant shortcomings with the current design of council tax.

First is the use of outdated 1991 property values – now over a third of a century old – to assign properties to tax bands. This poses practical difficulties for the valuation of new properties by regional valuation boards, who must assess what they would have been worth in 1991. That may be 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 across households. The unfairness is not because property values have increased so much nationally over the last 34 years: if properties were revalued, the property value thresholds between bands could be reset to account for this. Instead, it is because the values of different properties have changed so differently over the last third of a century – some increasing by much more, and others much less, than average. As a result, 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 34 years ago. We would not calculate people’s income tax based on the relative salaries of their jobs 34 years ago: salaries for different jobs have changed in different ways over the intervening period. The values of different properties have also changed in different ways over the last 34 years, yet Scottish council tax is still based on relative values 34 years ago.

Second, the banded structure of council tax means that two properties on either side of a band cut-off can attract very different tax liabilities: 31%, or almost £450 on average a year, higher at the bottom of band E than at the top of band D, for example. Again, this means households living in very similar properties can face very different tax bills. Conversely, two properties at opposite ends of the same band attract the same tax liability. This is particularly acute in extreme cases: all band H properties in a council area attract the same tax regardless of whether they

were worth £212,000 (in 1991) or were multi-million-pound mansions. There may be practical arguments in favour of a banded system, but it has undoubted drawbacks.

Third, council tax is regressive with respect to property value, by design. The tax levied on a band H property is 3.675 times higher than that levied on a band A property in the same council area, despite band H properties' being worth (in 1991) at least 7.85 times more than band A properties, and in many cases much more than that.

Regressivity of an individual tax is not necessarily a problem: while most people would agree that the tax and benefit system as a whole should be progressive, that does not mean every individual tax needs to be. For example, tobacco duties are highly regressive (because poorer households spend a bigger share of their budgets on cigarettes, on average), but they are widely regarded as fair. Their purpose is to discourage smoking by raising its price, rather than to redistribute between richer and poorer households.

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.<sup>1</sup> Moreover, the fact it is harder to hide or move housing than it is to hide or move incomes means that combining a regressive council tax with a progressive income tax is likely to increase the economic distortions and costs of redistribution. Even if one did not want to increase the progressivity of the overall tax system, there is a case for making council tax less regressive (and other parts of the tax system, such as income tax, less progressive) to redistribute more efficiently.

The Scottish Government has already made its council tax less regressive than the system it inherited from the UK government, as discussed in Box 3.1. However, a further reduction in regressivity consulted upon in 2023 was shelved, and no other specific proposals have yet been forthcoming from the Scottish Government. It remains to be seen whether the newly announced process of engagement described above will be followed by further reforms.

<sup>1</sup> On the argument that council tax should be seen as a 'benefit tax' related to households' use of council services, see section 2.3 of Adam et al. (2020a).

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**Box 3.1. 2017 and aborted 2023 reforms to council tax in Scotland**

Prior to April 2017, the relative rates of tax applied to different council tax bands in Scotland were the same as in England, with band A properties facing two-thirds of the tax of band D properties and band H properties twice the tax of band D properties. At that point, the Scottish Government increased the relative tax rates for band E properties by 7.5%, band F properties by 12.5%, band G properties by 17.5% and band H properties by 22.5%, to the relative rates shown in Table 3.1. The aim of this was to raise revenue in a progressive manner. To avoid increasing bills on asset-rich, cash-poor households, those living in affected properties whose income was below certain thresholds were – and still are – able to claim council tax reductions to reduce bills to what would apply under the old tax relativities. These thresholds are currently £16,750 of net income for single adults without children and £25,000 of net income for all other households.

In 2023, the Scottish Government consulted on going further in this direction in 2024–25, with further increases of 7.5–22.5% in the relative tax rates applied to band E–H properties, capping increases in any one year at 7.5% (Scottish Government, 2023). This would have increased the relative tax rate on a band H property to 3 times that on a band D property and 4.5 times that on a band A property. It was estimated that this would raise an addition £176 million, before accounting for any increase in the cost of the special means-tested support for asset-rich, cash-poor households.

An analysis of consultation responses published by the Scottish Government (2024d) found that only 4% of respondents approved of the plans, which may reflect the fact that around 90% of respondents listing a council tax band were in bands E–H, compared with 28% of all households in Scotland. In the end, the potential reforms were shelved, with the Scottish Government instead providing councils with additional grant funding conditional upon them agreeing a council tax freeze.

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Finally, a less commented-upon issue with the current design of council tax is that it distorts who lives in which properties. Sometimes this is deliberate, such as recently-granted powers to levy premiums of up to 100% on second homes, which are designed to limit the number of properties being used as second homes to increase the supply of properties for use as primary residences. In other cases it may be unintended and potentially contradictory to wider policy aims.

For example, the single person discount, which operates as a 25% discount on the council tax bill, is worth more in cash terms for higher-band properties. This makes it cheaper for single-adult households, and more expensive for multi-adult households, to live in higher-band (typically larger) properties than would otherwise be the case. Thus the single person discount contributes to both the underoccupation of homes (by single-adult households) and the overcrowding of homes (by larger households). Alternative policy designs (such as discounts that do not depend on the band a property is in) would avoid this problem.



## 3.2 What impact would revaluation and reform have on households?

### Modelled reforms and key modelling assumptions

Revaluing properties should be part of any reform to council tax. How far to go in making council tax less regressive, and how to reform exemptions, discounts and premiums, is more debatable. It is beyond the scope of this chapter to consider the impact of multiple options, depending, for example, on the Scottish Government's distributional aims. To illustrate the potential pattern and scale of changes in bills, we consider the impact of two reforms that might be considered minimal and major reforms:

- A **pure revaluation**, whereby properties are revalued and placed in eight bands (A to H) based on these revised values, with band thresholds set so that, across Scotland, the same shares of properties are in each band as now.
- An **eight-band proportional system**: as above, but with the tax rates applied to each band then adjusted so that the tax is proportional to the median value of a property in the band.

We have previously undertaken similar analysis for England and Wales, looking at how impacts vary across neighbourhoods and council areas and across households with different characteristics (Adam et al., 2020a and 2020b; Adam, Phillips and Ray-Chaudhuri, 2023). The geographical analysis there used data on property transactions and characteristics which are freely available for England and Wales but not Scotland, so we do not replicate that geographical analysis for Scotland. The household-level analysis used household survey data which are available for Scotland, allowing us to replicate that type of analysis. Methodological information on how we do this is provided in Appendix 3A.

We model the effect of our two example reforms under the assumptions that councils keep spending on local services, and the Scottish Government keeps aggregate grant funding to councils, the same as they would be in the absence of reform. To keep total revenue and spending the same, this implies that the council tax reforms are revenue-neutral across Scotland as a whole – meaning that the average council tax bill across Scotland as a whole does not change either. The reforms need not be revenue-neutral for individual councils, which might see different numbers of properties moving up and down bands, and so increases or decreases in average bills compared with pre-reform for a given tax rate.

In addition, broadly speaking, our modelling assumes that the Scottish Government would redistribute grant funding between councils to account for the fact that the amounts they could

raise under the reformed systems for a given tax rate (their ‘tax base’) would change differently.<sup>2</sup> This redistribution of grant funding would be vital for ensuring that any council tax revaluation and reform redistributes from council areas where values are higher and/or have increased by more than average since 1991, to council areas where values are lower and/or have increased by less than average. If grant funding were not adjusted, and if councils wanted to maintain their spending following reform, they would each have to raise the same amount of council tax revenue as presently. This would mean charging their residents the same average council tax bill after revaluation and reform as before. Thus a council seeing a fall in its tax base would have to set a higher band D rate to offset this fall and leave average tax bills unchanged, and vice versa. In that case, revaluation and reform would still lead to a big redistribution of tax bills across individual households within a council area (e.g. within Edinburgh), but it would not redistribute tax bills across council areas (e.g. between Edinburgh and Glasgow). The grant funding the Scottish Government provides to councils currently takes account of their existing council tax bases, so it would be natural to account for changes in tax bases as a result of any reforms to council tax.

### Impacts on household bills

Figure 3.1 shows the proportions of households that would see their net council tax bill rise or fall by different amounts under the two reforms. A pure revaluation would see net bills change by less than £50 per year for 59% of households in Scotland. This reflects the fact that we estimate 43% of properties would remain in the same band<sup>3</sup> (and see little or no change in their gross bill) and the fact that low-income households often have their bills covered in full or part by the means-tested council tax reduction scheme (CTRS) (and see little or no change in their net bill even if their gross bill changes). Similar numbers of households would see their bills go up and go down, with the changes for the vast majority being less than £500 per year. A small group of households, either moving more than one band or in one of the higher bands (where even moving one band can see an increase or decrease of at least £500), would see their bills change more significantly.

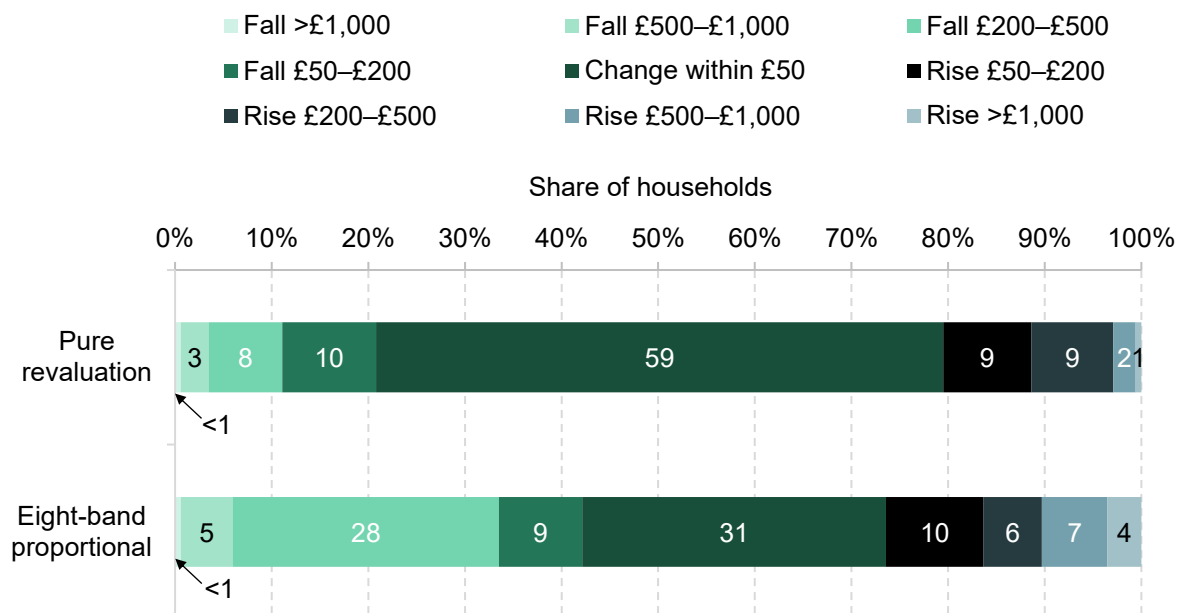
Under a system with proportional tax rates, 42% of households’ bills would fall by at least £50 per year, with the majority of these seeing much bigger falls (at least £200 per year), compared with 26% seeing an increase of at least £50 a year. But more households would face very large increases in their net bills than very large reductions: 10% of households would see bill increases of £500 per year or more, versus 6% seeing reductions of that size. For comparison, only 3% of households would see bill increases of £500 or more under a pure revaluation. Thus while

<sup>2</sup> See the methodology appendix for why our modelling is broadly but not precisely consistent with this assumption.

<sup>3</sup> Since the total number of properties in each band would stay the same, roughly equal numbers would move up and down bands – just under 30% of properties in each direction.

moving to a proportional system would mean lower bills for a larger number of households, this would be paid for by bigger increases on a relatively small number of high-value properties.

**Figure 3.1. Distribution of changes in net council tax bill**



Note: Assumes full take-up of CTRS. Incomes are measured after taxes and benefits but before housing costs are deducted, and are adjusted for household size and composition using the modified OECD equivalence scale.

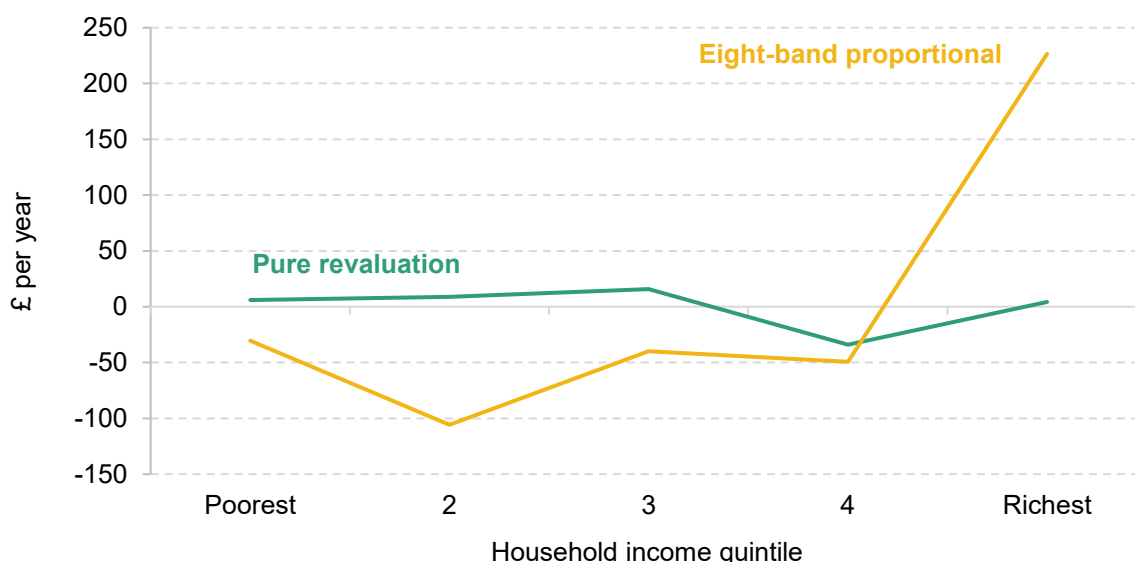
Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

While council tax is a property tax, property wealth is correlated with income, and so adjustments to regressivity with respect to property values lead to changes in regressivity of the tax with respect to income. Figure 3.2 shows the average impact of our two example reforms on net council tax bills by household income quintile (i.e. for each fifth of the household income distribution).

A pure revaluation, which updates property valuations and band thresholds but does not alter tax rates, would have little systematic effect on households at different income levels. Figure 3.1 showed that many households would see their bill change under such a reform, but at each income level there would be similar numbers of households moving up and down bands – meaning little effect on overall (income) regressivity of the tax. That said, there are significant differences across income quintiles in the proportion of households that would see substantial changes in their bill. Just 5% of households in the poorest income quintile would face a change (rise or fall) in their net bill of £200 or more per year, compared with 42% of households in the richest income quintile. In general, the proportion of households whose bill would change by at least £50 per year is higher among richer sections of the population. One reason for this is that

poorer households are more likely to have their bill covered by the means-tested CTRS and therefore pay no council tax regardless of whether they move band.

**Figure 3.2. Average change in net council tax bill, by quintile of household income**



Note: Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits but before housing costs are deducted, and are adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

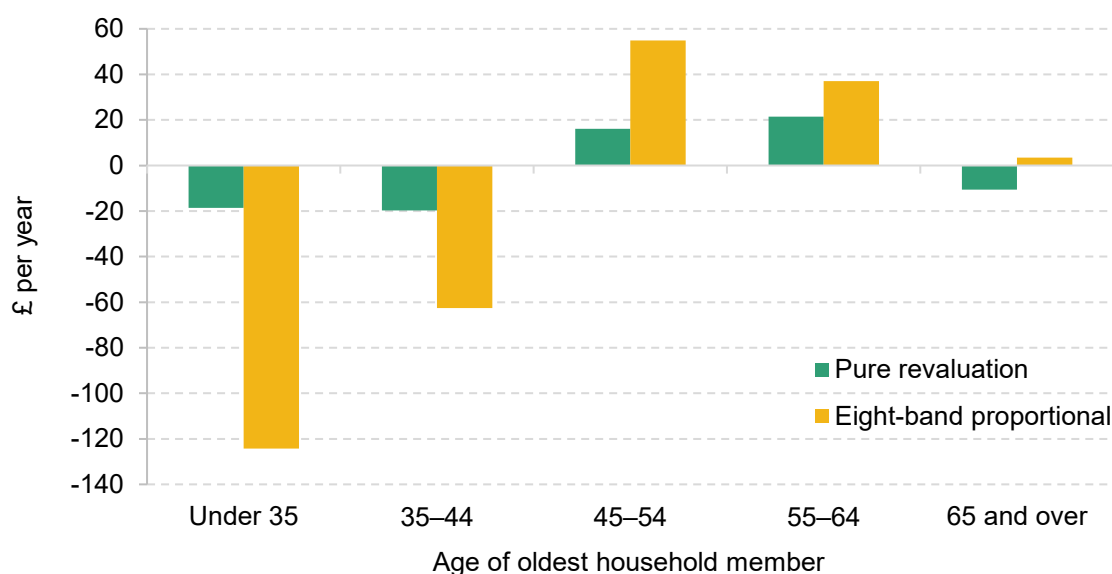
Under an eight-band proportional system, the tax rates on bands A–C would be lowered relative to band D whereas the tax rates on bands E and above would be increased. This would lead to falls in average bills for households in the bottom four-fifths of the income distribution, but much bigger increases for the richest fifth. Low- and middle-income households tend to live in lower-value (and hence lower-band) properties and so would benefit most from the reduction in relative tax rates. Despite this, the poorest income quintile would see smaller average reductions in net council tax bills than the second-poorest income quintile. As discussed above, this is because many of these households already have their council tax bill fully or partly covered by CTRS.

Figure 3.3 shows the impact of our two indicative reforms by the age of the oldest household member.<sup>4</sup> A pure revaluation would have little effect on the average bills of each group,

<sup>4</sup> The Understanding Society survey we use for this analysis underweights younger households compared with other data sources such as the Labour Force Survey and the Family Resources Survey. This may affect our estimates of the average increases and decreases in bill by age group (and other characteristics strongly correlated with age), but the overall patterns above will be robust to this issue. In future work, we will explore methods to address this underweighting.

reflecting the fact that within each age group, similar numbers of households would move up and down bands. By contrast, an eight-band proportional system would lead to falls in average bills of £124 per year for households where all adults are under 35 years old and of £63 per year for households where the oldest adult is aged between 35 and 44. Older working-age households tend to live in more valuable properties, and so would see their bills increase on average. For households with a pensioner, though, the average bill would remain approximately unchanged.

**Figure 3.3. Average change in net council tax bill, by age of oldest household member**



Note: Assumes full take-up of CTRS. Incomes are measured after taxes and benefits but before housing costs are deducted, and are adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

## Likely impacts on property values

Because property prices are determined by the supply of and demand for housing, changes in council tax bills would be expected to be reflected over time in properties' 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 unresponsive to property prices (Oates, 1969), as it is in the UK (Caldera Sánchez and Johansson, 2011; Drayton, Levell and Sturrock, 2024). Studies also find that local public goods provision – the corollary to local taxes – is highly capitalised into property prices in the UK; see, for example, Hilber, Lyytikäinen 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).<sup>5</sup> 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.

It is important to note that people whose bill rises (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, if they sell and move, they lose or gain as a result of the change in their property value. However, capitalisation does mean that it is the owner of a property at the time of revaluation and reform who loses or gains: future purchasers will pay less (more) for the property if the tax bill associated with it is higher (lower).

Bearing this in mind, our analysis of potential changes in bills suggests that a pure revaluation would have little effect on average property values across the property value distribution. This is because, for properties of a given value, a revaluation would lead similar numbers to move up and down bands, with little effect on average bills and therefore average property values<sup>6</sup> – though individual properties could still change a lot in value (as we saw that many would see substantial changes in bills). In contrast, under the introduction of a proportional system, the lower (higher) tax bills on lower- (higher-) value properties would lead to rises in the value of lower-valued properties and falls in the value of higher-valued properties, on average. The scale of these changes is uncertain, though, and would depend on how potential property buyers value changes in council tax bills in future years (technically, their ‘discount rate’).

### 3.3 Wider policy considerations

As well as consideration of the impact of different reform options on household bills and property values, reforming council tax will also require consideration of a number of other practical and legislative issues.

#### Choice of number of bands

Adding more bands would allow for a more fine-grained relationship between property value and tax liability. It would also reduce the width of bands and the scale of jumps in bills at tax band thresholds, which cause unfairness. Indeed, in principle, it would be best to move away from a banded system altogether, levying the tax as a percentage of the exact property valuation, as many other jurisdictions (including Northern Ireland) do.

<sup>5</sup> For a literature review, see Hilber (2015).

<sup>6</sup> We did not show changes in average bills by property value above, but the patterns are similar to those for the changes in average bills by income shown in Figure 3.2. Details available from the authors on request.

In its consultation on reform in Wales, the Welsh Government claimed that having a relatively small number of wide bands would make valuation easier (ultimately, all that would matter is which one of a few bands a property is in) and reduce the number of appeals. But when it comes to appeals, in principle the effect is ambiguous, as giving properties more precise valuations might leave more people believing their valuation was wrong but would also avoid such big jumps in tax liabilities across bands and leave appellants more exposed to being moved up rather than down, reducing the incentive to appeal.

At the very least, the Scottish Government should consider adding a couple more bands at the bottom and the top if it wanted to make council tax meaningfully less regressive.

### Transitional arrangements and mitigation measures

As shown above, any reform of council tax would mean losers as well as winners. Particularly if council tax were made substantially less regressive, some losers (in high-value properties) would see large increases in their bills. And while substantially more would see reductions in bills than would see increases, especially among low- and middle-income households, there would be some low- and middle-income households in high-value properties (or properties moving up multiple bands) seeing large increases in bills.

Transitional arrangements – phasing in large changes in bills over several years – could help provide time for households to adjust to higher bills. An expanded CTRS could also provide support to those with low-to-middle incomes and low financial assets. The Scottish Government’s 2023 consultation proposed both such measures if further increases in band E–H bills were implemented.

Perhaps a better option to support those above standard CTRS income thresholds who own their own homes (and are therefore ‘asset-rich’) would be to allow them to defer their council tax for a period of time – for example, until sale of the property, death or 10 years, whichever is soonest. This would, in effect, be a loan of the tax liability from the Scottish Government or councils to households. Crucially, any deferral should apply with (at least) a market interest rate on the deferred liability – as happens in Ireland and in British Columbia, both of which operate such a scheme – so that households are not encouraged to defer payment unless they need to, and the Scottish Government and councils do not lose out financially from deferring the bill.<sup>7</sup>

### Legislate for subsequent revaluations

To avoid finding itself in a similar situation another 34 years down the line, the Scottish Government should also bring forward legislation for regular revaluations in future, as the

<sup>7</sup> See box 7.1 of Adam et al. (2020a) for further discussion of the design of such a deferral scheme.

Welsh Government did in the Local Government Finance (Wales) Act 2024.<sup>8</sup> After setting out an initial revaluation in April 2028 in primary legislation, this Act sets a default period between subsequent revaluations of five years, but allows Ministers to bring forward or push back revaluations. There would be a case to change both these elements in Scotland (and indeed Wales). For example, three-yearly revaluations and/or updating valuations in line with local property price indices in between full revaluations would not only ensure council tax more accurately reflected contemporaneous property values, but probably also lead to smaller changes in valuations and hence bills, and help make the process be seen as routine rather than a potentially controversial special event. The administrative costs of more frequent revaluations should be lower now that they are mostly based on computer modelling rather than manual assessments. Putting the revaluation cycle into primary legislation would also give households, councils and valuation boards more certainty, and reduce the temptation for Ministers to delay revaluations for reasons of short-run political expediency, which can become a bad habit.

### 3.4 Conclusions

Scottish council tax is ripe for revaluation and reform. Revaluation would not reduce the regressivity of council tax overall, but would mean that the tax rates applied to different properties reflected their current relative values, not those from over a third of a century ago. Wider reform could, if the Scottish Government chose, reduce the regressivity of the tax, and help to make it more efficient by, for example, reforming the single person discount. And packaging reforms to council tax with reforms to Scotland's other property taxes – business rates and especially land and buildings transaction tax (LBTT) – could improve the fairness and efficiency of the overall tax system. Raising less from high-value properties via LBTT and more from a revalued-and-reformed council tax would be fairer and better for growth and well-being: fairer because the tax system would no longer penalise people who move more (via LBTT), or whose property's value has not kept pace with the rest of the country (via council tax); and better for growth and well-being because it would no longer hinder people from moving for work or to better suit their circumstances.

After aborting previous plans for council tax reform consulted on in 2023 (which in any case ducked the vital issue of revaluation), the Scottish Government has now announced a new programme of engagement on reform this year. It should use that engagement to make the case for revaluation, reform and legislation to keep council tax up to date in future.

<sup>8</sup> See <https://law.gov.wales/local-government-finance-wales-act-2024>.



## Appendix 3A. Council tax analysis methodology

To undertake our analysis, we use data from four consecutive waves (waves 7–10) of Understanding Society, a representative household panel survey. This covers households interviewed between 2015 and 2019. Since it is a panel, there are some households that appear more than once, although we treat each household–wave observation individually. This gives us an initial sample of 7,440 household observations in Scotland.

In order 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, taking into account council-specific tax rates, eligibility for discounts and exemptions (such as the single-person discount and student exemptions) and the CTRS. We abstract from empty home discounts, as our data only capture information on primary residences, and from disability-related discounts, which cannot be identified in the data. We are unable to model whether households meet asset requirements for CTRS due to a lack of information on assets in the Understanding Society data.

The process for deriving up-to-date property values is described in detail at the end of this appendix.

We use linked administrative data to determine households' current council tax bands. 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 administrative data in around a third of all cases, and the distribution of self-reported council tax bands differs from the administrative data on all properties in Scotland. (Specifically, self-reports tend to overstate the share of properties in band D, which may reflect the fact that band D is the reference band and the band D rate is therefore often listed at the top of council tax bills.)

Administrative data are not available for 22% of the households in our data. In these cases, we use the households' self-reported council tax band. If we have no linked band or self-reported band, we impute their council tax band using their reported house value or rent, council 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 administrative-linked council tax band on (log) self-reported house price or monthly rent (whichever is relevant), housing characteristics (house type interacted with number of rooms), location characteristics (rurality and Index of Multiple Deprivation (IMD) decile) and council dummies. We then randomly select a council tax band for those with missing values from the predicted probability distribution.

Because of the small sample size in Scotland, the imputation is done jointly for all of Great Britain, controlling for country and upper-tier council and allowing the effects of IMD deciles to differ by country (because they are separately defined). The results are robust to alternative imputation methods, including an ordered probit regression and nearest-neighbour matching based on reported house value or rent, dwelling type, upper-tier council (in England, where some areas have two tiers of local government) and the number of rooms.

Table 3A.1 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 administrative data and including imputations (row 4), closely matches the distribution of council tax bands in Scotland as a whole (row 1). We then further reweight our data so that they match exactly the distribution of council tax bands in the full administrative data. The final sample closely matches the (representative) overall USoc sample in terms of the distributions of income, local area deprivation (IMD), age of oldest household member and household size. That said, the distribution by age of oldest household member differs from the distribution in other data sources (Labour Force Survey and Family Resources Survey), with fewer younger households.

**Table 3A.1. Distribution of council tax bands in different data sources (%)**

Data source	Council tax band							
	A	B	C	D	E	F	G	H
1. All Scotland	20.8	22.8	16.1	13.5	13.5	7.8	5.0	0.5
2. USoc: self-reported	14.4	24.0	13.8	18.4	11.6	8.4	6.7	2.6
3. USoc: admin	17.9	23.2	16.3	12.3	14.5	9.4	6.0	0.3
4. USoc: admin with imputations	18.6	22.7	15.5	13.8	13.4	9.1	5.9	0.9
5. USoc: final, reweighted	20.8	22.8	16.1	13.5	13.5	7.8	5.0	0.5

Note: All Scotland figures are for 2019. USoc figures are weighted using sample weights.

Source: Scottish Government (via [statistics.gov.scot](https://statistics.gov.scot)) and Understanding Society waves 7–10.

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 for each council, as well as information on the Scottish CTRS. We model reforms under the 2024–25 tax and benefit system, assuming that changes being phased in, such as the roll-out of universal credit, are fully in place.<sup>9</sup> This allows us to capture the long-run effect of revaluation and reform. We drop 1,608 households with incomplete information on incomes and household characteristics. We drop a

<sup>9</sup> An exception is the two-child limit on benefit entitlements, for which we model the policy as it is in 2024–25.

further 15 households for which we are unable to impute council tax bands. This leaves us with a final sample of 5,817 household observations in Scotland.

### Assumptions on grant adjustment

As discussed in Section 3.2, the impact of revaluation and reform of council tax will depend crucially on whether grant funding from the Scottish Government to local councils is adjusted to reflect changes in the tax bases of different councils. We are unable to explicitly account for this as samples at the council level are too small to be properly representative. Instead, we adjust the council tax rates that all households in Scotland face by the same proportion so that reforms are revenue-neutral across Scotland as a whole. When tax rates are fairly similar across council areas, as is the case in Scotland, this approach will lead to estimates closer to what we would obtain if we were able to model full grant adjustment, rather than no grant adjustment.

### Hedonic regressions for property values

The Understanding Society data contain self-reported property values for homeowners, which we uprate to 2024 Q3 using the council-level House Price Index for the appropriate dwelling type (detached, semi-detached, terraced, etc.). This leaves us needing to estimate property values for renters.

To do this, we regress property values for homeowners on property characteristics (dwelling type, number of bedrooms and other rooms, existing council tax band), location characteristics (council, rurality, population density, Data Zone deprivation levels<sup>10</sup>) and household characteristics (income, household composition and demographics<sup>11</sup>). The estimated coefficients from this regression are then used to predict property values for renters. Note that the aim of this 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, characteristics that do not directly affect property values but are nonetheless predictive of property values, such as household income and the number of children in the household, are included in the regression.

<sup>10</sup> Based on deciles of specific components of the IMD: income, employment, housing, education and health.

<sup>11</sup> 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 long-standing illness or disability.

Table 3A.2. Regression of log property prices: selected coefficients

Variable	Coefficient	Standard error
<b>Dwelling type (ref: detached)</b>		
Semi-detached	−0.0825***	(0.0176)
Terraced	−0.0877***	(0.0198)
Flats/Maisonettes	−0.259***	(0.0283)
Other dwelling type	−0.857***	(0.331)
Dwelling type unknown	−0.0185	(0.0249)
<b>Number of bedrooms (ref: 1)</b>		
2	0.222***	(0.0470)
3	0.344***	(0.0467)
4	0.433***	(0.0505)
5	0.569***	(0.0544)
6	0.948***	(0.0710)
7 or more	0.834***	(0.117)
<b>Number of other rooms (ref: 1)</b>		
2	0.101***	(0.0147)
3	0.195***	(0.0223)
4	0.255***	(0.0324)
5	0.350***	(0.0438)
6	0.183**	(0.0919)
7 or more	0.453**	(0.192)
<b>Council tax band (ref: band D)</b>		
A	−0.448***	(0.0382)
B	−0.304***	(0.0249)
C	−0.188***	(0.0224)
E	0.0772***	(0.0193)
F	0.170***	(0.0291)
G	0.353***	(0.0307)
H	0.488***	(0.0644)

Continues

Table 3A.2 continued

Variable	
Interview quarter	Yes
Household composition (couple; number of adults; number of children aged 0–2, 3–4, 5–11, 12–15)	Yes
Net household income	Yes
Demographics (highest qualification; age of oldest household member; self-reported disability or long-standing illness; disability-related benefits)	Yes
Location (rurality; upper-tier council dummies; population density and squared; Data-Zone-level deprivation deciles)	Yes

Note: \*\*\* and \*\* indicate statistical significance at the 1% and 5% levels respectively.

Source: Understanding Society waves 7–10.

The regression explains 75% of the variation in property values for homeowners in Scotland. Regression coefficients for the main characteristics are listed in Table 3A.2. Property prices are regressed in log form. To impute values for rental properties, a random error (drawn from the distribution of prediction errors among homeowners) is added to the predicted log property price, which is then converted back into pound values. This ensures we have an appropriate degree of variation in property values conditional on observed characteristics. To ensure that our results are robust to these random draws, we impute 20 property values for each household based on 20 randomly drawn error terms. The results we present are averages over all 20 imputations for each household.

It is possible that the approach of imputing property values for renters based on a regression for owner-occupiers 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 chapter.

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